

# City of Highland California



Comprehensive Annual Financial Report  
For Fiscal Year Ended June 30, 2012



CITY OF HIGHLAND  
Highland, California

Comprehensive Annual Financial Report

For the fiscal year ended June 30, 2012



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Prepared by the Finance Department:

Chuck Dantuono  
Director of Administrative Services/City Treasurer



CITY OF HIGHLAND

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December 11, 2012

To the Honorable Mayor, Members of the City Council 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, 2012.

**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

White Nelson Diehl Evans LLP, 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, 2012. 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 53,664 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.

Lewis Communities and Orange County are currently processing entitlements for 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 Successor Agency to the Redevelopment Agency (SARDA), the Highland Public Financing Authority (HPFA) and the Highland Housing Authority. As SARDA Board Members, they direct all the activity within the project area of the former Redevelopment Agency, as the former RDA is dissolved. The HPFA did not have any activity during the year. As Board members of the Housing Authority (HA), they direct housing activities that used to be handled by the former RDA Board and the Low and Moderate Income Housing fund.

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 administration. 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, develop Orange County/Lewis specific plan, initiate 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 (usually by the City Manager and Director of Administrative Services) 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 revenue sources stabilize in 2011/2012. Although sales tax did increase, the State once again stole a local revenue source, vehicle license fees. Other revenues such as charges for services and extraction tax have increased. Because of declining interest rates, investment income were down. With declining revenues over the last four years, it was the efficient and careful watch of expenditures that made it possible for the fund balance in the general fund to increase in 2011/2012. Although Highland does have a "rainy day" fund, we have never had to use it.

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. In fact, we were able to add a Gang Detective last year. 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 stabile 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. Primarily, a commercial development located at Greenspot Road, east of SR-210, referred to as the "Golden Triangle." Recently, Lowe's, Staples, In-N-Out and Chevron opened in this area on the south side of Greenspot Road. The City continues to work with developers for the north side of Greenspot Road.

Opening in the near future in Highland will be Family Dollar. They are currently going through the plan check process. 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. Smart-N-Final is considering placing an application for a store in this area. Dollar General is also considering placing an application for a store on Victoria Avenue. 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 was yet another attempt by the State to steal money from local governments to balance their budgets. Highland's share of this extortion was estimated to be \$2,731,486 in 2011/2012 and an annual payment thereafter of approximately \$655,000. The CRA once again sued the State and the State Supreme Court held in favor of the

State for AB 1X 26, but not on AB 1X 27. This meant that over 400 redevelopment agencies throughout the State would be dissolved, and have been. Taken from Highland was the best economic tool to help jobs and businesses grow in our community. The funds taken from Highland would be used to offset the State's responsibilities to the local taxing agencies. The State's taking of local funds as a temporary bandage to solve their annual budget problems is not a long term solution.

### *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 2011-2013. This budget award is the highest form of recognition a City can receive in governmental budgeting. This was the twenty-first 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 2011-2013. The City has received this award from CSMFO every year since first applying for it in 1991-1992. The City will apply for these same awards for the 2013-2015 biennial budget next year.

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, 2011 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-second consecutive year that the City has received such recognition. Six 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, 2011. 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.

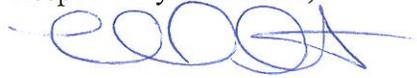
In order to be awarded a Certificate of Achievement, the City must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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 detail-oriented 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 leadership, professionalism and financial management, 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, 2012

