Midpeninsula Regional
Open Space District

R-11-07
Meeting 11-03
January 26, 2011

AUTHORITY MEETING AGENDA ITEM 2

AGENDA ITEM

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

CONTROLLER'S RECOMMENDATIONS

The Controller of the Authority recommends that the Board accept the Annual Financial Report of the Midpeninsula Regional Open Space District Financing Authority ("Authority").

DISCUSSION

Controller's Report

In May 1996, the District and Santa Clara County established the Authority with the purpose of providing financing assistance to the District to fund acquisition of land to preserve and use as open space and to finance public capital improvements. Accordingly, the District and the Authority are accounted as one blended unit for financial statement purposes. On May 28, 2010, the District's independent auditors, Maze & Associates, issued its report on the District's financial statements for the fiscal year ended March 31, 2010. This report is attached.

Through March 2010, the District had sold five series of Financing Authority notes, with a total par value of $179 million. No Financing Authority notes were sold in fiscal 2010. A summary of the five financings is shown below. Excluding the 2007 Notes which raised no new money and only refinanced existing Financing Authority notes, the District had issued $120 million (net) of Financing Authority notes, funding $57 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.

	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

(*) TIC = total interest cost, including all costs of issuance

Three Financing Authority note issues remain outstanding, with a total outstanding balance of $121.2 million at March 31, 2010. This represents 95% of the District's total outstanding debt balance. The average total interest cost of the outstanding Financing Authority notes is 4.87%. A summary of the activity on the Financing Authority notes in fiscal 2010 is shown below. During the 2010 fiscal year, $2.79 million of principal was repaid, $4.63 million of interest was paid, and $1.36 million 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 1999-1 Notes include $13.9 million of CABs while the 2004 Notes have $1.3 million.

(millions)	Balance March 2009	Principal Paid	Accretion	Balance March 2010	Interest Paid in FY10
1999-1 Notes	$33.08	$1.21	$1.26	$33.13	$0.40
2004 Notes	$32.02	$0.20	$0.10	$31.92	$1.42
2007 Notes	$57.44	$1.39	$0.00	$56.11	$2.82
	$122.53	$2.79	$1.36	$121.16	$4.63

FISCAL IMPACT

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

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 (CEQA).

NEXT STEPS

None.

Attachment
1. District’s Financial Statements for the fiscal year ended March 31, 2010.

Prepared by:
Michael Foster, Controller

Contact person:
Same as above.

MIDPENINSULA REGIONAL OPEN SPACE DISTRICT

BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2010

PREPARED BY THE
FINANCE DEPARTMENT

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MIDPENINSULA REGIONAL OPEN SPACE DISTRICT
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2010

Table of Contents

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MAZE & ASSOCIATES

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INDEPENDENT AUDITORS' 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, 2010, 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 generally accepted auditing standards 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, 2010, 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.

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 relation to the basic financial statements taken as a whole.

Maze & Associates

May 28, 2010

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Management's Discussion and Analysis

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, 2010. We encourage readers to consider the information presented here in conjunction with our basic financial statements.

FINANCIAL HIGHLIGHTS

Property tax revenue growth was stronger than originally expected in fiscal 2010, increasing by about 4.9%, compared to property tax growth of 6.4% in fiscal 2009 and 3.6% in fiscal 2008. Revenue growth slowed significantly in the Santa Clara County portion of the District, from 8.0% in fiscal 2009 to 3.1% in fiscal 2010. However, this was offset by higher growth in the San Mateo County portion, from 3.0% in fiscal 2009 to 8.5% in fiscal 2010. The District receives approximately two-thirds of its tax revenue from Santa Clara County and one-third from San Mateo County. Based on information from the county assessors, the District is expecting that tax revenue in fiscal 2011 will be slightly less than in fiscal 2010.

The District added $16.6 million of land in fiscal 2010. The three largest purchases, totaling $10.8 million, were additions to the Purisima Creek Redwoods Open Space Preserve and key links in the completion of the Purisima-to-the Sea project. Given the State budget crisis, grants for land acquisition were scarce in fiscal 2010, with only $500,000 obtained. However, the District succeeded in obtaining $2.3 million of gifts of land, mostly additions to the San Antonio and Monte Bello Open Space Preserves. Net of grants and gifts, the District used $13.8 million of cash for land purchases in fiscal 2010, down from $18.7 million in fiscal 2009. The District added $27.9 million and $1.6 million of land in fiscal 2009 and 2008, respectively.

District expenditures were again within annual budget. Excluding the purchase price of new properties and debt service, total District spending, $14.4 million, was $1.4 million, or 9%, below budget and up 2.6% over fiscal 2009.

