

**HIGHLANDS RECREATION DISTRICT**

**SAN MATEO, CALIFORNIA**

**BASIC FINANCIAL STATEMENTS**

**JUNE 30, 2012**

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R. J. RICCIARDI, INC.  
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

Board of Directors  
Highlands Recreation District  
San Mateo, California

We have audited the accompanying basic financial statements of the governmental activities and the major fund of Highlands Recreation District as of June 30, 2012, and for the fiscal year then ended, as listed in the table of contents. These basic financial statements are the responsibility of Highlands Recreation District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards 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 basic financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic 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, 2012, and the respective changes in financial position for the fiscal year then ended in conformity with U.S. generally accepted accounting principles, as well as accounting systems prescribed by the State Controller's office and state regulations governing special districts.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2-6 and the required supplemental information page 22, 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  
December 7, 2012

Highlands Recreation District  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2012  
(Unaudited)

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, 2012. 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 Single Governmental Program for Special Purpose Governments reporting model is used which best represents the activities of the District.

The required financial statements include the Government-wide and Fund Financial Statements; Statement of Net Assets 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 Assets and the Statement of Activities. The Statement of Net Assets 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 Assets 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.

Highlands Recreation District  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2012  
(Unaudited)

**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 Assets 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 \$409,244 this fiscal year due primarily to an increase in park and recreation fees. Property taxes increased \$5,200 as assessed valuations increased. Actual revenues were more than budgeted amounts by \$143,755.

General Fund expenditures were \$3,210,876, an increase of \$57,940 from the prior year due to the increase in capital projects, facilities renovation and staffing. Expenditures were greater than budgeted by \$1,131,923 due to \$1,282,278 of capital outlay and related financing costs.

Highlands Recreation District  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
 For the Year Ended June 30, 2012  
 (Unaudited)

Governmental Activities

Table 1  
Governmental Net Assets

	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2011</u>
<u>Assets</u>		
Current assets	\$ 1,828,256	\$ 3,251,450
Capital assets	<u>4,196,217</u>	<u>2,596,605</u>
Total assets	<u>6,024,473</u>	<u>5,848,055</u>
<u>Liabilities</u>		
Current liabilities	180,023	545,866
Noncurrent liabilities	<u>3,195,000</u>	<u>3,195,000</u>
Total liabilities	<u>3,375,023</u>	<u>3,740,866</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	1,001,217	(598,395)
Unrestricted	<u>1,648,233</u>	<u>2,705,584</u>
Total net assets	<u>\$ 2,649,450</u>	<u>\$ 2,107,189</u>

The District's governmental net assets amounted to \$2,649,450 as of June 30, 2012, an increase of \$542,261 over 2011. The increase is the Change in Net Assets reflected in the Governmental Activities column of the Statement of Activities shown in Table 2. The District's net assets as of June 30, 2012 comprised the following:

- Cash and investments of \$1,524,704.
- Other assets of \$2,351 of current receivables and \$5,866 of prepaid expenses.
- Capital assets of \$4,196,217 net of depreciation charges, which includes all the District's capital assets used in governmental activities.
- Liabilities, including accounts payable and other liabilities, totaling \$180,023.
- In December 2010, the District issued Certificates of Participation of \$3,195,000.
- Net assets invested in capital assets, net of related debt, of \$1,001,217 representing the District's investment in capital assets used in Governmental Activities, net of amounts borrowed to finance that investment.
- Unrestricted net assets, the part of net assets 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 \$1,648,233 of unrestricted net assets as of June 30, 2012.

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 Assets summarized below.

Highlands Recreation District  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
 For the Year Ended June 30, 2012  
 (Unaudited)

Table 2  
Changes in Governmental Net Assets

	Governmental Activities	
	2012	2011
<u>Expenses</u>		
Recreation and Parks	\$ 1,434,007	\$ 2,006,398
Interest expense	177,257	93,552
Total expenses	1,611,264	2,099,950
 <u>Revenues</u>		
Program revenues:		
Charges for services	1,777,792	1,373,452
Total program revenues	1,777,792	1,373,452
General revenues:		
Property taxes	366,413	361,213
Interest income	9,320	9,616
Total general revenues	375,733	370,829
Total revenues	2,153,525	1,744,281
 Change in net assets	 \$ 542,261	 \$ (355,669)

As Table 2 above shows, \$1,777,792, or 83%, of the District's fiscal year 2012 governmental revenue came from program revenues and \$375,733, or 17%, came from general revenues such as taxes and interest.

Program revenues were composed of charges for services of \$1,777,792.

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, 2012, the District's debt comprised:

Certificates of Participation	\$ <u>3,195,000</u>
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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.

