

HIGHLANDS RECREATION DISTRICT

SAN MATEO, CALIFORNIA

BASIC FINANCIAL STATEMENTS

JUNE 30, 2020

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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, 2020, 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, 2020, 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.

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 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
January 25, 2021

Highlands Recreation District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2020
(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, 2020. 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.

Highlands Recreation District
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2020
(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 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 decreased \$666,827 this fiscal year due primarily to a decrease in park and recreation fees related to the pandemic. Property taxes increased \$41,084 as assessed valuations increased. Actual revenues were less than budgeted amounts by \$745,545.

General Fund expenditures were \$3,931,662, an increase of \$912,030 from the prior year due to the increase in construction in progress. Expenditures were less than budgeted by \$485,939.

Highlands Recreation District
MANAGEMENT'S DISCUSSION AND ANALYSIS
 For the Year Ended June 30, 2020
 (Unaudited)

Governmental Activities

Table 1
Governmental Net Position

	Governmental Activities	
	2020	2019
Current assets	\$ 3,016,593	\$ 3,925,275
Capital assets	<u>4,777,411</u>	<u>3,580,087</u>
Total assets	<u>7,794,004</u>	<u>7,505,362</u>
Current liabilities	637,002	349,440
Noncurrent liabilities	<u>2,422,000</u>	<u>2,549,000</u>
Total liabilities	<u>3,059,002</u>	<u>2,898,440</u>
Net position		
Invested in capital assets, net of related debt	2,355,411	1,031,087
Unrestricted	<u>2,379,591</u>	<u>3,575,835</u>
Total net position	<u>\$ 4,735,002</u>	<u>\$ 4,606,922</u>

The District's governmental net position amounted to \$4,735,002 as of June 30, 2020, an increase of \$128,080 over 2019. 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, 2020 is comprised of the following:

- Cash and investments of \$2,989,010.
- Other assets of \$11,796 of current receivables and \$15,787 of prepaid expenses.
- Capital assets of \$4,777,411 net of depreciation charges, which includes all the District's capital assets used in governmental activities.
- Liabilities, including accounts payable and other liabilities, totaling \$637,002.
- In December 2010, the District issued Certificates of Participation of \$3,195,000 and refinanced in October 2017. Current principal balance is \$2,422,000.
- Net position invested in capital assets, net of related debt, of \$2,355,411 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 \$2,379,591 of unrestricted net position as of June 30, 2020.

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.

Highlands Recreation District
MANAGEMENT'S DISCUSSION AND ANALYSIS
 For the Year Ended June 30, 2020
 (Unaudited)

Table 2
Changes in Governmental Net Assets

	Governmental Activities	
	2020	2019
<u>Expenses</u>		
Recreation and Parks	\$ 2,530,288	\$ 2,711,243
Interest expense	75,738	79,650
Total expenses	2,606,026	2,790,893
<u>Revenues</u>		
Program revenues:		
Charges for services	2,021,806	2,719,226
Total program revenues	2,021,806	2,719,226
General revenues:		
Property taxes	654,311	613,227
Interest income	57,989	68,479
Total general revenues	712,300	681,706
Total revenues	2,734,106	3,400,932
Change in net position	\$ 128,080	\$ 610,039

As Table 2 above shows, \$2,021,806, or 74%, of the District's fiscal year 2020 governmental revenue came from program revenues and \$712,300, or 26%, came from general revenues such as taxes and interest.

Program revenues were composed of charges for services of \$2,021,806.

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, 2020, the District's debt comprised:

Certificates of Participation	\$ 2,422,000
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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. 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, 2020
(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 POSITION

June 30, 2020

ASSETS

Cash and investments	\$ 2,989,010
Accounts and interest receivable	11,796
Prepaid items	15,787
Non-depreciable capital assets	1,498,791
Depreciable capital assets, net of accumulated depreciation	<u>3,278,620</u>
Total assets	<u>7,794,004</u>

LIABILITIES

Accounts payable	490,532
Accrual claims and other liabilities	146,470
Long-term liabilities:	
Due within one year	128,000
Due in more than one year	<u>2,294,000</u>
Total liabilities	<u>3,059,002</u>

NET POSITION

Invested in capital assets, net of related debt	2,355,411
Unrestricted	<u>2,379,591</u>
Total net position	<u>\$ 4,735,002</u>

The accompanying notes are an integral part of these financial statements.

