HIGHLANDS RECREATION DISTRICT

SAN MATEO, CALIFORNIA

BASIC FINANCIAL STATEMENTS

JUNE 30, 2014

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Highlands Recreation District
San Mateo, California

Report on the Financial Statements
We have audited the accompanying financial statements of the governmental activities and the major fund of the Highlands Recreation District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Highlands Recreation District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to Highlands Recreation District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Highlands Recreation District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Highlands Recreation District, as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-7 and page 23, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

R.J. Ricciardi, Inc.

R. J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
January 22, 2015

This section of Highlands Recreation District's (the District's) basic financial statements presents management's overview and analysis of the financial activities of the organization for the fiscal year ended June 30, 2014. We encourage the reader to consider the information presented here in conjunction with the District's basic financial statements, including notes and supplementary information that immediately follow this section, as a whole.

Introduction to the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's audited financial statements, which are comprised of the basic financial statements. This annual report is prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for States and Local Governments.*

The required financial statements include the Government-wide and Fund Financial Statements; Statement of Net Position and Governmental Fund Balance Sheet; Statement of Activities and Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances; and the Statement of Revenues, Expenditures and Changes in Fund Balances-Budget and Actual-All Governmental Fund Types.

These statements are supported by notes to the basic financial statements. All sections must be considered together to obtain a complete understanding of the financial picture of the District.

The Basic Financial Statements

The Basic Financial Statements comprise the Government-wide Financial Statements and the Fund Financial Statements; these two sets of financial statements provide two different views of the District's financial activities and financial position.

The Government-wide Financial Statements provide a longer-term view of the District's activities as a whole, and comprise the Statement of Net Position and the Statement of Activities. The Statement of Net Position provides information about the financial position of the District as a whole, including all of its capital assets and long-term liabilities on the full accrual basis, similar to that used by corporations. The Statement of Activities provides information about all of the District's revenues and all of its expenses, also on the full accrual basis, with the emphasis on measuring net revenues or expenses of the District's programs. The Statement of Activities explains in detail the change in Net Position for the year.

All of the District's activities are grouped into Government Activities, as explained below.

The Fund Financial Statements report the District's operations in more detail than the Government-wide statements and focus primarily on the short-term activities of the District's General Fund and other Major Funds. The Fund Financial Statements measure only current revenues and expenditures and fund balances; they exclude capital assets, long-term debt and other long-term amounts.

Major Funds account for the major financial activities of the District and are presented individually. Major Funds are explained below.

The Government-wide Financial Statements

Government-wide Financial Statements are prepared on the accrual basis, which means they measure the flow of all economic resources of the District as a whole.

The Statement of Net Position and the Statement of Activities present information about the following:

Governmental Activities
The District's basic services are considered to be governmental activities. These services are supported by general District revenues such as taxes, and by specific program revenues such as user fees and charges.

Fund Financial Statements

The Fund Financial Statements provide detailed information about each of the District's most significant funds, called Major Funds. The concept of Major Funds, and the determination of which are Major Funds, was established by GASB Statement No. 34 and replaces the concept of combining like funds and presenting them in total. Instead, each Major Fund is presented individually; the District has no Non-major Funds. Major Funds present the major activities of the District for the year, and may change from year to year as a result of changes in the pattern of the District's activities.

In the District's case, the General Fund is the only Major Governmental Fund.

Governmental Fund Financial Statements are prepared on the modified accrual basis, which means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are not presented in the Governmental Fund Financial Statements.

Comparisons of Budget and Actual financial information are presented for the General Fund.

Analyses of Major Funds

Governmental Funds
General Fund revenues increased $90,229 this fiscal year due primarily to an increase in park and recreation fees. Property taxes increased $25,554 as assessed valuations increased. Actual revenues were more than budgeted amounts by $158,960.

General Fund expenditures were $2,390,363, an increase of $165,900 from the prior year due to the increase in wages. Expenditures were less than budgeted by $448,411.