Highlands Recreation District  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2012  
(Unaudited)

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 ASSETS

June 30, 2012

ASSETS

Cash and investments	\$ 1,524,704
Restricted cash with fiscal agent	295,335
Accounts and interest receivable	2,351
Prepaid items	5,866
Non-depreciable capital assets	282,475
Depreciable capital assets, net of accumulated depreciation	<u>3,913,742</u>
Total assets	<u>6,024,473</u>

LIABILITIES

Accounts payable	48,991
Accrual claims and other liabilities	131,032
Long-term liabilities:	
Due within one year	50,000
Due in more than one year	<u>3,145,000</u>
Total liabilities	<u>3,375,023</u>

NET ASSETS

Invested in capital assets, net of related debt	1,001,217
Unrestricted	<u>1,648,233</u>
Total net assets	<u>\$ 2,649,450</u>

The accompanying notes are an integral part of these financial statements

Highlands Recreation District  
STATEMENT OF ACTIVITIES  
 For the Year Ended June 30, 2012

<u>Functions/Programs</u>	<u>Expenditures</u>	<u>Program Revenues</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Total Governmental Activities</u>
Governmental activities:			
Recreation and parks	\$ 1,434,007	\$ 1,777,792	\$ 343,785
Interest	177,257	-	(177,257)
Total governmental activities	\$ 1,611,264	\$ 1,777,792	166,528
General revenues:			
Property taxes			366,413
Interest and investment earnings			9,320
Total general revenues			375,733
Change in net assets			542,261
Net assets, beginning of period			2,107,189
Net assets, end of period			\$ 2,649,450

The accompanying notes are an integral part of these financial statements

Highlands Recreation District  
 GOVERNMENTAL FUND  
BALANCE SHEET  
 June 30, 2012

<u>ASSETS</u>	<u>General Fund</u>
Cash and investments available for operation	\$ 1,524,704
Restricted cash with fiscal agent	295,335
Accounts and interest receivable	2,351
Prepaid items	5,866
Total assets	<u>\$ 1,828,256</u>
<u>LIABILITIES</u>	
Accounts payable	\$ 48,992
Accrued expenditures	71,946
Total liabilities	<u>120,938</u>
<u>FUND BALANCES</u>	
Reserved for:	
Assigned for capital outlay	473,296
Assigned for contingencies	300,000
Unassigned	934,022
Total fund balances	<u>1,707,318</u>
Total liabilities and fund balances	<u>\$ 1,828,256</u>

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 ASSETS  
For the Year Ended June 30, 2012

TOTAL FUND BALANCES - GOVERNMENTAL FUND \$ 1,707,318

Amounts reported for Governmental Activities in the Statement of Net Assets 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. 4,196,217

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 (59,085)  
General Obligation Bond (3,195,000)

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 2,649,450

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, 2012

	General Fund
Revenues:	
Property taxes	\$ 366,413
Park and recreation fees	1,755,407
Miscellaneous	31,705
Total revenues	2,153,525
Expenditures:	
Salaries and fringe benefits	1,226,661
Professional services	28,592
Operating expenses	265,397
Office expenses	79,074
Repair and maintenance	55,938
Capital outlay	95,679
Capital outlay - childcare center/bond financing	1,282,278
Debt service:	
Interest expense	177,257
Total expenditures	3,210,876
Excess (deficit) of revenues	
over (under) expenditures	(1,057,351)
Fund balances, beginning of period	2,764,669
Fund balances, end of period	\$ 1,707,318

The accompanying notes are an integral part of these financial statements



Highlands Recreation District  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2012

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.

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 assets 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 assets 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.

Highlands Recreation District  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2012

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 exceeded appropriations by \$1,131,923 for the current year.

Highlands Recreation District  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2012

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

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

E. Net Assets

Net assets represent the difference between assets and liabilities. Net assets 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 assets are reported as restricted when there are limitations imposed on their 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 assets are available.

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 Borel 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, 2012, 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.

Highlands Recreation District  
NOTES TO BASIC FINANCIAL STATEMENTS  
 For the Year Ended June 30, 2012

NOTE 3 - CASH AND INVESTMENTS (continued)

Cash and investments consisted of the following as of June 30, 2012:

	Fair Value	Investment Risk
Petty cash	\$ 200	N/A
Cash in County Treasury	1,365,582	N/A
Cash in Borel Bank	158,922	N/A
Total cash and investments	\$ 1,524,704	

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, 2012 the balance of these funds was \$295,335.

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.

Highlands Recreation District  
NOTES TO BASIC FINANCIAL STATEMENTS  
 For the Year Ended June 30, 2012

NOTE 3 - CASH AND INVESTMENTS (concluded)

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

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 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:

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Remaining Maturity (in Months)</u>			
		<u>12 Months or Less</u>	<u>13-24 Months</u>	<u>25-60 Months</u>	<u>More than 60 Months</u>
Held by Fiscal Agent:					
Money Market Accounts	\$ 295,335	\$ 295,335	\$ -	\$ -	\$ -

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.