Elected Officials

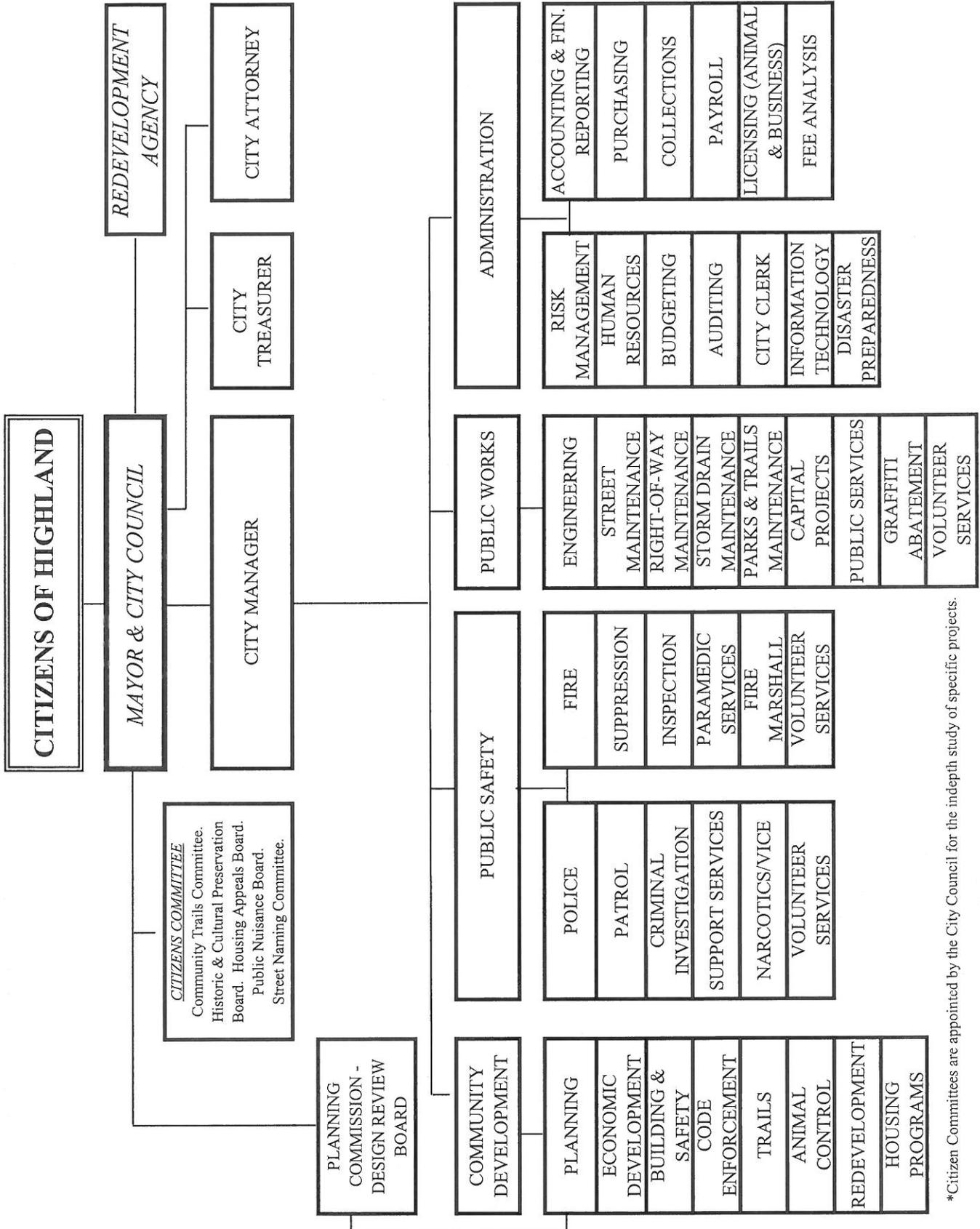
Mayor	Larry McCallon
Mayor Pro Tem	Penny Lilburn
Council member	Sam J. Racadio
Council member	Jody Scott
Council member	John P. Timmer

Finance/Personnel Subcommittee

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

Management

City Manager	Joseph A. Hughes
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
City Engineer/Public Works Director	Ernie Wong
Assistant Public Works Director	Carlos Zamano
Police Chief	Capt. Dave Williams
Lieutenant	Tony DeCecio
Fire Chief (Battalion Chief)	Jesse Estrada



\*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, 2011

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. Davidson*

President

*Jeffrey R. Enser*

Executive Director



INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and  
Members of the City Council  
City of Highland  
Highland, California

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, 2012, 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.

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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2012, 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 discussed in Note 16 to the financial statements, the Highland Redevelopment Agency, a blended component unit of the City, was dissolved effective February 1, 2012 as a result of legislation enacted by the State of California. Our opinions are not modified with respect to this matter.

