Midpeninsula Regional Open Space District

R-14-01
Meeting 14-03
January 22, 2014

FINANCING AUTHORITY MEETING 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 July 18, 2013, the District's independent auditors, Vavrinek, Trine, Day & Co., issued its report on the District's financial statements for the fiscal year ending March 31, 2013 (Attachment 1).

Through March 2013, the District has sold six series of Financing Authority notes, with a total par value of $199.6 million. A summary of the six financings is shown in Table 1 below. Excluding the 2007 Notes, which raised no new money and only refinanced existing Financing Authority notes, the District has issued $140.5 million (net) of Financing Authority notes, 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 Notes	$29.9 M	6.25%	$11M Land + pay-off 1988 Notes
1999-1 Notes	$29.7 M	5.26%	$21M Land + pay-off 1992 Notes
1999-2 Notes	$28.4 M	5.93%	$15M Land + pay-off 1990 Notes
2004 Notes	$31.9 M	4.99%	$10M Land + pay-off 1993 COPs
2007 Notes	$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

Three Financing Authority note issues remained outstanding on March 31, 2013, with a total outstanding balance of $102.86 million. This represented 74% of the District's total outstanding debt balance. The average total interest cost of these outstanding Financing Authority notes was 4.95%. A summary of the activity on the Financing Authority notes in fiscal 2013 is shown below. During the 2013 fiscal year, $2.02 million of principal was repaid, $5.04 million of interest was paid, and $111,468 of accretion was accrued. Accretion arises from the portion of notes sold as capital appreciation bonds (CABs). CABs are like zero-coupon bonds; they do not pay interest, instead they accrete each year to reflect the growing principal value to be paid at maturity. The purpose of CABs is to lengthen the average life of the debt. The 2004 Notes include $1.3 million of CABs.

Table 2:
FY2012-13 Financing Authority Activity
($ millions)

	Balance March 2012	Principal Paid/Refunded	Accretion	Balance March 2013	Interest Paid FY2012-13
2004 Notes	$31.45	$0.49	$0.11	$31.07	$1.39
2007 Notes	$52.82	$1.53	$0.00	$51.29	$2.57
2011 Bonds	$20.50	$0.00	$0.00	$20.50	$1.08
	$104.77	$2.02	$0.11	$102.86	$5.04

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, 2013.

Prepared by:
Michael Foster, Controller

MIDPENINSULA REGIONAL OPEN SPACE DISTRICT

ANNUAL FINANCIAL REPORT

YEAR ENDED MARCH 31, 2013

MIDPENINSULA REGIONAL OPEN SPACE DISTRICT

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MARCH 31, 2013

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities and each major fund of the Midpeninsula Regional Open Space District as of and for the year ended March 31, 2013 which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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 an opinion 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. 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 entity'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 entity'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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly in all material respects, the respective financial position of the governmental activities and each major fund of the Midpeninsula Regional Open Space District as of March 31, 2013, and the respective changes in the financial position thereof for the year then ended in conformity with generally accepted accounting principles in the United States of America.

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Accounting principles generally accepted in the United States of America require that the management discussion and analysis and the budgetary comparison information 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 Government Auditing 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 inquires 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.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
July18, 2013

This section of the Midpeninsula Regional Open Space District's (the District) basic financial statements presents a narrative overview and analysis of the District's financial activities for the fiscal year ended March 31, 2013. We encourage readers to consider the information presented here in conjunction with our basic financial statements.

FINANCIAL HIGHLIGHTS

Property tax revenue exceeded expectations in fiscal 2013 due to higher than projected growth in assessed valuations and income from the dissolution of redevelopment agencies. Reported tax revenue increased by $1.5 million, or 5.3%. The assessed valuation of secured property within the District, as of July 1, 2012, increased by approximately 4.6%. District tax revenue growth never exactly matches the rate of increase in assessed valuation because the District's hybrid fiscal year spans two tax years. During fiscal 2013, the District received $0.9 million from trust funds related to the dissolution of redevelopment agencies within the District. Approximately 30% of this redevelopment-related income represented one-time payments. The District received 66% of its tax revenue from Santa Clara County and 34% from San Mateo County. Property tax revenue increased by 5.4% in fiscal 2012 due to the resumption of supplemental (SB813) tax allocations by Santa Clara County and a change in the method of computing the year-end tax accrual.

The District added land and associated structures with appraised values totaling $13.5 million in fiscal 2013. The three largest land acquisitions each involved partner support, either in the form of bargain sales or grants. The largest property, the 952 acre Toto Ranch, on the San Mateo coast, was acquired for $3.5 million, approximately half of its appraised value, in a bargain purchase from the Peninsula Open Space Trust (POST). The District received a $375,000 grant from the Living Landscape Resource Fund to partially fund a $1.4 million addition to the El Corte de Madera Creek preserve. The Sempervirens Fund sold the District a $1.0 million addition to this same preserve for half its appraised value. Net of grants and gifts, the District used $5.8 million of cash for land purchases in fiscal 2013, down from $9.1 million in fiscal 2012. The District added $24.0 million and $10.0 million of land and associated structures in fiscal 2012 and 2011, respectively.

District expenditures were again within the annual budget. Recorded expenses include one significant non-recurring charge. The District made a decision to pay-off its $2.5 million CalPERS side fund liability in March 2013. This pre-payment is expected to save the District over $2 million of retirement expense over the next 18 years. Excluding land acquisition transactions, debt service and the non-recurring CalPERS payment, total District spending, $19.6 million, was $3.9 million, or 16.6%, below budget and up 14.1% over fiscal 2012. The largest factor in the budget variance was the re-scheduling of the next phase of the multi-year Mt. Umunhum project into fiscal 2014. In fiscal 2013, salaries and benefits, excluding the CalPERS side fund pay-off, increased by 5.9%, services and supplies expenses grew by 54.7% and non-land capital spending and land acquisition expenses rose by 7.0%. The large percentage spending increase for services and supplies was principally due to accruing $0.6 million of additional insurance expense to fully cover the District's projected retrospective liability to the California Joint Powers Insurance Authority (CJPIA).