Highlands Recreation District
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2020

<u>Functions/Programs</u>	<u>Expenditures</u>	<u>Program Revenues</u> Charges for Services	<u>Net (Expense) Revenue and Changes in Net Position</u> Total Governmental Activities
Governmental activities:			
Recreation and parks	\$ 2,530,288	\$ 2,021,806	\$ (508,482)
Interest	<u>75,738</u>	<u>-</u>	<u>(75,738)</u>
Total governmental activities	<u>\$ 2,606,026</u>	<u>\$ 2,021,806</u>	<u>(584,220)</u>
General revenues:			
Property taxes			654,311
Interest and investment earnings			<u>57,989</u>
Total general revenues			<u>712,300</u>
Change in net position			128,080
Net position, beginning of period			<u>4,606,922</u>
Net position, end of period			<u>\$ 4,735,002</u>

The accompanying notes are an integral part of these financial statements.

Highlands Recreation District
 GOVERNMENTAL FUND
BALANCE SHEET
 June 30, 2020

<u>ASSETS</u>	<u>General Fund</u>
Cash and investments available for operation	\$ 2,989,010
Accounts and interest receivable	11,796
Prepaid items	<u>15,787</u>
Total assets	<u>\$ 3,016,593</u>
<u>LIABILITIES</u>	
Accounts payable	\$ 490,532
Accrued expenditures	<u>121,442</u>
Total liabilities	<u>611,974</u>
<u>FUND BALANCES</u>	
Assigned for capital outlay	473,296
Assigned for contingencies	350,000
Assigned for general reserve	150,000
Assigned for EEC building reserve	100,000
Assigned for building renovations reserve	100,000
Unassigned	<u>1,231,323</u>
Total fund balances	<u>2,404,619</u>
Total liabilities and fund balances	<u>\$ 3,016,593</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 POSITION
For the Year Ended June 30, 2020

TOTAL FUND BALANCES - GOVERNMENTAL FUND \$ 2,404,619

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. 4,777,411

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	(25,028)
General Obligation Bond	<u>(2,422,000)</u>

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 4,735,002

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, 2020

	General Fund
Revenues:	
Property taxes	\$ 654,311
Park and recreation fees	2,010,560
Miscellaneous and interest	69,233
Total revenues	2,734,104
Expenditures:	
Salaries and fringe benefits (not include program specialist)	1,680,781
Professional services (includes program specialist)	145,008
Operating expenses	356,640
Office expenses	105,170
Repair and maintenance	82,511
Capital outlay (capitalized and not capitalized)	1,357,501
Debt service:	
Principal expense	127,000
Interest expense	77,051
Total expenditures	3,931,662
Excess (deficit) of revenues over (under) expenditures	(1,197,558)
Fund balances, beginning of period	3,602,177
Fund balances, end of period	\$ 2,404,619

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, 2020

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUND \$ (1,197,558)

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 construction in progress and capital outlay expenditures are therefore added back to fund balance. 1,351,278

Depreciation expense is deducted from the fund balance. (153,954)

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: 127,000

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 interest 1,314

Changes in net position of governmental activities \$ 128,080

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, 2020

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 funds held by the County are provided by the County of San Mateo. Custodianship of the District's account and records for funds held by the County are vested with the Treasurer of San Mateo County. The District also maintains funds at Boston Private. These funds are held in a checking account for operating expenses only and are not invested.

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 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.

Highlands Recreation District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

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 \$485,939 for the current year due to COVID-19 closure from March to June 2020.

Highlands Recreation District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

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, 2020 was \$153,954.