In accordance with Government Auditing Standards, we have also issued our report dated November 27, 2012 on our consideration of the City of Highland's internal control over financial reporting and 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.

The management's discussion and analysis, the schedule of funding progress and budgetary comparison schedules, identified as required supplementary information in the table of contents, are not a required part of the financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. This information is an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the management's discussion and analysis and the schedule of funding progress in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during the audit of the financial statements. We do not express an opinion or provide any assurance on the management's discussion and analysis and the schedule of funding progress because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison schedules and related note have been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements. The combining statements and individual fund schedules are presented for purposes of additional analysis and are not a required part of the financial statements of the City. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the City of Highland, California as a whole. The introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

*White Nelson Dick Evans LLP*

Irvine, California  
November 27, 2012

## 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, 2012. 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 Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
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, 2012	
	Governmental Activities	
	<u>2012</u>	<u>2011</u>
Current and other assets	59,352,103	119,934,945
Capital assets, net	<u>190,778,099</u>	<u>189,056,791</u>
Total assets	250,130,202	308,991,736
Long-term liabilities	4,589,714	58,723,973
Other liabilities	<u>795,220</u>	<u>7,549,104</u>
Total liabilities	5,384,934	66,273,077
Net assets:		
Invested in capital assets, net of related debt	190,924,669	169,128,729
Restricted	29,100,083	38,184,088
Unrestricted	<u>24,720,516</u>	<u>35,405,842</u>
Total net assets	\$244,745,268	\$242,718,659

The largest portion of the City's net assets (78.0%) 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 (11.9%) 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 (10.1%) 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, 2012		
Governmental Activities		
	<u>2012</u>	<u>2011</u>
Program Revenues:		
Charges for services	5,411,262	1,828,136
Operating contributions & grants	3,975,957	5,718,412
Capital contributions & grants	<u>5,771,257</u>	<u>6,837,643</u>
Total Program Revenues	15,158,476	14,384,191
General Revenues:		
Property taxes	8,030,404	9,435,885
Sales & use tax	1,612,077	1,437,845
Transient occupancy tax	204,296	178,729
Franchise fees	1,482,418	1,440,500
Business license tax	243,218	276,517
Intergovernmental	83,100	59,014
Investment income	117,613	155,081
State motor vehicle in lieu	3,750,346	3,967,325
Rental Income	168,109	-
Miscellaneous	<u>94,458</u>	<u>40,610</u>
Total General Revenues	15,786,039	16,991,506
Total revenues	<u>30,944,515</u>	<u>31,375,697</u>
Expenses:		
General government	7,223,527	9,295,784
Highways & streets	8,701,612	9,902,952
Public safety	10,427,656	13,259,599
Interest and fiscal charges	<u>1,684,540</u>	<u>3,149,382</u>
Total expenses	28,037,335	35,607,717
Change in net assets	2,907,180	(4,232,020)
Loss on transfer of assets (note 16)	(880,571)	-
Change in net assets	2,206,609	(4,232,020)
Beginning net assets-*restated (note 17)	242,718,659*	244,567,500
Ending net assets	244,745,268	240,335,480

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 increased by 1.0% (\$242.7 million compared to \$244.7 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>2011/2012</u>	<u>%</u>	<u>2010/2011</u>	<u>%</u>
Charges for services	5,411,262	17.5%	1,828,136	5.8%
Operating contributions & grants	3,975,957	12.8%	5,718,412	18.2%
Capital contributions & grants	5,771,257	18.7%	6,837,643	21.8%
Property taxes	8,030,404	26.0%	9,435,885	30.1%
Sales & use tax	1,612,077	5.2%	1,437,845	4.6%
Transient occupancy tax	204,296	0.7%	178,729	0.6%
Franchise fees	1,482,418	4.8%	1,440,500	4.6%
Business license tax	243,218	0.8%	276,517	0.9%
Intergovernmental	83,100	0.3%	59,014	0.2%
Investment income	117,613	0.4%	155,081	0.5%
State motor vehicle in lieu	3,750,346	12.1%	3,967,325	12.6%
Rental income	168,109	0.5%	-	0.0%
Miscellaneous	94,458	0.2%	40,610	0.1%
Total Revenues	<u>\$30,944,515</u>	<u>100.0%</u>	<u>\$31,375,697</u>	<u>100.0%</u>

