Midpeninsula Regional Open Space District

R-11-78
Meeting 11-21
August 10, 2011

AGENDA ITEM 4

AGENDA ITEM

Acceptance of the Audited Basic Financial Statements for the Year Ended March 31, 2011 and Memorandum on Internal Control and Requirements from Vavrinek, Trine, Day & Co. to Midpeninsula Regional Open Space District's Board of Directors

CONTROLLER'S RECOMMENDATIONS

Accept the audited Basic Financial Statements and required communications from Vavrinek, Trine, Day & Co. regarding the District's audited financial statements for fiscal year ending March 31, 2011.

SUMMARY

In the opinion of the independent auditor Vavrinek, Trine, Day & Co., the District's financial statements fairly represent the financial position of the governmental activities and each major fund of the District as of March 31, 2011.

DISCUSSION

Vavrinek, Trine, Day & Co. conducted the audit in accordance with generally accepted auditing standards, which require obtaining reasonable assurance that the financial statements are free of material misstatement. An audit includes examining sample evidence supporting the amounts and disclosures in the financial statements and assesses the accounting principles used and the estimates made by District management.

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 is the fourth year that the District has presented its financial statements under the reporting model required by Governmental Accounting Standards Board Statement No. 34 (GASB 34), Basic Financial Statements and Management Discussion and Analysis for State and Local Governments. The auditors made no recommendations for improvement in internal controls.

FISCAL IMPACT

There will be no fiscal impact from either preparation or acceptance of the Audited Basic Financial Statement since the services stated above were approved as part of the Administration Department's FY2011-12 budget.

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 CEQA.

NEXT STEPS

None

Attachment(s)

1. Memorandum on Internal Control and Required Communications
2. Financial Report

Prepared by:
Mike Foster, Controller

Contact person:
Same as above

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants & Consultants

VALUE THE DIFFERENCE

To the Governing Board of the
Midpeninsula Regional Open Space District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Midpeninsula Regional Open Space District for the year ended March 31, 2011, and have issued our report thereon dated June 29, 2011. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to management in our meeting about planning matters on June 29, 2011.

Significant Audit Findings

Qualitative Aspects of Accounting Practice

Management has the responsibility for selection and use of appropriate accounting policies. The significant accounting policies used by Midpeninsula Regional Open Space District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the current fiscal year. We noted no transactions entered into by Midpeninsula Regional Open Space District during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was the estimated useful lives of the various classes of depreciable capital assets.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no material uncorrected misstatements during the year.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Midpeninsula Regional Open Space District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of governing board and management of Midpeninsula Regional Open Space District and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
June 29, 2011

MIDPENINSULA REGIONAL OPEN SPACE DISTRICT

ANNUAL FINANCIAL REPORT

YEAR ENDED MARCH 31, 2011

MIDPENINSULA REGIONAL OPEN SPACE DISTRICT

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MARCH 31, 2011

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

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.

The assets of the District exceeded liabilities at the close of the 2011 fiscal year by $266.1 million (*net assets*). Of this amount, $236.5 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 $28.1 million is unrestricted. About 44% of the unrestricted balance is projected to be used for land acquisition in fiscal year 2012 as the approved budget for fiscal year 2012 forecasts land purchases totaling $13.5 million, or $12.5 million net of associated grant income.

The District's total net assets increased by $9.1 million in fiscal year 2011, as general and program revenues exceeded program expenditures. Program expenditures were within budget.

The District's total long-term debt obligations declined by $0.7 million to $123.0 million. In November 2010, the District issued an $850,000 five-year note in connection with a land purchase. Following the completion of fiscal year 2011, in May 2011, the District Financing Authority sold $20.5 million of thirty-year bonds. 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%. Largely due to this debt issue, District debt service is expected to increase by $1.8 million, or 22.7%, in fiscal year 2012.

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.

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.

Changes in Net Assets

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

	March 31, 2011	March 31, 2010	Increase	% Increase
Revenues				
Program revenue				
Changes for services	$ 1,241,465	$ 911,139	$ 330,326	36.3
Grants and contributions	1,392,868	658,880	733,988	111.4
General revenue				
General property tax	27,268,652	27,630,594	(361,942)	(1.3)
Investment income	191,515	80,453	111,062	138.0
Other	430,168	2,474,038	(2,043,870)	(82.6)
Total Revenues	30,524,668	31,755,104	(1,230,436)	(3.9)
Expenses	21,388,582	20,557,465	831,117	4.0
Change in net assets	$ 9,136,086	$ 11,197,639	$ (2,061,553)	(18.4)

Analysis of Change in Net Assets

For the year ended March 31, 2011, the District's net assets increased by $9.1 million. The increase in overall expenses was due to planned increases in salaries, benefits, services and supplies. Salaries and benefits represented 52% of expenses compared to 49% in fiscal year 2010. Salaries and benefits increased 9.8% over the prior fiscal year. This increase was principally due to a filling of vacant positions and an increase in the ratio of benefit cost to salaries from 36.3% to 37.8%. The filling of vacant positions allowed a significant reduction in outside service costs and total service and supply expense declined by 15.3%. Interest charges decreased slightly due to the impact of scheduled principal repayments.

