

# City of Highland California



*View of the new Police Department located on Base Line during a recent 9-11 ceremony.*

## **Comprehensive Annual Financial Report For Fiscal Year Ended June 30, 2011**



CITY OF HIGHLAND  
Highland, California

Comprehensive Annual Financial Report

For the fiscal year ended June 30, 2011

27215 Base Line  
Highland, California 92346  
Phone: 909.864.6861  
Fax: 909.862.3180  
[www.cityofhighland.org](http://www.cityofhighland.org)

Prepared by the Finance Department:

Chuck Dantuono  
Director of Administrative Services/City Treasurer



CITY OF HIGHLAND  
Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2011

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTORY SECTION:	
Letter of Transmittal	i
Listing of Officials	ix
Organizational Chart	x
GFOA Certificate of Achievement	xi
FINANCIAL SECTION:	
Independent Auditors' Report	1
Management's Discussion and Analysis (Required Supplementary Information)	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	14
Statement of Activities	15
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	20
Reconciliation of the Balance Sheet to the Statement of Net Assets	23
Statement of Revenues, Expenditures and Changes in Fund Balances	24
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	26
Proprietary Funds:	
Statement of Net Assets	28
Statement of Revenues, Expenses and Changes in Fund Net Assets	29
Statement of Cash Flows	30
Fiduciary Funds:	
Statement of Fiduciary Assets and Liabilities	32
Notes to the Basic Financial Statements	33

CITY OF HIGHLAND  
 Comprehensive Annual Financial Report  
 (Continued)

TABLE OF CONTENTS, (CONTINUED)

	<u>Page</u>
FINANCIAL SECTION, (CONTINUED):	
Required Supplementary Information:	
Notes to Required Supplementary Information	66
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual:	
General Fund	67
Grants Fund	69
FEMA Fund	70
Supplementary Schedules:	
Nonmajor Governmental Funds:	
Combining Balance Sheet	74
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	75
Nonmajor Special Revenue Funds:	
Combining Balance Sheet	76
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	80
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual:	
Traffic Safety Fund	84
State Gas Tax Fund	85
Article 3	86
Community Development Block Grant Fund	87
Development Impact Fees Fund	88
Developer Fee Fund	89
Office of Traffic Safety Fund	90
Landscape Maintenance District Fund	91
Streetlight Assessment District Fund	92
Community Trail District Fund	93
Park Assessment District Fund	94
Measure I Fund	95
Air Quality Management District Fund	96
COPS Fund	97
Street Maintenance District Fund	98
Justice Assistance Grant Fund	99
Paramedics Fund	100
Fire Fund	101
RDA Low and Moderate Income Housing Fund	102

CITY OF HIGHLAND  
 Comprehensive Annual Financial Report  
 (Continued)

TABLE OF CONTENTS, (CONTINUED)

	<u>Page</u>
<b>FINANCIAL SECTION, (CONTINUED):</b>	
Major Debt Service Fund:	
Schedule of Revenues, Expenditures and Changes in Fund	
Balances – Budget and Actual:	
RDA Debt Service Fund	104
Major and Nonmajor Capital Projects Funds:	
Schedule of Revenues, Expenditures and Changes in Fund	
Balances – Budget and Actual:	
Community Facilities Districts Fund	106
General Capital Financing Fund	107
Redevelopment Agency Fund	108
Internal Service Funds:	
Combining Statement of Net Assets	110
Combining Statement of Revenues, Expenses	
and Changes in Fund Net Assets	111
Combining Statement of Cash Flows	112
Agency Funds:	
Statement of Changes in Assets and Liabilities	114
	<u>Page</u>
<b>STATISTICAL SECTION:</b>	
Net Assets by Component	116
Changes in Net Assets	117
Fund Balances of Governmental Funds	118
Changes in Fund Balances of Governmental Funds	119
Assessed Value and Estimated Actual Value of Taxable Property	120
Direct and Overlapping Property Tax Rates	121
Principal Property Tax Payers	122
Property Tax Levies and Collections	123
Ratios of Outstanding Debt by Type	124

CITY OF HIGHLAND  
Comprehensive Annual Financial Report  
(Continued)

TABLE OF CONTENTS, (CONTINUED)

	<u>Page</u>
STATISTICAL SECTION, (CONTINUED):	
Ratio of General Bonded Debt Outstanding	125
Direct and Overlapping Debt	126
Legal Debt Margin Information	127
Pledged-Revenue Coverage	128
Demographic and Economic Statistics	129
Full-time and Part-time City Employees	130
Operating Indicators by Department	131
Capital Asset Statistics by Function	132



December 13, 2011

To the Honorable Mayor/Chairman, Members of the City Council/RDA Board and the Citizens of Highland:

27215 Base Line  
Highland, CA 92346  
(909) 864-6861  
(909) 862-3180 FAX  
www.cityofhighland.org

State law requires that every general-purpose local government publish within six months of the close of each fiscal year a complete set of audited financial statements. This report is published to fulfill that requirement for the fiscal year ended June 30, 2011.

**City Council**

**Mayor**  
Larry McCallon

**Mayor Pro Tem**  
Penny Lilburn

Sam J. Racadio  
Jody Scott  
John P. Timmer

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

**City Manager**  
Joseph A. Hughes

Mayer Hoffman McCann P.C., a firm of certified public accountants, have issued an unqualified (“clean”) opinion on the City of Highland’s financial statements for the year ended June 30, 2011. The independent auditor’s report is located in the front of the financial section of this report.

Management’s discussion and analysis (MD&A) immediately follows the independent auditor’s report and provides a narrative introduction, overview, and analysis of the basic financial statements. Management’s discussion and analysis complements this letter of transmittal and should be read in conjunction with it.

***Profile of the Government***

The City of Highland was incorporated on November 24, 1987 and is located at the foothills of the San Bernardino Mountains in the heart of the Inland Empire. San Bernardino County along with Riverside County makes up the Inland Empire, one of the fastest growing regions in the United States, not only in population, but in job growth rates as well. Highland has a current population of 53,444 people and is approximately 18 square miles. The City of Highland is empowered by statute to extend its corporate limits by annexation, which it has done from time to time. In October 2000, Highland completed annexation of 3,200 acres in the City’s southeast area. With this annexation, Highland increased its boundaries by approximately 33%. This territory currently consists mainly of undeveloped land.

Staff is currently working with Lewis Communities and Orange County on the development of this area.

The City operates under the council-manager form of government. The City Council consists of five members. The mayor and mayor pro tem are selected annually. As the legislative body for the City, the Council is responsible for adopting ordinances and resolutions, adopting the budget, setting fees, appointing committees, hiring the City Manager, providing policy direction to staff as well as various other duties. The citizens of Highland elect council members at large every two years. The City Manager is responsible for carrying out the policies and direction of the Council along with overseeing the daily operations of the City.

The City Council also has an additional role as Board Members for the Redevelopment Agency (RDA) and the Highland Public Financing Authority. As RDA Board Members, they direct all the activity within the project area of the Redevelopment Agency. The Highland Public Financing Authority did not have any activity during the year.

The City of Highland provides a full range of services. These services include, but are not limited to: police protection, fire suppression, paramedic services, animal control and licensing, the construction and maintenance of streets and infrastructure, planning and zoning, building and safety, engineering and inspection, code enforcement and general administrative. Other services that are within the City boundaries are provided by: San Bernardino County, San Bernardino Valley Water Conservation, San Bernardino Unified School District, Redlands Unified School District, The YMCA of the East Valley and East Valley Water District.

The biennial budget serves as the foundation for the City's financial planning and control. As part of each budget year, goals and objectives of the City Council are incorporated into departmental goals and objectives for staff. This process is referred to as the Work Program. The main purpose of the Work Program is to identify goals, programs and projects to be completed. The Work Program is then used when preparing the budget so these projects can be funded. Some of the major programs needed to meet citizen's needs this past year were: Initiate design of the new Fire Station No. 1, construct the infrastructure in the golden triangle, secure long-term covenants, develop Orange County/Lewis specific plan, complete construction of Boulder & Greenspot bridges and complete construction of the new Police Station; in addition to many capital projects that were approved through the Work Program that are too numerous to list.

The council is required to hold public hearings on the proposed budget and to adopt a final budget by no later than June 30, the close of the City's fiscal year. The appropriated budget is prepared by fund and department. Department heads may make transfers of appropriations within a department. Transfers of appropriations between departments, however, require the special approval of the City Council. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund and major special revenue funds, this comparison is presented as part of the required supplementary

information in the accompanying financial statements. For governmental funds that have appropriated annual budgets, other than the general fund, major special revenue funds, major capital project funds and major debt service funds, this comparison is presented in the supplementary section of the accompanying financial statements.

In addition, the City maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City's governing body. Annual budgets are adopted for the general fund, special revenue funds, capital projects funds, debt service funds and internal service funds. A midyear budget review process is conducted to evaluate where the City stands at half year. A five-year financial plan is adopted for capital projects in addition to the annual appropriated budgets. Every year the capital improvement plan is updated and changed if needed. The level of budgetary control (the level at which expenditures cannot legally exceed the appropriated amount) is established by departments within an individual fund. The City also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Although encumbered amounts do lapse at year-end, they generally are re-appropriated as part of the following year's budget.

### *Local economy*

As with most cities, Highland has seen some revenue sources decline in 2010/2011. Although sales tax did increase, revenues such as property tax, vehicle license fees and franchise fees have declined. Other revenues such as charges for services and extraction tax have increased. Because of declining interest rates, investment income was also down. With declining revenues, it was the efficient and careful watch of expenditures that made it possible for the fund balance in the general fund to increase in 2010/2011.

In adopting the 2011/2013 budget, the City had to take into consideration not only the revenues that may continue to decline that are listed above, but also the fact that assessed values may not increase. This has a direct effect on property tax revenues. Budgeted property taxes in the general fund and fire department fund for 2011/2012 and 2012/2013 were budgeted at the same amount that was received in 2010/2011.

Highland has been able to maintain a balanced general fund budget without layoffs, pay reductions, furloughs or a reduction in services. Highland is mainly a residential community and as a result, the City's second highest revenue source is property taxes. The City has a light industrial and manufacturing area in town with many small retail shops and three large plazas. These plazas supply the City with jobs and sales tax revenues. This light manufacturing and industrial base adds to a stable unemployment rate in Highland, although the overall unemployment rate has increased in the region.

For the future, there are a number of projects that hold economic development potential for the community. Some of these are: a commercial development located at Greenspot Road, east of SR-210, referred to as the "Golden Triangle." Recently, Lowe's, Staples and LA Fitness opened in this area. Opening in the near future in this area will be an In-

N-Out Burger and a Chevron. It is also anticipated that in the next few years, the newly annexed area on the east side of Highland will be developed.

Another development is the Town Center project on Base Line west of SR-210. CVS Pharmacy and a Baker's have already opened in this area. However, it is estimated that the revenues that these projects will bring in may be offset by an on going increase in services required by existing programs.

### ***Long-term financial planning***

When the City incorporated in 1987, the Local Agency Formation Commission's (LAFCO) analysis stated, "The proposed City of Highland does not appear financially feasible." In addition, the Christensen & Wallace Incorporation feasibility study stated "The preceding analysis ...of the community of Highland leads to the conclusion that with the current economic base, incorporation is best at marginal."

Today, Highland is one of the most fiscally healthy cities in the Inland Empire, if not the entire State. This was accomplished by being extremely conservative in expenditures over the last twenty-four years. While many cities rely on sales tax as a primary revenue source, Highland has relied on the vehicle license fees and property tax as the major revenue sources. Highland's sales tax earning potential was reduced in 1987 when the City of San Bernardino annexed Highland's potential sales tax areas prior to Highland's incorporation. As part of the long-term financial planning process, Highland continues to work on developing marketing plans on Base Line, Greenspot Road and Fifth Street, the major thoroughfares through the city. With SR-210 running through the center of the City and having Base Line, Greenspot Road and Fifth Street intersecting SR-210, the development of these corridors is vital to the increase of a sales tax base in Highland.

As always, the key goals will be to maintain a sound fiscal base, insure proper public facilities and infrastructure for current and future generations, assure proper level of public safety and health for the community, enhance the image and identity of the City and insure a high level of human resources and relations for staff, commissions and citizens.

As demonstrated by the statements and schedules included in this report, the City continues to meet its responsibility for sound financial management. Since the City incorporated, a commitment was made to a pay-as-you-go philosophy. The City's general fund has no debt and Highland's other funds can use reserves to pay for many of the capital projects rather than placing a debt on future generations.

### ***Relevant financial policies***

Prior to the passage in November 2004 of Proposition 1A, which protects local government revenues from State raids, the State historically took funds away from local governments without paying them back. This was accomplished through what the State calls the ERAF (Educational Revenue Augmentation Fund) shift. Through the ERAF

shift, the State takes property tax dollars from local governments and “shifts” them to education to fulfill their obligation of school funding. In short, the State balances their budget by taking funds from local governments.

Before Proposition 1A passed, the City of Highland annually paid since 1992 approximately \$301,433 into the State’s ERAF fund. Although Proposition 1A was approved by the voters, the cities will continue to pay these funds taken by the State.

For fiscal years 2004/2005 & 2005/2006, the State enacted ERAF III, which essentially doubled Highland’s current amount paid to the ERAF fund. For these two fiscal years, the State took an additional \$302,000 each year and placed it in the ERAF fund. These amounts will not be paid back, but Proposition 1A ensured that if funds are ever taken again, they must be repaid. However, as stated earlier, the \$301,433 taken as part of the original ERAF will still be taken annually by the State and never paid back.

An additional part of ERAF III was the RDA portion. The effect on the Highland RDA for fiscal years 2004/2005 & 2005/2006 was \$242,800, for each fiscal year.

In 2008/2009, the State tried to take \$654,507 from the Highland RDA. With help from the California Redevelopment Association (CRA), the State was sued and lost. However, for 2009/2010 & 2010/2011, the State approved SERAF (Supplemental Educational Revenue Augmentation Fund), an additional one-time taking from redevelopment agencies of \$1.7B in 2009/2010 and \$.35B in 2010/2011 for a total of \$2.05B over two years. Once again, the redevelopment agencies sued the State, but this time lost. The amount taken from the Highland RDA in 2009/2010 was \$3,182,076. The amount taken in 2010/2011 is \$654,507.

For fiscal years 2011/2012 and beyond, the State passed AB 1X 26 which eliminated redevelopment agencies. However, the State then passed AB 1X 27 which included the payment of a ransom if a community wanted to keep its redevelopment agency. Basically the State would eliminate a redevelopment agency and take all of its assets (land, cash, etc.) if the City did not elect to pay this ransom. These bills included language that the ransom would have to be paid by the city and reimbursed by the agency. This is yet another attempt by the State to steal money from local governments to balance their budgets. Highland’s share of this extortion is estimated to be \$2,731,486 in 2011/2012 and an annual payment thereafter of approximately \$655,000. The CRA has once again sued the State and this matter is expected to be resolved by January 15, 2012, the due date of the first extortion payment.

The taking of RDA funds and transportation funds are not protected by Proposition 1A. In November 2010, the California voters, under Proposition 22, let the State legislators know that stealing local funds to balance their budgets is not acceptable. Proposition 22 received over 60 percent of the vote and prohibits the State from borrowing or taking funds used for redevelopment, transportation or local government projects and services. Using local funds as a temporary bandage to solve their annual budget problems is not a long term solution.

It is ironic that the State, which monitors how RDA funds are used by local agencies, will take these restricted funds, and use them instead of their own general fund for education; which is illegal for a local government.

### *Awards and Acknowledgments*

The Government Finance Officers Association (GFOA) of the United States and Canada awarded the Distinguished Budget Presentation Award to the City for the fiscal years of 2009-2011. This budget award is the highest form of recognition a City can receive in governmental budgeting. This was the twentieth year that the City has received this distinguished award. Also, the City received the California Society of Municipal Finance Officers (CSMFO) award for Excellence in Operational Budgeting for fiscal years 2009-2011. The City has received this award from CSMFO every year since first applying for it in 1991-1992. The City has applied for these same awards for the 2011-2013 biennial budget.

Both awards are for two years and recipients must meet very strict criteria. The budget document has to serve as a policy document, an operation guide, a financial plan and a communications device; therefore it is a significant City achievement.

The GFOA also awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for the fiscal year ended June 30, 2010 for its comprehensive annual financial report. This award is the highest form of recognition for excellence in state and local government financial reporting. This was the twenty-first consecutive year that the City has received such recognition. Five years ago, the CSMFO ruled that if an organization applies for the GFOA (national) award, it would not be eligible for the CSMFO (state) award. Therefore, last year, the City did not apply for the CSMFO Outstanding Financial Reporting award for June 30, 2010. The City had received this award every year since first applying for it in 1990-1991. The City will only be able to apply for the GFOA Certificate of Achievement award from now on.

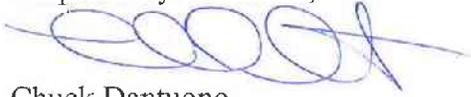
In order to be awarded a Certificate of Achievement, the City must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

This achievement is valid for a period of one year only. I believe the current report continues to conform to the Certificate of Achievement program requirements and I am submitting it to the GFOA.

The preparation of this report was assisted with the continued dedication and thorough service of Senior Accountant, Terry Rhodes. Terry's dedication, knowledge and attention to detail in the Finance Department continue to be appreciated very much. In addition, I would like to thank Finance/Personnel Subcommittee members John Timmer and Sam Racadio for their direction in the preparation of this report. In conclusion, I would like to

thank City Manager, Joe Hughes. Joe continues to demonstrate high standards financial management, professionalism and leadership, which is critical to Highland's fiscal health.

Respectfully submitted,



Chuck Dantuono  
Director of Administrative  
Services/City Treasurer



CITY OF HIGHLAND

Listing of Officials

June 30, 2011

Elected Officials

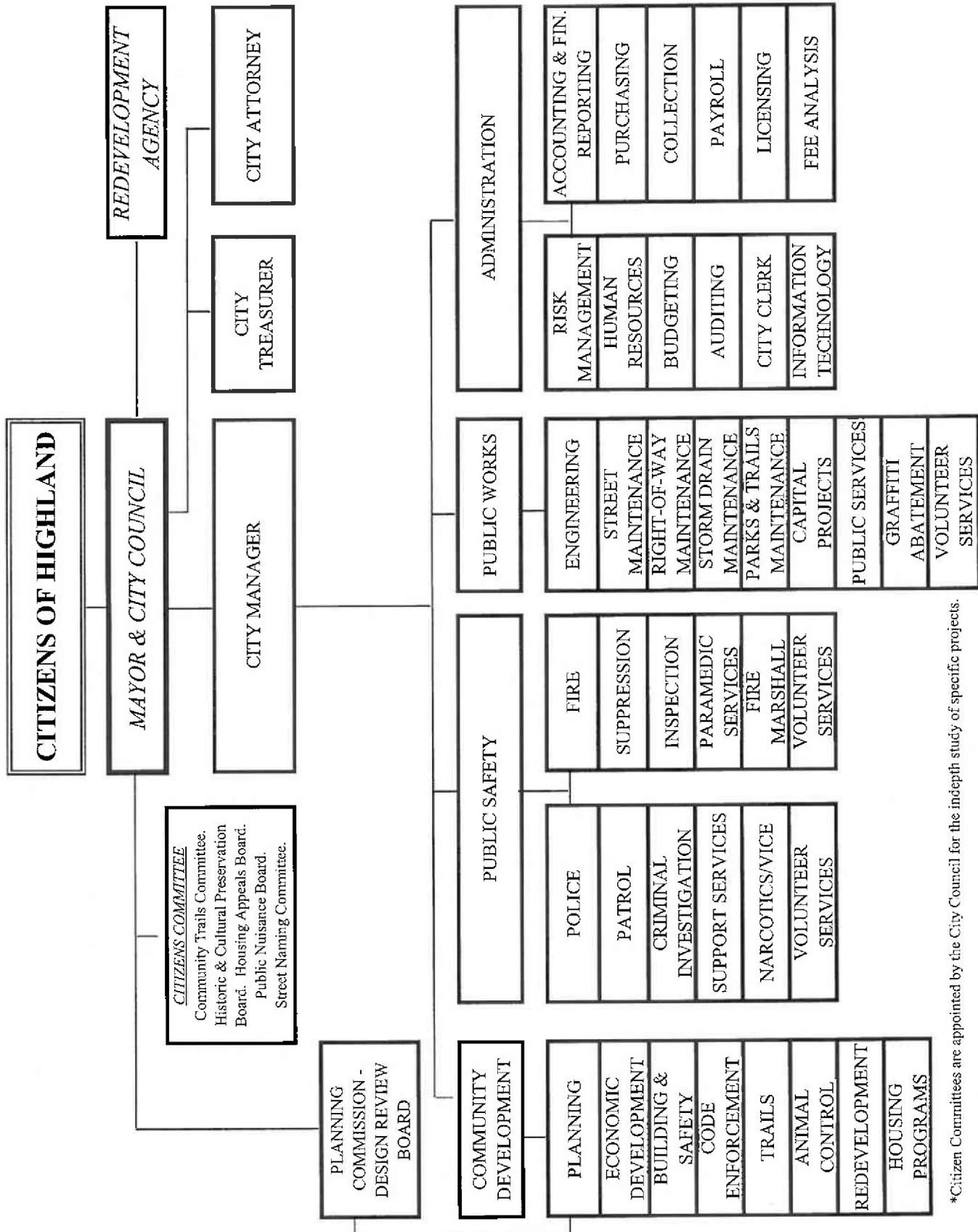
Mayor	Larry McCallon
Mayor Pro Tem	Penny Lilburn
Council member	Sam J. Racadio
Council member	Jody Scott
Council member	John P. Timmer

Finance/Personnel Subcommittee

Committee member	Sam J. Racadio
Committee member	John P. Timmer

Management

City Manager	Joseph A. Hughes
Assistant Public Works Director	Dennis Barton
Administrative Analyst	David Daniely
Director of Administrative Services/City Treasurer	Chuck Dantuono
Building Official	Dale Everman
City Clerk	Betty Hughes
Community Development Director	John Jaquess
City Planner	Larry Mainez
Public Services Manager	Melissa Morgan
Administrative Analyst	Jim Rissmiller
City Engineer/Public Works Director	Ernie Wong
Police Chief	Capt. Dave Williams
Lieutenant	Robert Guillen
Fire Chief (Battalion Chief)	Jeff Veik



\*Citizen Committees are appointed by the City Council for the indepth study of specific projects.

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## City of Highland California

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Linda C. Danison*

President

*Jeffrey R. Emer*

Executive Director





**Mayer Hoffman McCann P.C.**

An Independent CPA Firm

2301 Dupont Drive, Suite 200  
Irvine, California 92612  
949-474-2020 ph  
949-263-5520 fx  
www.mhm-pc.com

The Honorable Mayor and City Council  
City of Highland, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Highland, California as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Highland's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the financial statements of the City of Highland for the year ended June 30, 2010 and, in our report dated December 1, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and the disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the City of Highland, California, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described further in note 1 to the financial statements, the accompanying financial statements reflect certain changes in the reporting of fund types and fund balance classifications for governmental funds due to the implementation of GASB Statement No. 54.

The information identified in the accompanying table of contents as *management's discussion and analysis* and *required supplementary information* are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Honorable Mayor and City Council  
City of Highland, California  
Page Two

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Highland's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2011, on our consideration of the City of Highland's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Irvine, California  
November 30, 2011

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the financial performance of the City of Highland provides an overview of the City's financial activities for the fiscal year ended June 30, 2011. Please read it in conjunction with the transmittal letter and financial statements identified in the accompanying table of contents.

### Using the Accompanying Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Also included in the accompanying report are fund financial statements. For governmental activities, the fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the city's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

## OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report consists of four parts – *management's discussion and analysis* (this section), the *basic financial statements*, *required supplementary information*, and an optional section that presents *combining statements* for nonmajor governmental funds and internal service funds. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the city's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the city government, reporting the City's operations in *more detail* than the government-wide statements.
  - The *governmental funds* statements tell how *general government* uses services like public safety were financed in the *short term* as well as what remains for future spending.
  - *Proprietary fund* statements offer *short- and long-term* financial information about the activities the government operates like businesses, such as the water and sewer system.
  - *Fiduciary fund* statements provide information about the fiduciary relationships – like the agency funds of the City – in which the city acts solely as *agent* or *trustee* for the benefit of others, to whom the resources in question belong.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that provided additional financial and budgetary information.

Figure A-1 summarizes the major features of the City's financial statements, including the portion of the city government they cover and the types of information they contain. The

remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the statements.

Figure A-1  
Major Features of the City’s Government-wide and Fund Financial Statements

	Government-wide <u>Statements</u>	<u>Fund Statements</u>		
		<u>Governmental Funds</u>	<u>Proprietary Funds</u>	<u>Fiduciary Funds</u>
Scope	Entire City government (except fiduciary funds) and the City’s component units	The activities of the City that are not proprietary or fiduciary	Activities the City operates similar to private businesses	Instances in which the City is the trustee or agent for someone else’s resources
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term debt included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the City’s fiduciary funds do not currently contain capital assets.
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid.

## Reporting the City as a Whole

The accompanying **government-wide financial statements** include two statements that present financial data for the city as a whole. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net assets and changes in them. You can think of the City's net assets – the difference between assets and liabilities – as one way to measure the City's financial health, or *financial position*. Over time, *increases and decreases* in the City's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the City's property tax base, sales tax base and the condition of the City's roads, to assess the *overall health* of the city.

The Statement of Net Assets and the Statement of Activities:

- Governmental activities – Most of the City's basic services are reported here such as general government, community development, public safety and highways & streets. Sales taxes, property taxes, state subventions, charges for services and other revenues finance most of these activities.

## Reporting the City's Most Significant Funds

The **fund financial statements** provide detailed information about the City's most significant funds – not the City as a whole. Some funds are required to be established by state law or by bond covenants. However, City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting administrative responsibilities for using certain taxes, grants, or other money (like grants received). The City's two kinds of funds – *governmental* and *proprietary* – use different accounting approaches.