	Expenses by Function			
	<u>2011/2012</u>	<u>%</u>	<u>2010/2011</u>	<u>%</u>
General government	7,223,527	25.8%	9,295,784	26.1%
Highways & streets	8,701,612	31.0%	13,259,599	37.2%
Public safety	10,427,656	37.2%	9,902,952	27.8%
Interest and fiscal charges	1,684,540	6.0%	3,149,382	8.9%
Total Expenses	<u>\$28,037,335</u>	<u>100.0%</u>	<u>\$35,607,717</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 \$10,000,031. 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 expenses of the city's general fund from the prior year are as follows:

- Total revenues (excluding the gas tax reimbursement and operating transfers) decreased by \$2,052,105, a 15.8% decrease. This decrease is directly reflective of the \$2,668,552 that the RDA paid back to the City in 2010/2011 for advances the City loaned the RDA. Taxes increased by 5.0% or \$559,464 due to a slight increase in property values and miscellaneous

increased by 51.3% or \$44,167. Intergovernmental revenue decreased by 87.1% or \$139,640 mainly because of the state taking the VLF funds and Charges for Services increased by 19.9% or \$199,857 due in part of the application placed by Lewis Communities. Interest income decreased by \$2,677,863 as a result of declining interest rates and the repayment of the RDA loans last year as stated above. 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 is now classified as taxes.

- Total expenses (excluding the gas tax expenses and operating transfers) decreased by \$806,937 or 5.4%. Although there was an increase in the Sheriff contract (Deputies 4% pay increase), all departments were vigilant with their budgets and this accounted for an overall decrease of expenses. It was the efficient and careful watch of expenses that made it possible for the fund balance in the general fund to increase in 2011/2012.

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, expenses and fund balance of the general capital financing fund from the prior year are as follows:

- Revenues in this fund decreased from \$1,126,691 in 2010/2011 to \$26,019 in 2011/2012 primarily due to the RDA paying back the City in 2010/2011 for advances the City loaned the RDA. Both amounts are investment income. That is the only revenue source in this fund.
- Expenses in this fund increased by \$580,993 due to the construction of the new police station. This fund paid for a storage facility next to the police station.
- Although there was a transfer of \$450,000 from the General Fund, the fund balance in this fund decreased by \$178,404 because of the expenses related to the storage facility noted above.

The **RDA Debt Service** fund was closed on February 1, 2012 and all assets were transferred to the Successor Agency to the Highland Redevelopment Agency per AB 1X 26.

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

- Revenues in this fund decreased by \$1,954,373 due to the State dissolving redevelopment agencies. This fund was closed on February 1, 2012 so only 7 months of transactions are included. The other 5 months are included in the financial statements for the Successor Agency.
- Expenses decreased by \$2,675,425 due to only having a half-year of interest, principal and pass through payments. The Successor Agency is now responsible for debt service payments and the county is responsible for making the pass through payments.

The **RDA Capital Projects** fund was closed on February 1, 2012 and all assets were transferred to the Successor Agency to the Highland Redevelopment Agency per AB 1X 26.

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

- Expenses decreased by \$9,635,289 due to only having a half-year to pay for the balance of the new police station. The Successor Agency was responsible for paying for the balance of the new police station.
- 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 **Major Grants** fund is used to account for any federal 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.

This is the first year for this fund so there is no prior activity to compare to.

- The major expenses in this fund are for the construction of the Boulder Avenue Bridge. The City used a HBP (Highway Bridge Program) grant in the amount of \$4.1M. In addition, the City used a Department of Energy (DOE) grant to place solar panel on the Athletic Center and City Hall in the amount of \$450,000. Lastly, the City also utilized a COPS grant for \$471,257.19 to install an Automated License Plate Reader System.
- Typically, revenues should equal expenses in the fund. However, some projects can't be reimbursed until the project is over. This will lead to expenses 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 expenses are incurred.