Program revenues include rental income, grants, cash donations and, beginning in fiscal year 2011, park management fees from Santa Clara County. Grant income is mostly tied to acquisitions of specific parcels of land. Given the state budget crisis, state grant funds for land acquisition were scarce in fiscal year 2011, with none obtained. However, the District succeeded in obtaining a $1.25 million contribution from Santa Clara County to fund half of the purchase price of an addition to the Monte Bello Open Space Preserve. The 36.3% increase in service revenue was mostly derived from the $286,222 payment from Santa Clara County for District management of the developed portion of Rancho San Antonio Park. Rental income increased by 4.8%.

Tax revenue declined by 1.3% in fiscal year 2011 compared to growth of 4.9% in fiscal year 2010 due to downgrades in assessed valuations of both secured and unsecured property. Total tax revenue from Santa Clara County dropped by 2.0% and was essentially unchanged in San Mateo County. Half of the reduction from Santa Clara County was due to the suspension of allocation of supplemental (SB813) taxes from July 2010 through March 2011. Other revenue decreased by 82.6% as gifts of land were $16,585 in fiscal year 2011 compared to $2.26 million in fiscal year 2010. The amount of land gifts varies significantly from year to year.

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

41.8% under budget due to the continued low level of interest rates and because the budget includes interest income from the Debt Service Fund. Other income significantly exceeded budget due to revenue from the new five year agreement with Santa Clara County to manage the developed portion of Rancho San Antonio Park.

Excluding land purchase transactions and debt service, fiscal year 2011 expenditures were approximately $3.3 million, or 17.6%, below the final budget. Salaries and benefits were $0.2 million, or 1.7%, below budget, services and supplies cost $0.9 million, or 25.0%, less than budget, non-land capital spending was $1.6 million, or 49.7%, under budget, and land acquisition expenses were $0.6 million, or 86.1% under budget. This overall operating expense budget performance, 82% of budget, was below the normal range of recent years (89% to 94% of budget). The largest single variance item was the delay in completing the $1.4 million capital project to upgrade the District radio system; this project is expected to complete in fiscal year 2012.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Board of Directors adopted the District's budget for fiscal year 2012 on March 23, 2011. This budget assumes very low growth in property tax revenue, about 1.4%, due to some additional downward reassessments and slow turnover of residential property in both Santa Clara and San Mateo County portions of the District. The budget projects spending $12.5 million of cash for new land. Debt service requirements are budgeted at $9.7 million, including debt service on the $20.5 million of 2011 Revenue Bonds sold in May 2011. If all revenues and expenditures occur as budgeted and including the $20.0 million in net proceeds from sale of the 2011 Revenue Bonds, the District's cash position would increase by $8.1 million in fiscal year 2012.

The District is currently pursuing potential land acquisition projects which would use up all bond proceeds and 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, 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	391,828,993
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	125,733,450
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	$ 266,095,543

See accompanying notes to financial statements.

MIDPENINSULA REGIONAL OPEN SPACE DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2011

Program expenses:	
General government:	
Salaries	$ 7,898,301
Benefits	3,188,093
Directors	27,600
Services and supplies	2,653,402
Depreciation	882,461
Interest	6,738,725
Total program expenses	21,388,582
Program revenues:	
Charges for services	1,241,465
Capital grants and operating contributions	1,392,868
Land donation	16,585
Total program revenues	2,650,918
Net program expenses	18,737,664
General revenues:	
Property tax increment	27,268,652
Investment income	293,959
Miscellaneous	311,139
Total general revenues	27,873,750
Changes in net assets	9,136,086
Net assets - beginning of the year	256,959,457
Net assets - end of the year	$266,095,543

See accompanying notes to financial statements.

