

**MIDPENINSULA REGIONAL
OPEN SPACE DISTRICT**

ANNUAL FINANCIAL REPORT

YEAR ENDED MARCH 31, 2011

MIDPENINSULA REGIONAL OPEN SPACE DISTRICT

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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 March 31, 2011, and for the year then ended, as listed in the Table of Contents. These financial statements are the responsibility of the management of the District. 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 as to whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly in all material respects, the financial position of the governmental activities and each major fund of the Midpeninsula Regional Open Space District as of March 31, 2011, 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.

The Management's Discussion and Analysis is required by the Governmental Accounting Standards Board, but is not part of the basic financial statements. We have applied certain limited procedures to this information, principally inquiries of management regarding the methods of measurement and presentation of this information, but we did not audit this information and we express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of Midpeninsula Regional Open Space District. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relations to the basic financial statements taken as a whole.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
June 29, 2011

MIDPENINSULA REGIONAL OPEN SPACE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

MARCH 31, 2011

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, 2011. We encourage readers to consider the information presented here in conjunction with our basic financial statements.

FINANCIAL HIGHLIGHTS

Property tax revenue declined slightly in fiscal year 2011, by 1.3%, as the assessed valuation of secured and unsecured property within the District decreased for the first time since the District was formed in 1973. Total assessed valuation dropped by 0.5% in the District portion of Santa Clara County, by 0.1% in San Mateo County, and by 0.4% overall. In addition, tax refunds arising from county-wide downward reassessments prompted Santa Clara County to suspend allocation of supplemental (SB813) taxes between July 2010 and March 2011. This suspension drove a \$187,859 reduction in fiscal year 2011 tax revenue. The District normally receives approximately two-thirds of its tax revenue from Santa Clara County and one-third from San Mateo County. Property tax revenue increased by 4.9% in fiscal year 2010. Based on information from the county assessors, the District is expecting that tax revenue in fiscal year 2012 will increase by approximately 1.4% including the resumption of allocations of supplemental (SB813) taxes in Santa Clara County.

Partially offsetting the decrease in tax revenue, the District received \$286,222 under a new five year agreement with Santa Clara County to manage the developed portion of Rancho San Antonio County Park. This level of annual revenue is expected to continue.

The District added \$10.0 million of land and associated structures in fiscal year 2011. The four largest purchases, totaling \$8.7 million, were additions to the Bear Creek Redwoods, Sierra Azul, Russian Ridge and Monte Bello Open Space Preserves. Given the State budget crisis, grants for land acquisition were scarce in fiscal year 2011, with none received by the District. However, the District succeeded in obtaining a \$1.25 million contribution from Santa Clara County to cover half the cost of the additions to the Monte Bello Preserve. Net of grants and gifts, the District used \$8.8 million of cash for land purchases in fiscal year 2011, down from \$13.8 million in fiscal year 2010. The District added \$17.5 million and \$28.0 million of land and associated structures in fiscal year 2010 and 2009, respectively.

District expenditures were again within the annual budget. Some non-land capital projects were deferred due to the tax revenue shortfall. Excluding the purchase price of new properties and debt service, total District spending, \$15.4 million, was \$3.3 million, or 17.6%, below budget and up 7.4% over fiscal year 2010. Delayed non-land capital spending accounted for the majority of the budget variance. Due largely to the continuing growth in employee benefit costs, expenditures for salaries and benefits exceeded 40% of District tax revenue for the first time. Employee benefit costs increased by 13% and were 37.8% of salary expenses, compared to 36.3% in fiscal year 2010 and 35.4% in fiscal year 2009. This unfavorable trend is expected to continue in fiscal years 2012 and 2013.

MIDPENINSULA REGIONAL OPEN SPACE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS MARCH 31, 2011

Statement of Net Assets

Presented below is a condensed statement of net assets for the past two years:

Years ended:	March 31, 2011	March 31, 2010	Increase (Decrease)
Assets			
Current assets	\$ 30,749,199	\$ 32,690,558	\$ (1,941,359)
Retiree Health Trust	1,513,561	1,666,561	(153,000)
Capital assets	359,566,233	348,762,622	10,803,611
Total assets	391,828,993	383,119,741	8,709,252
Liabilities			
Accounts payable and other liabilities	2,713,472	2,489,540	223,932
Long-term debt	123,019,978	123,670,744	(650,766)
Total liabilities	125,733,450	126,160,284	(426,834)
Net Assets			
Invested in capital assets, net of related debt	236,546,255	225,091,878	11,454,377
Restricted	1,407,548	1,417,195	(9,647)
Unrestricted	28,141,740	30,450,384	(2,308,644)
Total net assets	\$ 266,095,543	\$ 256,959,457	\$ 9,136,086

Analysis of Net Assets

The District's assets at the close of this fiscal year are \$266.1 million more than its liabilities. This is the result of the District's inventory of capital assets. The net investment in capital assets, \$236.5 million, consists primarily of the District's almost 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 \$1.4 million for debt service. Unrestricted net assets are used to finance additional land acquisition projects. The District's budget for fiscal year 2012 includes \$12.5 million for land acquisitions, net of related grant income.