- *Governmental funds* – Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *current financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship or differences between *governmental activities* (reported in the Statement of Net Assets and the Statement of Activities) and *governmental funds* in a reconciliation at the bottom of the fund financial statements.
- *Proprietary funds* – When the City charges customers for the services it provides – whether to outside customers or to other units of the City – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. The City does not have any enterprise funds (a component of proprietary funds). Enterprise funds are the same as the business-type activities and would be reported in the government-wide statements but would provide more detail and additional information, such as cash flows, for proprietary funds. The City does use internal service funds (the other component of proprietary funds) to

report activities that provide supplies and services for the City's other programs and activities.

Reporting the City's Fiduciary Responsibilities

The City is an agent for certain assets held for, and under the control of, other organizations and individuals. All of the City's fiduciary activities are reported in a separate Statement of Fiduciary Assets. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. Currently, these funds consist of the two Community Facilities Districts.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

A summary of the government-wide *statement of net assets* follows:

	Net Assets June 30, 2011	
	Governmental Activities	
	2011	2010
Current and other assets	119,934,945	128,417,251
Capital assets, net	<u>186,673,612</u>	<u>182,353,238</u>
Total assets	306,608,557	310,770,489
Long-term liabilities	58,723,973	59,764,905
Other liabilities	<u>7,549,104</u>	<u>6,438,084</u>
Total liabilities	66,273,077	66,202,989
Net assets:		
Invested in capital assets, net of related debt	166,745,550	171,709,978
Restricted	38,184,088	33,286,161
Unrestricted	<u>35,405,842</u>	<u>39,571,361</u>
Total net assets	\$240,335,480	\$244,567,500

The largest portion of the City's net assets (69.4%) reflects its investments in capital assets (i.e. land, buildings, infrastructure, etc.); less any related debt used to acquire those assets that is still outstanding. The City uses these assets to provide services to its citizens; consequently, these assets are not available for future spending.

Restricted net assets (15.9%) represent resources that are subject to external restrictions on how they may be used. Examples of restricted net assets would be funds for gas tax, development impact fees, assessment districts and other special revenue funds.

Unrestricted net assets (14.7%) can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements. An example of unrestricted net assets would be the general fund.

A summary of the government-wide *statement of activities* follows:

Changes in Net Assets  
June 30, 2011

Governmental Activities

	<u>2011</u>	<u>2010</u>
<b>Program Revenues:</b>		
Charges for services	1,828,136	1,567,139
Operating contributions & grants	5,718,412	3,398,587
Capital contributions & grants	6,837,643	7,229,187
Total Program Revenues	14,384,191	12,194,913
<b>General Revenues:</b>		
Property taxes	9,435,885	7,363,024
Sales & use tax	1,437,845	1,327,033
Transient occupancy tax	178,729	167,247
Franchise fees	1,440,500	1,456,089
Business license tax	276,517	228,259
Intergovernmental	59,014	119,184
Investment income	155,081	219,248
State motor vehicle in lieu	3,967,325	4,551,516
Miscellaneous	40,610	43,383
Total General Revenues	16,991,506	15,474,983
 Total revenues	 <u>31,375,697</u>	 <u>27,669,896</u>
<b>Expenses:</b>		
General government	9,295,784	6,728,363
Highways & streets	9,902,952	9,526,477
Public safety	13,259,599	6,865,822
Interest and fiscal charges	3,149,382	3,394,624
Total expenses	35,607,717	26,515,286
 Change in net assets	 (4,232,020)	 1,154,610
Beginning net assets	244,567,500	243,412,890
Ending net assets	240,335,480	244,567,500

The increase or decrease in net assets can provide an indication as to whether the overall financial position of the city improved or deteriorated during the year. The net assets of the City's governmental activities decreased by 1.7% (\$240.3 million compared to \$244.5 million). The net assets (financial position) of the City changed as a result of the revenue and expense fluctuations described below for the governmental and business-type activities of the City.

## Governmental Activities

### Revenues by Source

	<u>2010/2011</u>	<u>%</u>	<u>2009/2010</u>	<u>%</u>
Charges for services	1,828,136	5.8%	1,567,139	5.7%
Operating contributions & grants	5,718,412	18.2%	3,398,587	12.3%
Capital contributions & grants	6,837,643	21.8%	7,229,187	26.1%
Property taxes	9,435,885	30.1%	7,363,024	26.6%
Sales & use tax	1,437,845	4.6%	1,327,033	4.8%
Transient occupancy tax	178,729	0.6%	167,247	0.6%
Franchise fees	1,440,500	4.6%	1,456,089	5.3%
Business license tax	276,517	0.9%	228,259	0.8%
Intergovernmental	59,014	0.2%	119,184	0.4%
Investment income	155,081	0.5%	219,248	0.8%
State motor vehicle in lieu	3,967,325	12.6%	4,551,516	16.4%
Miscellaneous	40,610	0.1%	43,383	0.2%
Total Revenues	<u>\$31,375,697</u>	<u>100.0%</u>	<u>\$27,669,896</u>	<u>100.0%</u>

### Expenditures by Function

	<u>2010/2011</u>	<u>%</u>	<u>2009/2010</u>	<u>%</u>
General government	9,295,784	26.1%	6,728,363	25.4%
Highways & streets	13,259,599	37.2%	9,526,477	35.9%
Public safety	9,902,952	27.8%	6,865,822	25.9%
Interest and fiscal charges	3,149,382	8.8%	3,394,624	12.8%
Total Expenditures	<u>\$35,607,717</u>	<u>100.0%</u>	<u>\$26,515,286</u>	<u>100.0%</u>

## MAJOR FUNDS

As noted earlier, the City uses fund accounting to provide proper financial management of the City's resources and to demonstrate compliance with finance-related legal requirements.

### **Major Governmental Funds**

The **General Fund** is the chief operating fund of the City. At the end of the current fiscal year, the total fund balance of the general fund was \$9,974,518. The total fund balance is broken down into two categories, Nonspendable and Spendable. Spendable is then broken down into three sub-categories; Restricted, Assigned and Unassigned. Nonspendable is just that, it cannot be spent because it is not in a spendable form, such as inventory. Restricted means there have been restrictions placed on how these funds can be used (similar to the "reserved" term we used to use). Assigned means the City Council has assigned these funds for a specific project or intent. And lastly, Committed means the City Council has given permission to the City Manager to commit funds to a specific project or intent.

The reasons for significant changes in the revenues and expenditures of the city's general fund from the prior year are as follows:

- Total revenues (excluding the gas tax reimbursement and operating transfers) increased by \$2,617,237, a 21.1% increase. This increase is directly reflective of the \$2,668,552 that the RDA paid back to the City for advances the City loaned the RDA. Taxes decreased by 3.1% and miscellaneous decreased by 5.6%. Intergovernmental revenue increased by 11.7% and Charges for Services increased by 15.3%. Interest income also decreased by 37.3% as a

result of declining interest rates. With the passage of Proposition 57 and AB 1768, some motor vehicle in lieu and sales tax funds that used to be classified as intergovernmental funds are now classified as taxes.

- Total expenditures (excluding the gas tax expenditures and operating transfers) increased by \$601,033. This increase is attributable to adding a gang detective position and a sheriff service specialist in the police department. With revenues decreasing and some revenues coming in under budget, it was the efficient and careful watch of expenditures that made it possible for the fund balance in the general fund to increase.

The **General Capital Financing** fund was established to provide matching funds for potential competitive grants and fund future capital purchases and future capital projects.

The reasons for significant changes in the revenues, expenditures and fund balance of the general capital financing fund from the prior year are as follows:

- Revenues in this fund increased from \$769,765 in 2009/2010 to \$1,126,691 in 2010/2011 primarily due to the RDA paying back the City for advances the City loaned the RDA. The EPA grant was used for the last three years has been expended so there was no use in 2010/2011.
- Expenditures in this fund decreased by \$237,379 because 2009/2010 had heavy use of the Library/Environmental Learning Center EPA grant. The remainder of the EPA grant was used in 2009/2010.
- The fund balance in this fund increased by \$2,810,726 primarily because the general fund transferred \$1,975,000 to fund future projects and the repayment of the advances.

The **RDA Debt Service** fund has a total fund balance of \$14,836,339.

The reasons for significant changes in the revenues and expenditures of the RDA debt service fund from the prior year are as follows:

- Assessed Values (AV) that are included in the project area started to decline in 2009/2010 and continues in 2010/2011. This accounted for the decrease in tax increment that was received. Tax increment in this fund decreased by 12.5% in 2010/2011. This revenue is expected to level off for 2011/2012. Interest income also decreased by 36.6%
- Expenditures decreased by 32.7%. This is primarily due to the 2009/2010 SERAF (\$3,182,076) that the State stole from redevelopment agencies to balance their budget. The amount paid in 2010/2011 was \$655,133.
- Tax Sharing Agreements (pass through payments) are calculated based on increment. As increment increases, the pass thru payments will increase as well.

The **RDA Capital Projects** fund is used to finance operations and construction of facilities and infrastructure in the project area.

The reasons for significant changes in the revenues and expenditures of the RDA capital projects fund from the prior year are as follows:

- Expenditures increased by \$6,036,277 mainly due to the use of the 2004A and 2007 Tax Allocation Bonds for capital projects. Over the next few years, these proceeds will be used steadily.

- Investment income, the sole steady revenue source in this fund, decreased by \$177,589 simply because funds were being expended to build capital projects and the declining interest rates are also attributable.
- The Agency contributed funds for a variety of capital projects, most notably: The construction of a new Police Station and the infrastructure improvements on Greenspot Road.
- The fund balance decreased by \$10,158,841 during 2010/2011. This is mainly due to the use of bond proceeds to construct capital projects.

The **Grants** fund is used to account for any grant that is not required to be accounted for in its own fund. Accounting for these grants in one fund is more efficient and manageable.

The reasons for significant changes in the revenues and expenditures of the Grants fund from the prior year are as follows:

- Expenditures increased by \$1,055,378 mainly due to the continued use of HBRR grants, HES grants, Safe Route to Schools grants, joint projects with the City of San Bernardino, County of San Bernardino & the IVDA. Over the next few years, these proceeds will be used steadily.
- Typically, revenues should equal expenditures in the fund. However, some projects can't be reimbursed until the project is over. This will lead to expenditures over revenues in some years as well as a negative fund balance on some occasions. In rare circumstances, we will receive the revenue before the project is started and expenditures are incurred.

The **FEMA** fund is used to account for all expenditures in one fund that are associated with unanticipated events that will most likely be reimbursed by FEMA and/or Cal EMA.

The reasons for significant changes in the revenues and expenditures of the Grants fund from the prior year are as follows:

- There were no expenditures in this fund in 2009/2010. Expenditures incurred in 2010/2011 are for the flooding that happened on December 22, 2010. A local, state and national disaster was declared. Expenditures will continue to accrue for this event in 2011/2012. Because the City has not been reimbursed fully to date, a negative fund balance will be incurred.
- The revenues received in this fund did not cover the expenditures which led to a negative fund balance. Once all revenues are received from FEMA & Cal EMA, any amounts not reimbursed for will be transferred from another fund.

### **Major Enterprise Funds**

The City does not have any enterprise funds.

### **GENERAL FUND-BUDGET**

The total expenditures of the general fund did not exceed the total appropriations for 2010/2011.

Differences between the original budget and the final amended budget of the general fund can be briefly summarized as follows:

The following are significant increases to the expenditure budget for the General Fund:

- \$1,975,000 General Fund transfer to the General Capital Financing fund for the construction of future capital projects.
- \$831,000 General Fund transfer to the General Liability fund for insurance reserves.
- \$1,315,000 for the expenditure of Prop 1B & Prop 42 expenditures. These expenditures were reimbursed by the Gas Tax fund.

Additional information on the City’s budget adjustments and policies can be found in the notes to required supplementary information on page 66.

**CAPITAL ASSETS**

Capital Assets (net of depreciation)  
Governmental Activities

	<u>2011</u>	<u>2010</u>
Land	\$6,081,976	\$5,826,221
Rights of Way	86,509,631	86,388,638
Construction in progress	7,487,931	1,130,362
Buildings & improvements	27,655,193	28,250,884
Equipment, furniture & software	1,313,480	1,296,888
Vehicles	1,279,004	1,352,565
Infrastructure	<u>56,346,397</u>	<u>58,107,680</u>
Total	<u>\$186,673,612</u>	<u>\$182,353,238</u>

The major additions to capital assets during the year ended June 30, 2011 were as follows:

- Purchased land for the relocation of Fire Station No. 1.
- Purchase defibrillators for our Paramedic Program.

Infrastructure additions include but are no limited to:

- Project No. SWK 09-002-Article 3 Sidewalk Project.
- Project No. STR 09-001 CDBG Street Improvement Project.
- Tract 18199 (Base Line & Seeley Court)

Additional information on the City’s capital assets can be found in the notes to the financial statements starting on page 50.

**LONG-TERM DEBT**

The City has no debt! However, the Redevelopment Agency does. At the end of the current fiscal year, the Agency had total outstanding debt of \$59,275,000. The breakdown of this amount is below. In June 2007, the Agency issued \$42,645,000 in Tax Allocation bonds to finance future projects in the project area. Seven years ago, in June 2004, the agency issued \$17,525,000 in Tax Allocation Bonds (2004A) to finance future projects in the project area.

Outstanding Debt

	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
2007 Tax Allocation Bonds	\$40,735,000	\$41,420,000
2004A Tax Allocation Bonds	15,755,000	16,065,000
2004B Tax Allocation Bonds	2,785,000	2,920,000
Advances from city	<u>-</u>	<u>5,792,489</u>
Total	<u>\$59,275,000</u>	<u>\$66,197,489</u>

The Redevelopment Agency's total debt decreased by \$6,922,489 in FY 2011/2012. In January of 2011, the RDA Board approved the repayment of the advances that totaled \$6,021,420. The additional \$901,069 is a result of the combination of the 2004A, 2004B and 2007 bonds being reduced through annual principal payments.

Additional information on the Redevelopment Agency's long-term debt can be found in the notes to the accompanying financial statements starting on page 51.

**Contacting the City's Financial Management:**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the city's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Director of Administrative Services/City Treasurer, Chuck Dantuono, at the City of Highland, 27215 Base Line, Highland, California, 92346.

## The Statement of Net Assets and the Statement of Activities

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of this year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's *net assets* and changes in them. You can think of the City's net assets-the difference between assets and liabilities-as one way to measure the City's financial health, or *financial position*. Over time, *increases or decreases* in the City's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the *overall health* of the City.

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

- Governmental activities-All of the City's basic services are considered to be governmental activities, including general government, community development, public safety, and public works. Vehicle license fees, property taxes, sales taxes, transient occupancy taxes, and franchise fees finance most of these activities.
- Component units-The City's governmental activities include the blending of two separate legal entities-the Redevelopment Agency of the City of Highland and the Highland Public Financing Authority. Although legally separate, these "component units" are important because the City is financially accountable for them. The Highland Public Financing Authority did not have any activity this year.

## CITY OF HIGHLAND

## Statement of Net Assets

June 30, 2011

(with comparative information for the prior year)

	Governmental Activities	
	2011	2010
<b>Assets:</b>		
Cash and investments (note 2)	\$ 106,501,229	115,916,343
Cash and investments with fiscal agent (note 2)	4,962,683	5,195,213
Receivables:		
Accounts	1,003,967	1,037,641
Interest	75,709	103,061
Property taxes	244,857	388,336
Loans	695,728	695,728
Due from other governments	3,882,251	2,668,429
Inventory	2,001	2,030
Prepaid items	110,227	8,976
Unamortized bond issuance costs	2,309,723	2,401,494
Land held for resale	146,570	-
Capital assets (note 5):		
Land	6,081,976	5,826,221
Rights of way	86,509,631	86,388,638
Construction in progress	7,487,931	1,130,362
Other capital assets, net of accumulated depreciation	86,594,074	89,008,017
Total assets	<u>306,608,557</u>	<u>310,770,489</u>
<b>Liabilities:</b>		
Accounts payable	3,279,676	2,247,396
Accrued liabilities	1,397,103	1,578,651
Accrued interest payable	234,241	237,797
Retention payable	445,022	89,593
Deposits payable	867,792	1,006,210
Long-term liabilities (notes 6 to 9):		
Portion due within one year:		
Compensated absences	148,280	132,941
Claims payable	6,990	15,496
2004A Tax allocation bonds	315,000	310,000
2004B Tax allocation refunding bonds	140,000	135,000
2007 Tax allocation bonds	715,000	685,000
Portion due beyond one year:		
Other post employment benefits	140,556	93,704
Compensated absences	369,927	362,448
Claims payable	108,490	33,753
2004A Tax allocation bonds	15,440,000	15,755,000
2004B Tax allocation refunding bonds	2,645,000	2,785,000
2007 Tax allocation bonds	40,020,000	40,735,000
Total liabilities	<u>66,273,077</u>	<u>66,202,989</u>
<b>Net assets:</b>		
Invested in capital assets, net of related debt	166,745,550	171,709,978
Restricted for:		
Public safety	7,344,410	7,006,934
Highways and streets	30,839,678	26,279,227
Unrestricted	35,405,842	39,571,361
Total net assets	<u>\$ 240,335,480</u>	<u>244,567,500</u>

See accompanying notes to the basic financial statements.

CITY OF HIGHLAND

Statement of Activities

For the Fiscal Year Ended June 30, 2011

(with comparative information for the prior year)

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	2011	2010
Governmental activities:						
General government	\$ 9,295,784	1,157,907	68,733	93,306	(7,975,838)	(5,117,893)
Public safety	9,902,952	670,229	686,524	24,000	(8,522,199)	(8,084,973)
Highways and streets	13,259,599	-	4,963,155	6,720,337	(1,576,107)	2,277,117
Interest and fiscal charges	3,149,382	-	-	-	(3,149,382)	(3,394,624)
Total governmental activities	<u>\$ 35,607,717</u>	<u>1,828,136</u>	<u>5,718,412</u>	<u>6,837,643</u>	<u>(21,223,526)</u>	<u>(14,320,373)</u>
General revenues:						
Taxes:						
Property taxes					9,435,885	7,363,024
Sales and use taxes					1,437,845	1,327,033
Transient occupancy tax					178,729	167,247
Franchise taxes					1,440,500	1,456,089
Business license tax					276,517	228,259
Intergovernmental					59,014	119,184
Investment income					155,081	219,248
State motor vehicle in lieu (unrestricted)					3,967,325	4,551,516
Miscellaneous					40,610	43,383
Total general revenues					<u>16,991,506</u>	<u>15,474,983</u>
Change in net assets					(4,232,020)	1,154,610
Net assets, beginning of year					<u>244,567,500</u>	<u>243,412,890</u>
Net assets, end of year					<u>\$ 240,335,480</u>	<u>\$ 244,567,500</u>

See accompanying notes to basic financial statements.



## **Governmental Funds**

### **Major Funds**

A fund meets the criteria of a major fund if;

The total amount of assets, liabilities, revenues (excluding extraordinary items), or expenditures/expenses (excluding extraordinary items), of that fund are at least 10 percent of the corresponding total (assets, liabilities, etc.) for all of the funds in that classification of funds (that is, total governmental funds or total enterprise funds), and

The total amount of assets, liabilities, revenues (excluding extraordinary items), or expenditures/expenses (excluding extraordinary items), of that fund are at least 5 percent of the corresponding total for all governmental funds and enterprise funds combined.

### **General Fund**

The General Fund has been classified as a major fund and is used to account for resources traditionally associated with government which are not required legally or by sound financial management to be accounted for in another fund.

### **SPECIAL REVENUE FUNDS**

The Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditure for a particular purpose. The following funds have been classified as major funds:

Grants Fund - This fund is used to account for any grant that is not required to be accounted for in its own fund. Accounting for these grants in one fund is more efficient and manageable. Examples include; HBRR, CMAQ, HES, Safe Route to Schools and miscellaneous grants.

FEMA - The FEMA fund is used to account for all expenditures in one fund that are associated with unanticipated events that will most likely be reimbursed by FEMA and/or Cal EMA.

### **Debt Service Funds**

Debt Service Funds are used primarily to account for the accumulation of resources for the payment of principal and interest on general long-term debt of the City and the Redevelopment Agency. The following has been classified as a major fund in the accompanying financial statements.

Redevelopment Agency - This fund is used to accumulate monies for payment of principal and interest on the Redevelopment Agency tax allocation bonds and City advances, by tax increments collected from the San Bernardino County Tax Roll.

## **Capital Projects Funds**

Capital Projects Funds are used to account for the acquisition and construction of major capital facilities. The following Capital Project Funds have been classified as major funds in the accompanying financial statements:

Redevelopment Agency - The Agency has adopted Project Area No. 1 as the project area for the Redevelopment Agency. In June 1994, the Agency issued refunded tax allocation bonds to provide the financing. The proceeds of these bonds have been used for the Warm Creek Storm Drain, the Rogers Lane extension and the Sterling Avenue drainage improvements. These 1994 bonds were refunded in June 2004 with tax allocation refunding bonds (2004B) with a lower interest rate. Additional bonds (2004A) were also sold in June 2004. These bonds have financed various infrastructure improvements in the project area as well as the construction of a new Police Station, the Library/Environmental Learning Center, and the Highland Athletic Center. In June 2007, addition Tax Allocation Bonds (2007) were sold to assist in the construction of a new Police Station, improve the infrastructure on Greenspot Road between SR 210 and Boulder Avenue (also know as the Golden Triangle), and to fund various infrastructure improvements throughout the City.

General Capital Financing - This fund was established to provide matching funds for potential competitive grants and fund future capital projects.

## **Non-Major Funds**

Non-major governmental funds are those governmental funds that do not meet the criteria of a major fund. For reporting purposes in this section, they are combined together as Other Governmental Funds.



CITY OF HIGHLAND  
Governmental Funds - Balance Sheet  
June 30, 2011  
(with comparative information for the prior year)

	Debt Service		Capital Projects	
	General	Redevelopment Agency	General Capital Financing	Redevelopment Agency
<u>Assets</u>				
Cash and investments	\$ 9,160,991	11,004,206	8,671,973	35,722,149
Cash and investments with fiscal agent	-	4,939,251	-	-
Receivables:				
Accounts	500,997	-	-	-
Interest	5,789	12,809	5,830	8,169
Property taxes	64,597	83,673	-	-
Loans	-	-	-	-
Due from other governments	373,593	-	-	-
Due from other funds (note 3)	1,744,157	-	-	-
Inventory	2,001	-	-	-
Prepaid items	10,227	100,000	-	-
Advances to other funds (note 3)	-	-	-	-
Total assets	<u>\$ 11,862,352</u>	<u>16,139,939</u>	<u>8,677,803</u>	<u>35,730,318</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ 853,364	-	25,758	1,082,681
Accrued liabilities	69,542	-	-	9,075
Retention payable	87,389	-	-	230,823
Deposits payable	867,792	-	-	-
Deferred revenue	9,747	-	-	-
RDA pass-thru payables	-	1,303,600	-	-
Due to other funds (note 3)	-	-	-	-
Advances from other funds (note 3)	-	-	-	-
Total liabilities	<u>1,887,834</u>	<u>1,303,600</u>	<u>25,758</u>	<u>1,322,579</u>
Fund balances:				
Nonspendable	12,228	100,000	-	-
Spendable:				
Restricted	-	14,736,339	-	-
Assigned	5,952,438	-	7,656,725	34,407,739
Unassigned	4,009,852	-	995,320	-
Total fund balances	<u>9,974,518</u>	<u>14,836,339</u>	<u>8,652,045</u>	<u>34,407,739</u>
Total liabilities and fund balances	<u>\$ 11,862,352</u>	<u>16,139,939</u>	<u>8,677,803</u>	<u>35,730,318</u>

See accompanying notes to the basic financial statements.

Special Revenue		Nonmajor Governmental Funds	Totals	
Grants	FEMA		2011	2010
196,839	-	34,703,414	99,459,572	109,795,473
-	-	23,432	4,962,683	5,195,213
-	-	502,970	1,003,967	1,026,612
-	-	36,707	69,304	96,287
-	-	96,587	244,857	388,336
-	-	695,728	695,728	695,728
1,854,056	1,287,927	366,675	3,882,251	2,668,429
-	-	-	1,744,157	2,713,574
-	-	-	2,001	2,030
-	-	-	110,227	8,976
-	-	-	-	5,792,489
<u>2,050,895</u>	<u>1,287,927</u>	<u>36,425,513</u>	<u>112,174,747</u>	<u>128,383,147</u>
684,332	192,716	411,754	3,250,605	2,232,087
-	-	11,374	89,991	169,435
110,264	-	16,546	445,022	89,593
-	-	-	867,792	1,006,210
873,462	742,736	705,890	2,331,835	4,827,090
-	-	-	1,303,600	1,404,295
-	1,459,348	284,809	1,744,157	2,713,574
-	-	-	-	5,792,489
<u>1,668,058</u>	<u>2,394,800</u>	<u>1,430,373</u>	<u>10,033,002</u>	<u>18,234,773</u>
-	-	-	112,228	11,036
382,837	-	35,181,776	50,300,952	50,566,274
-	-	58,771	48,075,673	44,262,758
-	(1,106,873)	(245,407)	3,652,892	15,308,306
<u>382,837</u>	<u>(1,106,873)</u>	<u>34,995,140</u>	<u>102,141,745</u>	<u>110,148,374</u>
<u>2,050,895</u>	<u>1,287,927</u>	<u>36,425,513</u>	<u>112,174,747</u>	<u>128,383,147</u>



CITY OF HIGHLAND

Governmental Funds

Reconciliation of the Balance Sheet to the Statement of Net Assets

June 30, 2011

Fund balances of governmental funds \$ 102,141,745

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital Related Items

When capital assets (property, plant, equipment) that are to be used in governmental activities are purchased or constructed, the cost of those assets are reported as expenditures in governmental funds. However, the Statement of Net Assets includes those capital assets among the assets of the City as a whole.