MIDPENINSULA REGIONAL OPEN SPACE DISTRICT

GOVERNMENTAL FUNDS BALANCE SHEET
MARCH 31, 2011

	General Fund	Debt Service Fund	Total Governmental Funds
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	$ 28,248,778	$ 1,407,548	$ 29,656,326
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	1,361,012	-	1,361,012
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	26,887,766	1,407,548	28,295,314
TOTAL LIABILITIES AND FUND BALANCE	$ 28,248,778	$ 1,407,548	$ 29,656,326

See accompanying notes to financial statements.

MIDPENINSULA REGIONAL OPEN SPACE DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS – BALANCE SHEET WITH THE STATEMENT OF NET ASSETS
MARCH 31, 2011

Total fund balances reported on the governmental funds balance sheet	$	28,295,314
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.		359,566,233
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		217,192
DEFERRED CHARGES		
Bond issuance costs are expended in the Governmental funds when paid, however, they are capitalized and amortized over the life of the corresponding bonds for purposes of the Statement of Net Assets		1,092,873
LONG-TERM LIABILITIES		
The liabilities below are not due and payable in the current period and therefore are not reported in the Governmental funds:		
Long-term debt		(123,019,978)
Accrued interest payable		(433,968)
Compensated absences		(1,135,684)
NET OPEB ASSET		
Net OPEB Asset is not available to pay for current period expenditures and, therefore, is not recognized in the Governmental funds but deferred on the Statement of Net Assets		1,513,561
NET ASSETS OF GOVERNMENTAL ACTIVITIES	$	266,095,543

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	30,375,478	102,444	30,477,922
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	25,277,236	8,086,581	33,363,817
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	5,098,242	(7,984,137)	(2,885,895)
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)	(7,124,490)	7,974,490	850,000
NET CHANGE IN FUND BALANCES	(2,026,248)	(9,647)	(2,035,895)
Fund Balance at beginning of year	28,914,014	1,417,195	30,331,209
Fund Balance at end of year	$ 26,887,766	$ 1,407,548	$ 28,295,314

See accompanying notes to financial statements.

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS WITH THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2011

The schedule below reconciles the net changes in fund balances reported on the Governmental Funds Statements 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	$	(2,035,895)
Amounts reported for governmental activities in the Statement of Activities are different because of the following:		
CAPITAL ASSET TRANSACTIONS		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.		
The capital outlay expenditures are therefore added back to fund balance		11,686,072
Depreciation expense is deducted from the fund balance		(882,461)
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.		(9,263)
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		(1,536,651)
Repayment of debt principal is added back to fund balance		3,300,681
Change in accrued interest payable		(35,437)
Amortization of bond premium		56,009
Amortization of loss on refunding		(319,273)
Amortization of deferred amounts		(61,464)
A promissory note was issued to finance the acquisition of capital assets. This amount is recorded as revenue in the Governmental Funds but is recorded as long-term debt and does not impact the Statement of Activities		(850,000)
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		(23,232)
Net OPEB Asset		(153,000)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	$	9,136,086

See accompanying notes to financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

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

Reporting Entity

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

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

Basis of Presentation

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

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

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

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

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

Major Funds

Major funds are defined as funds that have either assets, liabilities, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. The General Fund is always a major fund. The District may also select other funds it believes should be presented as major funds.

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

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

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

Basis of Accounting

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

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

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

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

Budgets and Budgetary Accounting

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

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

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

Classification

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

	2011
Cash and cash equivalents, available for District operation	$ 194,409
Investments, available for District operation	20,137,144
Restricted cash and investments	1,407,548
Total Cash and Investments	$ 21,739,101

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

	2011
Cash on hand	$ 800
Deposits	193,609
Investments	21,544,692
Total Cash and Investments	$ 21,739,101

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.

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.

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	$ 2,244,309	$ -	$ 2,244,309
Santa Clara County Pool	17,892,835	-	17,892,835
Held by Trustees			
US Federal Agency Securities	-	1,405,573	1,405,573
Money Market Mutual Funds (US Securities)	1,975	-	1,975
Total Investments	$ 20,139,119	$ 1,405,573	$ 21,544,692

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, 2011, these investments had an average maturity date of less than one year.

The fair value of the District's investment in the pool is reported at amounts based on the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of the portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized costs basis. Santa Clara County Pool funds were available for withdrawal on demand and had an average maturity date of less than one year.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of March 31, 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	$ 20,137,144	$ 1,407,548	$ 21,544,692

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.