Governmental Activities

Table 1
Governmental Net Position

	Governmental Activities	
	2014	2013
Current assets	$ 2,469,443	$ 2,170,703
Capital assets	4,015,170	4,129,052
Total assets	6,484,613	6,299,755
Current liabilities	227,245	187,686
Noncurrent liabilities	3,090,000	3,145,000
Total liabilities	3,317,245	3,332,686
Net position		
Invested in capital assets, net of related debt	925,170	984,052
Restricted	233,124	-
Unrestricted	2,009,074	1,983,017
Total net position	$ 3,167,368	$ 2,967,069

The District's governmental net position amounted to $3,167,368 as of June 30, 2014, an increase of $200,299 over 2013. The increase is the Change in Net Position reflected in the Governmental Activities column of the Statement of Activities shown in Table 2. The District's net position as of June 30, 2014 is comprised of the following:

- Cash and investments of $2,456,413.
- Other assets of $2,662 of current receivables and $10,368 of prepaid expenses.
- Capital assets of $4,015,170 net of depreciation charges, which includes all the District's capital assets used in governmental activities.
- Liabilities, including accounts payable and other liabilities, totaling $227,245.
- In December 2010, the District issued Certificates of Participation of $3,195,000. Current principal balance is $3,090,000.
- Net position invested in capital assets, net of related debt, of $925,170 representing the District's investment in capital assets used in Governmental Activities, net of amounts borrowed to finance that investment.
- Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements or restrictions. The District had $2,009,074 of unrestricted net position as of June 30, 2014.

The Statement of Activities presents program revenues and expenses and general revenues in detail. All of these are elements in the Changes in Governmental Net Position summarized below.

Table 2
Changes in Governmental Net Assets

	Governmental Activities	
	2014	2013
Expenses		
Recreation and Parks	$ 2,275,088	$ 2,065,373
Interest expense	173,423	175,589
Total expenses	2,448,511	2,240,962
Revenues		
Program revenues:		
Charges for services	2,215,684	2,153,762
Total program revenues	2,215,684	2,153,762
General revenues:		
Property taxes	421,280	395,726
Interest income	11,846	9,093
Total general revenues	433,126	404,819
Total revenues	2,648,810	2,558,581
Change in net position	$ 200,299	$ 317,619

As Table 2 above shows, $2,215,684, or 84%, of the District's fiscal year 2014 governmental revenue came from program revenues and $433,126, or 16%, came from general revenues such as taxes and interest.

Program revenues were composed of charges for services of $2,215,684.

General revenues are not allocable to programs. General revenues are used to pay for the net cost of governmental programs.

Capital Assets
Detail on capital assets, current year additions and construction in progress can be found in Note 4.

Debt Administration
The District's debt issue is discussed in detail in Note 5 to the basic financial statements. As of June 30, 2014, the District's debt comprised:

Certificates of Participation	$ 3,090,000

Economic Outlook and Major Initiatives
The District's financial position continues to be adequate. Financial planning is based on specific assumptions from recent trends in real property values, State of California economic forecasts and historical growth patterns in the various communities served by the District.

The economic condition of the District as it appears on the balance sheet reflects financial stability and the potential for organizational growth. The District will continue to maintain a watchful eye over expenditures and remain committed to sound fiscal management practices to deliver the highest quality service to the citizens of the area.

Contacting the District Financial Management

This comprehensive Annual Financial Report is intended to provide citizens, taxpayers, and creditors with a general overview of the District's finances. Questions regarding this report should be directed to: General Manager of Highlands Recreation District, 1851 Lexington Avenue, San Mateo, California 94402.