The assets of the District exceeded liabilities at the close of the 2013 fiscal year by $299.3 million (*net assets*). Of this amount, $259.6 million is invested in capital assets, net of related debt, $1.6 million is restricted by the terms of existing District debt, $1.1 million is restricted to pay for future retirement medical expenses, and the remaining $36.9 million is unrestricted. About 24% of the unrestricted balance is projected to be used for capital expenditures in fiscal 2014 as the approved budget for fiscal 2014 forecasts land purchases and other capital expenditures totaling $12.7 million, or $8.9 million net of associated grant and gift income. Another $1.9 million of the unrestricted balance is an endowment to provide stewardship to the Hawthorns property, acquired is fiscal 2011.The District's total net assets increased by $9.6 million in fiscal 2013, as general and program revenues exceeded program expenditures. Program expenditures were within budget. The District's total long-term debt obligations declined by $1.6 million, to $139.0 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements consist of three components: (1) government-wide financial statements; (2) fund financial statements and (3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Statements of Position (formerly Statement of Net Assets)

Presented below are condensed statements of position for the past two years:

Years ended:	March 31, 2013	March 31, 2012	Increase (Decrease)
Assets			
Current Assets	$ 44,722,294	$ 48,018,249	$ (3,295,955)
Retiree Health Trust	1,097,306	1,334,306	(237,000)
Capital assets	398,589,610	385,932,042	12,657,568
Total assets	444,409,210	435,284,597	9,124,613
Liabilities			
Accounts payable and Other current liabilities	8,207,851	7,256,368	951,483
Long-term debt	136,913,221	138,328,785	(1,415,564)
Total liabilities	145,121,072	145,585,153	(464,081)
Net Position			
Invested in capital assets, net of related debt	259,637,822	245,393,422	14,244,400
Restricted	2,730,928	1,567,913	1,163,015
Unrestricted	36,919,388	42,738,109	(5,818,721)
Total net position	$ 299,288,138	$ 289,699,444	$ 9,588,694

Analysis of Net Assets

The District's assets at the close of this fiscal year are $299.3 million more than its liabilities. This is the result of the District's inventory of capital assets. The net investment in capital assets, $259.6 million, consists primarily of the District's over 60,000 acres of land in 26 open space preserves protected for public enjoyment. The investment in capital assets is offset by long-term debt obligations on promissory notes and lease revenue bonds. The net assets subject to external restrictions are composed of $1.6 million for debt service and $1.1 million for future retirement medical expenses. Unrestricted net assets are used to finance additional capital projects. The District's budget for fiscal year 2014 includes $8.9 million for land acquisition and other capital projects, net of related grant and gift income.

Changes in Net Position

Presented below is an analysis of the District's revenues and expenses over the past two years:

	March 31, 2013	March 31, 2012	Increase (Decrease)	% Increase (Decrease)
Revenues				
Program revenue				
Charges for services	$ 1,380,887	$ 1,319,580	$ 61,307	4.6
Grants and contributions	913,338	1,452,738	(539,400)	(37.1)
Land donations	3,890,155	13,927,600	(10,037,445)	(72.7)
General revenue				
General property tax	30,269,803	28,737,153	1,532,650	5.3
Investment income	287,642	374,544	(86,902)	(23.2)
Other	298,068	393,542	(95,474)	(24.3)
Total Revenues	37,039,943	46,205,157	(9,165,214)	(19.8)
Expenses	27,451,249	22,601,256	4,849,993	21.5
Change in net assets	$ 9,588,694	$ 23,603,901	$ (14,015,207)	(59.4)

Analysis of Change in Net Position

For the year ended March 31, 2013, the District's net position increased by $9.6 million. The net position increase was unusually large in fiscal 2012 because the District received its largest ever land donation, $13.9 million, in that year.

Program revenues include rental income, grants, gifts of land, cash donations and park management fees from Santa Clara County. Grant income is tied to specific preserve development projects and land acquisitions. In fiscal 2013, the District received $538,338 of preserve development-related grant income and a $375,000 acquisition grant. The District received $3.9 million of land donations, mostly from POST and Sempervirens Fund. Rental income increased by 5.5%, due to acquisition of land containing additional rental assets.

Tax revenue increased by $1.5 million, or 5.3%, in fiscal 2013. A majority of the increase, $0.9 million, was income from the dissolution of redevelopment agencies within the District. Approximately 30% of this redevelopment-related income is non-recurring. Investment income declined due to smaller cash balances and lower interest rates.

Fiscal 2013 expenses include two extraordinary items: $2.5 million to pay-off the District's CalPERS side fund liability and $0.6 million to fully cover the District's projected retrospective insurance liability to CJPIA. Excluding these two items, total expenses increased by $1.7 million, or 7.6%, from the prior year.

GENERAL FUND

The General Fund balance sheet includes all District accounts except for capital assets, retirement assets and debt. At March 31, 2013, the General Fund had a fund balance of $37.5 million, down $4.3 million from the prior year-end. This decrease was the result of using cash reserves to purchase land. Except for the $1.9 million Hawthorns endowment fund, all of this fund balance is unreserved and designated for future capital projects, including $8.9 million budgeted for capital expenditures in fiscal year 2014, net of associated grant and gift funding.