MIDPENINSULA REGIONAL OPEN SPACE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

MARCH 31, 2011

GENERAL FUND

The General Fund balance sheet includes all District accounts except for debt and capital assets. At March 31, 2011, the General Fund had a fund balance of \$26.9 million, down \$2.0 million from the prior year-end. This decrease was the result of spending cash to complete land purchases. All but \$0.7 million of this fund balance is unreserved and designated for future land acquisitions, including \$12.5 million budgeted for land purchases in fiscal year 2012, net of associated grant funding.

DEBT SERVICE FUND

The only asset in the Debt Service Fund, \$1.4 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. 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 2011 was \$8.09 million, consisting of \$3.30 million of principal and \$4.79 million of interest.

CAPITAL ASSETS

As of March 31, 2011, the District's investment in capital assets is \$359.6 million, net of accumulated depreciation. The District added \$9.6 million of land in fiscal year 2011, representing 89% of the total increase in capital assets, and has committed \$2.8 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, 2011, the District's long-term debt includes \$2.5 million of subordinated notes issued to sellers in District land purchase transactions, \$91.3 million of Authority revenue bonds sold to the public in 1999, 2004, and 2007, \$3.9 million of Refunding Promissory Notes sold to the public in 2005, and \$25.3 million of accreted interest, unamortized premium and unamortized loss on refunding. The Authority bonds and 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 loss projections from mortgage-related risk exposures, these insurance companies no longer carry AAA ratings. In April 2011, Moody's withdrew its rating of Ambac. Moody's currently rates MBIA Ba3. Standard & Poors's current ratings are D for Ambac and B for MBIA. The District's current stand-alone credit rating 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 2010 and the final budget adjusted in December 2010.

Total District revenue in fiscal year 2011 was within one percent of budget. Tax revenue was 0.9% below the final budget, mostly due to suspension of supplemental (SB813) revenue in Santa Clara County. Grant income was 11.0% below budget due to delays in completing certain preserve development projects. Interest income was

MIDPENINSULA REGIONAL OPEN SPACE DISTRICT

STATEMENT OF NET ASSETS MARCH 31, 2011

ASSETS		
Cash and investments (Note 2)		\$ 20,331,553
Receivables		
Taxes		6,585,000
Interest		55,148
Deposit		1,054,547
Prepaid expense		5,338
Restricted cash and investments (Note 2)		1,407,548
Note receivable (Note 3)		217,192
Deferred charges		1,092,873
Net OPEB Asset (Note 9)		1,513,561
Capital assets (Note 4)		
Nondepreciable		
Land		345,388,885
Construction in progress		2,800,845
Depreciable, net of accumulated depreciation		
Structures and improvements		6,356,212
Infrastructure		2,958,480
Equipment		737,851
Vehicles		1,323,960
Total assets		<u>391,828,993</u>
LIABILITIES		
Accounts payable		763,260
Accrued liabilities		319,525
Deposits payable		61,035
Interest payable		433,968
Compensated absences (Note 5)		
Due in one year		23,234
Due in more than one year		1,112,450
Long-term debt (Note 6)		
Due within one year		4,831,964
Due in more than one year		118,188,014
Total liabilities		<u>125,733,450</u>
NET ASSETS (Note 11)		
Invested in capital assets, net of related debt		236,546,255
Restricted for debt service		1,407,548
Unrestricted		28,141,740
Total net assets		<u>\$ 266,095,543</u>

See accompanying notes to financial statements.