NOTE 4 – CAPITAL ASSETS

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

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

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

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

Changes in capital assets accounts are summarized below:

	Balance at March 31, 2010	Additions & Transfers	Retirements & Transfers	Balance at March 31, 2011
Capital assets not being depreciated				
Land	$ 335,785,573	$ 10,033,312	$ (430,000)	$ 345,388,885
Construction in progress	2,218,316	1,342,517	(759,988)	2,800,845
Total capital assets not being depreciated	338,003,889	11,375,829	(1,189,988)	348,189,730
Capital assets being depreciated				
Structure and improvements	11,813,519	1,048,219	-	12,861,738
Infrastructure	3,758,134	141,767	-	3,899,901
Equipment	1,255,113	125,151	(77,655)	1,302,609
Vehicles	2,434,836	185,094	(153,438)	2,466,492
Total capital assets being depreciated	19,261,602	1,500,231	(231,093)	20,530,740
Less accumulated depreciation for				
Structure and improvements	6,135,557	369,969	-	6,505,526
Infrastructure	835,563	105,858	-	941,421
Equipment	569,298	73,115	(77,655)	564,758
Vehicles	962,451	333,519	(153,438)	1,142,532
Total accumulated depreciation	8,502,869	882,461	(231,093)	9,154,237
Net captial assets being depreciated	10,758,733	617,770	-	11,376,503
Total capital assets, net	$ 348,762,622	$ 11,993,599	$ (1,189,988)	$ 359,566,233

Construction in progress represents construction of structure, equipment and improvements and infrastructure not yet placed in service at 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:

Years of Employment	Percentage of equivalent cash value of accrued sick leave
10-15	20%
16-20	25%
21 or more	30%

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

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

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

The District accrues for all salary-related items in the government-wide statements for which they are liable to make a payment directly and incrementally associated with payments made for compensated absences on termination. Accrued compensated absences were $1,135,684 as of March 31, 2011.

The changes in compensated absences were as follows:

	Governmental Activities
Beginning Balance, at March 31, 2010	$ 1,112,452
Net change	23,234
Ending balance, at March 31, 2011	$ 1,135,686
Current Portion	$ 23,234

NOTE 6 – LONG-TERM DEBT

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

	Original Issue Amount	Beginning Balance	Additions	Retirements	Ending Balance	Amount due within one year
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	150,210	-	15,681	134,529	16,682
2005 Refunding Promissory Notes 3.25-5.00%, due 4/1/2015	4,630,000	4,105,000	-	160,000	3,945,000	780,000
Bergman Note	850,000	-	850,000	-	850,000	-
Total promissory notes	7,220,000	5,755,210	850,000	175,681	6,429,529	796,682
Revenue Bonds						
1999 Lease Revenue Bonds 3.70-5.40%, due 4/1/2031	15,775,000	8,290,000	-	1,340,000	6,950,000	1,485,000
2004 Revenue Bonds 2.00-5.40%, due 9/1/2034	30,560,000	30,060,000	-	250,000	29,810,000	425,000
2007 Series A Rev 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	3,690,000	-	1,535,000	2,155,000	1,750,000
Unamortized premium	NA	662,850	-	56,009	606,841	56,009
Unamortized loss on refunding	NA	(3,900,855)	-	319,273	(3,581,582)	319,273
Total revenue bonds	105,535,000	91,216,995	-	3,500,282	88,355,259	4,035,282
Accreted Interest						
1999 Revenue Bonds Accretion	13,888,021	24,843,000	1,436,454	-	26,279,454	-
2004 Lease Revenue Bonds Accretion	1,340,010	1,855,539	100,197	-	1,955,736	-
Total Accretion	15,228,031	26,698,539	1,536,651	-	28,235,190	-
Total debt	$ 127,983,031	$ 123,670,744	$ 2,386,651	$ 3,675,963	$ 123,019,978	$ 4,831,964

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 %.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 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, 2011 the outstanding balance of 2007 Series A Bonds is $52,415,000 and the outstanding 2007 Series B-T Bonds is $2,155,000 and the remaining balance of the defeased debt was $18,608,814.

Debt Service Requirements

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

For the Year	Promissory Notes		
Ending March 31	Principal	Interest	Total
2012	$ 796,684	$ 288,163	$ 1,084,847
2013	827,752	254,431	1,082,183
2014	1,163,888	207,758	1,371,646
2015	1,230,096	143,925	1,374,021
2016-2020	911,109	668,976	1,580,085
2021-2024	1,500,000	262,500	1,762,500
Total payments due	$ 6,429,529	$ 1,825,753	$ 8,255,282