DEBT SERVICE FUND

The only asset in the Debt Service Fund, $1.6 million, is a reserve fund required by the terms of the District's 2004 Revenue Bonds. The funds are held by the bond trustee and will be used to make the final debt service payment on this issue in 2033. The District receives the interest earned on this reserve fund, and this is shown on the *Statement of Revenues, Expenditures and Changes in Fund Balance--Governmental Funds*. Total debt service in fiscal year 2013 was $8.9 million, consisting of $2.8 million of principal and $6.0 million of interest.

CAPITAL ASSETS

As of March 31, 2013, the District's investment in capital assets is $398.4 million, net of accumulated depreciation. The District added $10.9 million of land in fiscal year 2013, representing 92% of the total increase in capital assets, and has committed $4.4 million of its fund balance for various uncompleted capital projects included in construction in progress. Additional information on the District's capital assets can be found in Note 4 in the Notes to the Basic Financial Statements.

LONG-TERM DEBT

As of March 31, 2013, the District's long-term debt includes $2.5 million of subordinated notes issued to sellers in District land purchase transactions, $100.7 million of Authority revenue bonds sold to the public in 2004, 2007 and 2011, $18.1 million of District refunding promissory notes sold to the public in 2005 and 2012, and $17.7 million of accreted interest, unamortized premium and unamortized loss on refunding. The 2004 and 2007 Authority bonds and 2005 Refunding notes were originally rated AAA by Moody's and Standard & Poor's based on municipal bond insurance policies purchased from Ambac Assurance Corporation and MBIA. Due to substantial losses from mortgage-related risk exposures, these insurance companies no longer carry investment grade credit ratings. The District's current stand-alone credit rating on promissory notes is AA+ from Fitch and AA from Standard & Poor's. Additional information on the District's long-term obligations can be found in Note 6 in the Notes to the Basic Financial Statements.

BUDGETARY PERFORMANCE

The *Budgetary Comparison Schedule—General Fund* shows how the District financial results compared to the original budget adopted in March 2012 and the final budget adjusted in December 2012.

Due principally to delays in completing capital projects containing grant and gift funding, total District revenue, exclusive of land donations, was under budget by $2.5 million, or 7%. Most of these grants and gifts have been re-budgeted for receipt in fiscal 2014. Tax revenue was 4.8% above budget, most due to the unexpected level of income from the dissolution of redevelopment agencies within the District.

Total expenditures were $3.6 million, or 11.3%, below budget, leaving an excess of revenue over expenditures, exclusive of land donations, of $4.6 million, or $0.5 million more than budgeted. Excluding land acquisition transactions, debt service, and the non-recurring CalPERS pay-off, total District spending, $19.6 million, was $3.9 million, or 16.6%, below the final budget. The largest factor in the spending variance was the re-scheduling of the next phases of the multi-year Mt. Umunhum capital project into fiscal 2014. Salaries and benefits, excluding the non-recurring CalPERS pay-off, were $0.5 million, or 4.4%, below budget, services and supplies cost $0.3 million, or 5.7%, less than budget, non-land capital spending was $2.8 million, or 48.8%, under budget, and land acquisition support expenses were $0.3 million, or 39.5% under budget. This overall operating budget performance, 83% of budget, was at the low end of the range of recent years (82% to 94% of budget).

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Board of Directors adopted the District's budget for fiscal year 2014 on March 13, 2013. This budget assumes approximately 5% growth in property tax revenue. The budget projects spending $12.7 million for land and other capital projects, or $8.9 million net of associated grant and gift income. Operating expenditures and debt service are budgeted at $17.5 million and $8.9 million, respectively. If all revenues and expenditures occur as budgeted, the District's cash position would decrease by $5.0 million in fiscal year 2014. Since the adoption of the budget, the District learned that property tax revenue in fiscal 2014 is likely to exceed the budget projections by some $1.5 million, due to higher growth in assessed valuation of secured and unsecured property in both counties and additional redevelopment property tax trust funds.

The District is currently pursuing potential land acquisitions and other capital projects which would use up all undesignated reserves within three years.

ADDITIONAL FINANCIAL INFORMATION

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the District Clerk, 330 Distel Circle, Los Altos, CA 94022.

MIDPENINSULA REGIONAL OPEN SPACE DISTRICT

STATEMENT OF NET POSITION
MARCH 31, 2013

ASSETS	
Cash and investments (Note 2)	$ 32,535,513
Receivables	
Taxes	8,027,198
Interest	42,580
Deposit	1,046,895
Rent	612
Prepaid expense	28,997
Restricted cash and investments (Note 2)	1,633,622
Note receivable (Note 3)	195,653
Deferred charges	1,211,224
Net OPEB Asset (Note 9)	1,097,306
Capital assets (Note 4)	
Nondepreciable	
Land	379,410,829
Construction in progress	4,396,366
Depreciable, net of accumulated depreciation	
Structures and improvements	7,397,095
Infrastructure	5,146,364
Equipment	775,677
Vehicles	1,463,279
Total assets	444,409,210
LIABILITIES	
Accounts payable	811,242
Accrued liabilities	1,304,721
Deposits payable	81,730
Deferred revenue	1,971,040
Interest payable	524,612
Compensated absences (Note 5)	
Due in one year	221,424
Due in more than one year	1,254,515
Long-term debt (Note 6)	
Due within one year	3,293,082
Due in more than one year	135,658,706
Total liabilities	145,121,072
NET POSITION (Note 11)	
Invested in capital assets, net of related debt	259,637,822
Restricted for debt service	1,633,622
Restricted for OPEB	1,097,306
Unrestricted	36,919,388
Total net position	$ 299,288,138

See accompanying notes to financial statements.