The assets of the District exceeded liabilities at the close of the 2010 fiscal year by $257.0 million (*net assets*). Of this amount, $225.1 million is invested in capital assets, net of related debt, $1.4 million is restricted by the terms of existing District debt, and the remaining $30.5 million is unrestricted. About 43% of the unrestricted balance is projected to be used for land acquisition in fiscal 2010 as the approved budget for fiscal 2010 forecasts land purchases totaling $15.0 million, or $12.5 million net of associated grant income.

The District's total net assets increased by $11.2 million in fiscal 2010, as general and program revenues exceeded program expenditures. Program expenditures were within budget.

The District's total long-term debt obligations declined by $1.3 million to $123.7 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. This is the third year the District has presented its financial statements under the new reporting model required by the Governmental Accounting Standards Board Statement No. 34 (GASB 34), *Basic Financial Statements – and Management's Discussion and Analysis (MD&A) – for State and Local Governments.*

NET ASSETS

Statement of Net Assets – March 31, 2010 and 2009

	March 31, 2010	March 31, 2009	Increase
Assets:			
Current assets	$ 32,690,558	$ 40,565,462	$- 7,874,904
Retiree Health Trust	1,666,561	1,723,000	- 56,439
Capital assets	348,762,622	330,931,437	17,831,185
Total assets	383,119,741	373,219,899	9,899,842
Liabilities:			
Accounts payable and other liabilities	2,489,540	2,506,547	- 17,007
Long-term debt	123,670,744	124,951,534	- 1,280,790
Total liabilities	126,160,284	127,458,081	- 1,297,797
Net assets:			
Invested in capital assets, net of related debt	225,091,878	205,979,903	19,111,975
Restricted	1,417,195	1,405,211	11,984
Unrestricted	30,450,384	38,376,704	- 7,926,320
Total net assets	$256,959,457	$ 245,761,818	$11,197,639

Analysis of Net Assets

The District's assets at the close of this fiscal year are $257.0 million more than its liabilities. This is the result of the District's inventory of capital assets. The net investment in capital assets, $225.1 million, consists primarily of the District's approximately 59,000 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 2010 includes $12.5 million for land acquisitions, net of related grant income.

Changes in Net Assets – Fiscal Years Ending March 31, 2010 and 2009

	Fiscal 2010	Fiscal 2009	Increase	% Increase
Revenues:				
Program revenue:				
Charges for services	$ 911,139	$ 879,296	$ 31,843	3.6
Grants and contributions	658,880	9,049,506	-8,390,626	- 92.7
General revenue:				
General property tax	27,630,594	26,350,722	1,279,872	4.9
Investment income	80,453	1,228,471	- 1,148,018	- 93.5
Other	2,474,038	488,273	1,985,765	406.7
Total Revenues	31,755,104	37,996,268	- 6,241,164	-16.4
Expenses	20,557,465	19,816,783	740,682	3.7
Change in net assets	11,197,639	18,179,485	- 6,981,846	- 38.4

Analysis of Change in Net Assets

For the year ended March 31, 2010, the District's net assets increased by $11.2 million. The increase in overall expenses was due to planned increases in salaries, benefits, services and supplies. Salaries and benefits represented 49% of expenses compared to 47% in fiscal 2009. Salaries and benefits increased 8.6% over the prior fiscal year. This increase was principally due to a filling vacant positions and lower staff turnover. Service and supply expense declined by 2.6%, largely due to the lack of election expense in fiscal 2010. Interest charges decreased slightly due to the impact of scheduled principal repayments.

Program revenues include rental income, grants and cash donations. Grant income is mostly tied to acquisitions of specific parcels of land. Given the state budget crisis, grants for land acquisition were scarce in fiscal 2010, with only $500,000 obtained. However, the District succeeded in obtaining $2.3 million of gifts of land, mostly additions to the San Antonio and Monte Bello Open Space Preserves. Grant income was relatively high in fiscal 2009 due to the acquisition of the Mindego Ranch property, for which the District received $8.1 million of grant funding. Rental income increased by 3.6%.

Tax revenue increased by 4.9% in fiscal 2010 compared to growth of 6.4% in fiscal 2009. Revenue growth slowed significantly in the Santa Clara County portion of the District, from 8.0% in fiscal 2009 to 3.1% in fiscal 2010. However, this was offset by higher growth in the San Mateo County portion, from 3.0% in fiscal 2009 to 8.5% in fiscal 2010. The District receives approximately two-thirds of its tax revenue from Santa Clara County and one-third from San Mateo County.

GENERAL FUND

The General Fund balance sheet includes all District accounts except for debt and capital assets. At March 31, 2010, the General Fund had a fund balance of $28.9 million, down $7.7 million from the prior year-end. This decrease was the result of spending cash to complete land purchases. All but $0.1 million of this fund balance is unreserved and designated for future land acquisitions, including $12.5 million budgeted for land purchases in fiscal year 2011, 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 2010 was $7.82 million, consisting of $2.90 million of principal and $4.92 million of interest.