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 first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

F. Fair Value Hierarchy of Cash and Investments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs are inputs - other than quoted prices included within level 1 - that are observable for an asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for an asset or liability.

If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

Highlands Recreation District
NOTES TO BASIC FINANCIAL STATEMENTS
 For the Year Ended June 30, 2020

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. 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, 2020, 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.

Cash and investments consisted of the following as of June 30, 2020:

	Fair Value	Investment Risk
Petty cash	\$ 180	N/A
Cash in County Treasury	2,521,689	N/A
Cash in Boston Private	467,141	N/A
Total cash and investments	<u>\$ 2,989,010</u>	

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.

The following is a summary of the fair value hierarchy of the fair value of investments of the District as of June 30, 2020:

<u>Investment Type</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Exempt</u>	<u>Total</u>
Boston Private	\$ -	\$ -	\$ 467,141	\$ 467,141
San Mateo Co. Treasurer's Investment Pool	-	2,521,689	-	2,521,689
Cash on hand	-	-	180	180
Total investments	<u>\$ -</u>	<u>\$ 2,521,689</u>	<u>\$ 467,321</u>	<u>\$ 2,989,010</u>

Highlands Recreation District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 3 - CASH AND INVESTMENTS (concluded)

Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. The San Mateo County Treasurer's Investment Pool, classified in Level 2 of the fair value hierarchy, is valued using quoted prices for a non-active market portfolio at fiscal year end. Fair value is defined as the quoted market value on the last trading day of the period. These prices are obtained from various pricing sources by the custodian bank.

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. Actual ratings as of June 30, 2020 are provided by Standard and Poor's except as noted.

<u>Investment Type</u> (Not rated):	<u>Total</u>
Boston Private	\$ 467,141
San Mateo County Investment Pool	2,521,689
Cash on hand	<u>180</u>
Total cash and investments	<u>\$ 2,989,010</u>

NOTE 4 - CAPITAL ASSETS

An analysis of fixed assets at June 30, 2020, is as follows:

<u>Governmental Activities</u>	<u>Balance</u> <u>6/30/19</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>6/30/20</u>
Capital assets, not being depreciated:				
Land	\$ 19,532	\$ -	\$ -	\$ 19,532
Construction in progress	<u>150,513</u>	<u>1,328,746</u>	<u>-</u>	<u>1,479,259</u>
Total capital assets, not being depreciated	<u>170,045</u>	<u>1,328,746</u>	<u>-</u>	<u>1,498,791</u>
Capital assets, being depreciated:				
Buildings	4,189,589	12,532	11,302	4,190,819
Improvements	355,288	-	-	355,288
Equipment	<u>324,817</u>	<u>10,000</u>	<u>7,717</u>	<u>327,100</u>
Total capital assets, being depreciated	<u>4,869,694</u>	<u>22,532</u>	<u>19,019</u>	<u>4,873,207</u>
Less accumulated depreciation for:				
Buildings	1,043,787	124,467	11,302	1,156,952
Improvements	232,480	9,015	-	241,495
Equipment	<u>183,385</u>	<u>20,472</u>	<u>7,717</u>	<u>196,140</u>
Total accumulated depreciation	<u>1,459,652</u>	<u>153,954</u>	<u>19,019</u>	<u>1,594,587</u>
Total capital assets being depreciated net	<u>3,410,042</u>	<u>(131,422)</u>	<u>-</u>	<u>3,278,620</u>
Capital assets – net depreciation	<u>\$ 3,580,087</u>	<u>\$ 1,197,324</u>	<u>\$ -</u>	<u>\$ 4,777,411</u>

Highlands Recreation District
NOTES TO BASIC FINANCIAL STATEMENTS
 For the Year Ended June 30, 2020

NOTE 5 - LONG-TERM DEBT

The following is a summary of debt transactions for the year ended June 30, 2020:

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%. In October of 2017, the District issued \$2,671,000 2017 Refunding Certificates of Participation with an interest rate of 3.1%. The refunding was done to reduce future debt service payments. The transaction resulted in a reduction of \$1,533,223 in future debt service payments. This translates into a net present value savings of \$586,269.