MIDPENINSULA REGIONAL OPEN SPACE DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2013

Program expenses:	
General government:	
Salaries	$ 8,309,803
Benefits	3,961,927
CALPERS side fund redemption	2,510,958
Directors	31,500
Services and supplies	4,360,703
Depreciation	839,870
Interest	7,436,488
Total program expenses	27,451,249
Program revenues:	
Charges for services	1,380,937
Capital grants and operating contributions	913,338
Land donation	3,890,155
Total program revenues	6,184,430
Net program expenses	21,266,819
General revenues:	
Property tax increment	30,269,803
Investment income	287,642
Miscellaneous	298,068
Total general revenues	30,855,513
Changes in net assets	9,588,694
Net position - beginning of the year	289,699,444
Net position - end of the year	$ 299,288,138

See accompanying notes to financial statements.

MIDPENINSULA REGIONAL OPEN SPACE DISTRICT

GOVERNMENTAL FUNDS BALANCE SHEET
MARCH 31, 2013

	General Fund	Debt Service Fund	Total Governmental Funds
ASSETS			
Cash and investments (Note 2)	$ 32,535,513	$ -	$ 32,535,513
Receivables			
Taxes	8,027,198	-	8,027,198
Interest	42,580	-	42,580
Deposit	1,046,895	-	1,046,895
Rent	612	-	612
Prepaid expense	28,997	-	28,997
Restricted cash and investments (Note 2)	-	1,633,622	1,633,622
Note receivable (Note 3)	195,653	-	195,653
Total Assets	$ 41,877,448	$ 1,633,622	$ 43,511,070
LIABILITIES			
Accounts payable	$ 811,242	$ -	$ 811,242
Accrued liabilities	1,304,721	-	1,304,721
Deposits payable	81,730	-	81,730
Deferred revenue (Note 3)	2,166,693	-	2,166,693
Total liabilities	4,364,386	-	4,364,386
FUND BALANCES			
Restricted			
Debt service	-	1,633,622	1,633,622
Unassigned	37,513,062	-	37,513,062
Total fund balance	37,513,062	1,633,622	39,146,684
TOTAL LIABILITIES AND FUND BALANCE	$ 41,877,448	$ 1,633,622	$ 43,511,070

See accompanying notes to financial statements.

MIDPENINSULA REGIONAL OPEN SPACE DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS – BALANCE SHEET WITH THE STATEMENT OF NET POSITION
MARCH 31, 2013

Total fund balances reported on the governmental funds balance sheet	$	39,146,684
Amounts reported for Governmental Activities in the Statement of Net Position are different from those reported in the Governmental funds above because of the following:		
CAPITAL ASSETS		
Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental funds.		398,589,610
NOTES RECEIVABLE		
Notes receivables are not available to pay for current period expenditures and, therefore, are deferred on the modified accrual basis in the balance sheet of the Governmental funds		195,653
DEFERRED CHARGES		
Bond issuance costs are expended in the Governmental funds when paid, however, they are capitalized and amortized over the life of the corresponding bonds for purposes of the Statement of Net Position		1,211,224
LONG-TERM LIABILITIES		
The liabilities below are not due and payable in the current period and therefore are not reported in the Governmental funds:		
Long-term debt		(138,951,788)
Accrued interest payable		(524,612)
Compensated absences		(1,475,939)
NET OPEB ASSET		
Net OPEB Asset is not available to pay for current period expenditures and, therefore, is not recognized in the Governmental funds but deferred on the Statement of Net Position		1,097,306
NET POSITION OF GOVERNMENTAL ACTIVITIES	$	299,288,138

See accompanying notes to financial statements.

MIDPENINSULA REGIONAL OPEN SPACE DISTRICT

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED MARCH 31, 2013

	General Fund	Debt Service Fund	Total
REVENUES			
Property tax	$ 30,269,803	$ -	$ 30,269,803
Grant income	913,338	-	913,338
Investment income	221,933	65,709	287,642
Property management (Note 7)	1,380,937	-	1,380,937
Other income	145,800	-	145,800
Total Revenues	32,931,811	65,709	32,997,520
EXPENDITURES			
Current			
Salaries	8,309,803	-	8,309,803
Benefits	6,014,461	-	6,014,461
Directors	31,500	-	31,500
Services and supplies	4,356,948	-	4,356,948
Capital outlay			
New land purchases	6,194,600	-	6,194,600
Land acquisition support costs	517,312	-	517,312
Structures and improvements	2,206,010	-	2,206,010
Equipment	540,204	-	540,204
Vehicles	152,912	-	152,912
Debt service			
Principal	-	2,842,752	2,842,752
Interest and fiscal charges	-	6,033,790	6,033,790
Total Expenditures	28,323,750	8,876,542	37,200,292
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	4,608,061	(8,810,833)	(4,202,772)
OTHER FINANCING SOURCES (USES):			
Transfers in	-	8,876,542	8,876,542
Transfers out	(8,876,542)	-	(8,876,542)
Total Other Financing Sources (Uses)	(8,876,542)	8,876,542	-
NET CHANGE IN FUND BALANCES	(4,268,481)	65,709	(4,202,772)
Fund Balance at beginning of year	41,781,543	1,567,913	43,349,456
Fund Balance at end of year	$ 37,513,062	$ 1,633,622	$ 39,146,684

See accompanying notes to financial statements.