CAPITAL ASSETS

As of March 31, 2010, the District's investment in capital assets is $348.8 million, net of accumulated depreciation. The District added $16.6 million of land in fiscal year 2010, representing 93% of the total increase in capital assets, and has committed $2.2 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, 2010, the District's long-term debt includes $1.7 million of subordinated notes issued to sellers in District land purchase transactions, $111.0 million of Authority revenue bonds sold to the public in 1999, 2004, and 2007, $4.1 million of Refunding Promissory Notes sold to the public in 2005, and $7.8 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 increased loss projections from mortgage-related risk exposures, these insurance companies no longer carry AAA ratings. The latest ratings of these insurers, by Moody's, are Caa2 for Ambac (3/26/10) and Baa1 for MBIA (6/25/09). The District's last stand-alone credit rating was AA- from Standard & Poor's in November 2006. 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 2009 and the final budget adjusted in December 2009.

Total District revenue in fiscal 2010 was $1.0 million, or 3.1%, over budget, due primarily to gifts of land. Tax revenue was within 0.1% of the final budget. Grant income was below budget due to delay in completing certain land purchase transactions. Interest income was under budget due to continued reduction in interest rates and a correction of over-estimated interest accruals from prior years.

Excluding land purchase transactions and debt service, fiscal year 2010 expenditures were approximately $1.4 million, or 8.8%, below the final budget. Salaries and benefits were $0.2 million, or 2.2%, below budget, services and supplies cost $0.4 million, or 11.6%, less than budget, and non-land capital spending was $0.8 million, or 37.0%, under budget. This overall operating expense budget performance, 91% of budget, was within the normal range of recent years (89% to 94% of budget).

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Board of Directors adopted the District's budget for fiscal year 2011 on March 24, 2010. This budget assumes very low growth in property tax revenue, about 0.8%, due to downward reassessments and slow turnover of residential property in both Santa Clara and San Mateo County portions of the District, and to the impact of the negative change in the state consumer price index. The latest reports from the county assessors on July 1, 2010 indicate that the fiscal 2011 property tax revenue within District boundaries will likely decrease by about 0.1 percent. This would yield fiscal 2011 tax revenue of about $300,000 below budget.

The total land acquisition budget is $15.0 million in fiscal 2011, partially covered by $2.5 million of associated acquisition-related grant income. Debt service requirements are $8.1 million. If all revenues and expenditures occur as budgeted and the District does not complete any financings, the District's cash position would decrease by $9.9 million in fiscal year 2011.

The District is currently pursuing potential land acquisition 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 ASSETS
MARCH 31, 2010

ASSETS	
Cash and investments (Note 2)	$20,964,120
Restricted cash and investments (Note 2)	1,417,195
Receivables:	
Taxes	7,265,700
Interest	70,000
Grant	506,899
Deposit	1,060,771
Rent	10,398
Prepaid expense	14,683
Notes receivable (Note 3)	226,455
Deferred charges	1,154,337
Net OPEB Asset (Note 9)	1,666,561
Capital assets (Note 4):	
Nondepreciable	
Land	335,785,573
Construction in progress	2,218,316
Depreciable, net of accumulated depreciation	
Structures and improvements	5,677,962
Infrastructure	2,922,571
Equipment	685,815
Vehicles	1,472,385
Total Assets	383,119,741
LIABILITIES	
Accounts payable	703,526
Accrued liabilities	220,576
Deposits payable	54,455
Interest payable	398,531
Compensated absences (Note 5):	
Due in one year	104,783
Due in more than one year	1,007,669
Long-term debt (Note 6):	
Due in one year	3,563,945
Due in more than one year	120,106,799
Total Liabilities	126,160,284
NET ASSETS (Note 11):	
Investment in capital assets, net of related debt	225,091,878
Restricted for debt service	1,417,195
Unrestricted	30,450,384
Total Net Assets	$256,959,457

See accompanying notes to financial statements

MIDPENINSULA REGIONAL OPEN SPACE DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2010

Program expenses:	
General government	
Salaries	$7,378,799
Benefits	2,717,166
Directors	25,300
Service and supplies	3,133,120
Depreciation (Note 4)	714,805
Interest	6,207,538
Loss on refunding of debt	380,737
Total program expenses	20,557,465
Program revenues:	
Charges for services (Note 7)	911,139
Capital grants and operating contributions	658,880
Land donation	2,258,500
Total program revenues	3,828,519
Net program expenses	16,728,946
General revenues:	
Property tax increment	27,630,594
Use of money and property	80,453
Miscellaneous	215,538
Total general revenues and transfers	27,926,585
Change in Net Assets	11,197,639
Net assets - beginning	245,761,818
Net assets - ending	$256,959,457