The following is a summary of changes in long-term debt as of June 30, 2020:

	June 30, 2019	Additions	Retirements	June 30, 2020	Current
General Obligation	\$ 2,549,000	\$ -	\$ 127,000	\$ 2,422,000	\$ 128,000

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
2021	\$ 128,000	\$ 73,098	\$ 201,098
2022	133,000	69,053	202,053
2023	138,000	64,852	202,852
2024	144,000	60,481	204,481
2025	148,000	55,955	203,955
2026	153,000	51,290	204,290
2027	153,000	46,547	199,547
2028	158,000	41,726	199,726
2029	167,000	36,689	203,689
2030	171,000	31,450	202,450
2031	174,000	26,102	200,102
2032	182,000	20,584	202,584
2033	185,000	14,896	199,896
2034	193,000	9,037	202,037
2035	195,000	3,023	198,023
Total	\$ 2,422,000	\$ 604,783	\$ 3,026,783

Highlands Recreation District
NOTES TO BASIC FINANCIAL STATEMENTS
 For the Year Ended June 30, 2020

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 or wildfire is \$50,000, 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, 2020

NOTE 7 - RISK MANAGEMENT (concluded)

A \$20,000 deductible applies to any covered claim under Public Officials and Employment Practices Liability for wrongful termination. All-Risks Property Loss coverage is subject to a \$2,000 deductible per occurrence. The employment practices 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. The general and auto liability coverage has a \$0 deductible.

NOTE 8 - EMPLOYEE BENEFIT PLAN

The District has a Tax Deferred Simple IRA Plan that is available to employees who earned \$5,000 in the current year and are expected to earn in the following year. The District contributes 3% of the employee's gross annual salary. The District's contributions for the year ending June 30, 2020 were \$27,376.

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 contribution for the year ending June 30, 2020 was \$6,907.

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.

NOTE 10 - SUBSEQUENT EVENTS

Coronavirus Pandemic

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) began to spread among various countries, including the United States. On March 11, 2020, the World Health Society characterized COVID-19 as a pandemic. In addition, multiple jurisdictions in the U.S., including California, have declared a state of emergency and issued shelter-in-place orders in response to the outbreak. The immediate impact to District's operations includes restrictions on employees' ability to work, and it is anticipated that the impacts from this pandemic will continue for some time. As of the report date, the financial impact of the coronavirus outbreak cannot be measured.

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

Budget and Actual
 For the Year Ended June 30, 2020
 (Unaudited)

	General Fund			
	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Property taxes	\$ 654,668	\$ 654,668	\$ 654,311	\$ (357)
Interest	48,119	48,119	57,989	9,870
Park and recreation fees	2,756,262	2,756,262	2,010,560	(745,702)
Miscellaneous	<u>20,600</u>	<u>20,600</u>	<u>11,244</u>	<u>(9,356)</u>
Total revenues	<u>3,479,649</u>	<u>3,479,649</u>	<u>2,734,104</u>	<u>(745,545)</u>
Expenditures:				
Salaries and employee benefits	2,005,400	2,005,400	1,680,781	324,619
District operating expenses	824,150	824,150	689,329	134,821
Debt service expense	204,051	204,051	204,051	-
Capital outlay	<u>1,384,000</u>	<u>1,384,000</u>	<u>1,357,501</u>	<u>26,499</u>
Total expenditures	<u>4,417,601</u>	<u>4,417,601</u>	<u>3,931,662</u>	<u>485,939</u>
Excess (deficit) of revenues over (under) expenditures	<u>\$ (937,952)</u>	<u>\$ (937,952)</u>	(1,197,558)	<u>\$ (259,606)</u>
Fund balances, beginning of period			<u>3,602,177</u>	
Fund balances, end of period			<u>\$ 2,404,619</u>	