Capital assets, not being depreciated	100,079,538
Capital assets, being depreciated	130,451,011
Accumulated depreciation	(43,856,937)

Long-Term Debt Transactions

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities. All liabilities (both current and long-term) are reported in the Statement of Net Assets.

Other post employment benefits	(140,556)
Compensated absences	(518,207)
Tax allocation bonds payable	(59,275,000)
Unamortized bond issuance costs	2,309,723

Accrued Interest

Accrued interest payable in the Statement of Net Assets differs from the amount reported in governmental funds due to accrued interest on outstanding long-term debt. (234,241)

Internal Service Funds

Internal Service Funds are used by management to charge the costs of certain activities to individual City funds. The assets and liabilities of the Internal Service Funds are included in governmental activities in the Statement of Net Assets because they primarily service governmental activities of the City. 6,899,999

Deferred Revenue

Earned revenue has been deferred in the fund financial statements if it is collectible after the availability period. 2,331,835

Land Held for Resale

Land acquired by the Agency for future development and sale is recorded as an expenditure in the fund financial statements and reclassified as an asset. 146,570

Net assets of governmental activities \$ 240,335,480

See accompanying notes to the basic financial statements.

CITY OF HIGHLAND  
Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances  
For the Fiscal Year Ended June 30, 2011  
(with comparative information for the prior year)

	General	Debt Service	Capital Projects	
		Redevelopment Agency	General Capital Financing	Redevelopment Agency
<b>Revenues:</b>				
Taxes	\$ 10,562,780	6,566,489	-	-
Licenses and permits	510,607	-	-	-
Intergovernmental	299,959	-	-	-
Charges for services	803,806	-	-	-
Fines and forfeitures	134,801	-	-	-
Investment income	2,696,718	71,451	1,126,691	114,322
Rental income	-	-	-	-
Miscellaneous	41,871	93,005	-	-
<b>Total revenues</b>	<u>15,050,542</u>	<u>6,730,945</u>	<u>1,126,691</u>	<u>114,322</u>
<b>Expenditures:</b>				
<b>Current:</b>				
General government	4,872,154	11,712	-	658,023
Highways and streets	3,097,987	-	-	-
Public safety	6,854,672	-	-	-
Capital outlay	-	-	73,430	10,441,390
<b>Debt service:</b>				
Principal	-	857,500	-	-
Interest	-	2,332,633	-	-
Pass-through payments	-	2,235,547	-	-
SERAF payment	-	655,133	-	-
<b>Total expenditures</b>	<u>14,824,813</u>	<u>6,092,525</u>	<u>73,430</u>	<u>11,099,413</u>
Excess (deficiency) of revenues over (under) expenditures	<u>225,729</u>	<u>638,420</u>	<u>1,053,261</u>	<u>(10,985,091)</u>
<b>Other financing sources (uses):</b>				
Transfers in (note 4)	3,182,426	-	1,975,000	826,250
Transfers out (note 4)	(2,841,700)	(826,250)	(217,535)	-
<b>Total other financing sources (uses)</b>	<u>340,726</u>	<u>(826,250)</u>	<u>1,757,465</u>	<u>826,250</u>
<b>Net change in fund balances</b>	<u>566,455</u>	<u>(187,830)</u>	<u>2,810,726</u>	<u>(10,158,841)</u>
Fund balances at beginning of year	<u>9,408,063</u>	<u>15,024,169</u>	<u>5,841,319</u>	<u>44,566,580</u>
Fund balances at end of year	<u>\$ 9,974,518</u>	<u>14,836,339</u>	<u>8,652,045</u>	<u>34,407,739</u>

See accompanying notes to the basic financial statements.

Special Revenue		Nonmajor Governmental Funds	Totals	
Grants	FEMA		2011	2010
-	-	4,813,422	21,942,691	23,608,335
-	-	43,988	554,595	448,062
3,386,585	655,536	3,357,490	7,699,570	5,768,813
-	-	654,385	1,458,191	1,304,360
-	-	243,138	377,939	412,461
-	-	161,996	4,171,178	673,370
-	-	205,380	205,380	92,519
-	-	52,208	187,084	179,043
<u>3,386,585</u>	<u>655,536</u>	<u>9,532,007</u>	<u>36,596,628</u>	<u>32,486,963</u>
-	1,762,409	1,716,813	9,021,111	6,653,593
2,863,171	-	1,438,173	7,399,331	4,858,799
-	-	2,871,926	9,726,598	9,328,513
-	-	28,745	10,543,565	5,231,339
-	-	272,500	1,130,000	1,085,000
-	-	728,532	3,061,165	3,306,338
-	-	-	2,235,547	2,515,074
-	-	-	655,133	3,182,076
<u>2,863,171</u>	<u>1,762,409</u>	<u>7,056,689</u>	<u>43,772,450</u>	<u>36,160,732</u>
<u>523,414</u>	<u>(1,106,873)</u>	<u>2,475,318</u>	<u>(7,175,822)</u>	<u>(3,673,769)</u>
-	-	784,808	6,768,484	5,106,171
-	-	(3,713,806)	(7,599,291)	(5,606,171)
-	-	(2,928,998)	(830,807)	(500,000)
523,414	(1,106,873)	(453,680)	(8,006,629)	(4,173,769)
(140,577)	-	35,448,820	110,148,374	114,322,143
<u>382,837</u>	<u>(1,106,873)</u>	<u>34,995,140</u>	<u>102,141,745</u>	<u>110,148,374</u>

CITY OF HIGHLAND  
Governmental Funds

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances  
to the Statement of Activities

For the Fiscal Year Ended June 30, 2011

Net changes in fund balances - total governmental funds \$ (8,006,629)

Amounts reported for governmental activities in the Statement of Activities are different because:

Capital Related Items

When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital expenditures	7,291,548
Depreciation of capital assets	(3,224,949)
Disposal of Capital Assets	(42,879)
Developer contributions of capital assets	296,654

Land Held for Resale

Land acquired by the Agency for future development and sale is recorded as an expenditure in the fund financial statements and reclassified as an asset.	146,570
--	---------

Long-Term Debt Transactions

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transactions, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, and similar items when the debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. These amounts are the net effect of these differences in the treatment of long-term debt and related items.

Principal payments	1,130,000
Amortization of bond issuance costs	(91,771)
To record as an expense the net change in compensated absences and other post employment benefits in the Statement of Activities.	(22,819)
To record as an expense the net change in other post employment benefits in the statement of activities.	(46,852)

Accrued Interest

Beginning fund balances in the Statement of Activities have been restated to reflect the retroactive recording of accrued interest on outstanding debt payable.	3,554
---	-------

Internal Service Funds

Internal service funds are used by management to charge the costs of certain activities, such as equipment management, to individual funds. The net revenues (expenses) of the internal services funds is reported with governmental activities.	830,808
--	---------

Deferred Revenue

Earned revenue has been deferred in the fund financial statements if it is collected after the availability period.	<u>(2,495,255)</u>
---	--------------------

Change in net assets of governmental activities	<u>\$ (4,232,020)</u>
---	-----------------------

See accompanying notes to the basic financial statements.

## Proprietary Funds

### Governmental Activities

The Internal Service Funds are used to allocate the cost of providing goods and services by one department to other departments on a cost reimbursement basis. The City has two internal service funds; the Insurance Fund & the Building Services Fund.

Insurance - This fund accounts for all expenditures relating to insurance premiums, workers compensation and general liability of the City.

Building Services - This fund accounts for all expenditures relating to City Hall including; utilities, janitorial services, computer network, copier leases, equipment and building maintenance & repairs.

CITY OF HIGHLAND

Proprietary Funds

Statement of Net Assets

June 30, 2011

(with comparative information for the prior year)

		Governmental Activities - Internal Service Funds	
		2011	2010
<u>Assets</u>			
Cash and investments		\$ 7,041,657	6,120,870
Receivables:			
Accounts		-	11,028
Interest		6,405	6,774
		<u>        </u>	<u>        </u>
Total assets		<u>7,048,062</u>	<u>6,138,672</u>
<u>Liabilities</u>			
Current liabilities:			
Accounts payable		29,072	15,310
Accrued liabilities		3,512	4,921
Claims payable		73,220	15,496
		<u>        </u>	<u>        </u>
Total current liabilities		<u>105,804</u>	<u>35,727</u>
Long-term liabilities:			
Claims payable		42,259	33,753
		<u>        </u>	<u>        </u>
Total long-term liabilities		<u>42,259</u>	<u>33,753</u>
		<u>        </u>	<u>        </u>
Total liabilities		<u>148,063</u>	<u>69,480</u>
<u>Net assets</u>			
Net assets:			
Spendable:			
Unassigned		6,899,999	6,069,192
		<u>        </u>	<u>        </u>
Total net assets		<u>\$ 6,899,999</u>	<u>6,069,192</u>

See accompanying notes to the basic financial statements.

CITY OF HIGHLAND

Proprietary Funds

Statement of Revenues, Expenses and Changes in Fund Net Assets

For the Fiscal Year Ended June 30, 2011

(with comparative information for the prior year)

	Governmental Activities - Internal Service Funds	
	2011	2010
Operating revenues:		
Charges for services	\$ 584,100	511,008
Total operating revenues	<u>584,100</u>	<u>511,008</u>
Operating expenses:		
Salaries and benefits	84,092	83,523
Insurance premiums	238,342	292,630
Provision for claims and judgments	66,633	7,500
Legal fees	34,844	16,643
Administrative expenses	179,915	190,129
Reduction in claims and judgements	<u>6,587</u>	<u>(46,456)</u>
Total operating expenses	<u>610,413</u>	<u>543,969</u>
Operating income (loss)	<u>(26,313)</u>	<u>(32,961)</u>
Non-operating revenues:		
Investment income	<u>26,313</u>	<u>32,961</u>
Total non-operating revenues (expenses)	<u>26,313</u>	<u>32,961</u>
Income (loss) before transfers	<u>-</u>	<u>-</u>
Transfers in (note 4)	<u>830,807</u>	<u>500,000</u>
Total transfers in	<u>830,807</u>	<u>500,000</u>
Change in net assets	830,807	500,000
Net assets at beginning of year	<u>6,069,192</u>	<u>5,569,192</u>
Net assets at end of year	<u>\$ 6,899,999</u>	<u>6,069,192</u>

See accompanying notes to the basic financial statements.

CITY OF HIGHLAND  
Proprietary Funds

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2011

(with comparative information for the prior year)

	Governmental Activities - Internal Service Funds	
	2011	2010
Cash flows from operating activities:		
Cash received from user departments	\$ 595,128	505,643
Cash payments to employees for services	(85,501)	(82,362)
Cash payments made to suppliers/vendors	(446,330)	(520,711)
Net cash provided (used) by operating activities	63,297	(97,430)
Cash flows from non-capital financing activities:		
Cash transferred from other funds	830,807	500,000
Net cash provided by non-capital financing activities	830,807	500,000
Cash flows from investing activities:		
Interest received on investments	26,683	43,551
Net cash provided by investing activities	26,683	43,551
Net increase (decrease) in cash and investments	920,787	446,121
Cash and investments at beginning of year	6,120,870	5,674,749
Cash and investments at end of year	\$ 7,041,657	6,120,870
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (26,313)	(32,961)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
(Increase) decrease in accounts receivable	11,028	(5,365)
Increase (decrease) in accounts payable	13,761	(5,813)
Increase (decrease) in accrued liabilities	(1,409)	1,161
Increase (decrease) in claims payable	66,230	(54,452)
Total adjustments	89,610	(64,469)
Net cash provided (used) by operating activities	\$ 63,297	(97,430)

Noncash Financing and Investing Transactions

For the years ended June 30, 2011 and 2010, there were no significant noncash investing or financing transactions.

See accompanying notes to the basic financial statements.

## **Fiduciary Funds**

Agency Funds, a type of fiduciary fund, are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations and other governmental units.

Community Facilities Districts - These are specific amounts required by the bond indenture to be held in trust for the bondholders. There are two Community Facilities Districts in the City of Highland; CFD 90-1 & CFD 2001-1.

CITY OF HIGHLAND  
Fiduciary Funds

Statement of Fiduciary Assets and Liabilities

June 30, 2011

(with comparative information for the prior year)

	<u>Agency Funds</u>	
	<u>2011</u>	<u>2010</u>
<u>Assets</u>		
Cash and investments with fiscal agent (note 2)	<u>\$ 4,326,075</u>	<u>4,429,958</u>
Total assets	<u>\$ 4,326,075</u>	<u>4,429,958</u>
<u>Liabilities</u>		
Held for bondholders	<u>\$ 4,326,075</u>	<u>4,429,958</u>
Total liabilities	<u>\$ 4,326,075</u>	<u>4,429,958</u>

See accompanying notes to the basic financial statements.

## CITY OF HIGHLAND

### Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

#### (1) Summary of Significant Accounting Policies

The financial statements of the City of Highland have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below:

##### (a) Description of Reporting Entity

In accordance with GASB Statement Number 14 (The Financial Reporting Entity), the City (the primary government) has included within its reporting entity, for financial reporting purposes, all component units over which the City exercises financial accountability. GASB Statement No. 14 defines financial accountability as follows: The level of accountability that exists if a primary government appoints a voting majority of an organization's governing board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial burdens to, or impose specific financial burdens on, the primary government. A primary government may also be financially accountable for government organizations with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the primary government. The City is also considered to be financially accountable for an organization if that organization is fiscally dependent (i.e., it is unable to adopt its budget, levy taxes, set rates or charges, or issue bonded debt without approval from the City). In certain cases, other organizations are included as component units if the nature and significance of their relationship with the City are such that their exclusion would cause the City's financial statements to be misleading or incomplete.

The City of Highland Public Financing Authority and the Redevelopment Agency of the City of Highland were included within the scope of the reporting entity of the City as blended component units because City Council serves as the governing board for these entities. In a blended presentation, component units' balances and transactions are combined with the balances of the City. During the current fiscal year, the Highland Public Financing Authority had no fiscal activity. Only the Redevelopment Agency of the City of Highland issues a separate component unit financial statement. Upon completion, separate financial statements of this component unit can be obtained at City Hall.

## CITY OF HIGHLAND

### Notes to the Basic Financial Statements

(Continued)

#### (1) Summary of Significant Accounting Policies

##### (b) Basis of Accounting and Measurement Focus

The *basic financial statements* of the City are composed of the following:

- (a) Government-wide financial statements
- (b) Fund financial statements
- (c) Notes to the basic financial statements

The City applies applicable GASB pronouncements in accounting and reporting for its proprietary operations as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedure.

##### Government-wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the primary government (including its blended component units), as well as its discretely presented component units. The City of Highland has no business-type activities and no discretely presented component units.

Eliminations have been made in the Statement of Activities so that certain allocated expenses are recorded only once (by the function to which they were allocated). However, general government expenses have not been allocated as indirect expenses to the various functions of the City. The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included amount program revenues are reported instead as *general revenues*.

Government-wide financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*. Under the economic resources measurement focus, all (both current and long-term)

## CITY OF HIGHLAND

### Notes to the Basic Financial Statements

(Continued)

#### (1) Summary of Significant Accounting Policies. (Continued)

##### (b) Basis of Accounting and Measurement Focus, (Continued)

economic resources and obligations of the reporting government are reported in the government-wide financial statements. *Basis of accounting* refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Under the *accrual basis of accounting*, revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33.

Program revenues include charges for services, special assessments and payments made by parties outside of the reporting government's citizenry if that money is restricted to a particular program. Program revenues are netted with program expenses in the Statement of Activities to present the net cost of each program.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as other financing sources. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as expenditures.

##### Fund Financial Statements

The underlying account system of the City is organized and operated on the basis of separate funds. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts, recording resources, related liabilities, obligations, reserves and equities segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

Fund financial statements for the primary government's governmental, proprietary and fiduciary funds are presented after the government-wide financial statements. These statements display information about major funds individually and nonmajor funds in the aggregate for governmental funds. Proprietary statements include financial information for internal service funds. Fiduciary statements include financial information for agency funds. Fiduciary funds of the City represent assets held by the City in a custodial capacity for other individuals or organizations.

## CITY OF HIGHLAND

### Notes to the Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(b) Basis of Accounting and Measurement Focus, (Continued)

Governmental Funds

In the fund financial statements, governmental funds are presented using the *modified accrual basis of accounting*. Revenues are recognized when they become *measurable* and *available* as net current assets. *Measurable* means that the amounts can be estimated or otherwise determined. *Available* means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The City uses an availability period of 60 days for all revenues except for grant revenues, which is 90 days.

Sales taxes, property taxes, franchise taxes, motor vehicle in lieu, transient occupancy taxes, grant and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period to the extent normally collected within the availability period. Other revenue items are considered to be measurable and available where cash is received from the government.

Revenue recognition is subject to the *measurable* and *availability* criteria for the governmental funds in the fund financial statements. *Exchange transactions* are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). *Locally imposed derived tax revenues* are recognized as revenues in the period in which the underlying exchange transaction upon which they are based takes place. *Imposed nonexchange* transactions are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. *Government-mandated and voluntary nonexchange* transactions are recognized as revenues when all applicable eligibility requirements have been met.

In the fund financial statements, governmental funds are presented using the *current financial resources measurement focus*. This means that only current assets and current liabilities are generally included on their balance sheets. The reported fund balance (net current assets) is considered to be a measure of "available spendable resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

CITY OF HIGHLAND

Notes to the Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(b) Basis of Accounting and Measurement Focus, (Continued)

Noncurrent portions of long-term receivables due to governmental funds are reported on the balance sheet in spite of their spending measurement focus. Special reporting treatments are used to indicate, however, that they should not be considered “available spendable resources,” since they do not represent net current assets. Due to the nature of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as *expenditures* in the year that resources were expended, rather than as fund assets. The proceeds of long-term debt are recorded as *other financing sources* rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

Governmental Fund Balances

The accompanying financial statements reflect certain changes that have been made with respect to the reporting of the components of fund balances for governmental funds. In previous years, fund balances for governmental funds were reported in accordance with previous standards that included components for reserved fund balance, unreserved fund balance, designated fund balance, and undesignated fund balance.

Due to the implementation of GASB No. 54, the components of the fund balances of governmental funds now reflect the component classifications described below. Prior year amounts have been restated to reflect the component designations required by GASB No. 54.

Fund balances are reported in the fund statements in the following classifications:

**Nonspendable Fund Balance**

Nonspendable Fund Balance – this includes amounts that cannot be spent because they are either not spendable in form (such as inventory) or legally or contractually required to be maintained intact (such as endowments).

## CITY OF HIGHLAND

### Notes to the Basic Financial Statements

(Continued)

#### (1) Summary of Significant Accounting Policies, (Continued)

##### (b) Basis of Accounting and Measurement Focus, (Continued)

###### **Spendable Fund Balance**

Restricted Fund Balance – this includes amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation. If the Council action limiting the use of funds is included in the same action (legislation) that created (enables) the funding source, then it is restricted.

Committed Fund Balance – this includes amounts that can be used only for the specific purposes determined by a formal action of the Council. It includes legislation (Council action) that can only be overturned by new legislation requiring the same type of voting consensus that created the original action. Therefore, if the Council action limiting the use of the funds is separate from the action (legislation) that created (enables) the funding source, then it is committed, not restricted. The City considers a resolution, an ordinance, or a minutes action to constitute a formal action of City Council for the purposes of establishing committed fund balance.

Assigned Fund Balance – this includes amounts that are designated or expressed by the Council, but does not require a formal action like a resolution or ordinance. The Council may delegate the ability of an employee or committee to assign uses of specific funds, for specific purposes. Such delegation of authority has been granted to the City Manager.

Unassigned Fund Balance – this includes the remaining spendable amounts which are not included in one of the other classifications.

It is the city's policy that restricted resources will be applied first, followed by (in order of application) committed, assigned, and unassigned resources, in the absence of a formal policy adopted by the Council.

###### Proprietary and Fiduciary Funds

The City's Internal Service Funds are proprietary funds. In the fund financial statements, proprietary funds are presented using the *accrual basis of accounting*. Revenues are recognized when they are earned and expenses are recognized when the related goods or services are delivered. In the fund financial statements, proprietary funds are presented using the *economic resources measurement focus*. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total net assets.

# CITY OF HIGHLAND

## Notes to the Basic Financial Statements

(Continued)

### (1) Summary of Significant Accounting Policies. (Continued)

#### (b) Basis of Accounting and Measurement Focus. (Continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principle operating revenues of City's internal service funds are charges for services. Operating expenses for the City's internal service funds include the cost of insurance, salaries and benefits and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The City's agency funds are fiduciary funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

#### (c) Fund Classifications

The funds designated as major funds in the fund financial statements are determined by a mathematical calculation consistent with GASB Statement No. 34, except for the General Capital Financing fund which has been elected to be presented as major. The City reports the following major governmental funds:

*General Fund* – The General Fund is the general operating fund of the City. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. Expenditures of this fund include the general operating expenditures and other costs which are not paid through other funds.

*Redevelopment Agency Debt Service Fund* – This fund is used to account for the accumulation of resources for the payment of long-term debt principal, interest and related costs.

*Redevelopment Agency Capital Projects Fund* – The City has adopted Project Area No. 1 as the project area for the Redevelopment Agency. The current financing is provided through a Tax Allocation Bond sold in June 2004 and June 2007. The proceeds of these bonds will be used to contribute towards: construction of the Highland Library/Environmental Learning Center, the Highland Athletic Center, the new Corporation Yard, the new Police Station and various storm drain and sidewalk projects.

*General Capital Financing Capital Project Fund* – This fund is used to match potential competitive grants and fund future capital projects.

CITY OF HIGHLAND  
Notes to the Basic Financial Statements  
(Continued)

(1) Summary of Significant Accounting Policies. (Continued)

(c) Fund Classifications. (Continued)

*Grants Fund* – The Grants fund is used to account for any grant that does not have its own fund.

*Federal Emergency Management Agency Fund (FEMA)* – The FEMA fund is used to account for all expenditures that are associated with unanticipated events that will most likely be reimbursed by FEMA and CalEMA. All expenditures associated with an event are charged to this fund and any expenditures that are not reimbursed will be reimbursed by the general fund or another fund approved by the City Council

The City's fund structure also includes the following fund types:

*Internal Service Funds* – The Internal Service Funds are used to finance and account for activities involved in rendering self-insurance and building maintenance services to departments within the City. Costs of materials and services used are accumulated in these funds and charged to the user departments as such goods are delivered or services rendered.

*Agency Fund* – The Agency Fund is used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations and other governmental units. Cash and deposits are maintained for activities associated with an association and third party projects.

(d) Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources utilized in the governmental funds. Encumbrances outstanding at year end are reported as restricted, committed, or assigned fund balance depending on the resources that have been identified to fund the applicable encumbrance.

(e) Cash and Investments

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the government.

CITY OF HIGHLAND

Notes to the Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

Investments are reported in the accompanying balance sheet at fair value, except for certain certificates of deposit and investment contracts that are reported at cost because they are not transferable and they have terms that are not affected by changes in market interest rates. Changes in fair value that occur during a fiscal year are recognized as *investment income* reported for that fiscal year. *Investment income* includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation, maturity, or sale of investments.

(f) Interfund Advances

The portion of fund balance associated with amounts that have been disbursed to other funds in the form of long-term interfund advances have been classified as nonspendable unless the funds associated with repayment of the advances are otherwise restricted for specific purposes.

(g) Capital Assets

Capital assets (including additions to infrastructure) are recorded at cost where historical records are available and at an estimated original cost where no historical records exist. Contributed capital assets are valued at their estimated fair market value at the date of the contribution. Generally, capital asset purchases in excess of \$5,000 (including infrastructure) are capitalized if they have an expected useful life of three years or more.

Capital assets include additions to public domain (infrastructure) consisting of certain improvements including roads and streets, curbs, gutters and sidewalks, street lights, signs and signals, park equipment and storm drains.

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method in the government-wide financial statements. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective balance sheet. The range of lives used for depreciation purposes for each capital asset class are as follows:

Buildings and improvements	20-50 years
Equipment, furniture, vehicles and software	3-20 years
Infrastructure – road system and storm drains	25-75 years

## CITY OF HIGHLAND

### Notes to the Basic Financial Statements

(Continued)

#### (1) Summary of Significant Accounting Policies. (Continued)

##### (h) Compensated Absences

Permanent City employees earn from 10 to 20 vacation days a year, depending upon their length of employment, and 12 sick days a year. Employees can carry forward up to 40 days in earned but unused vacation days. Any regular full-time employee who voluntarily separates or retires from the City after a minimum of 10 years of service will be compensated for 40% of all unused sick leave at their current rate of pay. Floating holidays may be accumulated up to 6 days, comp time earned up to 10 days, and administration time may be accumulated up to 20 days.

Upon termination or retirement, permanent employees are entitled to receive compensation at their current base salary for all unused vacation leave. Also, eligible for compensation are floating holidays, comp time, and administrative leave.

##### (i) Claims and Judgments

The City records a liability for litigation, judgments, and claims including losses incurred but not yet reported when it is probable that an asset has been impaired or a liability has been incurred prior to year end and the probable amount of loss (net of any insurance coverage) can be reasonably estimated. This liability is recorded in the insurance internal service fund that accounts for the City's self-insurance activities.

##### (j) Interfund Transactions

Interfund transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

##### (k) Inventories

Inventories held by the general fund are stated at average cost using the consumption method.

## CITY OF HIGHLAND

### Notes to the Basic Financial Statements

(Continued)

#### (1) Summary of Significant Accounting Policies, (Continued)

##### (l) Post-Employment Benefits

Upon retirement, the City will pay for health insurance up to a maximum of \$200 per month plus administrative fees and contingency reserve fund assessments.

##### (m) Long-term Obligations

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

##### (n) Land Held for Resale

Land acquired by the City or Agency for future development and sale is recorded as an expenditure in the fund financial statements. In the government-wide financial statements, the land is valued at the lower of cost or net realizable.