See accompanying notes to financial statements

MIDPENINSULA REGIONAL OPEN SPACE DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
MARCH 31, 2010

	General Fund	Debt Service Fund	Total Governmental Funds
ASSETS			
Cash and investments (Note 2)	$20,964,120		$20,964,120
Receivables:			
Taxes	7,265,700		7,265,700
Interest	70,000		70,000
Grant	506,899		506,899
Deposit	1,060,771		1,060,771
Rent	10,398		10,398
Prepaid expense	14,683		14,683
Restricted cash and investments (Note 2)		$1,417,195	1,417,195
Notes receivable (Note 3)	226,455		226,455
Total Assets	$30,119,026	$1,417,195	$31,536,221
LIABILITIES			
Accounts payable	$703,526		$703,526
Accrued liabilities	220,576		220,576
Deposits payable	54,455		54,455
Deferred revenue (Note 3)	226,455		226,455
Total Liabilities	1,205,012		1,205,012
FUND BALANCES			
Reserved for:			
Debt service		$1,417,195	$1,417,195
Encumbrances	$579,446		579,446
Unreserved, designated for:			
Budgeted land acquisition	15,656,500		15,656,500
Unreserved	12,678,068		12,678,068
Total fund balance	28,914,014	1,417,195	30,331,209
Total liabilities and fund balance	$30,119,026	$1,417,195	$31,536,221

See accompanying notes to financial statements

MIDPENINSULA REGIONAL OPEN SPACE DISTRICT
Reconciliation of the
GOVERNMENTAL FUNDS -- BALANCE SHEET
with the
STATEMENT OF NET ASSETS
FOR THE YEAR ENDED MARCH 31, 2010

Total fund balances reported on the governmental funds balance sheet	$30,331,209
Amounts reported for Governmental Activities in the Statement of Net Assets are different from those reported in the Governmental Funds above because of the following:	
CAPITAL ASSETS	
Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds.	348,762,622
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 government funds	226,455
DEFERRED CHARGES	
Bond issuance costs are expended in governmental funds when paid, however, they are capitalized and amortized over the life of the corresponding bonds for purposes of the statement of net assets	1,154,337
LONG-TERM LIABILITIES	
The liabilities below are not due and payable in the current period and therefore are not reported in the Funds:	
Long-term debt	(123,670,744)
Accrued interest payable	(398,531)
Compensated absences	(1,112,452)
Net OPEB Asset	
Net OPEB Asset is not available to pay for current period expenditures and, therefore, are deferred on the modified accrual basis in the balance sheet of government funds	1,666,561
NET ASSETS OF GOVERNMENTAL ACTIVITIES	$256,959,457

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, 2010

	General Fund	Debt Service Fund	Total Governmental Funds
REVENUES			
Property taxes	$27,630,594		$27,630,594
Grant income	658,880		658,880
Investment income	78,855	$1,598	80,453
Property management (Note 7)	911,139		911,139
Other income	223,923		223,923
Land Donation	2,258,500		2,258,500
Total Revenues	31,761,891	1,598	31,763,489
EXPENDITURES			
Current:			
Salaries	7,274,016		7,274,016
Benefits	2,660,727		2,660,727
Directors	25,300		25,300
Services and supplies	3,109,803		3,109,803
Capital outlay:			
New land purchases	17,242,551		17,242,551
Land acquisition support costs	247,052		247,052
Structures and improvements	609,115		609,115
Equipment	294,789		294,789
Vehicles	162,709		162,709
Debt service:			
Principal		2,899,738	2,899,738
Interest and fiscal charges		4,919,182	4,919,182
Total Expenditures	31,626,062	7,818,920	39,444,982
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	135,829	(7,817,322)	(7,681,493)
OTHER FINANCING SOURCES (USES)			
Transfers in		7,829,306	7,829,306
Transfers (out)	(7,829,306)		(7,829,306)
Total Other Financing Sources (Uses)	(7,829,306)	7,829,306	
NET CHANGE IN FUND BALANCES	(7,693,477)	11,984	(7,681,493)
Fund balances at beginning of year	36,607,491	1,405,211	38,012,702
Fund balances at end of year	$28,914,014	$1,417,195	$30,331,209

See accompanying notes to financial statements

MIDPENINSULA REGIONAL OPEN SPACE DISTRICT
Reconciliation of the
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
with the
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2010