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS WITH THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2013

The schedule below reconciles the net changes in fund balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, which measures only changes in current assets and current liabilities on the modified accrual basis, with the change in net position of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

Net change in fund balances - total Governmental funds	$	(4,202,772)
Amounts reported for governmental activities in the Statement of Activities are different because of the following:		
CAPITAL ASSET TRANSACTIONS		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.		
The capital outlay expenditures are therefore added back to fund balance		9,611,038
Depreciation expense is deducted from the fund balance		(839,871)
Loss on disposal of capital assets is expensed on the statement of activities, but does not impact the Governmental funds.		(3,754)
Donation of land is not reported in Governmental funds. However, the fair value of the land is recognized as revenue in the statement of activities.		3,890,155
Payment of principal on general obligation bonds is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net position and does not affect the statement of activities.		2,015,000
NOTES RECEIVABLE		
Repayment of notes receivable is reported as revenue in Governmental funds, and thus, has the effect of increasing fund balance because current financial resources have been received. However, the loan payments reduce the receivables in the statement of net assets and do not generate revenue in the statement of activities.		(11,305)
LONG-TERM DEBT PROCEEDS AND PAYMENTS		
Repayment of bond principal is an expenditure in the Governmental funds, but in the Statement of Net Assets the repayment reduces long-term liabilities.		
Accreted Interest on capital appreciation bonds		(1,080,299)
Repayment of debt principal on current interest promissory notes		827,752
Change in accrued interest payable		85,036
Amortization of bond premium		163,573
Amortization of loss on refunding		(339,194)
Amortization of deferred amounts		(68,241)

MIDPENINSULA REGIONAL OPEN SPACE DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS WITH THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2013

ACCRUAL OF NON-CURRENT ITEMS	
The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in Governmental funds (net change):	
Compensated absences	(221,424)
Net OPEB Asset	(237,000)
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	$ 9,588,694

See accompanying notes to financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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.

Basis of Presentation

The District's Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America.

These Statements require that the financial statements described below be presented.

Government-wide Statements. The Statement of Net Position (formerly the Statement of Net Assets) and the Statement of Activities display information about the primary government (the District) and its component unit. These statements include the financial activities of the overall District government. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements. The fund financial statements provide information about the District's funds, including blended component units. The emphasis of fund financial statements is on major individual governmental funds, each of which is displayed in a separate column.

Major Funds

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 public safety 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.

Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year--end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Governmental capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of governmental long-term debt and acquisitions under capital leases are reported as other financing sources.

Non-exchange transactions, in which the District gives or receives value without directly receiving or giving equal value in exchange, include taxes, grants, entitlements, and donations. On the accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The District may fund programs with a combination of cost-reimbursement grants and general revenues. Thus, both restricted and unrestricted net assets may be available to finance program expenditures. The District's policy is to first apply restricted grant resources to such programs, followed by general revenues, if necessary.

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.

Use of Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Compensated Absences

The total amount of liability for compensated absences is reflected in the basic financial statements. See Note 5 for additional information regarding compensated absences.

Cash and Cash Equivalents

For purposes of the statement of cash flows the District defines cash and cash equivalents to include all cash and temporary investments with original maturities of three months or less from the date of acquisition.

Property Taxes

Property taxes are levied by Santa Clara and San Mateo Counties and a portion is distributed to the District. The District recognizes property taxes as revenue in the fiscal year of levy.

Debt Discount and Issuance Costs

Debt discount, premiums, and 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.

Subsequent Events

Management has evaluated subsequent events for recognition and disclosure through July 18, 2013, which is the date the financial statements were available to be issued.

NOTE 2 – CASH AND INVESTMENTS

Policies

The District and its fiscal agents invest in individual investments and in investment pools. Individual investments are evidenced by specific identifiable pieces of paper called securities instruments, or by an electronic entry registering the owner in the records of the institution issuing the security, called the book entry system. In order to maximize security, the District employs the Trust Department of a bank as the custodian of all District managed investments, regardless of their form.

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the District's cash on deposit for first trust deed mortgage notes with a value of 150% of the District's cash on deposit as collateral for these deposits. Under California Law this collateral is held in an investment pool by an independent financial institution in the District's name and places the District ahead of general creditors of the institution pledging the collateral.

The District's investments are carried at fair value, as required by generally accepted accounting principles. The District adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year. In the District's case, fair value equals fair market value, since all District's investments are readily marketable.

Classification

Cash and investments as of March 31, 2013, are classified in the financial statements as shown below, based on whether or not their use is restricted.

Cash and cash equivalents, available for District operation	$	32,535,513
Restricted cash and investments		1,633,622
Total Cash and Investments	$	34,169,135

The District's cash and investments consist of the following at March 31, 2013:

Cash in bank	$	13,422
Deposits		2,084,646
Investments		32,071,067
Total Cash and Investments	$	34,169,135

Investments Authorized by the California Government Code and the District's Investment Policy

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	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
US Treasury Obligations	5 years	N/A	No Limit	No Limit
US Agency Securities	5 years	N/A	No Limit	No Limit
California Local Agency Investment Fund	Upon Demand	N/A	$40 million per account	
Negotiable Certificates of Deposit	5 years	N/A	30%	No Limit
Bankers Acceptances	180 days	N/A	40%	30%
Commercial Paper	270 days	A	25%	10%
Repurchase Agreements	1 year	N/A	No Limit	No Limit
Reverse Repurchase Agreements	92 days	N/A	20%	No Limit
Medium Term Notes	5 years	A	30%	No Limit
Money Market and Mutual Funds	N/A	Highest Category	20%	10%

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.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value changes to changes in market interest rates. The District generally manages its interest rate risk by holding investments to maturity.