##### (o) Prior Year Data

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the City's prior year financial statements, from which this selected financial data was derived. Certain minor reclassifications of prior year data have been made in order to enhance their comparability with current year figures.

##### (p) Bond Issuance Costs

In governmental fund types, bond issuance costs are recognized in the current period for fund financial statements. For presentation in the government wide statements, bond issuance costs are deferred and amortized over the term of the bonds using the straight-line method, which materially approximates the effective interest method. Bond issuance costs are recorded as an asset, unamortized bond issuance costs.

CITY OF HIGHLAND

Notes to the Basic Financial Statements

(Continued)

(2) Cash and Investments

Cash and investments as of June 30, 2011 are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash and investments	\$106,501,229
Cash and investments with fiscal agent	4,962,683
Statement of Fiduciary Assets and Liabilities:	
Cash and investments with fiscal agent	<u>4,326,075</u>
 Total cash and investments	 <u>\$115,789,987</u>

Cash and investments as of June 30, 2011 consist of the following:

Cash on hand	\$ 1,150
Deposits with financial institutions	8,324,854
Investments	<u>107,463,983</u>
 Total cash and investments	 <u>\$ 115,789,987</u>

Investments Authorized by the California Government Code and the City's Investment Policy

The table on the following page identifies the investment types that are authorized for the City by the California Government Code (or the City's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the City's investment policy, where more restrictive) that address interest rate risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's investment policy.

CITY OF HIGHLAND

Notes to the Basic Financial Statements

(Continued)

(2) Cash and Investments. (Continued)

<u>Authorized Investment Type</u>	<u>Authorized by Investment Policy</u>	<u>Maximum Maturity*</u>	<u>Maximum Percentage Of Portfolio*</u>	<u>Maximum Investment in One Issuer</u>
California Local Agency Bonds	No	5 years	None	None
U.S. Treasury Obligations	Yes	5 years	None	None
U.S. Agency Securities	Yes	5 years	None	None
Banker's Acceptances	Yes	180 days	40%	30%
Commercial Paper	Yes	270 days	25%	10%
Negotiable Certificates of Deposit	No	5 years	30%	None
Repurchase Agreements	Yes	1 year	None	None
Reverse Repurchase Agreements	No	92 days	20% of base value	None
Medium-Term Notes	No	5 years	30%	None
Mutual Funds	Yes	N/A	20%	10%
Money Market Mutual Funds	Yes	N/A	30%	10%
Mortgage Pass-Through Securities	No	5 years	20%	None
California Asset Mgmt Program (CAMP)	Yes	N/A	None	None
Local Agency Investment Fund (LAIF)	Yes	N/A	None	None
JPA Pools (other investment pools)	No	N/A	None	None

\* - Based on state law requirements or investment policy, whichever is more restrictive.

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustee, subject to certain additional restrictions in the debt agreements. The table also identifies certain provisions of these debt agreements that address interest rate risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment In One Issuer</u>
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Municipal Obligations	None	None	None
Commercial Paper	270 days	None	None
Certificates of Deposit	360 days	None	None
Money Market Mutual Funds	N/A	None	None
Investment Contracts	Life of bonds	None	None

CITY OF HIGHLAND

Notes to the Basic Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

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 sensitivity of its fair value to changes in market interest rates. One of the ways that the City 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.

Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity:

<u>Investment Type</u>	<u>Total</u>	<u>Remaining Maturity (in Months)</u>			
		<u>1 to 3 Months</u>	<u>4 to 6 Months</u>	<u>7 to 12 Months</u>	<u>More than 12 Months</u>
California Asset Mgmt Program (CAMP)	\$ 6,134,428	6,134,428	-	-	-
California Asset Mgmt Program (CAMP) - RDA	33,194,671	33,194,671	-	-	-
Local Agency Investment Fund (LAIF)	37,956,092	-	-	37,956,092	-
Local Agency Investment Fund (LAIF) - RDA	19,227,547	-	-	19,227,547	-
Certificates of deposit	1,662,488	-	1,662,488	-	-
Held by bond fiscal agent:					
Money market mutual funds	7,713,141	7,713,141	-	-	-
Investment contracts	<u>1,575,616</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,575,616</u>
<b>Total</b>	<b><u>\$107,463,983</u></b>	<b><u>47,042,240</u></b>	<b><u>1,662,488</u></b>	<b><u>57,183,639</u></b>	<b><u>1,575,616</u></b>

CITY OF HIGHLAND

Notes to the Basic Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

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. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the City's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

Investment Type	Total	Minimum Legal Rating	Rating as of Year End		
			AAA	Aa	Not Rated
California Asset Mgmt Program (CAMP)	\$ 6,134,428	N/A	6,134,428	-	-
California Asset Mgmt Program (CAMP) - RDA	33,194,671	N/A	33,194,671	-	-
Local Agency Investment Fund (LAIF)	37,956,092	N/A	-	-	37,956,092
Local Agency Investment Fund (LAIF) - RDA	19,227,547	N/A	-	-	19,227,547
Certificates of Deposit	1,662,488	N/A	-	-	1,662,488
Held by bond fiscal agent:					
Money market mutual funds	7,713,141	Aa	7,713,141	-	-
Investment contracts	<u>1,575,616</u>	N/A	<u>-</u>	<u>-</u>	<u>1,575,616</u>
Total	<u>\$107,463,983</u>		<u>47,042,240</u>	<u>-</u>	<u>60,421,743</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 *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. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

CITY OF HIGHLAND

Notes to the Basic Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

Managed Investment Pools

Local Agency Investment Fund

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

California Asset Management Program

The City is a voluntary participant in the California Asset Management Program (CAMP), an investment pool managed by Public Financial Management Inc. CAMP was established under provisions of the California Joint Exercise Powers Act. The fair value of the City's investment in this pool is reported in the in the accompanying financial statements at amounts based on the District's pro-rata share of the fair value provided by CAMP for the entire CAMP portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by CAMP, which are recorded on an amortized cost basis.

(3) Interfund Receivables and Payables

The composition of interfund balances as of June 30, 2011 is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor governmental fund	\$ 42,041 (a)
General Fund	Nonmajor governmental fund	11,201 (b)
General Fund	Nonmajor governmental fund	206,511 (c)
General Fund	FEMA Fund	1,459,348 (d)
General Fund	Nonmajor governmental fund	11,324 (e)
General Fund	Nonmajor governmental fund	<u>13,732 (f)</u>
Total		<u>\$ 1,744,157</u>

(a) The General Fund provided the nonmajor CDBG special revenue fund money to eliminate negative cash. The General Fund is expected to be repaid in fiscal year 2012.

(b) The General Fund provided the nonmajor OTS special revenue fund money to eliminate negative cash. The General Fund is expected to be repaid in fiscal year 2012.

CITY OF HIGHLAND

Notes to the Basic Financial Statements

(Continued)

(3) Interfund Receivables and Payables, (Continued)

- (c) The General Fund provided the nonmajor Streetlight Assessment District special revenue fund money to eliminate negative cash. The General Fund is expected to be repaid in fiscal year 2012.
- (d) The General Fund provided the nonmajor FEMA special revenue fund money to eliminate negative cash. The General Fund is expected to be repaid in fiscal year 2012.
- (e) The General Fund provided the nonmajor COPS special revenue fund money to eliminate negative cash. The General Fund is expected to be repaid in fiscal year 2012.
- (f) The General Fund provided the nonmajor Paramedic special revenue fund money to eliminate negative cash. The General Fund is expected to be repaid in fiscal year 2012.

(4) Interfund Transfers

Interfund transfers at June 30, 2011, consisted of the following:

<u>Transfers Out</u>	<u>Transfers In</u>	<u>Total</u>
General Fund	Nonmajor Governmental Funds	\$ 35,893
General Fund	General Capital Financing Fund	1,975,000 (a)
General Fund	Internal Service Insurance Fund	830,807 (b)
Nonmajor Governmental Funds	General Fund	3,182,436 (c)
Nonmajor Governmental Funds	Nonmajor Governmental Funds	531,380 (d)
General Capital Financing	RDA Capital Projects	217,535 (e)
RDA Debt Service Fund	RDA Capital Projects	826,250 (f)
Total		<u>\$7,599,291</u>

- (a) The General Fund transferred \$1,975,000 to the General Capital Financing Fund to be used to fund future infrastructure and facilities projects.
- (b) The General Fund transferred \$830,807 to the Internal Service Insurance Fund to increase reserve balances for potential claims against the City.
- (c) To reimburse the General Fund for eligible nonmajor State Gas Tax Special Revenue Fund expenditures in the amount of \$3,097,991. The nonmajor Paramedic Special Revenue Fund and Fire Special Revenue Fund reimbursed the General Fund for administrative expenditures in the amount of \$36,805 and \$47,630, respectively.
- (d) The nonmajor Fire Special Revenue Fund provided funding of \$531,380 to the nonmajor Paramedic Special Revenue Fund to cover the Medic Tax shortfall.
- (e) The Internal Service General Capital Financing Fund provided funding of \$217,535 to the RDA Capital Projects Fund to provide its share of the Prop 42 expenditure match.
- (f) The RDA Debt Service Fund transferred \$826,250 to the RDA Capital Projects Fund to reimburse the capital projects fund for non-project related costs.

CITY OF HIGHLAND

Notes to the Basic Financial Statements

(Continued)

(5) Capital Assets

Governmental Activities:

Capital asset activity for the year ended June 30, 2011 was as follows:

	<u>Balance at June 30, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2011</u>
Capital assets not being depreciated:				
Land	\$ 5,826,221	255,755	-	6,081,976
Rights of way	86,388,638	120,993	-	86,509,631
Construction in progress	<u>1,130,362</u>	<u>6,357,569</u>	<u>-</u>	<u>7,487,931</u>
Total capital assets not being depreciated	<u>93,345,221</u>	<u>6,734,317</u>	<u>-</u>	<u>100,079,538</u>
Capital assets being depreciated:				
Buildings and improvements	32,580,164	-	-	32,580,164
Equipment, furniture and software	1,989,193	70,191	-	2,059,384
Vehicles	2,122,190	-	-	2,122,190
Infrastructure – road system	81,991,852	774,884	(218,716)	82,548,020
Infrastructure – storm drains	<u>11,132,443</u>	<u>8,810</u>	<u>-</u>	<u>11,141,253</u>
Total capital assets being depreciated	<u>129,815,842</u>	<u>853,885</u>	<u>(218,716)</u>	<u>130,451,011</u>
Less accumulated depreciation for:				
Buildings and improvements	(4,329,280)	(595,691)	-	(4,924,971)
Equipment, furniture and software	(692,305)	(53,599)	-	(745,904)
Vehicles	(769,625)	(73,561)	-	(843,186)
Infrastructure – road system	(33,507,259)	(2,345,107)	175,837	(35,676,259)
Infrastructure – storm drain system	<u>(1,509,356)</u>	<u>(156,991)</u>	<u>-</u>	<u>(1,666,347)</u>
Total accumulated depreciation	<u>(40,807,825)</u>	<u>(3,224,949)</u>	<u>175,837</u>	<u>(43,856,937)</u>
Total capital assets being depreciated, net	<u>89,008,017</u>	<u>(2,371,064)</u>	<u>(42,879)</u>	<u>86,594,074</u>
Governmental activities capital assets, net	<u>\$182,353,238</u>	<u>4,363,253</u>	<u>(42,879)</u>	<u>186,673,612</u>

Depreciation expense was charged in the following functions in the Statement of Activities:

Governmental activities:	
General government	\$ 542,503
Highways and streets	2,513,584
Public safety	<u>168,862</u>
Total	<u>\$3,224,949</u>

CITY OF HIGHLAND  
Notes to the Basic Financial Statements  
(Continued)

(6) Long-Term Liabilities

A summary of changes in long-term liabilities follows:

	Balance at <u>June 30, 2010</u>	<u>Additions</u>	<u>Deletions</u>	Balance at <u>June 30, 2011</u>	Due Within <u>One Year</u>	Due Beyond <u>One Year</u>
<u>Governmental activities:</u>						
2004A Tax Allocation Bonds	\$ 16,065,000	-	(310,000)	15,755,000	315,000	15,440,000
2004B Tax Allocation Refunding Bonds	2,920,000	-	(135,000)	2,785,000	140,000	2,645,000
2007 Tax Allocation Bonds	<u>41,420,000</u>	<u>-</u>	<u>(685,000)</u>	<u>40,735,000</u>	<u>715,000</u>	<u>40,020,000</u>
Subtotal	<u>60,405,000</u>	<u>-</u>	<u>(1,130,000)</u>	<u>59,275,000</u>	<u>1,170,000</u>	<u>58,105,000</u>
<u>Other liabilities:</u>						
Other post employment benefits	93,704	58,852	(12,000)	140,556	-	140,556
Claims payable	49,249	66,231	-	115,480	6,990	108,490
Compensated absences	<u>495,389</u>	<u>327,348</u>	<u>(304,530)</u>	<u>518,207</u>	<u>148,280</u>	<u>369,927</u>
Subtotal	<u>638,342</u>	<u>452,431</u>	<u>(316,530)</u>	<u>774,243</u>	<u>155,270</u>	<u>618,973</u>
Total	<u>\$61,043,342</u>	<u>452,431</u>	<u>(1,446,530)</u>	<u>60,049,243</u>	<u>1,325,270</u>	<u>58,723,973</u>

Tax Allocation Bonds, Series 2004A

In June 2004, the City of Highland Redevelopment Agency issued \$17,525,000 Tax Allocation Bonds Series 2004A. Proceeds from the bonds were used to finance costs of the Redevelopment Project Area. As of June 30, 2011 unspent bond proceeds specifically set aside for these capital asset/infrastructure projects that remains unspent is \$3,803,485.

The bonds consist of \$4,425,000 of serial bonds and \$13,100,000 of term bonds. The serial bonds accrue interest at rates between 2.00% and 4.65% and the principal amounts mature between December 1, 2005 and December 1, 2018 in amounts ranging from \$280,000 to \$380,000. Term bonds of \$6,280,000 accrue interest at 5.00% and mature on December 1, 2028. Term bonds of \$6,820,000 accrue interest at 5.00% and mature on December 1, 2034.

The bonds maturing on or before December 1, 2015 are subject to redemption as a whole or in part, together with interest accrued thereon to the date fixed from redemption without premium. The term bonds maturing in the years 2028 and 2034 are subject to mandatory sinking account redemption on each December 1, commencing on December 1, 2019 and December 1, 2029, respectively, at a redemption price equal to the principal amount thereof together with accrued interest, without premium.

## CITY OF HIGHLAND

### Notes to the Basic Financial Statements

(Continued)

#### (6) Long-Term Liabilities, (Continued)

##### Tax Allocation Bonds, Series 2004A, (Continued)

Per the terms of the bond indenture, a reserve of \$1,326,000 is required to be maintained. At June 30, 2011, the reserve was fully funded and the outstanding balance of the bonds was \$15,755,000.

##### Tax Allocation Bonds, Series 2004B

In December 2004, the City of Highland Redevelopment Agency issued \$3,690,000 Tax Allocation Refunding Bonds Series 2004B. Proceeds from the bonds were used to refund the Agency's Highland Redevelopment Project Area No. 1, 1994 Tax Allocation Refunding Bonds. The refunding met the requirements of an in-substance defeasance, and consequently, the old debt has been removed from the financial statements.

The bonds consist of \$2,250,000 of serial bonds and \$1,440,000 of term bonds. The serial bonds accrue interest at rates between 1.35% and 5.30% and the principal amounts mature between December 1, 2004 and December 1, 2018 in amounts ranging from \$115,000 to \$200,000. Term bonds of \$1,440,000 accrue interest at 5.65% and mature on December 1, 2024.

The term bonds maturing in the years 2019 and 2024 are subject to mandatory sinking account redemption on each December 1, commencing on December 1, 2019 and December 1, 2029, respectively, at a redemption price equal to the principal amount thereof together with accrued interest, without premium.

Per the terms of the bond indenture, a reserve of \$288,387 is required to be maintained. At June 30, 2011, the reserve was fully funded and the outstanding balance of the bonds was \$2,785,000.

##### Tax Allocation Bonds, Series 2007

In June 2007, the City of Highland Redevelopment Agency issued \$42,645,000 Tax Allocation Bonds Series 2007. Proceeds from the bonds are being issued to finance costs of the Redevelopment Project Area. As of June 30, 2011 unspent bond proceeds specifically set aside for these capital asset/infrastructure projects that remains unspent is \$30,604,202.

The bonds consist of \$14,420,000 of serial bonds and \$28,225,000 of term bonds. The serial bonds accrue interest at rates between 3.75% and 5.00% and the principal amounts mature between December 1, 2008 and December 1, 2023 in amounts ranging from \$285,000 to \$1,235,000. Term bonds of \$4,070,000 accrue interest at 4.75% and mature on December 1, 2026. Term bonds of \$10,075,000 accrue interest at 4.75% and mature on December 1, 2032. Term bonds of \$14,080,000 accrue interest at 4.75% and mature on December 1, 2037.

CITY OF HIGHLAND

Notes to the Basic Financial Statements

(Continued)

(6) Long-Term Liabilities. (Continued)

Tax Allocation Bonds, Series 2007. (Continued)

The bonds maturing on or after December 1, 2018 are subject to redemption as a whole or in part, together with interest accrued thereon to the date fixed from redemption without premium. The term bonds maturing in the years 2026, 2032, and 2037 are subject to mandatory sinking account redemption on each December 1, commencing on December 1, 2024, December 1, 2027, and December 1, 2033, respectively, at a redemption price equal to the principal amount thereof together with accrued interest, without premium.

Per the terms of the bond indenture, a reserve of \$3,455,116 is required to be maintained. At June 30, 2011, the reserve was \$3,296,988 and the outstanding balance of the bonds was \$40,735,000.

(7) Bond Defeasances

In prior years, the City defeased bonds by placing the proceeds of refunding bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and related liability for the defeased bond are not reflected in the City's financial statements. At June 30, 2011, the following represents the amounts still outstanding on the bonds considered defeased:

1994 Tax Allocation Refunding Bonds      \$2,920,000

(8) Debt Service Requirements

The following is a summary of debt service requirements to maturity for all outstanding tax allocation bonds:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 1,170,000	2,784,835	3,954,835
2013	1,215,000	2,733,160	3,948,160
2014	1,265,000	2,680,594	3,945,594
2015	1,320,000	2,625,610	3,945,610
2016	1,375,000	2,568,611	3,943,611
2017-2021	7,870,000	11,816,171	19,686,171
2022-2026	9,930,000	9,712,491	19,642,491
2027-2031	12,615,000	6,992,975	19,607,975
2032-2036	15,665,000	3,553,656	19,218,656
2037-2038	<u>6,850,000</u>	<u>329,175</u>	<u>7,179,175</u>
Total	<u>\$59,275,000</u>	<u>45,797,278</u>	<u>105,072,278</u>

CITY OF HIGHLAND

Notes to the Basic Financial Statements

(Continued)

(8) Debt Service Requirements to Maturity for Long-Term Liabilities, (Continued)

Claims Payable

The City retains the risk of loss for general liability and workers' compensation claims as described in note 10. These amounts represent estimates of amounts to be paid for reported general liability and workers' compensation claims including incurred-but-not-reported claims based upon past experience, modified for current trends and information. While the ultimate amount of losses incurred through June 30, 2011 is dependent on future developments, based upon information from the City's attorneys, the City's claims administrators and others involved with the administration of the programs, City management believes the accrual is adequate to cover such losses. The estimated liability at June 30, 2011 for general liability amounted to \$115,480 and for workers' compensation was \$0.

Compensated Absences

The City's policies relating to compensated absences are described in note 1. This liability, to be paid in future years primarily from the general fund, at June 30, 2011 is \$518,207.

(9) Other Post Employment Benefits

*Plan Description:* The City administers a single-employer defined benefit plan which provides medical insurance benefits to eligible retirees and their spouses in accordance with various labor agreements. The City has not established a trust that is administered by the City for the purpose of holding assets accumulated for plan benefits. The City pays \$200 per month for eligible retirees' health coverage.

*Eligibility:* Employees are eligible for retiree health benefits if they retire from the City on or after age 50 with at least 5 years of service, and are eligible for a PERS pension. Membership of the plan consisted of the following at July 1, 2009, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	5
Active plan members	<u>38</u>
Total	<u>43</u>

CITY OF HIGHLAND

Notes to the Basic Financial Statements

(Continued)

(9) Other Post Employment Benefits. (Continued)

*City's Funding Policy:* The contribution requirements of plan members and the City are established and may be amended by City Council. The contribution required to be made under City Council and labor agreement requirements is based on a pay-as-you-go basis (i.e., as medical insurance premiums become due). For fiscal year 2010-11, the City contributed \$12,000 to the plan for current premiums.

*Annual OPEB Cost and Net OPEB Obligation.* The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation for these benefits:

Annual required contribution	\$58,852
Interest on net OPEB obligation	2,343
Adjustments to annual required contributions	<u>(2,343)</u>
Annual OPEB cost (expense)	58,852
Contributions made (including premiums paid)	<u>(12,000)</u>
Increase in net OPEB obligation	46,852
Net OPEB obligation-beginning of year	<u>93,704</u>
Net OPEB obligation-end of year	<u>\$140,556</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 and the two preceding years were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/09	\$58,852	20%	\$ 46,852
6/30/10	58,852	20%	93,704
6/30/11	58,852	20%	140,556

CITY OF HIGHLAND

Notes to the Basic Financial Statements

(Continued)

(9) Other Post Employment Benefits, (Continued)

*Funded Status and Funding Progress.* The funded status of the plan as of July 1, 2009, was as follows:

Actuarial accrued liability (AAL)	\$394,460
Actuarial value of plan assets	—
Unfunded actuarial accrued liability (UAAL)	<u>\$394,460</u>
Funded ratio (actuarial value of plan assets/AAL)	0.0%
Covered payroll (active plan members)	\$2,562,490
UAAL as a percentage of covered payroll	15.39%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for the benefits.

*Actuarial Methods and Assumptions.* Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial assets, consistent with the long-term perspective of the calculations.

The actuarial cost method used for determining the benefit obligations is the Projected Unit Credit Actuarial Cost Method. The actuarial assumptions included an annual healthcare cost trend rate of 8 percent initially, reduced by decrements of 1 percent per year to an ultimate rate of 5 percent after the fourth year. The UAAL is being amortized as a level dollar of projected payroll over an open 30 year period. It is assumed the City's payroll will increase 5 percent per year.

CITY OF HIGHLAND

Notes to the Basic Financial Statements

(Continued)

(9) Other Post Employment Benefits, (Continued)

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c)
7/1/09	\$0	\$394,460	\$394,460	0%	\$2,422,927	16.28%

(10) Risk Management

The City is self-insured for workers' compensation and general liability claims arising in the ordinary course of City operations. The City has purchased outside insurance coverage for workers' compensation claims in excess of \$250,000 up to a maximum of \$10,000,000 per claim. The City is a member of the Public Agency Risk Sharing Authority of California (PARSAC) for general liability insurance coverage in excess of \$100,000 up to a maximum of \$900,000 per claim. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

The workers' compensation and general liability claims administrators have estimated liabilities for probable future payments including an estimate for claims incurred but not reported. Claims outstanding as of June 30, 2011 were as follows:

Workers' compensation claims	\$ -
General liability claims	<u>115,480</u>
Claims payable	<u>\$ 115,480</u>

Additional claims and lawsuits have been filed against the City in the normal course of business. It is reasonably possible that the City may be liable for claims not to exceed \$100,000. In the opinion of management, the resolution of these matters will not have a material adverse effect on the financial condition of the government.

CITY OF HIGHLAND

Notes to the Basic Financial Statements

(Continued)

(10) Risk Management, (Continued)

The claims liability at June 30, 2011 is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amounts were:

	<u>Beginning Balance</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Ending Balance</u>
2009-10	\$103,700	-	(54,451)	49,249
2010-11	49,249	66,230	-	115,479

(11) Participation in Risk Pool

The Public Agency Risk Sharing Authority of California (PARSAC) was created effective May 21, 1986, by a Joint Exercise of Powers agreement among various California municipalities, organized and operating under the laws of the State of California. The Authority is organized pursuant to the provisions of the California Government Code for the purpose of providing joint-protection coverage and related risk-management services for Member Entities. The City of Highland is self-insured and participates in (PARSAC) for the purchase of excess general liability and workers' compensation coverage (see note 10).

(12) City Employees Retirement Plan (Defined Benefit Pension Plan)

Plan Description

The City of Highland contributes to the California Public Employees Retirement System (PERS), a cost-sharing multiple-employer public employee defined benefit pension plan. PERS provides retirement, disability benefits, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. PERS issues a publicly available financial report that includes financial statements and required supplementary information for the cost sharing plans that are administered by PERS. Copies of PERS' annual financial report may be obtained by writing to 400 "P" Street, Sacramento, California 95814.

CITY OF HIGHLAND

Notes to the Basic Financial Statements

(Continued)

(12) City Employees Retirement Plan (Defined Benefit Pension Plan), (continued)

Contributions

Miscellaneous and safety participants are required to contribute 7% and 9%, respectively, of their annual covered salary. The City is required to contribute at an actuarially determined rate. The rate for the year ended June 30, 2011 is 7% of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by City Council in conjunction with applicable labor contracts. The City's contributions to the plan for the years ending June 30, 2009, 2010, and 2011 were \$325,254, \$352,248, and \$345,102, respectively, and were equal to the required contributions for each year.

*Three-Year Trend Information*

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Net Pension Obligation</u>
6/30/09	13.424%	325,254	100%	-
6/30/10	14.046%	352,248	100%	-
6/30/11	13.765%	345,102	100%	-

(13) Property Tax Calendar

Property taxes are assessed and collected each fiscal year according to the following property tax calendar:

Lien date	January 1	
Levy year	July 1 to June 30	
Due dates	November 1	1st installment
	March 1	2nd installment
Delinquent dates	December 10	1st installment
	April 10	2nd installment

Under California law, property taxes are assessed and collected by counties up to 1% of assessed value, plus other increases approved by voters. Property tax revenues are pooled and then allocated to cities based on complex formulas prescribed by state statutes.