Highlands Recreation District

STATEMENT OF NET POSITION

June 30, 2014

ASSETS		
Cash and investments	$	2,223,289
Restricted cash with fiscal agent		233,124
Accounts and interest receivable		2,662
Prepaid items		10,368
Non-depreciable capital assets		28,063
Depreciable capital assets, net of accumulated depreciation		3,987,107
Total assets		6,484,613
LIABILITIES		
Accounts payable		52,944
Accrual claims and other liabilities		174,301
Long-term liabilities:		
Due within one year		55,000
Due in more than one year		3,035,000
Total liabilities		3,317,245
NET POSITION		
Invested in capital assets, net of related debt		925,170
Restricted		233,124
Unrestricted		2,009,074
Total net position	$	3,167,368

The accompanying notes are an integral part of these financial statements

Highlands Recreation District

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2014

Functions/Programs	Expenditures	Program Revenues: Charges for Services	Net (Expense) Revenue and Changes in Net Position: Total Governmental Activities
Governmental activities:			
Recreation and parks	$ 2,275,088	$ 2,215,684	$ (59,404)
Interest	173,423	-	(173,423)
Total governmental activities	$ 2,448,511	$ 2,215,684	(232,827)
General revenues:			
Property taxes			421,280
Interest and investment earnings			11,846
Total general revenues			433,126
Change in net position			200,299
Net position, beginning of period			2,967,069
Net position, end of period			$ 3,167,368

The accompanying notes are an integral part of these financial statements

Highlands Recreation District
GOVERNMENTAL FUND
BALANCE SHEET
June 30, 2014

ASSETS	General Fund
Cash and investments available for operation	$ 2,223,289
Restricted cash with fiscal agent	233,124
Accounts and interest receivable	2,662
Prepaid items	10,368
Total assets	$ 2,469,443
LIABILITIES	
Accounts payable	$ 52,944
Accrued expenditures	116,616
Total liabilities	169,560
FUND BALANCES	
Assigned for capital outlay	473,296
Assigned for contingencies	300,000
Assigned for general reserve	100,000
Assigned for EEC building reserve	50,000
Assigned for COP reserve- restricted	233,124
Unassigned	1,143,463
Total fund balances	2,299,883
Total liabilities and fund balances	$ 2,469,443

The accompanying notes are an integral part of these financial statements

Highlands Recreation District
Reconciliation of the
GOVERNMENTAL FUND - BALANCE SHEET
with the Governmental Activities
STATEMENT OF NET POSITION
For the Year Ended June 30, 2014

TOTAL FUND BALANCES - GOVERNMENTAL FUND	$ 2,299,883
Amounts reported for Governmental Activities in the Statement of Net Position are different from those reported in the Governmental Fund 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 Fund.	4,015,170
LONG-TERM ASSETS AND LIABILITIES	
The assets and liabilities below are not due and payable in the current period and therefore are not reported in the Funds:	
Accrued interest payable	(57,685)
General Obligation Bond	(3,090,000)
NET POSITION OF GOVERNMENTAL ACTIVITIES	$ 3,167,368

The accompanying notes are an integral part of these financial statements

Highlands Recreation District
GOVERNMENTAL FUND
STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2014

	General Fund
Revenues:	
Property taxes	$ 421,280
Park and recreation fees	2,195,070
Miscellaneous	32,460
Total revenues	2,648,810
Expenditures:	
Salaries and fringe benefits	1,561,384
Professional services	43,897
Operating expenses	302,514
Office expenses	82,655
Repair and maintenance	73,472
Capital outlay (capitalized and not capitalized)	97,283
Debt service:	
Principal expense	55,000
Interest expense	174,158
Total expenditures	2,390,363
Excess (deficit) of revenues over (under) expenditures	258,447
Fund balances, beginning of period	2,041,436
Fund balances, end of period	$ 2,299,883

The accompanying notes are an integral part of these financial statements

Highlands Recreation District
Reconciliation of the
GOVERNMENTAL FUND - STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
with the Governmental Activities
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUND	$	258,447
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 depreciable and construction in progress capital outlay expenditures are therefore added back to fund balance.		59,728
Depreciation expense is deducted from the fund balance.		(173,611)
LONG-TERM DEBT PROCEEDS AND PAYMENT		
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of bond principal is an expenditure in the governmental funds, but in the Statement of Net Position the repayment reduces long-term liabilities:		55,000
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 the governmental funds (net change):		
Accrued interests		735
Changes in net position of governmental activities	$	200,299