Information about the sensitivity of the fair values of the District's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity or earliest call date:

Investment Type	12 Months or less	More than 12 Months	Total
Held by District			
California Local Agency Investment Fund	$ 7,803,382	$ -	$ 7,803,382
Santa Clara County Pool	22,634,063	-	22,634,063
Held by Trustees			
US Federal Agency Securities	-	1,631,647	1,631,647
Money Market Mutual Funds	1,975	-	1,975
Total Investments	$ 30,439,420	$ 1,631,647	$ 32,071,067

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, 2013, these investments had an average maturity date of less than one year.

The fair value of the District's investment in the 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 Pool funds were available for withdrawal on demand and had an average maturity date of less than one year.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of March 31, 2013, for each investment type as provided by Moody's investment rating system.

Investment Type	Not Rated	Aaa	Total
Held by Trustees			
US Federal Agency Securities	$ -	$ 1,631,647	$ 1,631,647
Money Market Mutual Funds	-	1,975	1,975
California Local Agency Investment Fund	7,803,382	-	7,803,382
Santa Clara County Pool	22,634,063	-	22,634,063
Total Investments	$ 30,437,445	$ 1,633,622	$ 32,071,067

Concentration 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.

Restricted Cash and Investments

The District has the following restrictions on cash and investments:

Restricted for Debt Service. The District has moneys 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 are administered by the Bank. The cash and investment amounts were $1,633,622 as of March 31, 2013.

NOTE 3 – 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, 2013 was $195,653. On November 10, 2011, the District received the gift of the 79 acre Hawthorns property, in Portola Valley, California, and an endowment of $2,018,445 to manage the property in perpetuity. The outstanding balance of the endowment liability was $1,971,040 as of March 31, 2013.

NOTE 4 – CAPITAL ASSETS

Capital assets are recorded at the time of purchase and are capitalized at cost.

The District capitalizes as part of the asset cost, any significant interest incurred during the construction phase of the asset.

Depreciation is provided using the straight-line method for assets other than land. Estimated useful lives are as follows:

Structures and improvements	10 to 30 years
Infrastructure	30 to 40 years
Equipment	5 to 20 years
Vehicles	10 to 20 years

Changes in capital assets accounts are summarized below:

	Balance at March 31, 2012	Additions & Transfers	Retirements & Transfers	Balance at March 31, 2013
Capital assets not being depreciated				
Land	$ 368,468,116	$ 10,942,713	$ -	$ 379,410,829
Construction in progress	4,778,954	1,751,944	(2,134,532)	4,396,366
Total capital assets not being depreciated	373,247,070	12,694,657	(2,134,532)	383,807,195
Capital assets being depreciated				
Structure and improvements	14,102,668	573,007	-	14,675,675
Infrastructure	4,403,183	2,010,865	-	6,414,048
Equipment	1,302,609	213,859	(7,250)	1,509,218
Vehicles	2,691,791	143,337	(40,891)	2,794,237
Total capital assets being depreciated	22,500,251	2,941,068	(48,141)	25,393,178
Less accumulated depreciation for				
Structure and improvements	6,916,859	361,721	-	7,278,580
Infrastructure	1,064,055	203,629	-	1,267,684
Equipment	645,676	91,248	(3,383)	733,541
Vehicles	1,188,689	183,273	(41,004)	1,330,958
Total accumulated depreciation	9,815,279	839,871	(44,387)	10,610,763
Net captial assets being depreciated	12,684,972	2,101,197	(3,754)	14,782,415
Total capital assets, net	$ 385,932,042	$ 14,795,854	$ (2,138,286)	$ 398,589,610

Construction in progress represents construction of structures, equipment and improvements and infrastructure not yet placed in service at March 31, 2013.

At March 31, 2013, the District had made commitments of approximately $6,676,940 for construction work, legal and consulting fees, and purchases of supplies and equipment.

NOTE 5 – ACCURED 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
10-15	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. Accrued compensated absences were $1,475,939 as of March 31, 2013.

The change in compensated absences was as follows:

	Governmental Activities
Beginning Balance, at April 1, 2012	$ 1,254,515
Net change	221,424
Ending balance, at March 31, 2013	$ 1,475,939
Current Portion	$ 221,424

NOTE 6 – LONG-TERM DEBT

Summarized below are the current year's activities for long-term debt:

	Original Issue Amount	Beginning Balance	Additions	Retirements	Ending Balance	Amount due within one year
Current Interest Promissory Notes						
Hunt Living Trust Promissory Note 5.00-5.50%, due 4/2/2023	$ 1,500,000	$ 1,500,000	$ -	$ -	$ 1,500,000	$ -
Daloia Land Contract Promissory Note 6.25%, due 10/10/2017	240,000	117,846	-	17,753	100,093	18,888
2005 Refunding Promissory Notes 3.25-5.00%, due 4/1/2015	4,630,000	3,165,000	-	810,000	2,355,000	1,145,000
Bergman Note	850,000	850,000	-	-	850,000	-
2012 Promissory Refunding Note	15,790,000	15,790,000	-	-	15,790,000	540,000
Unamortized Premium	-	2,146,066	-	67,391	2,078,675	-
Total promissory notes	23,010,000	23,568,912	-	895,144	22,673,768	1,703,888
Current Interest Revenue Bonds						
2004 Revenue Bonds 2.00-5.40%, due 9/1/2034	30,560,000	29,385,000	-	490,000	28,895,000	620,000
2007 Series A Rev Refunding Bonds 4.00-5.00%, due 9/1/2027	52,415,000	52,415,000	-	1,120,000	51,295,000	630,000
2007 Series B-T Taxable Revenue Refunding Bonds, 5.15%, due 9/1/2012	6,785,000	405,000	-	405,000	-	-
2011 Lease Revenue Bond	20,500,000	20,500,000	-	-	20,500,000	-
Unamortized Premium	NA	369,290	-	96,182	273,108	-
Unamortized loss on refunding	NA	(3,640,802)	-	339,194	(3,301,608)	339,194
Total revenue bonds	105,535,000	99,433,488	-	2,450,376	97,661,500	1,589,194
Capital Appreciation Bonds and Notes						
2004 Lease Revenue Bonds Accretion	1,340,010	2,061,515	111,468	-	2,172,983	-
2012 Promissory Refunding Notes	-	15,474,707	968,830	-	16,443,537	-
Total Accretion	15,228,031	17,536,222	1,080,298	-	18,616,520	-
Total debt	$ 143,773,031	$ 140,538,622	$ 1,080,298	$ 3,345,520	$ 138,951,788	$ 3,293,082