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 Assets 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	($7,681,493)
Amounts reported for governmental activities in the Statement of Activities are different because of the following:	
CAPITAL ASSETS TRANSACTIONS	
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense. The capital outlay expenditures are therefore added back to fund balance	18,556,216
Loss from the retirement of capital assets are deducted from the fund balance	(104,887)
Depreciation expense is deducted from the fund balance	(620,144)
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.	(8,385)
Payment that was not collectible at year end	(13,091)
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	(1,355,684)
Repayment of debt principal is added back to fund balance	2,899,738
Change in accrued interest payable	11,319
Amortization of bond premium	56,009
Amortization of loss on refunding	(319,273)
Amortization of deferred amounts	(61,464)
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	(104,783)
Net OPEB Asset	(56,439)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	$11,197,639

See accompanying notes to financial statements

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General

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

B. Reporting Entity

As required by generally accepted accounting principles, these basic financial statements present 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.

C. 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Separate statements for each fund category—*governmental* and *fiduciary*—are presented. The emphasis of fund financial statements is on major individual governmental funds, each of which is displayed in a separate column.

D. 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.

E. 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

F. 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 reservations of fund balance since they do not constitute expenditures or liabilities. All unencumbered appropriations lapse at the end of the fiscal year.

G. 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.

H. 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. 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.

J. 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.

K. 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.

L. Proposition 1A

Under the provisions of Proposition 1A and as part of the fiscal year 2009-10 budget package passed by the California State legislature on July 28, 2009, the State of California borrowed 8% of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fees, triple flip in lieu sales taxes, and supplemental property taxes, apportioned to the District. The State is required to repay the $2,177,515 it borrowed from the District, plus interest, by June 30, 2013.

This borrowing by the State of California was recognized as a receivable in the accompanying financial statements. Under the modified accrual basis of accounting, the borrowed tax revenues are not permitted to be recognized as revenue in the governmental fund financial statements until the tax revenues are received from the State of California, which is not expected until fiscal year 2012-13. In the government-wide financial statements, the tax revenues were recognized in the fiscal year for which they were levied (fiscal year 2009-10).

NOTE 2 – CASH AND INVESTMENTS

A. 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 or 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.

B. Classification

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

	2010
Cash and cash equivalents, available for District operation	$34,637
Investments, available for District operation	20,929,483
Restricted cash and investments	1,417,195
Total Cash and Investments	$22,381,315

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

	2010
Cash on hand	$800
Deposits	33,837
Investments	22,346,678
Total Cash and Investments	$22,381,315

NOTE 2 – CASH AND INVESTMENTS (Continued)

C. 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
U.S. Treasury Obligations	5 years	N/A	No Limit	No Limit
U.S. Agency Securities	5 years	N/A	No Limit	No Limit
California Local Agency Investment Fund	Upon Demand	N/A	$40 million per account	N/A
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%

D. 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, 2010, 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.

E. 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 in market interest rates. The District generally manages its interest rate risk by holding investments to maturity.

NOTE 2 – CASH AND INVESTMENTS (Continued)

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 25 Months	Total
Held by District:			
California Local Agency Investment Fund	$7,549,885		$7,549,885
Santa Clara County Pool	13,379,598		13,379,598
Held by Trustees:			
U.S. Federal Agency Securities		$1,323,591	1,323,591
Money Market Mutual Funds (U.S. Securities)	93,604		93,604
Total Investments	$21,023,087	$1,323,591	$22,346,678

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, 2010, these investments matured in an average of 213 days.

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 matured in an average of 300 days at March 31, 2010.

NOTE 2 – CASH AND INVESTMENTS (Continued)

F. 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, 2010, for each investment type as provided by Moody's investment rating system.

Investment Type	Aaa	Total
Held by Trustees:		
U.S. Federal Agency Securities	$1,323,591	$1,323,591
Money Market Mutual Funds (U.S. Securities	93,604	93,604
Totals	$1,417,195	
Not rated:		
California Local Agency Investment Fund		7,549,885
Santa Clara County Pool		13,379,598
Total Investments		$22,346,678

G. Concentration Risk

Investments in any one issuer, other than U.S. 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, 2010:

Investments	Reporting Type	Investment Amount
Federal Home Loan Mortgage Corp.	U.S. Federal Agency Securities	$1,323,591

H. 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 service are administered by the Bank. The cash and investment amounts were $1,417,195 at March 31, 2010.

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, 2010 was $226,455.

On March 31, 2003, the District entered into an agreement with Graphic Arts Center Publishing Company (The Company), in which the Company would pay royalties to the District for the sales of their books. In 2007, the Company filed for Chapter 11 bankruptcy, in which the U.S. Bankruptcy court ruled that the District will be paid back in full plus interest over the 5 year period that began in spring 2007. The royalties due to the District total $15,305 over 5 years with an interest rate of 8.25% per annum. Monthly principal and interest payments of $375 are due with the final payment scheduled to be received in February 2012. The outstanding balance at March 31, 2010, was $13,091, however, the management determined this amount is not collectible at year end.