The accompanying notes are an integral part of these financial statements

NOTE 1 - GENERAL

The Highlands Recreation District (the District) functions under the Community Services District law pursuant to government code 61000 et seq, for the purpose of providing recreational services within the District. Services are provided under the leadership and direction of an elected Board of Directors. The Board of Directors is committed to responding to the needs of the community based on timely and fiscally responsible prioritized planning. Financial support for planning, organizing, and conducting all activities is derived from property taxes, program fees and special purpose grants. Some activities are available to non-residents of the District on a fee for service basis.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Accounts and Records

The District maintains a cash receipts journal for recording fees collected at 1851 Lexington Avenue. The assessment of property, collection of taxes, disbursement of cash, and the maintenance of the general ledger for all funds are provided by the County of San Mateo. Custodianship of the District's accounts and records are vested with the Treasurer of San Mateo County.

The County of San Mateo maintains its financial records on a computer, utilizing a monthly reporting cycle. Every month the Controller issues a computer printout of revenues collected, disbursements by objective and a trial balance for the period then ended. Boston Private Bank issues statements every month, which includes transactions such as ACH, recurring credit card deposits, credit card transactions deposits, fees and payroll deductions.

B. Accounting Principles

The District accounts for its financial transactions in accordance with the policies and procedures recommended by the State of California. The accounting policies of the District conform to U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants.

(1) Government-wide and Fund Financial Statements:

The government-wide financial statements (the statement of net position and the statement of activities) report on the District as a whole. The statement of activities demonstrates the degree to which the direct expenses of the District's functions are offset by program revenues. *Direct expenses* are those that are clearly identifiable with the District's functions. *Program revenues* include charges for services, which are mainly from park and recreation fees. Other items not properly included among program revenues are reported instead as *general revenues*. The District's General Fund is presented as a separate financial statement (balance sheet and the statement of revenues, expenditures and changes in fund balance).

(2) Measurement Focus, Basis of Accounting and Financial Statement Presentation:

Government-wide Financial Statements

The statement of net position and the statement of activities are prepared using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of the related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Accounting Principles (concluded)

Fund Financial Statements
Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Unassigned Fund Equity – The residual classification for the government's general fund that includes all amounts not contained in the other classifications.

Assigned Fund Equity – Amounts intended to be used by the government for specific purposes but that do not meet the criteria to be classified as restricted or committed.

The District reports the following major governmental fund:

General Fund: This is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. There are no other funds of the District.

(3) Use of Estimates:

The process of preparing financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures/expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

C. Budget and Budgetary Accounting

The District normally adopts an annual budget on or before August 30 for the ensuing fiscal year. The District follows these procedures in establishing the budgetary data reflected in the financial statements:

(1) Legally adopted annual budgets and formal budgetary integration is employed as a management control device during the year for the General Fund only.

(2) The budgets for the General Fund are adopted on a basis consistent with GAAP.

(3) Budgeted revenue amounts represent the original budget modified by adjustments authorized during the year. Budgeted expenditure amounts represent original appropriations adjusted for supplemental appropriations during the year, which were contingent upon new or additional revenue and re-appropriated amounts for prior year encumbrances.

(4) Budget appropriations for the various governmental funds become effective each July 1. The Board of Directors may amend the budget during the fiscal year. Expenditures were under budget by $448,411 for the current year.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

D. Capital Assets

Capital assets are those purchased or acquired that are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlay, in excess of $5,000, that significantly extend the useful life of an asset are capitalized. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend the assets' lives are not capitalized, but are expensed as incurred. Depreciation expense for June 30, 2014 was $173,611.

Depreciation is computed using straight line over the following estimated useful lives:

Structures and improvements	5 - 50 years
Equipment	3 - 30 years

E. Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, laws or regulations of other governments. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The District maintains restricted funds of $233,124 with Bank of New York Mellon.