MIDPENINSULA REGIONAL OPEN SPACE DISTRICT

**GOVERNMENTAL FUNDS BALANCE SHEET
MARCH 31, 2011**

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and investments (Note 2)	\$ 20,331,553	\$ -	\$ 20,331,553
Receivables			
Taxes	6,585,000	-	6,585,000
Interest	55,148	-	55,148
Deposit	1,054,547	-	1,054,547
Prepaid expense	5,338	-	5,338
Restricted cash and investments (Note 2)	-	1,407,548	1,407,548
Note receivable (Note 3)	217,192	-	217,192
Total Assets	<u>\$ 28,248,778</u>	<u>\$ 1,407,548</u>	<u>\$ 29,656,326</u>
LIABILITIES			
Accounts payable	\$ 763,260	\$ -	\$ 763,260
Accrued liabilities	319,525	-	319,525
Deposits payable	61,035	-	61,035
Deferred revenue (Note 3)	217,192	-	217,192
Total liabilities	<u>1,361,012</u>	<u>-</u>	<u>1,361,012</u>
FUND BALANCES			
Restricted			
Debt service	-	1,407,548	1,407,548
Encumbrances	731,498	-	731,498
Unassigned	26,156,268	-	26,156,268
Total fund balance	<u>26,887,766</u>	<u>1,407,548</u>	<u>28,295,314</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 28,248,778</u>	<u>\$ 1,407,548</u>	<u>\$ 29,656,326</u>

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, 2011

	General Fund	Debt Service Fund	Total
REVENUES			
Property tax	\$ 27,268,652	\$ -	\$ 27,268,652
Grant income	1,392,868	-	1,392,868
Investment income	191,515	102,444	293,959
Property management (Note 7)	955,243	-	955,243
Other income	550,615	-	550,615
Land donation	16,585	-	16,585
Total Revenues	<u>30,375,478</u>	<u>102,444</u>	<u>30,477,922</u>
EXPENDITURES			
Current			
Salaries	7,898,301	-	7,898,301
Benefits	3,011,859	-	3,011,859
Directors	27,600	-	27,600
Services and supplies	2,744,234	-	2,744,234
Capital outlay			
New land purchases	9,845,756	-	9,845,756
Land acquisition support costs	91,726	-	91,726
Structures and improvements	1,196,634	-	1,196,634
Equipment	276,032	-	276,032
Vehicles	185,094	-	185,094
Debt service			
Principal	-	3,300,681	3,300,681
Interest and fiscal charges	-	4,785,900	4,785,900
Total Expenditures	<u>25,277,236</u>	<u>8,086,581</u>	<u>33,363,817</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>5,098,242</u>	<u>(7,984,137)</u>	<u>(2,885,895)</u>
OTHER FINANCING SOURCES (USES):			
Other Sources	850,000	-	850,000
Transfers in	-	7,974,490	7,974,490
Transfers out	(7,974,490)	-	(7,974,490)
Total Other Financing Sources (Uses)	<u>(7,124,490)</u>	<u>7,974,490</u>	<u>850,000</u>
NET CHANGE IN FUND BALANCES	<u>(2,026,248)</u>	<u>(9,647)</u>	<u>(2,035,895)</u>
Fund Balance at beginning of year	28,914,014	1,417,195	30,331,209
Fund Balance at end of year	<u>\$ 26,887,766</u>	<u>\$ 1,407,548</u>	<u>\$ 28,295,314</u>

See accompanying notes to financial statements.

MIDPENINSULA REGIONAL OPEN SPACE DISTRICT

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2011

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 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

MIDPENINSULA REGIONAL OPEN SPACE DISTRICT

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2011

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. Encumbrances are recorded as restrictions of fund balance since they do not constitute expenditures or liabilities. All unencumbered appropriations lapse at the end of the fiscal year.

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 and issuance costs are capitalized as an offset to long-term debt and amortized using the effective interest 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.

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.

MIDPENINSULA REGIONAL OPEN SPACE DISTRICT

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2011

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 unexpended bond proceeds or are pledged reserves to be used if the District fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with District resolutions, bond indentures or State statutes. At March 31, 2011, the bond indentures provided no advice about investing the bonds and contain no limitations for maximum investment in any one issuer or the maximum percentage of the portfolio that may be invested in any one investment type.

MIDPENINSULA REGIONAL OPEN SPACE DISTRICT

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2011

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, 2011, 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	\$ -	\$ 1,405,573	\$ 1,405,573
Money Market Mutual Funds (US Securities)	-	1,975	1,975
California Local Agency Investment Fund	2,244,309	-	2,244,309
Santa Clara County Pool	17,892,835	-	17,892,835
Total Investments	<u>\$ 20,137,144</u>	<u>\$ 1,407,548</u>	<u>\$ 21,544,692</u>

Concentration Risk

Investments in any one issuer, other than US Treasury securities, mutual funds, and external investment pools, that represent 5 percent or more of total District portfolio Entity-wide investments, are as follows at March 31, 2011:

Investments	Reporting Type	Investment Amount	Percent of Portfolio
Federal Home Loan Mortgage Corp	US Federal Agency Securities	\$ 1,405,573	6.5%

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 \$1,407,548 as of March 31, 2011.