## CITY OF HIGHLAND

### Notes to the Basic Financial Statements

(Continued)

#### (14) Debt Issued Without Government Commitment

##### 2001 Special Tax Bonds (Mello-Roos)

On September 1, 2001, the City of Highland Community Facilities District No. 2001-1 issued a Special Tax Bonds, Series 2001 in the amount of \$6,655,000. The bonds were issued to finance various public improvements located within the District and to prepay special taxes levied by CFD 90-1. The tax bonds have annual interest ranging from 4.0% to 6.3%. The tax bonds have annual principal and interest payments ranging from \$516,943 to \$524,965. The special term bonds mature on September 1, 2028 and are subject to mandatory redemption without premium on September 1, 2002. Principal and interest payments on the tax bonds are payable solely from special tax assessments to be levied and collected from property owners with the District. It is management's determination that the City of Highland is in no way liable for repayment, but only acting as agent for the property owners in collecting the assessments, forward the collections to bond holders, and initiating foreclosure proceedings, if appropriate. Therefore, the City did not record the tax bonds as liabilities in the accompanying government-wide financial statements. At June 30, 2011, the amount outstanding was \$5,480,000.

##### Special Tax Refunding Bonds, Series 2001-A (Senior) and B (Subordinate)

On September 1, 2001, the City of Highland Community Facilities District No. 90-1 issued a Special Tax Refunding Bonds, Series 2001-A in the amount of \$7,180,000 and Series 2001-B in the amount of \$2,620,000. The bonds are being issued solely for the purpose of refunding the 1996 \$15,020,000 Special Tax Refunding Bonds Series A and B and to fund the senior bond reserve account. The refunding bonds have annual interest ranging from 2.7% to 5.8%. The refunding Series 2001-A and 2001-B bonds have annual principal payments ranging from \$640,000 to \$760,000 and \$205,000 to \$255,000, respectively. The refunding bonds mature on September 1, 2015. Principal and interest payments on the refunding bonds are payable solely from special tax assessments to be levied and collected from property owners with the District. It is management's determination that the City of Highland is in no way liable for repayment but only acting as agent of the property owners in collecting the assessments, forwarding the collections to the bond holders, and initiating foreclosure proceedings, if appropriate. Therefore, the City did not record the refunding bonds as liabilities in the accompanying government-wide financial statements. At June 30, 2011, the amount outstanding was \$4,635,000.

##### 1998 Housing Revenue Bonds

On March 30, 1998, the Redevelopment Agency issued \$6,620,000 in Multifamily Housing Revenue Bonds for the financing for the acquisition, construction and equipping of a multifamily rental housing development known as Jeffrey Court Senior Apartments. The bonds are not included in the accompanying financial statements, as these bonds are payable solely from the pledged revenues under the Indenture. As of June 30, 2011 the outstanding Revenue Bonds totaled \$6,620,000.

CITY OF HIGHLAND

Notes to the Basic Financial Statements

(Continued)

(15) Commitments and Contingencies

The City is a defendant in various litigations in the normal course of City operations, which in the opinion of management will not significantly adversely affect the City's financial position.

(16) Deficit Fund Balances/Net Assets

As of June 30 2011, a deficit fund balance/net assets was recorded in the following funds:

Special revenue Funds:

Streetlight Assessment District Fund	\$ (245,407)
FEMA Fund	(1,106,873)

The following material deficits are expected to be corrected as follows:

Streetlight Assessment District Fund -- Revenues in this fund are limited by Proposition 218, and have exceeded expenditures for multiple years past. The City plans to take amendments to Proposition 218 to vote to remove the revenue limitations; however this is unlikely to occur until the economy improves.

FEMA Fund -- The City is currently awaiting final approval and transfer of funds from FEMA for reimbursement of disaster relief expenditures; all costs not covered by FEMA will be paid with monies from the General Capital Financing and Fire Fund.

(17) Recent Changes in Legislation Affecting California Redevelopment Agencies

On June 29, 2011, the Governor of the State of California signed Assembly Bills X1 26 and 27 as part of the State's budget package. Assembly Bill X1 26 requires each California redevelopment agency to suspend (effective July 1, 2011) nearly all activities except to implement existing contracts, meet already-incurred obligations, preserve its assets and prepare for the impending dissolution of the agency. Assembly Bill X1 27 provides a means for redevelopment agencies to continue to exist and operate by means of a Voluntary Alternative Redevelopment Program by adopting an ordinance agreeing to make certain payments to the County Auditor Controller in fiscal year 2011-12 and annual payments each fiscal year thereafter.

CITY OF HIGHLAND

Notes to the Basic Financial Statements

(Continued)

(17) Recent Changes in Legislation Affecting California Redevelopment Agencies.  
(Continued)

The League of California Cities and the California Redevelopment Association (CRA) filed a lawsuit on July 18, 2011 on behalf of cities, counties and redevelopment agencies petitioning the California Supreme Court to overturn Assembly Bills X1 26 and 27 on the grounds that they violate the California Constitution. On August 11, 2011, the California Supreme Court issued a stay of all of Assembly Bill X1 27 and most of Assembly Bill X1 26. The California Supreme Court stated in its order that "the briefing schedule is designed to facilitate oral argument as early as possible in 2011, and a decision before January 15, 2012."

Because the stay provided by Assembly Bill X1 26 only affects enforcement, each agency must adopt an Enforceable Obligation Payment Schedule prior to September 30, as required by the statute. Enforceable obligations include bonds, loans and payments required by the federal or State government; legally enforceable payments required in connection with agency employees such as pension payments and unemployment payments, judgments or settlements; legally binding and enforceable agreements or contracts; and contracts or agreements necessary for the continued administration or operation of the agency that are permitted for purposes set forth in AB1X 26.

On August 2, 2011, City Ordinance No. 360 was adopted, indicating that the Agency will comply with the Voluntary Alternative Redevelopment Program in order to permit the continued existence and operation of the agency, in the event Assembly Bills X1 26 and/or 27 are upheld as constitutional. The initial payment by the agency is estimated to be \$2,752,650 with one half due on January 15, 2012 and the other half due May 15, 2012. Thereafter, an estimated \$655,000 will be due annually. The semi-annual payments will be due on January 15 and May 15 of each year and would increase or decrease with changes in tax increment. Additionally, an increased amount would be due to schools if any new debt is incurred. Assembly Bill X1 27 allows a one-year reprieve on the agency's obligation to contribute 20% of tax increment to the low-and-moderate-income housing fund so as to permit the Agency to assemble sufficient funds to make its initial payments.

Management believes that the Agency will have sufficient funds to pay its obligations as they become due during the fiscal year ending June 30, 2012. The nature and extent of the operation of redevelopment agencies in the State of California beyond that fiscal year are dependent upon the outcome of litigation surrounding the actions of the state.

CITY OF HIGHLAND  
Notes to the Basic Financial Statements  
(Continued)

(18) Fund Balance Reservations and Designations

Fund balances have been categorized for the year ended June 30, 2011 as follows:

	General Fund	RDA Debt Service	General Capital Financing	RDA Capital Projects	Grants Fund	FEMA Fund	Nonmajor Governmental Funds	Total
<b>Non-Spendable</b>								
Inventory and prepaid items	\$ 12,228	100,000	-	-	-	-	-	112,228
<b>Restricted</b>								
Public safety	-	-	-	-	-	-	14,779,133	14,779,133
Highway and street projects	-	-	-	-	-	-	10,133,883	10,133,883
Parks and recreation	-	-	-	-	382,837	-	55,166	438,003
Debt service	-	14,736,339	-	-	-	-	-	14,736,339
Low and moderate income housing	-	-	-	-	-	-	6,798,616	6,798,616
Other purposes	-	-	-	-	-	-	3,414,978	3,414,978
Community development	-	-	-	-	-	-	-	-
<b>Assigned</b>								
Public safety								
Police station	-	-	-	-	-	-	-	-
Vehicle replacement	475,000	-	-	-	-	-	-	475,000
Equipment replacement	200,000	-	-	-	-	-	-	200,000
Public Safety enhancement	200,000	-	-	-	-	-	-	200,000
Community development	-	-	-	34,407,739	-	-	-	34,407,739
Other purposes								
Comp absences	518,208	-	-	-	-	-	-	518,208
Capital projects	1,180,620	-	4,503,725	-	-	-	-	5,684,345
Technical enhancements	300,000	-	-	-	-	-	-	300,000
Service enhancements	1,678,610	-	-	-	-	-	-	1,678,610
City hall	1,400,000	-	-	-	-	-	-	1,400,000
Public improvements	-	-	3,153,000	-	-	-	58,771	3,211,771
<b>Unassigned</b>	<u>4,009,852</u>	<u>-</u>	<u>995,320</u>	<u>-</u>	<u>-</u>	<u>(1,106,873)</u>	<u>(245,407)</u>	<u>3,652,892</u>
	<u>\$9,974,518</u>	<u>14,836,339</u>	<u>8,652,045</u>	<u>34,407,739</u>	<u>382,837</u>	<u>(1,106,873)</u>	<u>34,995,140</u>	<u>102,141,745</u>



## **General Fund**

General Fund - This fund has been classified as a major fund and is used to account for resources traditionally associated with government which are not required legally or by sound financial management to be accounted for in another fund.

## **Special Revenue Funds**

The Special Revenue Funds are used to account for specific revenues that are legally restricted to be expended for a particular purpose. The following funds have been classified as major funds. The budget-actual comparisons for these funds have been presented in the accompanying financial statements as *required supplementary information*:

Grants Fund - This fund is used to account for any grant that is not required to be accounted for in its own fund. Accounting for these grants in one fund is more efficient and manageable. Examples include; HBRR, CMAQ, HES, Safe Route to Schools and miscellaneous grants.

FEMA - The FEMA fund is used to account for all expenditures in one fund that are associated with unanticipated events that will most likely be reimbursed by FEMA and/or Cal EMA.

## CITY OF HIGHLAND

### Notes to Required Supplementary Information

For the Fiscal Year ended June 30, 2011

#### (1) Budgetary Information

The City adopts an annual budget prepared on the modified accrual basis for of its governmental funds (e.g., General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Funds), and on an accrual basis for its Internal Service Funds, which is consistent with generally accepted accounting principles (GAAP). The City Manager is required to prepare and submit to the City Council the annual budget of the City and administer it after adoption.

A two year budget was adopted by City Council on June 9, 2009 for fiscal years 2009/2010 and 2010/2011. City Manager approval is required for budget revisions within a department and City Council approval is required for budget revisions that affect the total appropriations of a department. Every fund, except for the General Fund and Capital Improvement Capital Projects Fund, is considered a department. For each department, total expenditures may not legally exceed total appropriations. All annual appropriations lapse at fiscal year end. Budgeted expenditure amounts represent original appropriations adjusted by \$9,616,008 for supplemental appropriations during the year ended June 30, 2011.

CITY OF HIGHLAND

General Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the Fiscal Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Revenues:					
Taxes:					
Secured property taxes	\$ 3,445,000	3,445,000	2,801,016	(643,984)	2,790,381
Unsecured property taxes	-	-	124,558	124,558	137,081
In-lieu sales tax	450,000	450,000	560,993	110,993	333,232
Other property taxes	-	-	84,009	84,009	93,206
Sales and use tax	1,515,000	1,515,000	1,437,845	(77,155)	1,327,033
Extraction tax	85,000	85,000	118,750	33,750	90,863
In-lieu motor vehicle license fees	4,275,000	4,275,000	3,726,380	(548,620)	4,397,525
Transient occupancy tax	80,000	80,000	178,729	98,729	167,247
Franchise fees	1,446,500	1,446,500	1,440,500	(6,000)	1,456,090
Property transfer tax	80,000	80,000	90,000	10,000	98,644
Total taxes	11,376,500	11,376,500	10,562,780	(813,720)	10,891,302
Licenses and permits:					
Building permits	265,000	265,000	430,423	165,423	317,375
Miscellaneous permits	38,000	38,000	80,184	42,184	94,458
Total licenses and permits	303,000	303,000	510,607	207,607	411,833
Intergovernmental:					
Motor vehicle license fees	55,000	55,000	240,945	185,945	153,991
Grants	108,000	108,000	59,014	(48,986)	110,713
Total intergovernmental	163,000	163,000	299,959	136,959	264,704
Charges for services:					
Business license fees	87,500	87,500	156,522	69,022	136,566
Planning fees	205,000	205,000	161,157	(43,843)	62,303
Engineering fees	250,000	250,000	150,595	(99,405)	125,102
Other charges	239,000	239,000	335,532	96,532	356,573
Total charges for services	781,500	781,500	803,806	22,306	680,544
Fines and forfeitures	77,000	77,000	134,801	57,801	102,030
Investment income	135,000	135,000	2,696,718	2,561,718	38,678
Miscellaneous	41,000	41,000	41,871	871	44,214
Total revenues	12,877,000	12,877,000	15,050,542	2,173,542	12,433,305

(Continued)

CITY OF HIGHLAND

General Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

(Continued)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Prior Year Actual
Expenditures:					
Current:					
General government:					
City council	163,275	163,275	156,275	7,000	140,702
City clerk	293,210	293,210	240,897	52,313	222,169
General government	647,855	647,855	614,494	33,361	616,723
Personnel	75,515	75,515	68,326	7,189	61,605
Finance	474,160	474,160	452,412	21,748	452,062
Engineering	846,535	846,535	714,280	132,255	716,795
Planning	754,525	754,525	547,468	207,057	575,833
Community mandates	413,375	413,375	335,272	78,103	331,750
Building and safety	453,610	453,610	343,561	110,049	279,761
Code enforcement	345,795	345,795	308,985	36,810	283,918
Parks	1,044,225	1,044,225	927,220	117,005	882,473
Graffiti	140,595	140,595	109,230	31,365	102,787
Community volunteer services	55,215	55,215	49,219	5,996	43,096
Trails	19,050	61,270	4,515	56,755	27,409
Total general government	5,726,940	5,769,160	4,872,154	897,006	4,737,083
Highways and streets:					
Public works	2,121,415	3,436,415	3,097,987	338,428	1,443,512
Public safety:					
Police department	6,775,715	6,775,715	6,493,394	282,321	5,961,395
Animal control	424,500	424,500	361,278	63,222	427,315
Total public safety	7,200,215	7,200,215	6,854,672	345,543	6,388,710
Total expenditures	15,048,570	16,405,790	14,824,813	1,580,977	12,569,305
Excess (deficiency) of revenues over (under) expenditures	(2,171,570)	(3,528,790)	225,729	3,754,519	(136,000)
Other financing sources (uses):					
Transfers in	2,205,850	3,520,850	3,182,426	(338,424)	1,526,297
Transfers out	(24,380)	(2,830,380)	(2,841,700)	(11,320)	(998,485)
Total other financing sources (uses)	2,181,470	690,470	340,726	(349,744)	527,812
Net change in fund balance	9,900	(2,838,320)	566,455	3,404,775	391,812
Fund balance at beginning of year	9,408,063	9,408,063	9,408,063	-	9,016,251
Fund balance at end of year	\$ 9,417,963	6,569,743	9,974,518	3,404,775	9,408,063

CITY OF HIGHLAND  
Grants Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the Fiscal Year Ended June 30, 2011

	Final Budget	Actual	Variance Positive (Negative)	Prior Year Actual
<b>Revenues:</b>				
Intergovernmental	\$ 18,918,000	3,386,585	(15,531,415)	1,590,168
Investment income	-	-	-	213
Miscellaneous	-	-	-	44,643
<b>Total revenues</b>	<u>18,918,000</u>	<u>3,386,585</u>	<u>(15,531,415)</u>	<u>1,635,024</u>
<b>Expenditures:</b>				
<b>Current:</b>				
Highways and streets	18,468,000	2,863,171	15,604,829	1,807,793
<b>Total expenditures</b>	<u>18,468,000</u>	<u>2,863,171</u>	<u>15,604,829</u>	<u>1,807,793</u>
Excess (deficiency) of revenues over (under) expenditures	<u>450,000</u>	<u>523,414</u>	<u>73,414</u>	<u>(172,769)</u>
<b>Other financing sources (uses):</b>				
Transfers out	-	-	-	(61,146)
<b>Total other financing     sources (uses)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(61,146)</u>
<b>Net change in fund balance</b>	450,000	523,414	73,414	(233,915)
Fund balance (deficit) at beginning of year	<u>(140,577)</u>	<u>(140,577)</u>	<u>-</u>	<u>93,338</u>
Fund balance (deficit) at end of year	<u>\$ 309,423</u>	<u>382,837</u>	<u>73,414</u>	<u>(140,577)</u>

CITY OF HIGHLAND  
FEMA Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the Fiscal Year Ended June 30, 2011

	Final Budget	Actual	Variance Positive (Negative)	Prior Year Actual
Revenues:				
Intergovernmental	\$ 345,000	655,536	310,536	-
Total revenues	<u>345,000</u>	<u>655,536</u>	<u>310,536</u>	<u>-</u>
Expenditures:				
Current:				
General government	1,763,000	1,762,409	591	-
Total expenditures	<u>1,763,000</u>	<u>1,762,409</u>	<u>591</u>	<u>-</u>
Net change in fund balance	(1,418,000)	(1,106,873)	311,127	-
Fund balance at beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance (deficit) at end of year	<u><u>\$ (1,418,000)</u></u>	<u><u>(1,106,873)</u></u>	<u><u>311,127</u></u>	<u><u>-</u></u>

## **Non-Major Governmental Funds**

### **Non-Major Special Revenue Funds**

The following Special Revenue Funds have been classified as non-major funds in the accompanying balance sheet:

Traffic Safety - This fund accounts for the financial transactions as prescribed by the State of California statute on California Vehicle Code Fines. Revenues are collected by the County and remitted to the City for expenditures related to Traffic Safety such as crossing guards and red light cameras.

State Gas Tax - This fund accounts for the construction and maintenance of the roads and related road operations in the City. Financing is provided by the City's share of state gasoline taxes from the State of California Transportation Department. This fund also accounts for Prop 1B & Prop 42 funds.

Article 3 - These are State funds provided through SANBAG as grants, and are to be used for bikeways & pedestrian ways.

Community Development Block Grant (CDBG) - Received from the County of San Bernardino. The grants are used to develop a viable urban community by providing decent housing and a suitable living environment. The City accomplishes this by providing properly maintained roads and taking care of target areas such as Ward Street and Cunningham Street through code enforcement services and neighborhood revitalization.

Development Impact Fees - AB 1600 requires a separate reporting of fees collected from individuals and developers building in the City. Fees collected include police, fire, general facilities, parks & recreation facilities, storm drains, streets/sidewalks, traffic control, bridges/culverts, streetlights, medians/landscaping and major arterials.

Developer Fees - These are fees collected from developers to finish tracts with streetlights, trees, street widening, signals, etc., to be done at a later time when areas are totally developed.

Office of Traffic Safety (OTS) - State grant used to improve and enforce traffic safety.

Landscape Maintenance District - Different areas of the City have been placed into the Landscape Maintenance District to maintain the landscaping surrounding a particular tract of homes. These funds are used to maintain that level of service that was previously provided by the developer.

Street Light District - This is a citywide assessment for service. These funds are collected to maintain street lights throughout the City. The City adds street lights as the need arises.

Community Trails District - This is funded by assessments to particular property owners who have access to the trails for usage by bicycles, horses, and citizens.

Parks Maintenance District - Certain areas of the City that have access to the Canyon Oaks Park, Cunningham Park, Oak Creek Park & Seeley Park have been placed into the Parks Maintenance District. This assessment is for the maintenance of the parks.

Measure I - In June 1990, the taxpayers voted for added taxes on gasoline to provide additional monies by approving a one-half cent sales tax increase. These funds are kept locally for major road and transportation expenses and are disbursed to the City by San Bernardino Associated Government (SANBAG).

Air Quality Management District (AQMD) - This fund is used to account for the City's share of vehicle registration fees that the State of California has allocated to address air quality concerns in Southern California. These monies are to be used in air quality maintenance programs locally and/or regionally.

Citizens Option for Public Safety Program (COPS) - This fund is used for front line police services including anti-gang and community crime prevention programs.

Street & Storm Drain Maintenance District - This is funded by special assessments for street maintenance within a tract.

Justice Assistance Grant (JAG) - This grant is funded by the U. S. Department of Justice for local law enforcement purposes. This grant mainly aids in equipment purchases.

Paramedic Department - This fund accounts for the monies received through the medic tax. The medic tax partially funds the paramedics that the City contracts with the State (Cal-Fire) for this service.

Fire Department - This fund accounts for all revenues and expenditures relating to the fire department. The City contracts with the State (Cal-Fire) for this service.

RDA Low and Moderate Income Housing - California State Health and Safety Code requires that an agency set aside a minimum of 20% of their tax increment revenues to provide for low and moderate income housing.

#### Non-Major Capital Project Funds

The following Capital Projects Funds have been classified as non-major funds in the accompanying financial statements:

Community Facilities Districts - The Greenspot Corridor (CFD 90-1) in the east end of the City has been placed into a CFD (Mello-Roos) District to provide needed infrastructure, housing, and commercial retail growth to that area along with a school. Also to be provided are police and fire services. Tract 14326 (CFD 2001-1) is a residential Community Facilities District.



CITY OF HIGHLAND  
Nonmajor Governmental Funds

Combining Balance Sheet

June 30, 2011

	Special Revenue	Community Facilities District - Capital Project	Totals	
			2011	2010
<u>Assets</u>				
Cash and investments	\$ 34,671,330	32,084	34,703,414	34,969,809
Cash and investments with fiscal agent	-	23,432	23,432	23,432
Accounts receivable	499,715	3,255	502,970	575,350
Interest receivable	36,707	-	36,707	39,876
Property tax receivable	73,527	23,060	96,587	149,203
Loans receivable	695,728	-	695,728	695,728
Due from other governments	366,675	-	366,675	1,001,429
Total assets	\$ 36,343,682	81,831	36,425,513	37,454,827
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ 388,694	23,060	411,754	798,519
Accrued liabilities	11,374	-	11,374	18,792
Retention payable	16,546	-	16,546	59,698
Deferred revenue	705,890	-	705,890	884,193
Due to other funds	284,809	-	284,809	244,805
Total liabilities	1,407,313	23,060	1,430,373	2,006,007
Fund balances:				
Spendable:				
Restricted	35,181,776	-	35,181,776	35,390,050
Assigned	-	58,771	58,771	58,770
Unassigned	(245,407)	-	(245,407)	-
Total fund balances	34,936,369	58,771	34,995,140	35,448,820
Total liabilities and fund balances	\$ 36,343,682	81,831	36,425,513	37,454,827

CITY OF HIGHLAND  
Nonmajor Governmental Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

For the Fiscal Year Ended June 30, 2011

	Special Revenue	Community Facilities District - Capital Project	Totals	
			2011	2010
<b>Revenues:</b>				
Taxes	\$ 4,813,422	-	4,813,422	5,211,565
Licenses and permits	43,988	-	43,988	36,229
Intergovernmental	3,357,490	-	3,357,490	3,166,304
Charges for services	654,385	-	654,385	623,816
Fines and forfeitures	243,138	-	243,138	310,431
Investment income	161,996	-	161,996	207,920
Rental income	205,380	-	205,380	92,519
Miscellaneous	48,953	3,255	52,208	53,968
Total revenues	<u>9,528,752</u>	<u>3,255</u>	<u>9,532,007</u>	<u>9,702,752</u>
<b>Expenditures:</b>				
Current:				
General government	1,713,559	3,254	1,716,813	1,486,262
Highways and streets	1,438,173	-	1,438,173	1,607,494
Public safety	2,871,926	-	2,871,926	2,939,803
Capital outlay	28,745	-	28,745	274,177
Debt service:				
Principal	272,500	-	272,500	261,250
Interest	728,532	-	728,532	779,156
Total expenditures	<u>7,053,435</u>	<u>3,254</u>	<u>7,056,689</u>	<u>7,348,142</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,475,317</u>	<u>1</u>	<u>2,475,318</u>	<u>2,354,610</u>
<b>Other financing sources (uses):</b>				
Transfers in	784,808	-	784,808	696,840
Transfers out	<u>(3,713,806)</u>	<u>-</u>	<u>(3,713,806)</u>	<u>(2,654,130)</u>
Total other financing sources (uses)	<u>(2,928,998)</u>	<u>-</u>	<u>(2,928,998)</u>	<u>(1,957,290)</u>
Net change in fund balances	(453,681)	1	(453,680)	397,320
Fund balances at beginning of year	<u>35,390,050</u>	<u>58,770</u>	<u>35,448,820</u>	<u>35,051,500</u>
Fund balances at end of year	<u>\$ 34,936,369</u>	<u>58,771</u>	<u>34,995,140</u>	<u>35,448,820</u>

CITY OF HIGHLAND  
Nonmajor Special Revenue Funds

Combining Balance Sheet

June 30, 2011

	Traffic Safety	State Gas Tax	Article 3	Community Development Block Grant	Development Impact Fees	Developer Fee
<u>Assets</u>						
Cash and investments	\$ 605,003	2,735,620	-	-	7,443,113	2,991,718
Accounts receivable	-	-	-	-	-	-
Interest receivable	296	2,702	-	-	5,685	3,087
Property tax receivable	-	-	-	-	-	-
Loans receivable	-	-	-	-	-	-
Due from other governments	12,634	159,923	-	44,621	15,328	-
Total assets	<u>\$ 617,933</u>	<u>2,898,245</u>	<u>-</u>	<u>44,621</u>	<u>7,464,126</u>	<u>2,994,805</u>
<u>Liabilities and Fund Balances</u>						
Liabilities:						
Accounts payable	\$ 25,244	-	-	-	26,694	69,308
Accrued liabilities	-	-	-	2,580	-	536
Retention payable	-	-	-	-	16,546	-
Deferred revenue	-	-	-	-	-	-
Due to other funds	-	-	-	42,041	-	-
Total liabilities	<u>25,244</u>	<u>-</u>	<u>-</u>	<u>44,621</u>	<u>43,240</u>	<u>69,844</u>
Fund balances:						
Spendable:						
Restricted	592,689	2,898,245	-	-	7,420,886	2,924,961
Assigned	-	-	-	-	-	-
Unassigned	-	-	-	-	-	-
Total fund balances (deficit)	<u>592,689</u>	<u>2,898,245</u>	<u>-</u>	<u>-</u>	<u>7,420,886</u>	<u>2,924,961</u>
Total liabilities and fund balances	<u>\$ 617,933</u>	<u>2,898,245</u>	<u>-</u>	<u>44,621</u>	<u>7,464,126</u>	<u>2,994,805</u>