NOTE 3 - CASH AND INVESTMENTS

The District's cash is held by the San Mateo County Treasurer in the San Mateo County (the County) investment pool and by Boston Private Bank. The Treasurer invests the cash under policy guidelines established by the County. Credit risk, concentration credit risk, and interest rate risk information regarding the cash held by the Treasurer is included in the Comprehensive Annual Financial Report of the County of San Mateo. The County is restricted by state code in the types of investments it can make. Furthermore, the Treasurer has a written investment policy, approved by the Board of Supervisors, which is more restrictive than state code as to terms of maturity and type of investment. Also, the County has an investment committee, which performs regulatory oversight for its pool as required by California Government Code Section 27134.

The County's investment policy authorizes the County to invest in obligations of the U.S. Treasury, its agencies and instrumentalities, certificates of deposit, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, bankers' acceptances, repurchase agreements, and the State Treasurer's investment pool. At June 30, 2014, the District's cash with the County Treasurer is stated at fair value. However, the value of the pool shares in the County that may be withdrawn is determined on an amortized cost basis, which is different than the fair value of the District's position in the pool.

NOTE 3 - CASH AND INVESTMENTS (continued)

Cash and investments consisted of the following as of June 30, 2014:

	Fair Value	Investment Risk
Petty cash	$ 200	N/A
Cash in County Treasury	2,078,094	N/A
Cash in Boston Private Bank	144,995	N/A
Total cash and investments	$ 2,223,289	

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for deposits and investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

California Law requires banks and savings and loan associations 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 deposit as collateral for these deposits. Under California Law, this collateral is held in the District's name and places the District ahead of general creditors of the institution.

Restricted and Designated Cash and Equivalents

The District is required under the terms of certain long-term debt covenants to segregate and maintain certain funds for debt service. As of June 30, 2014 the balance of these funds was $233,124.

Custodial Credit Risk – Investments

Custodial credit risk for investments is the risk that in the event of the failure of a counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All investments in the fiscal agent money market funds are not evidenced by specific securities and, therefore, are not subject to custodial credit risk.

Authorized Investments

The District's investments are carried at fair value instead of cost, as required by U.S. generally accepted accounting principles. The District adjusts the carrying value of its investments to reflect their fair value at each fiscal year end if material, and it includes the effects of these adjustments in income for that fiscal year.

Investments Authorized by Debt Agreements

Investments of bond proceeds, held by bond trustees, are governed by the provisions of the debt agreements, rather than the general provisions for the California Government Code or the District's investment policy. The table below identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Allowed	Maximum Investment in One Issuer
Money Market Accounts	N/A	None	None

NOTE 3 - CASH AND INVESTMENTS (concluded)

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater is the sensibility of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Pooled Cash and Investments

Information about the sensibility of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity:

		Remaining Maturity (in Months)			
Investment Type	Carrying Amount	12 Months or Less	13-24 Months	25-60 Months	More than 60 Months
Held by Fiscal Agent:					
Short term bonds	$ 233,124	$ -	$ -	$ 233,124	$ -

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. That is measured by the assignment of a rating by a nationally recognized rating organization. Presented below is the minimum rating required by the California Government Code, and the actual rating as of fiscal year end for each investment type.

				Rating as of Fiscal Year End		
Investment Type	Carrying Amount	Minimum Legal Rating	Exempt From Disclosure	AAA	Aa	Not Rated
Held by Fiscal Agent:						
Short term bonds	$ 233,124	N/A	$ -	$ -	$ -	$ 233,124

NOTE 4 - CAPITAL ASSETS

An analysis of fixed assets at June 30, 2014, is as follows:

Governmental Activities	Balance 6/30/13	Additions	Retirements	Balance 6/30/14
Capital assets, not being depreciated:				
Land	$ 19,532	$ -	$ -	$ 19,532
Construction in progress	262,347	8,531	(262,347)	8,531
Total capital assets, not being depreciated	281,879	8,531	(262,347)	28,063
Capital assets, being depreciated:				
Buildings	3,877,810	275,857	-	4,153,667
Improvements	355,288	-	-	355,288
Equipment	237,262	37,688	(24,893)	250,057
Total capital assets, being depreciated	4,470,360	313,545	(24,893)	4,759,012
Less accumulated depreciation for:				
Buildings	(335,899)	(132,324)	-	(468,223)
Improvements	(150,634)	(15,989)	-	(166,623)
Equipment	(136,654)	(25,298)	24,893	(137,059)
Total accumulated depreciation	(623,187)	(173,611)	24,893	(771,905)
Total capital assets being depreciated – net	3,847,173	139,934	-	3,987,107
Capital assets – net depreciation	$ 4,129,052	$ 148,465	$ (262,347)	$ 4,015,170

NOTE 5 - LONG-TERM DEBT

The following is a summary of debt transactions for the year ended June 30, 2014:

General Obligation Bonds, Series A

On December 9, 2010, the District issued $3,195,000 of certificates of participation. The debt was issued for the purpose of constructing a new early childcare center. The debt was issued with a maturity of September 1, 2040 and will carry an interest rate of 5.5%.

The following is a summary of changes in long-term debt as of June 30, 2014:

	June 30, 2013	Additions	Retirements	June 30, 2014	Current
General Obligation	$ 3,145,000	$ -	$ 55,000	$ 3,090,000	$ 55,000

NOTE 5 - LONG-TERM DEBT (concluded)

Principal payments on the debt are due September 1 and interest is due on September 1 and March 1 of every year. Debt service requirements are as follows:

Year Ending June 30	Principal	Interest	Debt Service Total
2015	$ 55,000	$ 171,956	$ 226,956
2016	60,000	169,656	229,656
2017	60,000	167,256	227,256
2018	65,000	164,675	229,675
2019	65,000	161,669	226,669
2020	70,000	158,294	228,294
2021	70,000	154,794	224,794
2022	75,000	151,169	226,169
2023	80,000	147,294	227,294
2024	85,000	143,116	228,116
2025	90,000	138,575	228,575
2026	95,000	133,659	228,659
2027	95,000	128,553	223,553
2028	100,000	123,250	223,250
2029	110,000	117,406	227,406
2030	115,000	111,006	226,006
2031	120,000	104,250	224,250
2032	130,000	96,900	226,900
2033	135,000	88,950	223,950
2034	145,000	80,550	225,550
2035	150,000	71,700	221,700
2036	160,000	62,400	222,400
2037	170,000	52,500	222,500
2038	180,000	42,000	222,000
2039	190,000	30,900	220,900
2040	205,000	19,050	224,050
2041	215,000	6,450	221,450
Total	$ 3,090,000	$ 2,997,978	$ 6,087,978

NOTE 6 - PROPERTY TAX LEVY, COLLECTION AND MAXIMUM RATES

The State of California Constitution Article XIIIA provides that the combined maximum property tax rate on any given property may not exceed 1% of its assessed value unless voters have approved an additional amount. Assessed value is calculated at 100% of market value as defined by Article XIIIA and may be increased by no more than 2% per year unless the property is sold or transferred. The State Legislature has determined the method of distribution of receipts from a 1% tax levy among counties, cities, school districts and other districts. Counties, cities, school districts and other districts may levy such additional tax as is necessary to provide for voter approved debt service.

NOTE 6 - PROPERTY TAX LEVY, COLLECTION AND MAXIMUM RATES (concluded)

The County of San Mateo assesses properties, and bills and collects property taxes as follows:

	Secured	Unsecured
Valuation dates	March 1	March 1
Lien/levy dates	July 1	July 1
Due dates	50% on November 1 50% on February 1	Upon receipt of billing
Delinquent as of	December 10 (for November) April 10 (for February)	August 31

The term "unsecured" refers to taxes on property not secured by liens on real property.