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

MIDPENINSULA REGIONAL OPEN SPACE DISTRICT
Notes to the Financial Statements
March 31, 2010

NOTE 4 – CAPITAL ASSETS (Continued)

Changes in capital assets accounts are summarized below:

	Balance at March 31, 2009	Additions & Transfers	Retirements & Transfers	Balance at March 31, 2010
Capital assets not being depreciated:				
Land	$319,200,973	$17,489,600	($905,000)	$335,785,573
Construction in Progress	1,637,226	686,186	(105,096)	2,218,316
Total capital assets not being depreciated	320,838,199	$18,175,786	($1,010,096)	338,003,889
Capital assets being depreciated:				
Structures and improvements	10,908,518	$905,001		11,813,519
Infrastructure	3,658,690	99,444		3,758,134
Equipment	1,086,525	219,265	($50,677)	1,255,113
Vehicles	2,322,230	161,161	(48,555)	2,434,836
Total capital assets being depreciated:	17,975,963	$1,384,871	($99,232)	19,261,602
Less accumulated depreciation for:				
Structures and improvements	5,771,901	$363,656		6,135,557
Infrastructure	729,775	105,788		835,563
Equipment	543,677	76,298	($50,677)	569,298
Vehicles	837,372	169,063	(43,984)	962,451
Total accumulated depreciation	7,882,725	$714,805	($94,661)	8,502,869
Net capital assets being depreciated	10,093,238			10,758,733
Total capital assets, net	$330,931,437			$348,762,622

Adjustments made were based on a physical inventory of capital assets at March 31, 2010.

Construction in progress represents construction of structure and improvements and infrastructure not yet placed in service at March 31, 2010.

At March 31, 2010, the District had made commitments of approximately $2.1 million for construction work, legal and consulting fees, and purchases of supplies and equipment.

NOTE 5 – ACCRUED 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 ten 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:

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. Compensated absences were $1,112,452 as of March 31, 2010.

NOTE 5 – ACCRUED COMPENSATED ABSENCES (Continued)

The changes in compensated absences were as follows:

	Governmental Activities
Beginning Balance, at March 31, 2009	$1,007,669
Additions	104,783
Payments made during fiscal year	
Ending Balance, at March 31, 2010	$1,112,452
Current Portion	$104,783

NOTE 6 – LONG-TERM DEBT

A. Current Year Transactions and Balances

	Original Issue Amount	Balance March 31, 2009	Additions	Retirements	Balance March 31, 2010	Amount due within one year
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	164,948		($14,738)	150,210	$15,681
2005 Refunding Promissory Notes 3.25-5.00%, due 4/1/2015	4,630,000	4,255,000		(150,000)	4,105,000	160,000
Total promissory notes	6,370,000	5,919,948		(164,738)	5,755,210	175,681
Revenue Bonds						
1999 Lease Revenue Bonds 3.70-5.40%, due 4/1/2031	29,663,021	23,383,021		(1,205,000)	22,178,021	1,340,000
2004 Revenue Bonds 2.00-5.40%, due 9/1/2034	31,900,010	31,600,010		(200,000)	31,400,010	250,000
2007 Series A Revenue Refunding Bonds 4.00-5.00%, due 9/1/2027	52,415,000	52,415,000			52,415,000	
2007 Series B-T Taxable Revenue Refunding Bonds, 5.15%, due 9/1/2012	6,785,000	5,020,000		(1,330,000)	3,690,000	1,535,000
Unamortized premium		718,859		(56,009)	662,850	(56,009)
Unamortized loss on refunding		(4,220,128)		319,273	(3,900,855)	319,273
Total revenue bonds	120,763,031	108,916,762		(2,471,736)	106,445,026	3,388,264
Accreted Interest						
1999 Revenue Bonds Accretion		9,694,655	$1,260,324		10,954,979	
2004 Lease Revenue Bonds Accretion		420,169	95,360		515,529	
Total Accretion		10,114,824	1,355,684		11,470,508	
Total debt	$127,133,031	$124,951,534	$1,355,684	($2,636,474)	$123,670,744	$3,563,945

NOTE 6 – LONG-TERM DEBT (Continued)

B. 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, 2010, the outstanding balance due on the note was $1,500,000.

Land Purchase Contract Promissory Notes

During fiscal years ending 1989, 2000, and 2003 the District entered into three land purchase contract promissory notes in the amounts of $100,000, $192,000, and $240,000, respectively. The promissory notes bear interest at fixed rates from 6.0% to 7.0% and mature at different intervals through October 10, 2017. At March 31, 2010, two notes were paid off, the outstanding balance of the Daloia Land Contract note amounted to $150,210.