<u>Office of Traffic Safety</u>	<u>Landscape Maintenance District</u>	<u>Streetlight Assessment District</u>	<u>Community Trail District</u>	<u>Park Assessment District</u>	<u>Measure I</u>	<u>Air Quality Management District</u>	<u>COPS</u>	<u>Street Maintenance District</u>
-	495,681	-	21,976	42,132	6,544,356	416,678	-	210,159
-	-	-	-	-	-	-	-	-
-	416	-	4	-	7,015	229	-	149
-	2,036	3,618	77	651	-	-	-	226
-	-	-	-	-	-	-	-	-
<u>14,015</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>46,036</u>	<u>12,590</u>	<u>11,324</u>	<u>-</u>
<u>14,015</u>	<u>498,133</u>	<u>3,618</u>	<u>22,057</u>	<u>42,783</u>	<u>6,597,407</u>	<u>429,497</u>	<u>11,324</u>	<u>210,534</u>
2,814	8,116	42,514	2,311	7,363	-	1,800	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
<u>11,201</u>	<u>-</u>	<u>206,511</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,324</u>	<u>-</u>
<u>14,015</u>	<u>8,116</u>	<u>249,025</u>	<u>2,311</u>	<u>7,363</u>	<u>-</u>	<u>1,800</u>	<u>11,324</u>	<u>-</u>
-	490,017	-	19,746	35,420	6,597,407	427,697	-	210,534
-	-	-	-	-	-	-	-	-
-	-	(245,407)	-	-	-	-	-	-
-	<u>490,017</u>	<u>(245,407)</u>	<u>19,746</u>	<u>35,420</u>	<u>6,597,407</u>	<u>427,697</u>	<u>-</u>	<u>210,534</u>
<u>14,015</u>	<u>498,133</u>	<u>3,618</u>	<u>22,057</u>	<u>42,783</u>	<u>6,597,407</u>	<u>429,497</u>	<u>11,324</u>	<u>210,534</u>

(Continued)

CITY OF HIGHLAND  
Nonmajor Special Revenue Funds

Combining Balance Sheet

(Continued)

	Justice Assistance Grant	Paramedics	Fire	RDA Low and Moderate Housing	Totals	
					2011	2010
<u>Assets</u>						
Cash and investments	\$ 42,370	-	6,335,120	6,787,404	34,671,330	34,937,601
Accounts receivable	-	-	491,439	8,276	499,715	572,220
Interest receivable	-	-	6,578	10,546	36,707	39,873
Property tax receivable	-	6,140	39,861	20,918	73,527	122,338
Loans receivable	-	-	-	695,728	695,728	695,728
Due from other governments	-	24,000	26,204	-	366,675	1,001,429
Total assets	<u>\$ 42,370</u>	<u>30,140</u>	<u>6,899,202</u>	<u>7,522,872</u>	<u>36,343,682</u>	<u>37,369,189</u>
<u>Liabilities and Fund Balances</u>						
Liabilities:						
Accounts payable	\$ 9,208	16,408	156,354	20,560	388,694	771,651
Accrued liabilities	-	-	290	7,968	11,374	18,792
Retention payable	-	-	-	-	16,546	59,698
Deferred revenue	-	-	10,162	695,728	705,890	884,193
Due to other funds	-	13,732	-	-	284,809	244,805
Total liabilities	<u>9,208</u>	<u>30,140</u>	<u>166,806</u>	<u>724,256</u>	<u>1,407,313</u>	<u>1,979,139</u>
Fund balances:						
Spendable:						
Restricted	33,162	-	6,732,396	6,798,616	35,181,776	35,390,050
Assigned	-	-	-	-	-	-
Unassigned	-	-	-	-	(245,407)	-
Total fund balances (deficit)	<u>33,162</u>	<u>-</u>	<u>6,732,396</u>	<u>6,798,616</u>	<u>34,936,369</u>	<u>35,390,050</u>
Total liabilities and fund balances	<u>\$ 42,370</u>	<u>30,140</u>	<u>6,899,202</u>	<u>7,522,872</u>	<u>36,343,682</u>	<u>37,369,189</u>



CITY OF HIGHLAND  
Nonmajor Special Revenue Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

For the Fiscal Year Ended June 30, 2011

	Traffic Safety	State Gas Tax	Article 3	Community Development Block Grant	Development Impact Fee	Developer Fees
Revenues:						
Taxes	\$ -	-	97,589	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	2,086,334	-	155,879	15,301	-
Charges for services	-	-	-	-	45,009	117,937
Fines and forfeitures	243,138	-	-	-	-	-
Investment income	1,456	12,802	-	-	29,303	13,018
Rental income	-	-	-	-	-	-
Miscellaneous	-	2,202	-	-	-	-
Total revenues	<u>244,594</u>	<u>2,101,338</u>	<u>97,589</u>	<u>155,879</u>	<u>89,613</u>	<u>130,955</u>
Expenditures:						
Current:						
General government	-	-	-	153,381	-	-
Highways and streets	-	-	-	2,498	586,065	106,986
Public safety	197,993	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Total expenditures	<u>197,993</u>	<u>-</u>	<u>-</u>	<u>155,879</u>	<u>586,065</u>	<u>106,986</u>
Excess (deficiency) of revenues over (under) expenditures	<u>46,601</u>	<u>2,101,338</u>	<u>97,589</u>	<u>-</u>	<u>(496,452)</u>	<u>23,969</u>
Other financing sources (uses):						
Transfers in	-	217,535	-	-	-	-
Transfers out	-	(3,097,991)	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>(2,880,456)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	46,601	(779,118)	97,589	-	(496,452)	23,969
Fund balances (deficit) at beginning of year	<u>546,088</u>	<u>3,677,363</u>	<u>(97,589)</u>	<u>-</u>	<u>7,917,338</u>	<u>2,900,992</u>
Fund balances (deficit) at end of year	<u>\$ 592,689</u>	<u>2,898,245</u>	<u>-</u>	<u>-</u>	<u>7,420,886</u>	<u>2,924,961</u>

<u>Office of Traffic Safety</u>	<u>Landscape Maintenance District</u>	<u>Streetlight Assessment District</u>	<u>Community Trail District</u>	<u>Park Assessment District</u>	<u>Measure I</u>	<u>Air Quality Management District</u>	<u>COPS</u>	<u>Street Maintenance District</u>
-	189,007	336,132	7,110	60,435	-	-	-	25,818
-	-	-	-	-	-	-	-	-
26,543	-	-	-	-	678,985	57,635	100,095	-
-	-	-	-	-	-	-	-	-
-	1,724	-	42	-	28,613	1,118	-	673
-	-	-	-	-	-	-	-	-
-	14,188	-	-	20,400	-	-	-	6,744
<u>26,543</u>	<u>204,919</u>	<u>336,132</u>	<u>7,152</u>	<u>80,835</u>	<u>707,598</u>	<u>58,753</u>	<u>100,095</u>	<u>33,235</u>
-	-	-	8,026	89,732	-	-	-	-
-	184,176	527,073	-	-	18,314	9,900	-	3,161
26,543	-	-	-	-	-	-	100,095	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
<u>26,543</u>	<u>184,176</u>	<u>527,073</u>	<u>8,026</u>	<u>89,732</u>	<u>18,314</u>	<u>9,900</u>	<u>100,095</u>	<u>3,161</u>
-	20,743	(190,941)	(874)	(8,897)	689,284	48,853	-	30,074
-	-	-	-	35,893	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	35,893	-	-	-	-
-	20,743	(190,941)	(874)	26,996	689,284	48,853	-	30,074
-	469,274	(54,466)	20,620	8,424	5,908,123	378,844	-	180,460
-	490,017	(245,407)	19,746	35,420	6,597,407	427,697	-	210,534

(Continued)

CITY OF HIGHLAND  
Nonmajor Special Revenue Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

(Continued)

	Justice Assistance Grant	Paramedics	Fire	RDA Low and Moderate Housing	Totals	
					2011	2010
<b>Revenues:</b>						
Taxes	\$ -	356,207	2,099,502	1,641,622	4,813,422	5,211,565
Licenses and permits	-	-	43,988	-	43,988	36,229
Intergovernmental	27,283	24,000	185,435	-	3,357,490	3,166,304
Charges for services	-	-	491,439	-	654,385	623,816
Fines and forfeitures	-	-	-	-	243,138	310,431
Investment income	-	-	29,150	44,097	161,996	207,920
Rental income	-	-	-	205,380	205,380	92,519
Miscellaneous	-	-	-	5,419	48,953	50,837
<b>Total revenues</b>	<u>27,283</u>	<u>380,207</u>	<u>2,849,514</u>	<u>1,896,518</u>	<u>9,528,752</u>	<u>9,699,621</u>
<b>Expenditures:</b>						
<b>Current:</b>						
General government	-	167,524	124,293	1,170,603	1,713,559	1,483,131
Highways and street	-	-	-	-	1,438,173	1,607,494
Public safety	69,660	707,258	1,770,377	-	2,871,926	2,939,803
Capital outlay	-	-	28,745	-	28,745	274,177
<b>Debt service:</b>						
Principal	-	-	-	272,500	272,500	261,250
Interest	-	-	-	728,532	728,532	779,156
<b>Total expenditures</b>	<u>69,660</u>	<u>874,782</u>	<u>1,923,415</u>	<u>2,171,635</u>	<u>7,053,435</u>	<u>7,345,011</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(42,377)</u>	<u>(494,575)</u>	<u>926,099</u>	<u>(275,117)</u>	<u>2,475,317</u>	<u>2,354,610</u>
<b>Other financing sources (uses):</b>						
Transfers in	-	531,380	-	-	784,808	696,840
Transfers out	-	(36,805)	(579,010)	-	(3,713,806)	(2,654,130)
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>494,575</u>	<u>(579,010)</u>	<u>-</u>	<u>(2,928,998)</u>	<u>(1,957,290)</u>
<b>Net change in fund balances</b>	<u>(42,377)</u>	<u>-</u>	<u>347,089</u>	<u>(275,117)</u>	<u>(453,681)</u>	<u>397,320</u>
<b>Fund balances (deficit) at beginning of year</b>	<u>75,539</u>	<u>-</u>	<u>6,385,307</u>	<u>7,073,733</u>	<u>35,390,050</u>	<u>34,992,730</u>
<b>Fund balances (deficit) at end of year</b>	<u>\$ 33,162</u>	<u>-</u>	<u>6,732,396</u>	<u>6,798,616</u>	<u>34,936,369</u>	<u>35,390,050</u>



CITY OF HIGHLAND  
Traffic Safety Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the Fiscal Year Ended June 30, 2011

	Final Budget	Actual	Variance Positive (Negative)	Prior Year Actual
Revenues:				
Fines and forfeitures	\$ 222,400	243,138	20,738	310,431
Investment income	5,000	1,456	(3,544)	2,594
Total revenues	<u>227,400</u>	<u>244,594</u>	<u>17,194</u>	<u>313,025</u>
Expenditures:				
Current:				
Public safety	<u>207,400</u>	<u>197,993</u>	<u>9,407</u>	<u>209,608</u>
Total expenditures	<u>207,400</u>	<u>197,993</u>	<u>9,407</u>	<u>209,608</u>
Net change in fund balance	20,000	46,601	26,601	103,417
Fund balance at beginning of year	<u>546,088</u>	<u>546,088</u>	-	<u>442,671</u>
Fund balance at end of year	<u><u>\$ 566,088</u></u>	<u><u>592,689</u></u>	<u><u>26,601</u></u>	<u><u>546,088</u></u>

CITY OF HIGHLAND  
State Gas Tax Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the Fiscal Year Ended June 30, 2011

	Final Budget	Actual	Variance Positive (Negative)	Prior Year Actual
<b>Revenues:</b>				
Intergovernmental	\$ 1,176,500	2,086,334	909,834	1,330,466
Investment income	5,000	12,802	7,802	22,597
Miscellaneous	-	2,202	2,202	277
<b>Total revenues</b>	<u>1,181,500</u>	<u>2,101,338</u>	<u>919,838</u>	<u>1,353,340</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>1,181,500</u>	<u>2,101,338</u>	<u>919,838</u>	<u>1,353,340</u>
<b>Other financing sources (uses):</b>				
Transfers in	217,535	217,535	-	-
Transfers out	(3,436,415)	(3,097,991)	338,424	(1,887,487)
<b>Total other financing sources (uses)</b>	<u>(3,218,880)</u>	<u>(2,880,456)</u>	<u>338,424</u>	<u>(1,887,487)</u>
<b>Net change in fund balance</b>	(2,037,380)	(779,118)	1,258,262	(534,147)
Fund balance at beginning of year	<u>3,677,363</u>	<u>3,677,363</u>	-	<u>4,211,510</u>
Fund balance at end of year	<u>\$ 1,639,983</u>	<u>2,898,245</u>	<u>1,258,262</u>	<u>3,677,363</u>

CITY OF HIGHLAND  
Article 3

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the Fiscal Year Ended June 30, 2011

	Final Budget	Actual	Variance Positive (Negative)	Prior Year Actual
Revenues:				
Taxes	\$ -	97,589	97,589	258,237
Total revenues	-	97,589	97,589	258,237
Expenditures:				
Capital outlay	-	-	-	274,177
Total expenditures	-	-	-	274,177
Excess (deficiency) of revenues over (under) expenditures	-	97,589	-	(15,940)
Other financing sources (uses):				
Transfers out	(81,650)	-	81,650	(81,649)
Total other financing sources (uses)	(81,650)	-	81,650	(81,649)
Net change in fund balance	(81,650)	97,589	179,239	(97,589)
Fund balance (deficit) at beginning of year	(97,589)	(97,589)	-	-
Fund balance (deficit) at end of year	<u>\$ (179,239)</u>	<u>-</u>	<u>179,239</u>	<u>(97,589)</u>

CITY OF HIGHLAND  
Community Development Block Grant Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the Fiscal Year Ended June 30, 2011

	Final Budget	Actual	Variance Positive (Negative)	Prior Year Actual
Revenues:				
Intergovernmental	\$ 409,145	155,879	(253,266)	742,025
Total revenues	<u>409,145</u>	<u>155,879</u>	<u>(253,266)</u>	<u>742,025</u>
Expenditures:				
Current:				
General government	134,145	153,381	(19,236)	145,046
Highways and streets	<u>275,000</u>	<u>2,498</u>	<u>272,502</u>	<u>596,979</u>
Total expenditures	<u>409,145</u>	<u>155,879</u>	<u>253,266</u>	<u>742,025</u>
Net change in fund balance	-	-	-	-
Fund balance at beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance at end of year	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>

CITY OF HIGHLAND  
Development Impact Fees Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the Fiscal Year Ended June 30, 2011

	Final Budget	Actual	Variance Positive (Negative)	Prior Year Actual
<b>Revenues:</b>				
Intergovernmental	\$ -	15,301	15,301	-
Charges for services	475,000	45,009	(429,991)	4,655
Investment income	25,000	29,303	4,303	41,547
Total revenues	<u>500,000</u>	<u>89,613</u>	<u>(410,387)</u>	<u>46,202</u>
<b>Expenditures:</b>				
<b>Current:</b>				
Highways and streets	1,162,000	586,065	575,935	276,297
Total expenditures	<u>1,162,000</u>	<u>586,065</u>	<u>575,935</u>	<u>276,297</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(662,000)</u>	<u>(496,452)</u>	<u>165,548</u>	<u>(230,095)</u>
<b>Other financing sources (uses):</b>				
Transfers in	-	-	-	61,146
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>61,146</u>
Net change in fund balance	(662,000)	(496,452)	165,548	(168,949)
Fund balance at beginning of year	<u>7,917,338</u>	<u>7,917,338</u>	<u>-</u>	<u>8,086,287</u>
Fund balance at end of year	<u>\$ 7,255,338</u>	<u>7,420,886</u>	<u>165,548</u>	<u>7,917,338</u>

CITY OF HIGHLAND  
Developer Fee Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the Fiscal Year Ended June 30, 2011

	Final Budget	Actual	Variance Positive (Negative)	Prior Year Actual
Revenues:				
Charges for services	\$ 10,000	117,937	107,937	146,093
Investment income	<u>15,000</u>	<u>13,018</u>	<u>(1,982)</u>	<u>18,107</u>
Total revenues	<u>25,000</u>	<u>130,955</u>	<u>105,955</u>	<u>164,200</u>
Expenditures:				
Current:				
Highways and streets	<u>121,945</u>	<u>106,986</u>	<u>14,959</u>	<u>25,636</u>
Total expenditures	<u>121,945</u>	<u>106,986</u>	<u>14,959</u>	<u>25,636</u>
Net change in fund balance	(96,945)	23,969	120,914	138,564
Fund balance at beginning of year	<u>2,900,992</u>	<u>2,900,992</u>	<u>-</u>	<u>2,762,428</u>
Fund balance at end of year	<u>\$ 2,804,047</u>	<u>2,924,961</u>	<u>120,914</u>	<u>2,900,992</u>

CITY OF HIGHLAND  
Office of Traffic Safety Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the Fiscal Year Ended June 30, 2011

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>	<u>Prior Year Actual</u>
Revenues:				
Intergovernmental	\$ 26,550	26,543	(7)	22,572
Total revenues	<u>26,550</u>	<u>26,543</u>	<u>(7)</u>	<u>22,572</u>
Expenditures:				
Current:				
Public safety	<u>26,550</u>	<u>26,543</u>	<u>7</u>	<u>22,572</u>
Total expenditures	<u>26,550</u>	<u>26,543</u>	<u>7</u>	<u>22,572</u>
Net change in fund balance	-	-	-	-
Fund balance at beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance at end of year	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>

CITY OF HIGHLAND  
Landscape Maintenance District Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the Fiscal Year Ended June 30, 2011

	Final Budget	Actual	Variance Positive (Negative)	Prior Year Actual
Revenues:				
Taxes	\$ 137,500	189,007	51,507	160,577
Investment income	5,000	1,724	(3,276)	2,682
Miscellaneous	-	14,188	14,188	25,650
Total revenues	<u>142,500</u>	<u>204,919</u>	<u>62,419</u>	<u>188,909</u>
Expenditures:				
Current:				
Highways and streets	<u>184,200</u>	<u>184,176</u>	<u>24</u>	<u>181,737</u>
Total expenditures	<u>184,200</u>	<u>184,176</u>	<u>24</u>	<u>181,737</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(41,700)</u>	<u>20,743</u>	<u>62,443</u>	<u>7,172</u>
Other financing sources (uses):				
Transfers in	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	(41,700)	20,743	62,443	7,172
Fund balance at beginning of year	<u>469,274</u>	<u>469,274</u>	<u>-</u>	<u>462,102</u>
Fund balance at end of year	<u>\$ 427,574</u>	<u>490,017</u>	<u>62,443</u>	<u>469,274</u>

CITY OF HIGHLAND  
Streetlight Assessment District Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the Fiscal Year Ended June 30, 2011

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>	<u>Prior Year Actual</u>
Revenues:				
Taxes	\$ 340,500	336,132	(4,368)	391,569
Investment income	<u>-</u>	<u>-</u>	<u>-</u>	<u>67</u>
Total revenues	<u>340,500</u>	<u>336,132</u>	<u>(4,368)</u>	<u>391,636</u>
Expenditures:				
Current:				
Highways and streets	<u>545,200</u>	<u>527,073</u>	<u>18,127</u>	<u>521,926</u>
Total expenditures	<u>545,200</u>	<u>527,073</u>	<u>18,127</u>	<u>521,926</u>
Net change in fund balance	(204,700)	(190,941)	13,759	(130,290)
Fund balance (deficit) at beginning of year	<u>(54,466)</u>	<u>(54,466)</u>	<u>-</u>	<u>75,824</u>
Fund balance (deficit) at end of year	<u>\$ (259,166)</u>	<u>(245,407)</u>	<u>13,759</u>	<u>(54,466)</u>

CITY OF HIGHLAND  
Community Trail District Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the Fiscal Year Ended June 30, 2011

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>	<u>Prior Year Actual</u>
Revenues:				
Taxes	\$ 5,750	7,110	1,360	6,495
Investment income	<u>-</u>	<u>42</u>	<u>42</u>	<u>100</u>
Total revenues	<u>5,750</u>	<u>7,152</u>	<u>1,402</u>	<u>6,595</u>
Expenditures:				
Current:				
General government	<u>12,250</u>	<u>8,026</u>	<u>4,224</u>	<u>12,529</u>
Total expenditures	<u>12,250</u>	<u>8,026</u>	<u>4,224</u>	<u>12,529</u>
Net change in fund balance	(6,500)	(874)	5,626	(5,934)
Fund balance at beginning of year	<u>20,620</u>	<u>20,620</u>	<u>-</u>	<u>26,554</u>
Fund balance at end of year	<u>\$ 14,120</u>	<u>19,746</u>	<u>5,626</u>	<u>20,620</u>

CITY OF HIGHLAND  
Park Assessment District Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the Fiscal Year Ended June 30, 2011

	Final Budget	Actual	Variance Positive (Negative)	Prior Year Actual
<b>Revenues:</b>				
Taxes	\$ 32,000	60,435	28,435	31,879
Investment income	-	-	-	7
Miscellaneous income	-	20,400	20,400	-
<b>Total revenues</b>	<u>32,000</u>	<u>80,835</u>	<u>48,835</u>	<u>31,886</u>
<b>Expenditures:</b>				
<b>Current:</b>				
General government	91,145	89,732	1,413	83,712
<b>Total expenditures</b>	<u>91,145</u>	<u>89,732</u>	<u>1,413</u>	<u>83,712</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(59,145)</u>	<u>(8,897)</u>	<u>50,248</u>	<u>(51,826)</u>
<b>Other financing sources (uses):</b>				
Transfers in	24,380	35,893	11,513	33,485
<b>Total other financing sources (uses)</b>	<u>24,380</u>	<u>35,893</u>	<u>11,513</u>	<u>33,485</u>
<b>Net change in fund balance</b>	<u>(34,765)</u>	<u>26,996</u>	<u>61,761</u>	<u>(18,341)</u>
Fund balance at beginning of year	<u>8,424</u>	<u>8,424</u>	<u>-</u>	<u>26,765</u>
<b>Fund balance (deficit) at end of year</b>	<u>\$ (26,341)</u>	<u>35,420</u>	<u>61,761</u>	<u>8,424</u>

CITY OF HIGHLAND  
Measure I Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the Fiscal Year Ended June 30, 2011

	Final Budget	Actual	Variance Positive (Negative)	Prior Year Actual
Revenues:				
Intergovernmental	\$ 795,000	678,985	(116,015)	538,927
Investment income	25,000	28,613	3,613	34,628
Total revenues	<u>820,000</u>	<u>707,598</u>	<u>(112,402)</u>	<u>573,555</u>
Expenditures:				
Current:				
Highways and streets	2,797,000	18,314	2,778,686	-
Total expenditures	<u>2,797,000</u>	<u>18,314</u>	<u>2,778,686</u>	<u>-</u>
Net change in fund balance	(1,977,000)	689,284	2,666,284	573,555
Fund balance at beginning of year	<u>5,908,123</u>	<u>5,908,123</u>	-	<u>5,334,568</u>
Fund balance at end of year	<u>\$ 3,931,123</u>	<u>6,597,407</u>	<u>2,666,284</u>	<u>5,908,123</u>

CITY OF HIGHLAND  
Air Quality Management District Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the Fiscal Year Ended June 30, 2011

	<u>Final Budget</u>	<u>Actual</u>	Variance Positive (Negative)	<u>Prior Year Actual</u>
Revenues:				
Intergovernmental	\$ 60,000	57,635	(2,365)	99,849
Investment income	<u>2,500</u>	<u>1,118</u>	<u>(1,382)</u>	<u>1,498</u>
Total revenues	<u>62,500</u>	<u>58,753</u>	<u>(3,747)</u>	<u>101,347</u>
Expenditures:				
Current:				
Highway and streets	<u>15,000</u>	<u>9,900</u>	<u>5,100</u>	<u>3,600</u>
Total expenditures	<u>15,000</u>	<u>9,900</u>	<u>5,100</u>	<u>3,600</u>
Net change in fund balance	47,500	48,853	1,353	97,747
Fund balance at beginning of year	<u>378,844</u>	<u>378,844</u>	<u>-</u>	<u>281,097</u>
Fund balance at end of year	<u>\$ 426,344</u>	<u>427,697</u>	<u>1,353</u>	<u>378,844</u>

CITY OF HIGHLAND  
COPS Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the Fiscal Year Ended June 30, 2011

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>	<u>Prior Year Actual</u>
Revenues:				
Intergovernmental	\$ 100,000	100,095	95	100,287
Total revenues	<u>100,000</u>	<u>100,095</u>	<u>95</u>	<u>100,287</u>
Expenditures:				
Current:				
Public safety	<u>100,100</u>	<u>100,095</u>	<u>5</u>	<u>122,377</u>
Total expenditures	<u>100,100</u>	<u>100,095</u>	<u>5</u>	<u>122,377</u>
Net change in fund balance	(100)	-	100	(22,090)
Fund balance at beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,090</u>
Fund balance at end of year	<u><u>\$ (100)</u></u>	<u><u>-</u></u>	<u><u>100</u></u>	<u><u>-</u></u>