Property taxes levied are recorded as revenue when received, in the fiscal year of levy, due to the adoption of the "alternate method" of property tax distribution, known as the Teeter Plan, by the District and the County of San Mateo. The Teeter Plan authorizes the auditor/controller of the County of San Mateo to allocate 100% of the secured property taxes billed, but not yet paid. The County of San Mateo remits tax monies to the District in five installments as follows:

5% remitted in November
45% remitted in December
5% remitted in March
35% remitted in April
10% remitted in June

NOTE 7 - RISK MANAGEMENT

The District is insured for general liability and property by the California Association for Park Recreation Insurance, a joint powers agency comprised of California special districts. The District's general liability limits are as follows:

COVERAGE	LIMIT
General Liability	$25,000,000 per occurrence
Automobile Liability	$25,000,000 per occurrence
Public Officials and Employee Liability	$25,000,000 per occurrence

Flood and Earthquake coverage has an annual aggregate limit of $10,000,000 for flood and $5,000,000 for earthquake for all member districts. The deductible for all loss or damage arising from the risks of flood is $20,000 and earthquake is $50,000 per occurrence or 5% of the value of the building, contents and/or structure damage, whichever is greater.

A $20,000 deductible applies to any covered claim under Public Officials and Employee Liability for wrongful termination. All-Risks Property Loss coverage is subject to a $2,000 deductible per occurrence. The employee liability coverage deductible can be reduced to $5,000 by getting an attorney with an employment law background involved prior to termination. If the attorney reviews the personnel file and advises on what to do prior to termination, and the District follows those instructions, the District would be eligible for the lower deductible.

NOTE 8 - EMPLOYEE BENEFIT PLAN

The District has a Tax Deferred Simple IRA Plan that is available to employees that earned $5,000 or more in the preceding year. The District contributes 3% of the employee's gross annual salary. The District's contributions for the year ending June 30, 2014 were $22,764.

NOTE 9 - DEFERRED COMPENSATION

District employees may defer a portion of their compensation under the District sponsored Deferred Compensation Plan created in accordance with Internal Revenue Code Section 457. Under these plans, participants are not taxed on the deferred portion of their compensation until distributed to them; distributions may be made only at termination, retirement, and death or in an emergency as defined by the Plans. The District's contributions for the year ending June 30, 2014 were $3,600.

The laws governing deferred compensation plan assets require plan assets to be held in a Trust for the exclusive benefit of plan participants and their beneficiaries. Since the assets held under these plans are not the District's property, are not managed by the District and are not subject to claims by general creditors of the District, they have been excluded from these financial statements.

Highlands Recreation District
GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
Budget and Actual
For the Year Ended June 30, 2014
(Unaudited)

	General Fund			
	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Revenues:				
Property taxes	$ 365,000	$ 365,000	$ 421,280	$ 56,280
Interest	9,000	9,000	11,846	2,846
Park and recreation fees	2,105,850	2,105,850	2,195,070	89,220
Miscellaneous	10,000	10,000	20,614	10,614
Total revenues	2,489,850	2,489,850	2,648,810	158,960
Expenditures:				
Salaries and employee benefits	1,608,818	1,608,818	1,561,384	47,434
Clothing	8,900	8,900	7,304	1,596
Telephone	6,000	6,000	4,994	1,006
Other household	38,900	38,900	37,463	1,437
Insurance	61,500	61,500	53,056	8,444
Maintenance structures and grounds	101,300	101,300	73,472	27,828
Memberships	7,100	7,100	4,805	2,295
Office expense	98,800	98,800	82,655	16,145
Service and consultations	52,300	52,300	43,897	8,403
District operating expenses	131,500	131,500	109,716	21,784
Utilities	81,000	81,000	85,176	(4,176)
Debt service expense	174,156	174,156	229,158	(55,002)
Capital outlay	468,500	468,500	97,283	371,217
Total expenditures	2,838,774	2,838,774	2,390,363	448,411
Excess (deficit) of revenues over (under) expenditures	$ (348,924)	$ (348,924)	258,447	$ 607,371
Fund balances, beginning of period			2,041,436	
Fund balances, end of period			$ 2,299,883	

The accompanying notes are an integral part of these financial statements