The **Fire Department** fund is used to account for all expenses and revenues of the Fire Department.

The reasons for significant changes in the revenues and expenses of the Fire Department fund from the prior year are as follows:

- There was a slight increase in property tax revenues in this fund to help the overall revenue increase by \$152,156 in 2011/2012. The property tax increase of \$248,689 helped offset the revenue reduction of Licenses & Permits of \$7,227, Charges for Service of \$28,388 and Investment Income of \$10,582.
- The overall expenses in this department increase by \$352,112 or 18.3%, solely due to the purchase of a new fire engine in the amount of \$525,709. Otherwise, the expenses would have decreased.
- The fund balance of this fund decreased by \$285,446. This fund made a transfer to the FEMA fund of \$452,206 to offset the expenses that FEMA would not reimburse regarding the flooding the City incurred in 2010.

The **Development Impact Fee** fund is used to account for all expenses and revenues related to AB 1600.

The reasons for significant changes in the revenues and expenses of the Development Impact Fee fund from the prior year are as follows:

- Although development did not increase much, there were some commercial developments that paid their fees. This made up most of the \$378,386 increase in revenues from the prior year. Investment income decreased by \$8,854.
- The overall expenses in this department increased by \$745,862 primarily due to the construction of the Boulder Avenue Bridge. The DIF fund is used as a match to the HBP grant discussed earlier under Major Grant funds.
- The fund balance of this fund decreased by \$885,580 due to the construction of the Boulder Avenue Bridge. This fund will continue to be the match for the bridge project in 2012/2013 as well.

The **Measure I** fund is used to account for the ½ cent sales tax increase on gasoline.

The reasons for significant changes in the revenues and expenses of the Measure I fund from the prior year are as follows:

- The increase in total revenue of \$56,334 was due to the increase in purchase of gasoline. This was the reason for an increase of \$62,926 in Measure I revenue. Investment income decreased by \$6,592. These are the only two sources of income in this fund.
- The overall expenses in this department increased by \$68,269 primarily due to the Greenspot Bridge right-of-way expenses. This fund will use more expenses on this project in 2012/2013.
- The fund balance of this fund increased by \$677,349. This fund will see more activity with the construction of Greenspot Bridge in 2012/2013.

### **Major Enterprise Funds**

The City does not have any enterprise funds.

### **GENERAL FUND-BUDGET**

The total expenses of the general fund did not exceed the total appropriations for 2011/2012.

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 expense budget for the General Fund:

- \$450,000 General Fund transfer to the General Capital Financing fund for the construction of future capital projects.
- \$92,885 increase in the Police Department budget for the increase in the contract with the San Bernardino County Sheriff's Department.
- \$213,080 for the proposed "Harmony Specific Plan." This cost was paid by the developer.

Additional information on the City's budget adjustments and policies can be found in the notes to required supplementary information on page 81.

## CAPITAL ASSETS

### Capital Assets (net of depreciation) Governmental Activities

	<u>2012</u>	<u>2011</u>
Land	\$4,436,384	\$6,081,976
Rights of Way	86,675,312	86,509,631
Construction in progress	4,320,306	9,871,110
Buildings & improvements	39,855,527	32,580,164
Equipment, furniture & software	2,830,849	2,059,384
Vehicles	2,122,190	2,122,190
Infrastructure	<u>96,741,662</u>	<u>93,689,273</u>
Total	<u>\$190,778,099</u>	<u>\$189,056,791</u>

The major additions to capital assets during the year ended June 30, 2012 were as follows:

- Completed the construction of the new Police Station.
- Installed solar panels on City Hall and the Athletic Center.
- Installed equipment in the Emergency Operations Center (EOC) at the new Police Station.

Infrastructure additions include but are no limited to:

- Project No. OLA 09-003 Pavement Rehab Highland Avenue/Boulder Ave.
- Project No. SIG 10-001 Traffic Signal installation Victoria Avenue/14<sup>th</sup> Street.
- Project No. STR 06-001 Greenspot Road “S” Curve Realignment.
- Project No. STR 09-002 Lankershim Avenue Improvements.
- Project No. SWK 08-001 9<sup>th</sup> Street Sidewalk & Street Improvements.
- Project No. STR 09-005 5<sup>th</sup> Street/Greenspot Road Bike Lane.
- Tract 17263 & Tract 16914.