CITY OF HIGHLAND  
Street Maintenance District Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the Fiscal Year Ended June 30, 2011

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>	<u>Prior Year Actual</u>
Revenues:				
Taxes	\$ 20,000	25,818	5,818	25,402
Investment income	1,000	673	(327)	904
Miscellaneous income	<u>-</u>	<u>6,744</u>	<u>6,744</u>	<u>-</u>
Total revenues	<u>21,000</u>	<u>33,235</u>	<u>12,235</u>	<u>26,306</u>
Expenditures:				
Current:				
Highways and streets	<u>13,150</u>	<u>3,161</u>	<u>9,989</u>	<u>1,319</u>
Total expenditures	<u>13,150</u>	<u>3,161</u>	<u>9,989</u>	<u>1,319</u>
Net change in fund balance	7,850	30,074	22,224	24,987
Fund balance at beginning of year	<u>180,460</u>	<u>180,460</u>	<u>-</u>	<u>155,473</u>
Fund balance at end of year	<u>\$ 188,310</u>	<u>210,534</u>	<u>22,224</u>	<u>180,460</u>

CITY OF HIGHLAND  
Justice Assistance Grant Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the Fiscal Year Ended June 30, 2011

	Final Budget	Actual	Variance Positive (Negative)	Prior Year Actual
Revenues:				
Intergovernmental	\$ 27,283	27,283	-	142,075
Investment income	-	-	-	67
Total revenues	27,283	27,283	-	142,142
Expenditures:				
Current:				
Public safety	68,375	69,660	(1,285)	68,359
Total expenditures	68,375	69,660	(1,285)	68,359
Net change in fund balance	(41,092)	(42,377)	(1,285)	73,783
Fund balance at beginning of year	75,539	75,539	-	1,756
Fund balance at end of year	\$ 34,447	33,162	(1,285)	75,539

CITY OF HIGHLAND  
Paramedics Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the Fiscal Year Ended June 30, 2011

	Final Budget	Actual	Variance Positive (Negative)	Prior Year Actual
Revenues:				
Taxes	\$ 331,000	356,207	25,207	358,880
Investment income	-	-	-	175
Intergovernmental	-	24,000	24,000	-
Total revenues	<u>331,000</u>	<u>380,207</u>	<u>49,207</u>	<u>359,055</u>
Expenditures:				
Current:				
General government	165,695	167,524	(1,829)	96,359
Public safety	1,107,810	707,258	400,552	828,820
Total expenditures	<u>1,273,505</u>	<u>874,782</u>	<u>398,723</u>	<u>925,179</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(942,505)</u>	<u>(494,575)</u>	<u>447,930</u>	<u>(566,124)</u>
Other financing sources (uses):				
Transfers in	979,310	531,380	(447,930)	602,209
Transfers out	(36,805)	(36,805)	-	(36,085)
Total other financing sources (uses)	<u>942,505</u>	<u>494,575</u>	<u>(447,930)</u>	<u>566,124</u>
Net change in fund balance	-	-	-	-
Fund balance at beginning of year	-	-	-	-
Fund balance (deficit) at end of year	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>

CITY OF HIGHLAND  
Fire Special Revenue Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the Fiscal Year Ended June 30, 2011

	Final Budget	Actual	Variance Positive (Negative)	Prior Year Actual
<b>Revenues:</b>				
Taxes	\$ 2,598,860	2,099,502	(499,358)	2,102,159
Licenses and permits	15,000	43,988	28,988	36,229
Intergovernmental	135,000	185,435	50,435	190,103
Charges for services	242,345	491,439	249,094	473,068
Investment income	35,000	29,150	(5,850)	34,645
Miscellaneous	-	-	-	15,806
<b>Total revenues</b>	<u>3,026,205</u>	<u>2,849,514</u>	<u>(176,691)</u>	<u>2,852,010</u>
<b>Expenditures:</b>				
<b>Current:</b>				
General government	130,440	124,293	6,147	133,130
Public safety	1,973,190	1,770,377	202,813	1,688,067
Capital outlay	500,000	28,745	471,255	-
<b>Total expenditures</b>	<u>2,603,630</u>	<u>1,923,415</u>	<u>680,215</u>	<u>1,821,197</u>
Excess (deficiency) of revenues over (under) expenditures	<u>422,575</u>	<u>926,099</u>	<u>503,524</u>	<u>1,030,813</u>
<b>Other financing sources (uses):</b>				
Transfers out	1,026,940	(579,010)	(1,605,950)	(648,909)
<b>Total other financing sources (uses)</b>	<u>1,026,940</u>	<u>(579,010)</u>	<u>(1,605,950)</u>	<u>(648,909)</u>
<b>Net change in fund balance</b>	1,449,515	347,089	(1,102,426)	381,904
<b>Fund balance at beginning of year</b>	<u>6,385,307</u>	<u>6,385,307</u>	<u>-</u>	<u>6,003,403</u>
<b>Fund balance at end of year</b>	<u>\$ 7,834,822</u>	<u>6,732,396</u>	<u>(1,102,426)</u>	<u>6,385,307</u>

CITY OF HIGHLAND  
RDA Low and Moderate Housing Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the Fiscal Year Ended June 30, 2011

	Final Budget	Actual	Variance Positive (Negative)	Prior Year Actual
Revenues:				
Taxes	\$ 1,440,000	1,641,622	201,622	1,876,367
Investment income	50,000	44,097	(5,903)	48,302
Rental income	50,000	205,380	155,380	92,519
Miscellaneous	10,000	5,419	(4,581)	9,104
<b>Total revenues</b>	<u>1,550,000</u>	<u>1,896,518</u>	<u>346,518</u>	<u>2,026,292</u>
Expenditures:				
Current:				
General government	1,578,360	1,170,603	407,757	1,012,355
Capital outlay	2,500,000	-	2,500,000	-
Debt service:				
Principal	272,500	272,500	-	261,250
Interest	682,750	728,532	(45,782)	779,156
<b>Total expenditures</b>	<u>5,033,610</u>	<u>2,171,635</u>	<u>2,861,975</u>	<u>2,052,761</u>
<b>Net change in fund balance</b>	<b>(3,483,610)</b>	<b>(275,117)</b>	<b>3,208,493</b>	<b>(26,469)</b>
Fund balance at beginning of year	<u>7,073,733</u>	<u>7,073,733</u>	<u>-</u>	<u>7,100,202</u>
Fund balance at end of year	<u>\$ 3,590,123</u>	<u>6,798,616</u>	<u>3,208,493</u>	<u>7,073,733</u>

## Debt Service Funds

Debt Service Funds are used to account for the accumulation of resources for the payment of general long-term debt principal, interest and related costs.

Redevelopment Agency - Long Term Debt is accounted for separately by the Agency and is recorded using the same principles as the City. Debt of the Agency includes Advances from the City, Tax Allocation Bonds sold in June 2004, Tax Allocation Bonds (refunding) also sold in June 2004, and Tax Allocation Bonds sold in 2007. In January of 2011, the RDA Board approved the repayment of the advances that totaled \$6,021,420. Therefore, the remaining debt for the RDA is for the 204A bonds, 2004B bonds & the 2007 bonds.

CITY OF HIGHLAND  
RDA Debt Service Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the Fiscal Year Ended June 30, 2011

	Final Budget	Actual	Variance Positive (Negative)	Prior Year Actual
<b>Revenues:</b>				
Taxes	\$ 5,600,000	6,566,489	966,489	7,505,468
Investment income	150,000	71,451	(78,549)	112,751
Miscellaneous	-	93,005	93,005	-
Total revenues	<u>5,750,000</u>	<u>6,730,945</u>	<u>980,945</u>	<u>7,618,219</u>
<b>Expenditures:</b>				
Current:				
General government	36,000	11,712	24,288	13,465
Debt service:				
Principal	857,500	857,500	-	823,750
Interest	2,589,500	2,332,633	256,867	2,527,182
RDA pass-through payments	2,648,500	2,235,547	412,953	2,515,074
SERAF payment	655,135	655,133	2	3,182,076
Total expenditures	<u>6,786,635</u>	<u>6,092,525</u>	<u>694,110</u>	<u>9,061,547</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,036,635)</u>	<u>638,420</u>	<u>1,675,055</u>	<u>(1,443,328)</u>
<b>Other financing sources (uses):</b>				
Transfers out	<u>(1,354,825)</u>	<u>(826,250)</u>	<u>528,575</u>	<u>(1,674,875)</u>
Total other financing sources (uses)	<u>(1,354,825)</u>	<u>(826,250)</u>	<u>528,575</u>	<u>(1,674,875)</u>
Net change in fund balance	<u>(2,391,460)</u>	<u>(187,830)</u>	<u>2,203,630</u>	<u>(3,118,203)</u>
Fund balance at beginning of year	<u>15,024,169</u>	<u>15,024,169</u>	<u>-</u>	<u>18,142,372</u>
Fund balance at end of year	<u>\$ 12,632,709</u>	<u>14,836,339</u>	<u>2,203,630</u>	<u>15,024,169</u>

## **Major and Non-Major Capital Project Funds**

**The following Capital Projects Funds have been classified as major funds in the accompanying financial statements:**

Redevelopment Agency - The Agency has adopted Project Area No. 1 as the project area for the Redevelopment Agency. In June 1994, the Agency issued refunded tax allocation bonds to provide the financing. The proceeds of these bonds have been used for the Warm Creek Storm Drain, the Rogers Lane extension and the Sterling Avenue drainage improvements. These 1994 bonds were refunded in June 2004 with tax allocation refunding bonds (2004B) with a lower interest rate. Additional bonds (2004A) were also sold in June 2004. These bonds have financed various infrastructure improvements in the project area as well as the construction of a new Police Station, the Library/Environmental Learning Center, and the Highland Athletic Center. In June 2007, addition Tax Allocation Bonds (2007) were sold to assist in the construction of a new Police Station, improve the infrastructure on Greenspot Road between SR 210 and Boulder Avenue (also known as the Golden Triangle), and to fund various infrastructure improvements throughout the Project area.

General Capital Financing - This fund was established to provide matching funds for potential competitive grants and fund future capital projects.

**The following Capital Projects Funds have been classified as non-major funds in the accompanying financial statements:**

Community Facilities Districts - The Greenspot Corridor (CFD 90-1) in the east end of the City has been placed into a CFD (Mello-Roos) District to provide needed infrastructure, housing, and commercial retail growth to that area along with a school. Also to be provided are police and fire services. Tract 14326 (CFD 2001-1) is a residential Community Facilities District.

CITY OF HIGHLAND  
Community Facilities District Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the Fiscal Year Ended June 30, 2011

	Final Budget	Actual	Variance Positive (Negative)	Prior Year Actual
Revenues:				
Miscellaneous	\$ 12,600	3,255	(9,345)	3,131
Total revenues	<u>12,600</u>	<u>3,255</u>	<u>(9,345)</u>	<u>3,131</u>
Expenditures:				
Current:				
General government	12,600	3,254	9,346	3,131
Total expenditures	<u>12,600</u>	<u>3,254</u>	<u>9,346</u>	<u>3,131</u>
Net change in fund balance	-	1	1	-
Fund balance at beginning of year	<u>58,770</u>	<u>58,770</u>	-	<u>58,770</u>
Fund balance at end of year	<u>\$ 58,770</u>	<u>58,771</u>	<u>1</u>	<u>58,770</u>

CITY OF HIGHLAND  
General Capital Financing Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the Fiscal Year Ended June 30, 2011

	Final Budget	Actual	Variance Positive (Negative)	Prior Year Actual
Revenues:				
Intergovernmental	\$ -	-	-	747,637
Investment income	5,000	1,126,691	1,121,691	21,897
Miscellaneous	-	-	-	231
Total revenues	<u>5,000</u>	<u>1,126,691</u>	<u>1,121,691</u>	<u>769,765</u>
Expenditures:				
Capital outlay	<u>484,500</u>	<u>73,430</u>	<u>411,070</u>	<u>310,809</u>
Total expenditures	<u>484,500</u>	<u>73,430</u>	<u>411,070</u>	<u>310,809</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(479,500)</u>	<u>1,053,261</u>	<u>1,532,761</u>	<u>458,956</u>
Other financing sources (uses):				
Transfers in	1,975,000	1,975,000	-	465,000
Transfers out	<u>(217,535)</u>	<u>(217,535)</u>	<u>-</u>	<u>(217,535)</u>
Total other financing sources (uses)	<u>1,757,465</u>	<u>1,757,465</u>	<u>-</u>	<u>247,465</u>
Net change in fund balance	1,277,965	2,810,726	1,532,761	706,421
Fund balance at beginning of year	<u>5,841,319</u>	<u>5,841,319</u>	<u>-</u>	<u>5,134,898</u>
Fund balance at end of year	<u>\$ 7,119,284</u>	<u>8,652,045</u>	<u>1,532,761</u>	<u>5,841,319</u>

CITY OF HIGHLAND  
Redevelopment Agency Capital Projects Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the Fiscal Year Ended June 30, 2011

	Final Budget	Actual	Variance Positive (Negative)	Prior Year Actual
Revenues:				
Investment income	\$ 500,000	114,322	(385,678)	291,911
Miscellaneous	-	-	-	35,987
Total revenues	<u>500,000</u>	<u>114,322</u>	<u>(385,678)</u>	<u>327,898</u>
Expenditures:				
Current:				
General government	679,460	658,023	21,437	416,783
Capital outlay	<u>15,583,425</u>	<u>10,441,390</u>	<u>5,142,035</u>	<u>4,646,353</u>
Total expenditures	<u>16,262,885</u>	<u>11,099,413</u>	<u>5,163,472</u>	<u>5,063,136</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(15,762,885)</u>	<u>(10,985,091)</u>	<u>4,777,794</u>	<u>(4,735,238)</u>
Other financing sources (uses):				
Transfers in	<u>1,055,520</u>	<u>826,250</u>	<u>(229,270)</u>	<u>2,418,034</u>
Total other financing sources (uses)	<u>1,055,520</u>	<u>826,250</u>	<u>(229,270)</u>	<u>2,418,034</u>
Net change in fund balance	(14,707,365)	(10,158,841)	4,548,524	(2,317,204)
Fund balance at beginning of year	<u>44,566,580</u>	<u>44,566,580</u>	<u>-</u>	<u>46,883,784</u>
Fund balance at end of year	<u>\$ 29,859,215</u>	<u>34,407,739</u>	<u>4,548,524</u>	<u>44,566,580</u>

## **Internal Service Funds**

The Internal Service Funds are used to allocate the cost of providing goods and services by one department to mother departments on a cost reimbursement basis. The City has two internal service funds; the Insurance Fund & the General Services Fund.

Insurance - This fund accounts for all expenditures relating to insurance premiums, workers compensation and general liability of the City.

General Services - This fund accounts for all expenditures relating to City Hall including; utilities, janitorial services, computer network, copier leases, equipment and building maintenance & repairs.

CITY OF HIGHLAND  
Internal Service Funds

Combining Statement of Net Assets

June 30, 2011

	Insurance	General Services	<u>Totals</u>	
			2011	2010
<u>Assets</u>				
Current assets:				
Cash and investments	\$ 5,033,930	2,007,727	7,041,657	6,120,870
Accounts receivable	-	-	-	11,028
Interest receivable	4,387	2,018	6,405	6,774
	<u>5,038,317</u>	<u>2,009,745</u>	<u>7,048,062</u>	<u>6,138,672</u>
Total current assets				
Total assets	<u>5,038,317</u>	<u>2,009,745</u>	<u>7,048,062</u>	<u>6,138,672</u>
<u>Liabilities</u>				
Current liabilities:				
Accounts payable	20,654	8,418	29,072	15,310
Accrued liabilities	2,185	1,327	3,512	4,921
Claims payable	73,220	-	73,220	15,496
	<u>96,059</u>	<u>9,745</u>	<u>105,804</u>	<u>35,727</u>
Total current liabilities				
Long-term liabilities:				
Claims payable	42,259	-	42,259	33,753
	<u>42,259</u>	<u>-</u>	<u>42,259</u>	<u>33,753</u>
Total long-term liabilities				
Total liabilities	<u>138,318</u>	<u>9,745</u>	<u>148,063</u>	<u>69,480</u>
<u>Net Assets</u>				
Net assets:				
Unrestricted	4,899,999	2,000,000	6,899,999	6,069,192
Total net assets	<u>\$ 4,899,999</u>	<u>2,000,000</u>	<u>6,899,999</u>	<u>6,069,192</u>

**CITY OF HIGHLAND**  
Internal Service Funds

Combining Statement of Revenues, Expenses and Changes in Fund Net Assets

For the Fiscal Year Ended June 30, 2011

	Insurance	General Services	Totals	
			2011	2010
Operating revenues:				
Charges for services	\$ 412,751	171,349	584,100	511,008
Total operating revenues	412,751	171,349	584,100	511,008
Operating expenses:				
Salaries and benefits	84,092	-	84,092	83,523
Insurance premiums	238,342	-	238,342	292,630
Claims and judgments	66,633	-	66,633	7,500
Legal fees	34,844	-	34,844	16,643
Administrative expenses	316	179,599	179,915	190,129
Reduction in claims and judgements	6,587	-	6,587	(46,456)
Total operating expenses	430,814	179,599	610,413	543,969
Operating income (loss)	(18,063)	(8,250)	(26,313)	(32,961)
Non-operating revenues (expenses):				
Investment income	18,063	8,250	26,313	32,961
Total non-operating revenues and (expenses)	18,063	8,250	26,313	32,961
Income (loss) before transfers	-	-	-	-
Transfers in	830,807	-	830,807	500,000
Total transfers	830,807	-	830,807	500,000
Change in net assets	830,807	-	830,807	500,000
Net assets at beginning of year	4,069,192	2,000,000	6,069,192	5,569,192
Net assets at end of year	\$ 4,899,999	2,000,000	6,899,999	6,069,192

CITY OF HIGHLAND

Internal Service Funds

Combining Statement of Cash Flows

For the Fiscal Year Ended June 30, 2011

	Insurance	General Services	Totals	
			2011	2010
Cash flows from operating activities:				
Cash received from user departments	\$ 423,779	171,349	595,128	505,643
Cash payments to employees for services	(85,667)	166	(85,501)	(82,362)
Cash payments made to suppliers/vendors	(266,770)	(179,560)	(446,330)	(520,711)
Net cash (used) by operating activities	<u>71,342</u>	<u>(8,045)</u>	<u>63,297</u>	<u>(97,430)</u>
Cash flows from non-capital financing activities:				
Cash transferred from other funds	830,807	-	830,807	500,000
Net cash provided by non-capital financing activities	<u>830,807</u>	<u>-</u>	<u>830,807</u>	<u>500,000</u>
Cash flows from investing activities:				
Interest received on investments	18,485	8,198	26,683	43,551
Net cash provided by investing activities	<u>18,485</u>	<u>8,198</u>	<u>26,683</u>	<u>43,551</u>
Net increase (decrease) in cash and investments	920,634	153	920,787	446,121
Cash and investments at beginning of year	4,113,296	2,007,574	6,120,870	5,674,749
Cash and investments and end of year	<u>\$ 5,033,930</u>	<u>2,007,727</u>	<u>7,041,657</u>	<u>6,120,870</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities				
Operating income (loss)	<u>(18,063)</u>	<u>(8,250)</u>	<u>(26,313)</u>	<u>(32,961)</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
(Increase) decrease in accounts receivable	11,028	-	11,028	(5,365)
Increase (decrease) in accounts payable	13,722	39	13,761	(5,813)
Increase (decrease) in accrued liabilities	(1,575)	166	(1,409)	1,161
Increase (decrease) in claims payable	66,230	-	66,230	(54,452)
Total adjustments	<u>89,405</u>	<u>205</u>	<u>89,610</u>	<u>(64,469)</u>
Net cash provided (used) by operating activities	<u>\$ 71,342</u>	<u>(8,045)</u>	<u>63,297</u>	<u>(97,430)</u>

Noncash Financing and Investing Transactions

For the years ended June 30, 2011 and 2010, there were no significant noncash investing or financing transactions.

## **Agency Funds**

Agency Funds are used to account for assets held by the City as an agent for individuals, private organizations, other governments and/or other funds. Agency Funds operate as a clearing mechanism. Cash resources are collected, held for a brief period and then distributed to the proper recipients. The City has a fiduciary responsibility for the assets, which it does not own outright.

Community Facilities Districts - These are specific amounts required by the bond indenture to be held in trust for the bondholders. There are two Community Facilities Districts in the City of Highland; CFD 90-1 & CFD 2001-1.

CITY OF HIGHLAND  
Agency Funds

Statement of Changes in Assets and Liabilities

For the Fiscal Year Ended June 30, 2011

	<u>Balance at</u> <u>June 30, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at</u> <u>June 30, 2011</u>
<u>COMMUNITY FACILITIES DISTRICT</u>				
<u>Assets</u>				
Cash and investments with fiscal agent	\$ 4,429,958	2,132,895	(2,236,778)	4,326,075
Total assets	<u>\$ 4,429,958</u>	<u>2,132,895</u>	<u>(2,236,778)</u>	<u>4,326,075</u>
<u>Liabilities</u>				
Held for bondholders	\$ 4,429,958	2,132,895	(2,236,778)	4,326,075
Total liabilities	<u>\$ 4,429,958</u>	<u>2,132,895</u>	<u>(2,236,778)</u>	<u>4,326,075</u>

## Statistical Section

This part of the City of Highland's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

### *Financial Trends*

These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.

### *Revenue Capacity*

These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.

### *Debt Capacity*

These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.

### *Demographic and Economic Information*

The schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.

### *Operating Information*

These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government and the activities it performs.

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial report for the relevant year.

CITY OF HIGHLAND  
 Net Assets by Component  
 Last Nine Fiscal Years  
 (accrual basis of accounting)

	Fiscal Year								
	2011	2010	2009	2008	2007	2006	2005	2004	2003
Governmental activities:									
Invested in capital assets, net of related deb	166,745,550	171,709,978	169,382,591	160,702,667	157,139,591	121,011,897	112,069,507	105,461,596	109,498,527
Restricted for:									
Public safety	7,344,410	7,006,934	6,469,920	5,076,025	3,739,146	2,415,673	3,630,728	3,728,451	5,004,081
Highways and streets	30,839,678	26,279,227	28,249,863	24,408,609	26,095,854	27,762,508	35,333,167	24,531,904	32,699,414
Unrestricted	35,405,842	39,571,361	39,310,516	43,152,599	36,644,876	40,316,580	27,917,644	35,491,142	10,033,871
Total governmental activities net assets	<u>\$240,335,480</u>	<u>\$244,567,500</u>	<u>\$243,412,890</u>	<u>\$233,339,900</u>	<u>\$223,619,467</u>	<u>\$191,506,658</u>	<u>\$178,951,046</u>	<u>\$169,213,093</u>	<u>\$157,235,893</u>

The City of Highland has elected to show only nine years of data for this schedule.

CITY OF HIGHLAND  
Changes in Net Assets  
Last Nine Fiscal Years  
(accrual basis of accounting)

	Fiscal Year								
	2011	2010	2009	2008	2007	2006	2005	2004	2003
<b>Expenses:</b>									
Governmental activities:									
General government	9,295,784	6,728,363	8,431,709	7,950,092	6,966,227	6,751,060	5,988,154	4,885,911	4,299,632
Public safety	9,902,952	9,526,477	9,148,103	8,853,182	8,307,371	8,825,415	6,869,219	6,319,006	5,307,495
Highways and streets	13,259,599	6,865,822	9,068,913	12,125,436	5,675,699	6,828,750	6,597,494	5,707,423	5,852,398
Interest and fiscal charges	3,149,382	3,394,624	3,069,352	3,495,578	1,553,904	1,374,956	1,732,596	585,924	1,341,961
Total governmental activities expenses	<u>35,607,717</u>	<u>26,515,286</u>	<u>29,718,077</u>	<u>32,424,288</u>	<u>22,503,201</u>	<u>23,780,181</u>	<u>21,187,463</u>	<u>17,498,264</u>	<u>16,801,486</u>
Program revenues:									
Governmental activities:									
Charges for services:									
General government	1,157,907	955,812	1,704,160	1,607,310	1,481,050	1,947,730	2,144,591	1,771,705	2,037,924
Public safety	670,229	611,327	650,111	628,282	592,096	849,671	548,497	279,796	39,446
Operating grants and contributions	5,718,412	3,398,587	4,431,240	5,537,451	5,522,785	4,363,371	3,991,912	8,314,825	8,290,252
Capital grants and contributions	6,837,643	7,229,187	12,196,780	10,378,921	24,205,419	10,013,382	9,240,282	7,886,676	2,870,429
Total governmental activities program revenues	<u>14,384,191</u>	<u>12,194,913</u>	<u>18,982,291</u>	<u>18,151,964</u>	<u>31,801,350</u>	<u>17,174,154</u>	<u>15,925,282</u>	<u>18,253,002</u>	<u>13,238,051</u>
Net revenues (expenses) governmental activities	<u>(21,223,526)</u>	<u>(14,320,373)</u>	<u>(10,735,786)</u>	<u>(14,272,324)</u>	<u>9,298,149</u>	<u>(6,606,027)</u>	<u>(5,262,181)</u>	<u>754,738</u>	<u>(3,563,435)</u>
General revenues and other changes in net assets:									
Governmental activities:									
Taxes:									
Property taxes	9,435,885	7,363,024	12,416,120	14,665,806	13,308,804	10,607,821	8,790,242	5,515,465	4,008,250
Sales and use taxes	1,437,845	1,327,033	1,048,170	1,564,043	1,301,204	1,251,758	1,221,413	1,117,850	1,089,790
Transient occupancy tax	178,729	167,247	123,211	41,747	49,401	48,295	42,303	37,676	29,121
Franchise taxes	1,440,500	1,456,089	1,497,340	1,411,566	1,465,842	1,280,418	1,145,318	1,104,213	995,270
Business license tax	276,517	228,259	240,498	325,616	272,323	520,149	378,124	574,603	386,082
Intergovernmental	59,014	119,184	-	-	-	-	-	-	-
Investment income	155,081	219,248	734,256	1,331,150	2,302,140	856,547	412,637	186,688	1,366,721
State motor vehicle in lieu, unrestricted	3,967,325	4,551,516	4,689,433	4,602,679	4,062,670	4,501,927	2,945,063	2,162,684	2,647,151
Miscellaneous	40,610	43,383	59,748	50,150	52,276	94,724	65,034	523,283	246,865
Total governmental activities	<u>16,991,506</u>	<u>15,474,983</u>	<u>20,808,776</u>	<u>23,992,757</u>	<u>22,814,660</u>	<u>19,161,639</u>	<u>15,000,134</u>	<u>11,222,462</u>	<u>10,769,250</u>
Changes in net assets governmental activities	<u>\$(4,232,020)</u>	<u>\$ 1,154,610</u>	<u>\$10,072,990</u>	<u>\$ 9,720,433</u>	<u>\$32,112,809</u>	<u>\$12,555,612</u>	<u>\$9,737,953</u>	<u>\$11,977,200</u>	<u>\$7,205,815</u>

The City of Highland has elected to show only nine years of data for this schedule.