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, 2010, the outstanding balance was $4,105,000.

C. 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, 2010, the outstanding balance of these bonds was $33,133,000.

NOTE 6 – LONG-TERM DEBT (Continued)

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, 2010, the outstanding balance of these bonds was $31,915,539.

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 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, 2010 the outstanding balance of 2007 Series A Bonds is $52,415,000 and the outstanding 2007 Series B-T Bonds is $3,690,000 and the remaining balance of the defeased debt was $17,764,207.

NOTE 6 – LONG-TERM DEBT (Continued)

D. *Debt Service Requirements*

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

For The Year Ending March 31	Promissory Notes Principal	Interest	Total
2011	$175,681	$277,866	$453,547
2012	796,684	254,163	1,050,847
2013	827,752	220,431	1,048,183
2014	1,163,888	173,758	1,337,646
2015	1,230,096	109,925	1,340,021
2016-2020	61,109	643,476	704,585
2021-2024	1,500,000	262,500	1,762,500
Total payments due	$5,755,210	$1,942,119	$7,697,329

For The Year Ending March 31	Revenue Bonds Principal	Accreted Interest	Interest	Total
2011	$3,125,000		$4,499,536	$7,624,536
2012	3,660,000		4,343,129	8,003,129
2013	3,660,000		4,175,407	7,835,407
2014	3,065,000		4,026,021	7,091,021
2015	3,430,000		3,881,522	7,311,522
2016-2020	23,938,159	$2,839,815	17,017,217	43,795,191
2021-2025	14,991,442	8,370,413	12,808,060	36,169,915
2026-2030	39,508,264	17,263,988	6,572,561	63,344,813
2031-2035	14,305,166	4,066,778	1,796,375	20,168,319
Less unaccreted interest		(11,470,508)		(11,470,508)
Total payment due	$109,683,031	$21,070,486	$59,119,828	$189,873,345
Plus: unamortized premiums	662,850			
Minus: unamortized loss on refundings	(3,900,855)			
Total carrying amount	$106,445,026			

E. *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 $911,139 was received during the year ended March 31, 2010.

NOTE 8 – RETIREMENT PLAN

A. 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 which 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, 2010, 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	8.0%
Required employer contribution rates	12.498%

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.

NOTE 8 – RETIREMENT PLAN (Continued)

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. The required contributions representing annual pension cost, for the year ended June 30 were as follows:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
3/10/2010	$1,269,386	100%	-
3/10/2009	1,115,702	100%	-
3/10/2008	1,104,388	100%	-

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

	Actuarial					
Valuation Date	Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2006	$912,988,585	$787,758,909	$125,229,676	86.28%	$200,320,145	62.51%
2007	1,315,454,361	1,149,247,298	166,207,063	87.37%	289,090,187	57.49%
2008	1,537,909,933	1,337,707,835	200,202,098	86.98%	333,307,600	60.07%

Audited annual financial statements are available from CALPERS at P.O. 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: $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, 2010, approximately 94 active employees were eligible to receive retirement health care benefits.

NOTE 9 – OTHER POST EMPLOYMENT BENEFITS (Continued)

A. 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) 7.75% 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 29 year amortization period.

In accordance with the District's budget, the ARC is to be funded through out 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 P.O. Box 942709, Sacramento, CA 94229-2709.

B. 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 2010, the District made contribution in excess of the ARC and amortized its net OPEB obligation as presented below:

Annual required contribution	$19,000
Interest on net OPEB asset	(133,533)
Adjustment to annual required contribution	170,972
Annual OPEB cost	56,439
Net OPEB Asset at March 31, 2009	1,723,000
Net OPEB Asset at March 31, 2010	$1,666,561

NOTE 9 – OTHER POST EMPLOYMENT BENEFITS (Continued)

The Plan's annual required contributions and actual contributions for fiscal years ended March 31, 2009 and 2010 are set forth below:

Fiscal Year	Annual OPEB Cost	Actual Contribution	Percentage of Annual OPEB Cost	Net OPEB Asset
3/31/2009	$177,000	$1,900,000	1073%	$1,723,000
3/31/2010	56,439	$0	0%	1,666,561

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
3/31/2008		$1,078,000	($1,078,000)	0.00%	$5,590,000	(19.3%)
3/31/2010	$1,894,000	1,500,000	394,000	126.27%	5,772,000	6.8%

NOTE 10 – RISK MANAGEMENT

A. 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). The 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 the 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. The 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.