Additional information on the City’s capital assets can be found in the notes to the financial statements starting on page 55.

## LONG-TERM DEBT

The City has no debt! It has been a long standing policy of the City Council since incorporation to have a “pay as you go” philosophy.

Additional information on the City’s long-term liabilities can be found in the notes to the accompanying financial statements starting on page 56.

### **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 three separate legal entities-the Redevelopment Agency of the City of Highland, the Highland Public Financing Authority and the Highland Housing 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, 2012

	Governmental Activities
<b>ASSETS:</b>	
Cash and investments	\$ 50,972,271
Cash and investments with fiscal agent	23,432
Receivables, net:	
Accounts	1,058,075
Interest	31,846
Property taxes	115,877
Loans	695,728
Due from other governments	6,296,625
Inventory	2,118
Prepays items	9,561
Land held for resale	146,570
Capital assets:	
Nondepreciable	95,432,002
Depreciable, net of accumulated depreciation	95,346,097
<b>TOTAL ASSETS</b>	<b>250,130,202</b>
<b>LIABILITIES:</b>	
Accounts payable	3,397,981
Accrued liabilities	72,030
Retention payable	283,228
Deposits payable	836,475
Long-term liabilities:	
Due within one year	153,470
Due in more than one year	641,750
<b>TOTAL LIABILITIES</b>	<b>5,384,934</b>
<b>NET ASSETS:</b>	
Invested in capital assets, net of related debt	190,924,669
Restricted for:	
Public safety	10,103,434
Highways and streets	18,279,286
Affordable housing	717,363
Unrestricted	24,720,516
<b>TOTAL NET ASSETS</b>	<b>\$ 244,745,268</b>

See independent auditors' report and notes to basic financial statements.

CITY OF HIGHLAND

STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2012

Functions/programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets 2012
<b>Governmental activities:</b>					
General government	\$ 7,223,527	\$ 997,356	\$ 89,407	\$ -	\$ (6,136,764)
Public safety	10,427,656	3,596,580	309,172	-	(6,521,904)
Highways and streets	8,701,612	817,326	3,577,378	5,771,257	1,464,349
Interest and fiscal charges	1,684,540	-	-	-	(1,684,540)
Total governmental activities	<u>\$ 28,037,335</u>	<u>\$ 5,411,262</u>	<u>\$ 3,975,957</u>	<u>\$ 5,771,257</u>	<u>(12,878,859)</u>
General revenues:					
Taxes:					
					8,030,404
					1,612,077
					204,296
					1,482,418
					243,218
					83,100
					117,613
					3,750,346
					168,109
					94,458
					<u>15,786,039</u>
					2,907,180
Extraordinary Item:					
					<u>(880,571)</u>
					2,026,609
					<u>242,718,659</u>
					<u>\$ 244,745,268</u>

See independent auditors' report and 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:

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.

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. In 2010, the taxpayers voted to extend this tax increase until 2040. These funds are kept locally for major road and transportation expenses and are disbursed to the City by San Bernardino Associated Governments (SANBAG).

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.

Major Grants Fund - This fund is used to account for federal grants that are 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, COPS, Safe Route to Schools and the Department of Energy grants.

### **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, additional 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 City.