Promissory Notes

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, 2013, the outstanding balance on the note was $1,500,000.

Daloia Land Purchase Contract Promissory Note. During 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, 2013, the outstanding balance of the Daloia Land Contract note was $100,093.

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, 2013, the outstanding balance was $2,355,000.

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 and principal are due on a quarterly basis beginning February 28th, 2011 and mature on November 30, 2015. At March 31, 2013, 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, 2013,the outstanding balance of the notes, including accreted interest of $832,793, was $32,233,537.

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 %.4% 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. At March 31, 2013, the outstanding balance of these bonds was $31,067,983.

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 semi-annually on March 1 and September 1. Principal payments for the Series A bonds begin September, 2012 and are due annually, thereafter. Principal payments for the Series B-T bonds are due annually on September 1. At March 31, 2013 the outstanding balance of 2007 Series A Bonds is $51,295,000 and there is no remaining 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, 2013, the outstanding balance of these bonds was $20,500,000.

Debt Service Requirements

Annual debt service requirements are shown below for all long-term debt:

	Promissory Notes			
Year Ending March 31	Principal	Remaining Accretion	Interest	Total
2014	$ 1,703,888	$ -	$ 905,308	$ 2,609,196
2015	1,650,096	-	831,875	2,481,971
2016	1,226,382	-	782,314	2,008,696
2017	387,750	-	744,646	1,132,396
2018	398,012	-	3,489,516	3,887,528
2019-2023	2,125,000	-	2,743,700	4,868,700
2024-2028	5,140,000	-	795,825	5,935,825
2029-2033	11,737,859	9,930,000	-	21,667,859
2034-2037	2,806,707	8,605,000	-	11,411,707
2038-2042	8,894,106	45,335,000	-	54,229,106
Total payments due	36,069,800	$ 63,870,000	$ 10,293,184	$ 110,232,984
Plus: unamortized premiums	2,078,675			
Plus: accreted interest	968,830			
Total carrying amount	$ 39,117,305			

	Revenue Bonds			
Year Ending March 31	Principal	Remaining Accretion	Interest	Total
2014	$ 1,295,000	$ -	$ 4,974,518	$ 6,269,518
2015	1,495,000	-	4,916,630	6,411,630
2016	3,260,000	-	4,810,530	8,070,530
2017	3,960,000	-	4,647,855	8,607,855
2018	4,245,000	-	4,456,905	8,701,905
2019-2023	23,793,612	312,691	19,724,660	43,830,963
2024-2028	30,086,399	1,394,326	14,531,003	46,011,728
2029-2033	15,170,000	-	7,149,846	22,319,846
2034-2037	11,965,000	-	3,140,688	15,105,688
2038-2042	6,760,000	-	812,713	7572713
Total payment due	102,030,011	$ 1,707,017	$ 69,165,348	$ 172,902,376
Plus: unamortized premiums	273,108			
Plus: accreted interest	832,973			
Minus: unamortized loss on refundings	(3,301,609)			
Total carrying amount	$ 99,834,483			

Debt Repayment

All debt is payable from limited ad valorem property taxes levied on all taxable property within the District.

NOTE 7 – RENTAL INCOME

The District leases (rents) certain land and structures to others under operating leases with terms generally on a month-to-month basis. Rental income of $1,081,958 was received during the year ended March 31, 2013.

NOTE 8 – RETIREMENT PLAN

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 Plans' provisions and benefits in effect at March 31, 2013, are summarized as follows:

	Miscellaneous
Benefit vesting schedule	5 years service
Benefit payments	Monthly for life
Retirement age	50
Monthly benefits, as a % of annual salary	2.0-2.5%
Required employee contribution rates	7.941%
Required employer contribution rates	16.291%

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 7.75% is assumed, including inflation at 3.0%. 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 new State law, effective July 1, 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 year ended March 31 were as follows:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
3/31/2013	$ 4,298,913	100%	$ -
3/31/2012	1,572,759	100%	-
3/31/2011	1,415,161	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:

	Actuarial					Unfunded
Valuation Date	Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	(Overfunded) Liability as % of Payroll
2010	1,972,910,641	1,603,482,152	369,428,489	81.27%	352,637,380	104.76%

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

NOTE 9 – OTHER POST EMPLOYMENT BENEFITS

During fiscal year 2009, the District implemented the provisions of Governmental Accounting Standards Board Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. This Statement establishes uniform financial reporting standards for employers providing postemployment benefits other than pensions (OPEB). The provisions of this statement are applied prospectively and do affect prior years financial statements. Required disclosures are presented below.