For the Year	Revenue Bonds				
Ending March 31	Principal	Accretion to Date	Remaining Accretion	Interest	Total
2012	$ 3,660,000	$ -	$ -	$ 4,343,129	$ 8,003,129
2013	3,660,000	-	-	4,175,405	7,835,405
2014	3,065,000	-	-	4,026,019	7,091,019
2015	3,430,000	-	-	3,881,521	7,311,521
2016	4,082,212	789,308	443,480	3,731,530	9,046,530
2017-2021	25,024,288	3,995,738	4,174,974	16,255,046	49,450,046
2022-2026	30,457,790	4,300,285	9,041,925	11,899,929	55,699,929
2027-2031	21,963,742	3,921,827	12,849,431	5,128,579	43,863,579
2032-2034	11,215,000	-	-	1,179,125	12,394,125
Total payment due	106,558,032	$ 13,007,158	$ 26,509,810	$ 54,620,283	$ 200,695,283
Plus: unamortized premiums	606,841				
Minus: unamortized loss on refundings	(3,581,582)				
Total carrying amount	$ 103,583,291				

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:

	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	12.908%

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.

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 Mar 31 were as follows:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
3/31/2011	$ 1,415,161	100%	-
3/31/2010	1,269,386	100%	-
3/31/2009	1,115,702	100%	-
3/31/2008	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 follows. The information presented below relates to the State-wide pools as a whole, of which the District is one of the participating employers:

	Actuarial					
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%
2009	1,834,424,640	1,493,430,831	340,993,809	81.41%	355,150,151	96.01%

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

NOTE 9 – OTHER POST EMPLOYMENT BENEFITS

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

The District joined the California Employers' Retiree Benefit Trust (CERBT), an agent multiple-employer plan administered by CALPERS, consisting of an aggregation of single-employer plans. District Board authorized a deposit of $1,900,000 with CERBT on June 5, 2008, to begin funding its OPEB liability.

By Board resolution and through agreements with its labor unit, the District provides certain health care benefits for retired employees (spouse and dependents are not included) under third-party insurance plans. A summary of eligibility and retiree contribution requirements are shown below by bargaining unit:

Eligibility	-Service or disability retirement from the District -Age 50 and 5 years of service -Continue participation in Public Employees Medical and Hospital Care Act (PEMHCA)
Benefit	District pays retiree premiums up to: $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.

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	$ 123,000
Interest on net OPEB asset	(130,000)
Adjustment to annual required contribution	160,000
Annual OPEB cost	153,000
Net OPEB Asset at March 31, 2010	1,666,561
Net OPEB Asset at March 31, 2011	$ 1,513,561

The Plan's annual required contributions and actual contributions for fiscal years ended March 31, 2009 to 2011 are set forth below:

Fiscal Year	Annual OPEB Cost	Actual Contribution	Percentage of Annual OPEB Cost	Net OPEB Asset
3/31/2011	$ 153,000	$ -	0%	$ 1,513,561
3/31/2010	56,439	-	0%	1,666,561
3/31/2009	177,000	1,900,000	1073%	1,723,000

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

NOTE 10 – RISK MANAGEMENT

Coverage

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. Prior to July 1, 2002, the District managed and financed these risks by purchasing commercial insurance. On July 1, 2002, the District joined the California Joint Powers Insurance Authority (CAL JPIA). CAL JPIA is composed of 119 California public entities and is organized under a joint powers agreement pursuant to California Government Code Section 6500 et seq. The purpose of CAL JPIA is to arrange and administer programs for the pooling of self-insurance losses, to purchase excess insurance or reinsurance, and to arrange for group-purchased insurance for property and other coverages. CAL JPIA's pool began covering claims of its members in 1978. Each member government has an elected official as its representative on the Board of Directors. The Board operates through a 9-member Executive Committee.

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

Self-Insurance Programs of the CAL JPIA

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

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

Purchased Insurance

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

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

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

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

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

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

NOTE 11 – NET 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 with the District cannot unilaterally alter.

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

Contingent Liabilities

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

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%.

REQUIRED SUPPLEMENTARY INFORMATION

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			Variance
	Original	Final	Actual	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	31,858,000	30,585,000	30,375,478	(209,522)
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	34,237,092	33,736,205	25,277,236	8,458,969
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(2,379,092)	(3,151,205)	5,098,242	8,249,447
OTHER FINANCING SOURCES (USES)				
Other Sources	-	-	850,000	850,000
Transfers (out)	-	-	(7,974,490)	(7,974,490)
Total Other Financing Sources (Uses)	-	-	(7,124,490)	(7,974,490)
NET CHANGE IN FUND BALANCE	$ -	$ -	(2,026,248)	$ (2,026,248)
Fund balance at beginning of year			28,914,014	
Fund balance at end of year			$ 26,887,766	