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Fiscal Year End</u>		
				<u>AAA</u>	<u>Aa</u>	<u>Not Rated</u>
Held by Fiscal Agent:						
Money Market Accounts	\$ 295,335	N/A	\$ -	\$ -	\$ -	\$ 295,335

Highlands Recreation District  
NOTES TO BASIC FINANCIAL STATEMENTS  
 For the Year Ended June 30, 2012

NOTE 4 - CAPITAL ASSETS

An analysis of fixed assets at June 30, 2012, is as follows:

<u>Governmental Activities</u>	<u>Balance</u> <u>6/30/11</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>6/30/12</u>
Capital assets, not being depreciated:				
Land	\$ 19,532	\$ -	\$ -	\$ 19,532
Construction in progress	<u>1,612,402</u>	<u>10,571</u>	<u>(1,360,030)</u>	<u>262,943</u>
Total capital assets, not being depreciated	<u>1,631,934</u>	<u>10,571</u>	<u>(1,360,030)</u>	<u>282,475</u>
Capital assets, being depreciated:				
Buildings	911,924	2,976,315	(64,824)	3,823,415
Improvements	310,673	29,015	(5,000)	334,688
Equipment	<u>194,887</u>	<u>74,681</u>	<u>(42,195)</u>	<u>227,373</u>
Total capital assets, being depreciated	<u>1,417,484</u>	<u>3,080,011</u>	<u>(112,019)</u>	<u>4,385,476</u>
Less accumulated depreciation for:				
Buildings	(191,530)	(79,865)	52,059	(219,336)
Improvements	(124,842)	(13,320)	3,083	(135,079)
Equipment	<u>(136,441)</u>	<u>(22,033)</u>	<u>41,155</u>	<u>(117,319)</u>
Total accumulated depreciation	<u>(452,813)</u>	<u>(115,218)</u>	<u>96,297</u>	<u>(471,734)</u>
Total capital assets being depreciated – net	<u>964,671</u>	<u>2,964,793</u>	<u>(15,722)</u>	<u>3,913,742</u>
Capital assets – net depreciation	<u>\$ 2,596,605</u>	<u>\$ 2,975,364</u>	<u>\$ (1,375,752)</u>	<u>\$ 4,196,217</u>

NOTE 5 - LONG-TERM DEBT

The following is a summary of debt transactions for the year ended June 30, 2012:

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, 2012:

	<u>June 30,</u> <u>2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30,</u> <u>2012</u>	<u>Current</u>
General Obligation	<u>\$ 3,195,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,195,000</u>	<u>\$ 50,000</u>

Highlands Recreation District  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2012

NOTE 5 - LONG-TERM DEBT (concluded)

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

Year Ending June 30	Principal	Interest	Debt Service Total
2013	\$ 50,000	\$ 176,256	\$ 226,256
2014	55,000	174,156	229,156
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	<u>\$ 3,195,000</u>	<u>\$ 3,348,390</u>	<u>\$ 6,543,390</u>

Highlands Recreation District  
NOTES TO BASIC FINANCIAL STATEMENTS  
 For the Year Ended June 30, 2012

NOTE 6 - PROPERTY TAX LEVY, COLLECTION AND MAXIMUM RATES

The State of California Constitution Article XIII A 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 XIII A 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.

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

	<u>Secured</u>	<u>Unsecured</u>
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:

<u>COVERAGE</u>	<u>LIMIT</u>
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.

Highlands Recreation District  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2012

NOTE 7 - RISK MANAGEMENT (concluded)

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 exempt employees that earned \$5,000 or more in the preceding year. The District contributes 2.5% of the employee's gross annual salary. The District's contributions for the year ending June 30, 2012 were \$10,101.

Highlands Recreation District  
GOVERNMENTAL FUND  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES

Budget and Actual  
For the Year Ended June 30, 2012  
(Unaudited)

	General Fund			
	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Property taxes	\$ 365,000	\$ 365,000	\$ 366,413	\$ 1,413
Interest	9,000	9,000	9,320	320
Park and recreation fees	1,620,570	1,620,570	1,755,407	134,837
Miscellaneous	15,200	15,200	22,385	7,185
Total revenues	<u>2,009,770</u>	<u>2,009,770</u>	<u>2,153,525</u>	<u>143,755</u>
Expenditures:				
Salaries and employee benefits	1,270,281	1,270,281	1,226,661	43,620
Clothing	9,000	9,000	6,669	2,331
Telephone	7,400	7,400	5,203	2,197
Other household	28,400	28,400	29,360	(960)
Insurance	39,344	39,344	40,704	(1,360)
Maintenance structures and grounds	105,000	105,000	55,938	49,062
Memberships	6,600	6,600	4,387	2,213
Office expense	82,200	82,200	79,074	3,126
Service and consultations	28,800	28,800	28,592	208
District operating expenses	110,300	110,300	106,427	3,873
Utilities	82,000	82,000	72,647	9,353
Debt service interest expense	88,628	88,628	177,257	(88,629)
Capital outlay - childcare center/bond financing	-	-	1,282,278	(1,282,278)
Capital outlay	221,000	221,000	95,679	125,321
Total expenditures	<u>2,078,953</u>	<u>2,078,953</u>	<u>3,210,876</u>	<u>(1,131,923)</u>
Excess (deficit) of revenues over (under) expenditures	<u>\$ (69,183)</u>	<u>\$ (69,183)</u>	<u>(1,057,351)</u>	<u>\$ (988,168)</u>
Fund balances, beginning of period			<u>2,764,669</u>	
Fund balances, end of period			<u>\$ 1,707,318</u>	