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. District Board authorized a deposit of $1,900,000 with 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 by bargaining unit:

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)
Benefit	District pays retiree premiums up to: $350 per month effective 1/1/2009
Surviving Spouse Continuation	-Same benefit continues to surviving spouse
Dental, Vision and Life	None

As of March 31, 2013, approximately 99 active employees and 17 retirees were eligible to receive retirement health care benefits.

Funding Policy and Actuarial Assumptions

The annual required contribution (ARC) was determined as part of a March 31, 2010, 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) 7.25% investment rate of return, (b) 3.25% projected annual salary increase, and (c) 0% health inflation increases. 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.

In accordance with the District's budget, the ARC is to be funded throughout the year as a percentage of payroll. Concurrent with implementing Statement No. 45, the District Board passed a resolution to participate in the California Employers Retirees Benefit Trust (CERBT), an irrevocable trust established to fund OPEB. CERBT is administrated by CalPERS, and is managed by an appointed board not under the control of the District Board. 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 PO Box 942709, Sacramento, CA 94229-2709.

Funding Progress and Funded Status

Generally accepted accounting principles permits contributions to be treated as OPEB assets and deducted from the Actuarial Accrued Liability (AAL) when such contributions are placed in an irrevocable trust or equivalent arrangement. During the fiscal year 2009, the District made contribution in excess of the ARC and amortized its net OPEB obligation as presented below:

Annual required contribution	$	197,000
Interest on net OPEB asset		(97,000)
Adjustment to annual required contribution		137,000
Annual OPEB cost		237,000
Net OPEB Asset at March 31, 2012		1,334,306
Net OPEB Asset at March 31, 2013	$	1,097,306

The Plan's annual required contributions and actual contributions for fiscal years ended March 31, 2011 to 2013 are set forth below:

Fiscal Year	Annual OPEB Cost	Actual Contribution	Percentage of Annual OPEB Cost	Net OPEB Asset
3/31/2013	$ 237,000	$ -	0%	$ 1,097,306
3/31/2012	179,255	-	0%	1,334,306
3/31/2011	153,000	-	0%	1,513,561

The Schedule of Funding Progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Trend data from the actuarial studies is presented below:

Actuarial Valuation Date	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability	Overfunded (Underfunded) Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Overfunded (Underfunded) Actuarial Liability as Percentage of Covered Payroll
6/30/2011	$ 2,058,000	$ 1,844,000	$ 214,000	111.61%	$ 7,331,000	2.9%
3/31/2010	1,894,000	1,500,000	394,000	126.27%	5,772,000	6.8%
3/31/2008	-	1,078,000	(1,078,000)	0.00%	5,590,000	-19.3%

NOTE 10 – RISK MANAGEMENT

Coverage

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 9-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; properties on property schedule are covered.

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.

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 11 – NET POSITION

Net Position is the excess of all the District's assets over all its liabilities, regardless of fund. Net Position is divided into three captions under GASB Statement 34. These captions apply only to Net Position, which is determined only at the Government-wide level, and are described below:

Invested in Capital Assets, net of related debt describes the portion of Net Position which is represented by the current net book value of the District's capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted describes the portion of Net Position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions with the District cannot unilaterally alter.

Unrestricted describes the portion of Net Position which is not restricted to use.

Contingent Liabilities

The District has entered into numerous agreements, has properties that will require environmental remediation, and is named in certain claims and litigations. In the opinion of management, after consultation with counsel, the liability, if any, resulting there from will not have a material effect on the District's financial position.

REQUIRED SUPPLEMENTARY INFORMATION

MIDPENINSULA REGIONAL OPEN SPACE DISTRICT

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGETARY BASIS
FOR THE YEAR ENDED MARCH 31, 2013

	Budgeted Amounts			Variance
	Original	Final	Actual	Favorable (Unfavorable)
REVENUES				
Property taxes	$ 28,495,000	$ 28,875,000	30,269,803	$ 1,394,803
Grant income	4,794,000	4,794,000	913,338	(3,880,662)
Investment income	300,000	300,000	221,933	(78,067)
Property management - rents	1,109,000	1,109,000	1,380,937	271,937
Other income	388,000	388,000	145,800	(242,200)
Land Donation	615,000	615,000	3,890,155	3,275,155
Total Revenues	35,701,000	36,081,000	36,821,966	740,966
EXPENDITURES				
Current				
Salaries	9,002,479	8,806,300	8,309,803	496,497
Benefits (1)	3,850,107	3,530,634	6,014,461	(2,483,827)
Directors	25,000	29,000	31,500	(2,500)
Services and supplies	4,278,923	4,622,065	4,356,948	265,117
Capital Outlay				
New land purchases	9,000,000	8,434,000	6,194,600	2,239,400
Land acquisition support costs	705,000	861,000	517,312	343,688
Structures and improvements	4,804,080	4,623,080	2,206,010	2,417,070
Equipment	641,275	866,275	540,204	326,071
Vehicles	170,000	177,000	152,912	24,088
Total Expenditures	32,476,864	31,949,354	28,323,750	3,625,604
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	3,224,136	4,131,646	8,498,216	4,366,570
OTHER FINANCING SOURCES (USES)				
Transfers (out)	(8,876,542)	(8,876,542)	(8,876,542)	-
Total Other Financing Sources (Uses)	(8,876,542)	(8,876,542)	(8,876,542)	-
NET CHANGE IN FUND BALANCE	$ (5,652,406)	$ (4,744,896)	(378,326)	$ 4,366,570
Fund balance at beginning of year			41,781,543	
Sub-total			$ 41,403,217	
Land donation			(3,890,155)	
Fund balance end of year			$ 37,513,062	

(1) The unfavorable variance noted is due to the CALPERS side fund repayment referred to in Note 8 to the financial statements