NOTE 10 – RISK MANAGEMENT (Continued)

Self-Insurance Programs of the CAL JPIA

General and Automobile Liability: Each member government pays a primary deposit to cover estimated losses for a fiscal year (claims year). General liability 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 of each occurrence is charged directly to the member; costs from $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 pool administered by the 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 the 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 the CAL JPIA. The policy provides coverage for both first and third party damage, including sudden and gradual pollution of property, streets, and storm drains owned by the District. Coverage is on a claims-made basis. There is a $50,000 deductible. The 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 the CAL JPIA has a $10,000,000 limit during the 3-year term of the policy.

Property Insurance: The District participates in the all-risk property program of the CAL JPIA, which provides all-risk coverage for real and personal property. This insurance is underwritten by several insurance companies. The property is currently insured according to a schedule of covered property submitted by the District to the CAL JPIA. There is a $5,000 per loss deductible. Premiums for the coverage are paid annually and are not subject to retroactive adjustments.

Boiler & Machinery Insurance: The District participates in the boiler and machinery, which is purchased separately from All Risk. 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 the CAL JPIA in the amount of $1,000,000 per claim, with a $2,500 per claim deductible. Insurance provides coverage for employee dishonesty, failure to faithfully perform duties, forgery, counterfeiting, theft, robbery, burglary, and computer fraud. The fidelity coverage is provided through CAL JPIA. Premiums are paid annually and are not subject to retroactive adjustments.

NOTE 10 – RISK MANAGEMENT (Continued)

Special Event Tenant User Liability Insurance: The District participates in the special events program of the CAL JPIA. The District protects itself by requiring tenant users of certain property to purchase tenant user liability insurance for certain activities on District property. 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 member is added as additional insured. Liability limits are purchased in $1 million per occurrence increments.

B. Liability for Uninsured Claims

The District's liability for uninsured claims was estimated by management based on prior years claims experience and was computed as follows as of March 31, 2010:

	Amount
Unpaid claims, beginning of fiscal year	$150,000
Incurred claims	0
Claim payments	(50,000)
Unpaid claims, end of fiscal year	$100,000

NOTE 11 – NET ASSETS

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

Invested in Capital Assets, net of related debt describes the portion of Net Assets 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 Assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the District cannot unilaterally alter.

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

NOTE 12 – COMMITMENTS AND CONTINGENCIES

A. Commitments

During May 2000, the District and the County of Santa Clara (the County) entered into an agreement whereby the District would operate and manage the Rancho San Antonio County Park (the Park). The Park encompasses 165 acres owned by the County and serves as a gateway facility to the District's Rancho Santa Antonio Open Space Preserve (the Preserve). The Preserve includes the Deer Hollow Farm, a homestead and educational center operated by the City of Mountain View. Under the agreement, the District agreed to manage the Park for a term of ten years to ensure that Deer Hollow Farm receives funding for operations of no less than $50,000 per year. In return, the County contributed $1,500,000 to the District for the purpose of acquiring open space.

B. 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.

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REQUIRED
SUPPLEMENTARY INFORMATION

MIDPENINSULA REGIONAL OPEN SPACE DISTRICT
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED MARCH 31, 2010

	Budgeted Amounts			Variance
	Original	Final	Actual	Positive (Negative)
REVENUES				
Property taxes	$26,660,000	$27,610,000	$27,630,594	$20,594
Grant income	1,863,000	1,363,000	658,880	(704,120)
Investment income	510,000	450,000	78,855	(371,145)
Property management - rents	896,000	896,000	911,139	15,139
Other income	235,000	485,000	223,923	(261,077)
Land Donation			2,258,500	2,258,500
Total Revenues	30,164,000	30,804,000	31,761,891	957,891
EXPENDITURES				
Current:				
Salaries	7,260,441	7,419,042	7,274,016	145,026
Benefits	2,713,165	2,725,110	2,660,727	64,383
Directors	25,000	25,000	25,300	(300)
Services and supplies	3,611,361	3,520,712	3,109,803	410,909
Capital outlay:				
New land purchases	20,000,000	20,100,000	17,242,551	2,857,449
Land acquisition support costs	378,775	278,775	247,052	31,723
Structures and improvements	1,755,160	1,063,900	609,115	454,785
Equipment	1,208,400	572,900	294,789	278,111
Vehicles	170,000	170,000	162,709	7,291
Total Expenditures	37,122,302	35,875,439	31,626,062	4,249,377
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(6,958,302)	(5,071,439)	135,829	5,207,268
OTHER FINANCING SOURCES (USES)				
Transfers (out)			(7,829,306)	(7,829,306)
Total Other Financing Sources (Uses)			(7,829,306)	(7,829,306)
NET CHANGE IN FUND BALANCES	($6,958,302)	($5,071,439)	(7,693,477)	($2,622,038)
Fund balance at beginning of year			36,607,491	
Fund balance at end of year			$28,914,014	