CITY OF HIGHLAND  
Fund Balances of Governmental Funds  
Current Fiscal Year  
(modified accrual basis of accounting)

	Fiscal Year 2011
General fund:	
Nonspendable	12,228
Spendable:	
Restricted	-
Assigned	5,952,438
Unassigned	4,009,852
Total general fund	\$ 9,974,518
All other governmental funds:	
Nonspendable:	
Special revenue funds	-
Debt service funds	100,000
Capital projects funds	-
Restricted:	
Special revenue funds	382,837
Debt service funds	14,736,339
Capital projects funds	35,181,776
Committed:	
Special revenue funds	-
Debt service funds	-
Capital projects funds	-
Assigned:	
Special revenue funds	58,771
Debt service funds	-
Capital projects funds	42,064,464
Unassigned:	
Special revenue funds	(1,352,280)
Debt service funds	-
Capital projects funds	995,320
Total all other governmental funds	\$ 92,167,227

The City of Highland has elected to show only the current year of this data due to the implementation of GASB 54.

**CITY OF HIGHLAND**  
**Changes in Fund Balances of Governmental Funds**  
**Last Nine Fiscal Years**  
(modified accrual basis of accounting)

	Fiscal Year								
	2011	2010	2009	2008	2007	2006	2005	2004	2003
<b>Revenues:</b>									
Taxes	21,942,691	19,210,810	21,336,089	20,853,597	18,954,256	15,764,197	12,811,274	11,307,132	9,863,221
Licenses and permits	554,595	448,062	464,086	619,117	699,063	1,039,805	1,167,266	1,092,152	1,149,152
Intergovernmental	7,699,570	10,166,338	9,553,228	12,441,203	11,382,470	10,007,073	7,321,276	7,111,253	8,564,738
Charges for services	1,458,191	1,304,360	3,155,352	4,410,113	3,351,852	2,452,939	2,936,998	3,106,962	2,517,997
Fines and forfeitures	377,939	412,461	293,606	180,938	138,128	175,894	168,984	180,397	160,167
Investment income	4,171,178	673,370	2,227,472	4,545,003	4,402,668	2,578,243	1,679,173	671,757	854,251
Rental income	205,380	92,519	44,478	91,659	79,435	68,443	115,000	49,514	87,075
Miscellaneous	187,084	179,043	320,025	336,252	392,129	540,861	291,765	958,120	291,266
<b>Total revenues</b>	<b>36,596,628</b>	<b>32,486,963</b>	<b>37,394,336</b>	<b>43,477,882</b>	<b>39,400,001</b>	<b>32,627,455</b>	<b>26,491,736</b>	<b>24,477,287</b>	<b>23,487,867</b>
<b>Expenditures:</b>									
<b>Current:</b>									
General government	9,021,111	6,653,593	8,139,861	7,224,134	6,582,621	6,231,767	5,618,696	5,810,822	4,410,517
Highways and streets	7,399,331	4,858,799	4,585,701	4,871,550	4,245,419	5,273,278	6,662,147	5,643,750	6,074,120
Public safety	9,726,598	9,328,513	8,940,386	8,689,310	8,102,779	8,703,310	6,700,455	6,254,901	5,133,913
Capital outlay	10,543,565	5,231,339	4,565,061	11,112,930	16,026,839	6,880,754	3,008,467	2,759,776	3,455,358
<b>Debt service:</b>									
Principal	1,130,000	1,085,000	975,000	400,000	425,000	410,000	160,000	535,000	80,000
Interest	3,061,165	3,306,338	3,322,660	3,179,840	1,350,350	1,338,422	1,431,730	551,767	1,342,318
Pass-through payments	2,235,547	2,515,074	2,782,837	2,517,625	2,004,045	1,347,054	971,885	776,501	646,613
SERAF Payment	655,133	3,182,076	-	-	-	-	-	-	-
Payment to bond escrow agent	-	-	-	-	1,608,243	-	286,825	1,184,369	-
<b>Total expenditures</b>	<b>43,772,450</b>	<b>36,160,732</b>	<b>33,311,506</b>	<b>37,995,389</b>	<b>40,345,296</b>	<b>30,184,585</b>	<b>24,840,205</b>	<b>23,516,886</b>	<b>21,142,839</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(7,175,822)</b>	<b>(3,673,769)</b>	<b>4,082,830</b>	<b>5,482,493</b>	<b>(945,295)</b>	<b>2,442,870</b>	<b>1,651,531</b>	<b>960,401</b>	<b>2,345,028</b>
<b>Other financing sources (uses):</b>									
Issuance of long term debt	-	-	-	-	42,645,000	-	3,690,000	17,525,000	-
Payment to bond escrow agent	-	-	-	-	-	-	(3,509,943)	-	-
Transfers in	6,768,484	5,106,171	3,319,665	3,416,247	8,818,308	6,512,235	4,097,040	3,005,071	4,057,065
Transfers out	(7,599,291)	(5,606,171)	(3,819,665)	(4,566,247)	(9,868,308)	(6,512,235)	(4,447,040)	(3,305,071)	(4,557,065)
<b>Total other financing sources (uses)</b>	<b>(830,807)</b>	<b>(500,000)</b>	<b>(500,000)</b>	<b>(1,150,000)</b>	<b>41,595,000</b>	<b>-</b>	<b>(169,943)</b>	<b>17,225,000</b>	<b>(500,000)</b>
<b>Net change in fund balances</b>	<b>\$(8,006,629)</b>	<b>\$(4,173,769)</b>	<b>\$3,582,830</b>	<b>\$4,332,493</b>	<b>\$40,649,705</b>	<b>\$2,442,870</b>	<b>\$1,481,588</b>	<b>\$18,185,401</b>	<b>\$1,845,028</b>
<b>Debt service as a percentage of noncapital expenditure</b>	<b>27.1%</b>	<b>48.4%</b>	<b>32.7%</b>	<b>29.3%</b>	<b>28.5%</b>	<b>15.3%</b>	<b>15.0%</b>	<b>17.2%</b>	<b>13.2%</b>
<b>Debt service is for the RDA. The City has no debt.</b>									

The City of Highland has elected to show only nine years of data for this schedule.

CITY OF HIGHLAND  
Assessed Value and Estimated Actual Value of Taxable Property  
Last Six Fiscal Years

Category	Assessed Value					
	2011	2010	2009	2008	2007	2006
Residential	2,333,001,753	2,550,249,095	2,935,934,075	2,863,064,605	2,488,406,732	2,096,881,470
Commercial	197,876,791	194,047,501	158,419,204	145,475,322	122,466,759	99,060,971
Industrial	39,108,545	39,144,816	17,548,829	16,345,050	18,347,146	11,779,501
Irrigated	1,160,051	1,219,204	1,633,753	1,601,720	1,570,314	2,212,971
Dry Farm	186,712	187,155	183,485	179,887	2,531,535	2,522,873
Recreational	2,503,273	2,496,725	2,468,984	2,465,318	3,179,482	3,022,813
Institutional	27,098,415	27,162,790	26,630,187	26,108,023	25,029,578	24,204,947
Miscellaneous	15,081,959	12,190,155	9,549,423	14,946,904	9,691,230	10,081,229
Vacant Land	88,317,166	104,613,843	117,046,561	110,910,014	86,982,384	62,609,108
SBE Nonunitary	31,500	31,500	31,500	31,500	31,500	31,500
Unsecured	64,760,058	63,499,158	52,729,890	46,934,714	39,558,005	37,840,343
Unknown	-	-	-	-	-	5,715
Exemptions	(57,634,552)	(58,825,841)	(49,794,191)	(47,479,131)	(44,223,613)	(41,692,396)
<b>Total</b>	<u>2,711,491,671</u>	<u>2,936,016,101</u>	<u>3,272,381,700</u>	<u>3,180,583,926</u>	<u>2,753,571,052</u>	<u>2,308,561,045</u>
Total direct rate	0.48807	0.49638	0.48826	0.48135	0.46008	0.48135

NOTE:

In 1978 the voters of the State of California passed Proposition 13 which limited property taxes to a total maximum rate of 1% based upon the assessed value of the property being taxed. Each year, the assessed value of property may be increased by an "inflation factor" (limited to a maximum increase of 2%). With few exceptions, property is only re-assessed at the time that it is sold to a new owner. At that point, the new assessed value is reassessed at the purchase price of the property sold. The assessed valuation data shown above represents the only data currently available with respect to the actual market value of taxable property and is subject to the limitations described above.

Source: HdL

The City of Highland has elected to show only six years of data for this schedule.

CITY OF HIGHLAND  
 Direct and Overlapping Property Tax Rates  
 (Rate per \$100 of assessed value)  
 Current Fiscal Year

	2011
City Direct Rate:	
<u>Property Tax General Fund</u>	
Assessed value of City basic rate	\$ 0.2440
Total City Direct Rate	\$ 0.2440
Overlapping Rates:	
County Free Library	\$ 0.0134
County General Fund	\$ 0.1388
County Superintendent	\$ 0.0071
Inland Empire Joint Resource Conservation District	\$ 0.0005
Education Revenue Augmentation Fund	\$ 0.2101
Flood Control Administration 3-6	\$ 0.0008
Flood Control Zone 3	\$ 0.0243
Redlands Unified	\$ 0.2867
San Bernardino Community College	\$ 0.0488
San Bernardino Valley Municipal Water	\$ 0.0251
San Bernardino Valley Water Conservation District	\$ 0.0004
Total Direct Rate	\$ 1.0000
<u>RDA Property Tax</u>	
Assessed value	\$ 1.1650

NOTE:

In 1978, California voters passed Proposition 13 which sets the property tax rate at a 1.00% fixed amount. This 1.00% is shared by all taxing agencies for which the subject property resides within. In addition to the 1.00% fixed amount, property owners are charged taxes as a percentage of assessed property values for the payment of the other bonds of overlapping governments.

Source: HdL

CITY OF HIGHLAND  
Principal Property Tax Payers  
Current Fiscal Year

Taxpayer	2011	
	Taxable Assessed Value	Percent of Total City Taxable Assessed Value
Victoria Development Company	23,729,060	0.88%
Lowes HIW Inc.	19,349,128	0.71%
Sam Menlo Trust	15,720,392	0.58%
Greenspot Village & Marketplace	14,734,749	0.54%
Greenspot Ranch Investors	14,020,183	0.52%
Stater Bros. Markets	10,318,360	0.38%
RRM Properties Limited	9,317,407	0.34%
Boulder Baseline Investors	9,141,269	0.34%
Wesmor	8,523,697	0.31%
Federal National Mortgage Assoc.	<u>7,722,011</u>	<u>0.28%</u>
	<u>\$ 132,576,256</u>	<u>4.89%</u>

The amounts shown above include assessed value data for both the City and the Redevelopment Agency.

Source: HdL

CITY OF HIGHLAND  
Property Tax Levies and Collections  
Last Six Fiscal Years

Fiscal Year Ended June 30	Taxes Levied for the Fiscal Year	Amount	Percent of Levy	Collections in Subsequent Years	Amount	Percent of Levy
2006	\$23,085,610	12,030,217	52.11%	57,739	12,087,956	52.36%
2007	\$27,535,711	15,325,136	55.66%	64,404	15,389,540	55.89%
2008	\$31,805,839	17,081,530	53.71%	83,166	17,164,696	53.97%
2009	\$32,723,817	17,233,058	52.66%	128,483	17,361,541	53.05%
2010	\$29,360,161	15,006,329	51.11%	114,257	15,120,586	51.50%
2011	\$27,114,917	13,851,659	51.09%	84,038	13,935,697	51.39%

NOTE:

The amounts presented include City property taxes and Redevelopment Agency tax increment. This schedule also includes amounts collected by the City and Redevelopment Agency that were passed-through to other agencies.

Source: San Bernardino County Auditor Controller's Office

The City of Highland has elected to show only six years of data for this schedule.

CITY OF HIGHLAND  
Ratios of Outstanding Debt by Type  
Last Seven Fiscal Years

Fiscal Year Ended June 30	Governmental Activities RDA Tax Allocation Bonds	Percentage of Personal Income <sup>1</sup>	Debt Per Capita <sup>1</sup>
2005	\$ 21,055,000	2.24%	414
2006	20,645,000	2.15%	401
2007	62,865,000	6.38%	1,207
2008	62,465,000	5.84%	1,197
2009	61,490,000	5.87%	1,174
2010	60,405,000	5.74%	1,151
2011	59,275,000	5.61%	1,109

<sup>1</sup> These ratios are calculated using personal income and population for the prior calendar year.

Notes: Details regarding the City's outstanding debt can be found in the notes to the financial statements. All debt listed on this page is for the Highland Redevelopment Agency. The City currently does not have any debt.

The City of Highland has elected to show only seven years of data for this schedule.

CITY OF HIGHLAND  
Ratio of General Bonded Debt Outstanding  
Last Seven Fiscal Years

Fiscal Year Ended June 30	Outstanding General Bonded Debt		Percent of Assessed Value <sup>1</sup>	Per Capita
	RDA Tax Allocation Bonds			
2005	\$ 21,055,000		1.04%	\$ 413,980
2006	20,645,000		0.89%	400,959
2007	62,865,000		2.28%	1,207,062
2008	62,465,000		1.96%	1,197,221
2009	61,490,000		1.88%	1,174,101
2010	60,405,000		2.06%	1,150,681
2011	59,275,000		2.19%	1,109,105

<sup>1</sup> Assessed value has been used because the actual value of taxable property is not readily available in the State of California.

The City of Highland has elected to show only seven years of data for this schedule

CITY OF HIGHLAND  
Direct and Overlapping Debt  
June 30, 2011

City Assessed Valuation		\$ 2,253,303,025	
Redevelopment Agency Incremental Valuation		<u>458,188,646</u>	
Total Assessed Valuation		<u>\$ 2,711,491,671</u>	
	Percentage	Outstanding	Estimated
	Applicable <sup>1</sup>	Debt 6/30/2011	Share of
			Overlapping
			Debt
Overlapping Debt Repaid with Property Taxes:			
Highland RDA 2007 Tax Allocation Bonds	100.000%	\$ 40,735,000	\$ 40,735,000
Highland RDA 2004A Tax Allocation Bonds	100.000%	15,755,000	15,755,000
Highland RDA 2004B Tax Allocation Bonds	100.000%	<u>2,785,000</u>	<u>2,785,000</u>
Total overlapping debt repaid with property taxes		<u>59,275,000</u>	<u>59,275,000</u>
Overlapping Other Debt:			
San Bernardino Community College District	1.911%	\$ 162,592,569	\$ 3,107,144
Redlands Unified School District	2.407%	100,934,358	2,429,490
San Bernardino Unified School District	5.052%	155,302,158	7,845,865
City of Highland CFD 90-1	100.000%	4,635,000	4,635,000
City of Highland CFD 2001-1	100.000%	5,480,000	5,480,000
San Bernardino County General Fund Obligations	0.220%	840,890,000	1,849,958
San Bernardino County Pension Obligations	0.220%	738,425,455	1,624,536
San Bernardino Valley Municipal Water District COP	0.921%	4,200,000	38,682
Redlands Unified School District COP	0.241%	10,988,797	26,483
San Bernardino Unified School District COP	4.100%	<u>88,675,000</u>	<u>3,635,675</u>
Total overlapping other debt		<u>2,112,123,337</u>	<u>30,672,833</u>
Total overlapping debt		<u>\$ 2,112,123,337</u>	<u>\$ 30,672,833</u>
City direct debt			<u>59,275,000</u>
Total direct and overlapping debt			<u>\$ 89,947,833</u>

Notes:

<sup>i</sup> For debt repaid with property taxes, the percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of another governmental unit's taxable assessed value that is within the city's boundaries and dividing it by each unit's total taxable assessed value. Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

Source: California Municipal Statistics, Inc.

CITY OF HIGHLAND  
 Legal Debt Margin Information  
 Last Five Years

	Fiscal Year				
	2011	2010	2009	2008	2007
Assessed Valuation	\$2,711,491,671	\$2,936,016,101	\$3,272,381,700	\$ 3,180,583,926	\$2,753,571,052
Conversion percentage	<u>25%</u>	<u>25%</u>	<u>25%</u>	<u>25%</u>	<u>25%</u>
Adjusted assessed valuation	\$ 677,872,918	\$ 734,004,025	\$ 818,095,425	\$ 795,145,982	\$ 688,392,763
Debt limit percentage	<u>15%</u>	<u>15%</u>	<u>15%</u>	<u>15%</u>	<u>15%</u>
Debt limit	101,680,938	110,100,604	122,714,314	119,271,897	103,258,914
Total net debt applicable to	-	-	-	-	-
Legal debt margin	<u>\$ 101,680,938</u>	<u>\$ 110,100,604</u>	<u>\$ 122,714,314</u>	<u>\$ 119,271,897</u>	<u>\$ 103,258,914</u>
Total debt applicable to the as a percentage of debt limit	0.0%	0.0%	0.0%	0.0%	0.0%

*The Government Code of the State of California provides for a legal debt limit of 15% of gross assessed valuation. However, this provision was enacted when assessed valuation was based upon 25% of market value. Effective with the 1981-82 fiscal year, each parcel is now assessed at 100% of market value (as of the most recent change in ownership for that parcel). The computations shown above reflect a conversion of assessed valuation data for each fiscal year from the current full valuation perspective to the 25% level that was in effect at the time that the legal debt margin was enacted by the State of California for local governments located within the state.*

Source: City of Highland  
 San Bernardino County Tax Assessor

The City of Highland has elected to show only five years of data for this schedule.

CITY OF HIGHLAND  
Pledged-Revenue Coverage  
Last Seven Fiscal Years

Fiscal Year Ended June 30	Tax Allocation Bonds			
	RDA Tax Increment	Debt Service		Coverage
		Principal	Interest	
2005	\$ 4,702,074	160,000	917,715	4.36
2006	6,590,809	410,000	989,086	4.71
2007	8,964,742	425,000	980,351	6.38
2008	10,342,684	400,000	2,790,022	3.24
2009	10,484,840	975,000	2,913,593	2.70
2010	9,381,837	1,085,000	3,306,338	2.14
2011	8,208,111	7,151,420	3,061,165	0.80

Note: Details regarding the RDA's outstanding debt can be found in the notes to the financial statements.

In January of 2011, the RDA Board approved the re-payment of \$6,021,420 of advances (loans) from the City.

The City of Highland has elected to show only seven years of data for this schedule.

CITY OF HIGHLAND  
Demographic and Economic Statistics  
Last Thirteen Calendar Years

Calendar Year	Population (1)	Personal Income (2) (in thousands)	Per Capita Personal Income (3)	Unemployment Rate (4)
1998	42,700	636,999	14,918	6.7%
1999	42,832	662,997	15,479	5.0%
2000	44,500	713,736	16,039	6.1%
2001	45,575	767,939	16,850	6.0%
2002	45,787	780,073	17,037	5.2%
2003	47,412	812,025	17,127	5.3%
2004	49,246	860,131	17,466	5.1%
2005	50,860	940,808	18,498	5.4%
2006	51,489	961,763	18,679	5.2%
2007	52,081	985,789	18,928	6.1%
2008	52,175	1,070,214	20,512	7.9%
2009	52,372	1,046,969	19,991	13.6%
2010	52,495	1,051,947	20,039	14.8%
2011	53,444	1,056,053	19,760	13.2%

- Sources:
- (1) State Department of Finance
  - (2) Calculated using City of Highland per capital personal income
  - (3) ESRI-U. S. Census Bureau
  - (4) State of California Employment Development Department

CITY OF HIGHLAND  
 Full-time and Part-time City Employees  
 by Department  
 Last Ten Fiscal Years

<u>Department</u>	<u>Full-Time Equivalent Employees as of June 30</u>									
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
City clerk	1.800	1.800	1.950	1.950	2.000	1.000	1.000	1.000	1.000	1.000
General government	3.900	3.900	3.900	3.900	2.800	2.800	1.700	1.700	2.700	2.700
Personnel	0.300	0.300	0.300	0.300	0.500	0.500	0.500	0.500	0.500	0.500
Finance	3.900	3.900	3.600	3.300	4.000	4.000	4.000	4.000	4.000	4.000
Public works	5.750	5.750	5.500	5.500	5.000	5.000	5.700	5.700	5.200	5.200
Engineering	0.750	0.750	1.000	1.000	1.000	1.000	1.000	1.000	0.500	0.500
Planning	4.500	4.500	5.150	5.150	4.600	4.600	3.600	4.600	4.550	4.550
Public services	2.500	2.500	2.500	2.500	1.000	1.000	1.000	-	-	-
Building and safety	1.475	1.475	1.475	1.300	1.900	1.900	3.150	3.150	2.150	2.150
Code enforcement	2.275	2.275	2.075	1.750	2.200	1.700	1.450	1.450	1.450	1.450
Parks and trails	2.500	2.500	2.500	2.500	2.500	2.000	1.060	0.060	0.060	0.060
Graffiti	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	0.850	0.850
Volunteer Services	0.500	0.500	0.500	0.500	0.500	0.500	0.500	0.500	0.500	0.500
CDBG	1.400	1.400	1.400	1.400	1.400	1.400	1.400	1.400	1.400	1.400
HUD grant	-	-	-	-	-	-	0.750	0.750	1.000	1.000
Assessment districts	-	-	-	-	-	-	0.190	0.190	0.190	0.190
AQMD AB 2766	-	-	-	-	-	-	-	-	0.050	0.050
Fire Department	0.250	0.250	0.250	0.250	-	-	-	-	-	-
General liability	0.400	0.400	0.400	0.400	0.450	0.450	0.500	0.500	0.550	0.550
Building services	0.500	0.500	0.500	0.500	-	-	0.050	0.050	0.200	0.200
Redevelopment agency	<u>6.300</u>	<u>6.300</u>	<u>5.500</u>	<u>4.800</u>	<u>3.650</u>	<u>3.650</u>	<u>2.950</u>	<u>2.950</u>	<u>2.650</u>	<u>2.650</u>
	<u>40.000</u>	<u>40.000</u>	<u>39.500</u>	<u>38.000</u>	<u>34.500</u>	<u>32.500</u>	<u>31.500</u>	<u>30.500</u>	<u>29.500</u>	<u>29.500</u>

Source: City of Highland.

The City of Highland has elected to show only ten years of data for this schedule.

CITY OF HIGHLAND  
 Operating Indicators  
 by Department  
 Last Eight Fiscal Years

	Fiscal Year							
	2011	2010	2009	2008	2007	2006	2005	2004
<b>Police department:</b>								
Calls for service	46,253	47,608	48,089	47,789	45,467	43,589	44,274	34,343
Arrests	1,728	1,618	2,863	1,292	692	665	662	654
<b>Animal control services:</b>								
Calls for service	4,100	4,194	4,135	4,078	3,069	3,000	3,376	3,656
Impounds	2,274	2,202	2,298	2,255	2,105	2,006	2,370	2,466
Dog licenses issued*	2,868	3,259	3,210	1,213	n/a	n/a	n/a	n/a
<b>Public works:</b>								
Roadway maintained (miles)	140.96	139.96	139.96	139.96	139.96	133.10	132.60	131.76
<b>Planning:</b>								
Applications	157	110	98	160	116	105	76	42
<b>Building and safety:</b>								
Building permits issued	1,073	894	866	867	1,034	588	537	639
<b>Administration:</b>								
New business licenses*	574	420	447	394	n/a	n/a	n/a	n/a
Renewed business licenses*	1,072	1026	928	275	n/a	n/a	n/a	n/a
<b>Parks:</b>								
Number of parks	6	6	5	5	4	4	4	4
Acreage	36.25	36.25	35.80	35.80	32.50	32.50	32.50	32.50

\*Prior year information may not be available for recently added categories.

The City of Highland has elected to show only eight years of data for this schedule.

CITY OF HIGHLAND  
 Capital Asset Statistics  
 by Function  
 Last Eight Fiscal Years

	Fiscal Year							
	2011	2010	2009	2008	2007	2006	2005	2004
<b>Police:</b>								
Police stations	1	1	1	1	1	1	1	1
<b>Fire:</b>								
Fire stations	3	3	3	3	3	3	2	2
<b>Public works:</b>								
Corporation yards	1	1	1	1	1	1	1	1
Streets (miles)	140.96	139.96	139.96	139.96	139.96	133.10	132.60	131.76
Street lights	3,226	3,226	3,226	3,226	3,226	3,185	3,183	3,039
Traffic signals	71	71	71	71	71	69	58	51
<b>Recreation:</b>								
Parks	6	6	5	5	5	5	4	4
Community centers	1	1	1	1	1	1	1	1
Athletic centers	1	1	1	1	1	-	-	-
Libraries	1	1	1	1	1	1	1	1

Source: City of Highland

The City of Highland has elected to show only eight years of data for this schedule.