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, 2011 was \$217,192.

MIDPENINSULA REGIONAL OPEN SPACE DISTRICT

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2011

At March 31, 2011, the District had made commitments of approximately \$2.106 million 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 time.

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:

<u>Years of Employment</u>	<u>Percentage of equivalent cash value of accrued sick leave</u>
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 \$1,135,684 as of March 31, 2011.

MIDPENINSULA REGIONAL OPEN SPACE DISTRICT

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2011

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, 2011, 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, 2011, the outstanding balance of the Daloia Land Contract note was \$134,529.

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, 2011, the outstanding balance was \$3,945,000.

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, 2011.

Revenue Bonds

1999 Lease Revenue Bonds. On January 20, 1999 the Authority, on behalf of the District, issued \$29,663,021 of 1999 Lease Revenue Bonds for the purpose of acquiring land to preserve and use as open space, 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 3.7% to 5.4% and are due semi-annually on March 1 and September 1. The Capital Appreciation Bonds accrete interest at 5.2% to 5.4% 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, 2016. At March 31, 2011, the outstanding balance of these bonds was \$33,229,454.

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 5.4% 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, 2011, the outstanding balance of these bonds was \$31,765,736.

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

MIDPENINSULA REGIONAL OPEN SPACE DISTRICT

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2011

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 \$955,243 was received during the year ended March 31, 2011.

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, 2011, are summarized as follows:

	<u>Miscellaneous</u>
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	8.0%
Required employer contribution rates	12.908%

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.

MIDPENINSULA REGIONAL OPEN SPACE DISTRICT

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2011

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: \$300 per month effective 1/1/2007 \$350 per month effective 1/1/2009
Surviving Spouse Continuation	-Retirement plan election -Same benefit continues to surviving spouse
Dental, Vision and Life	None

As of March 31, 2011, approximately 94 active employees 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, 2009, 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) 7.75% investment rate of return, (b) 3.25% projected annual salary increase, and (c) 3.0% 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 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.

MIDPENINSULA REGIONAL OPEN SPACE DISTRICT

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2011

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.

MIDPENINSULA REGIONAL OPEN SPACE DISTRICT

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2011

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.

NOTE 12 – SUBSEQUENT EVENTS

In May 2011, the District Financing Authority sold \$20.5 million of thirty-year bonds to finance the purchase of land and structures. These bonds, structured as a lease and rated AA by Fitch and AA- by Standard & Poor's, were sold at a total interest cost of 5.60%.

MIDPENINSULA REGIONAL OPEN SPACE DISTRICT

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE
FOR THE YEAR ENDED MARCH 31, 2011**

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
REVENUES				
Property taxes	\$27,857,000	\$ 27,527,000	\$ 27,268,652	\$ (258,348)
Grant income	2,500,000	1,565,000	1,392,868	(172,132)
Investment income	330,000	330,000	191,515	(138,485)
Property management - rents	928,000	928,000	955,243	27,243
Other income	243,000	235,000	550,615	315,615
Land Donation	-	-	16,585	16,585
Total Revenues	<u>31,858,000</u>	<u>30,585,000</u>	<u>30,375,478</u>	<u>(209,522)</u>
EXPENDITURES				
Current				
Salaries	7,995,360	8,021,261	7,898,301	122,960
Benefits	3,072,239	3,074,219	3,011,859	62,360
Directors	25,000	25,000	27,600	(2,600)
Services and supplies	3,607,683	3,661,015	2,744,234	916,781
Capital Outlay				
New land purchases	15,000,000	15,000,000	9,845,756	5,154,244
Land acquisition support costs	656,500	656,500	91,726	564,774
Structures and improvements	2,140,310	1,333,210	1,196,634	136,576
Equipment	1,530,000	1,755,000	276,032	1,478,968
Vehicles	210,000	210,000	185,094	24,906
Total Expenditures	<u>34,237,092</u>	<u>33,736,205</u>	<u>25,277,236</u>	<u>8,458,969</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(2,379,092)</u>	<u>(3,151,205)</u>	<u>5,098,242</u>	<u>8,249,447</u>
OTHER FINANCING SOURCES (USES)				
Other Sources	-	-	850,000	850,000
Transfers (out)	-	-	(7,974,490)	(7,974,490)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(7,124,490)</u>	<u>(7,974,490)</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>(2,026,248)</u>	<u>\$ (2,026,248)</u>
Fund balance at beginning of year			28,914,014	
Fund balance at end of year			<u>\$ 26,887,766</u>	