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

### **Other Governmental Funds**

Other 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

BALANCE SHEET  
GOVERNMENTAL FUNDS

June 30, 2012

	Special Revenue Funds			
	General	Development Impact Fees	Measure I	Fire Department
<b>ASSETS</b>				
Cash and investments	\$ 6,437,746	\$ 6,650,003	\$ 7,223,205	\$ 7,260,879
Cash and investments with fiscal agent	-	-	-	-
Receivables:				
Accounts	524,722	-	-	463,051
Interest	3,323	3,554	5,152	3,651
Property taxes	48,211	-	-	29,681
Loans	-	-	-	-
Due from other governments	323,261	20	51,265	19,354
Due from other funds	4,152,527	-	-	-
Inventory	2,118	-	-	-
Prepaid items	9,561	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 11,501,469</b>	<b>\$ 6,653,577</b>	<b>\$ 7,279,622</b>	<b>\$ 7,776,616</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Accounts payable	\$ 586,265	86,080	\$ 4,867	\$ 1,329,665
Accrued liabilities	67,452	-	-	-
Retention payable	-	32,191	-	-
Deposits payable	836,475	-	-	-
Deferred revenue	11,246	-	-	-
Due to other funds	-	-	-	-
<b>TOTAL LIABILITIES</b>	<b>1,501,438</b>	<b>118,271</b>	<b>4,867</b>	<b>1,329,665</b>
<b>FUND BALANCES (DEFICIT):</b>				
Nonspendable	11,679	-	-	-
Restricted	-	6,535,306	7,274,755	6,446,951
Assigned	5,921,333	-	-	-
Unassigned	4,067,019	-	-	-
<b>TOTAL FUND BALANCES (DEFICIT)</b>	<b>10,000,031</b>	<b>6,535,306</b>	<b>7,274,755</b>	<b>6,446,951</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 11,501,469</b>	<b>\$ 6,653,577</b>	<b>\$ 7,279,622</b>	<b>\$ 7,776,616</b>

See independent auditors' report and notes to basic financial statements.

Special Revenue Funds (Continued)	Debt Service Fund	Capital Projects Funds		Other Governmental Funds	Total Governmental Funds
		General Capital Financing	Redevelopment Agency		
\$ -	\$ -	\$ 7,069,893	\$ -	\$ 9,270,217	\$ 43,911,943
-	-	-	-	23,432	23,432
278	-	-	-	70,024	1,058,075
-	-	6,070	-	5,323	27,073
-	-	-	-	37,985	115,877
-	-	-	-	695,728	695,728
4,503,198	-	-	-	1,399,527	6,296,625
-	-	1,500,000	-	-	5,652,527
-	-	-	-	-	2,118
-	-	-	-	-	9,561
<u>\$ 4,503,476</u>	<u>\$ -</u>	<u>\$ 8,575,963</u>	<u>\$ -</u>	<u>\$ 11,502,236</u>	<u>\$ 57,792,959</u>
\$ 667,990	\$ -	\$ 102,322	\$ -	\$ 588,782	\$ 3,365,971
-	-	-	-	2,305	69,757
248,459	-	-	-	2,578	283,228
-	-	-	-	-	836,475
3,479,446	-	-	-	1,494,660	4,985,352
3,587,027	-	-	-	2,065,500	5,652,527
<u>7,982,922</u>	<u>-</u>	<u>102,322</u>	<u>-</u>	<u>4,153,825</u>	<u>15,193,310</u>
-	-	-	-	-	11,679
-	-	-	-	8,395,299	28,652,311
-	-	8,473,641	-	-	14,394,974
(3,479,446)	-	-	-	(1,046,888)	(459,315)
<u>(3,479,446)</u>	<u>-</u>	<u>8,473,641</u>	<u>-</u>	<u>7,348,411</u>	<u>42,599,649</u>
<u>\$ 4,503,476</u>	<u>\$ -</u>	<u>\$ 8,575,963</u>	<u>\$ -</u>	<u>\$ 11,502,236</u>	<u>\$ 57,792,959</u>



CITY OF HIGHLAND

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS

June 30, 2012

Fund balances for governmental funds \$ 42,599,649

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	\$ 95,432,002	
Capital assets, being depreciated	141,550,228	
Accumulated depreciation	<u>(46,204,131)</u>	
		190,778,099

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.

Compensated absences	(478,993)	
Other post employment benefits	<u>(185,408)</u>	
		(664,401)

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 collectible after the availability period.

4,985,352

Land Held for Resale

Land acquired 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 \$ 244,745,268

See independent auditors' report and notes to basic financial statements.

CITY OF HIGHLAND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS

For the Fiscal Year Ended June 30, 2012

	Special Revenue Funds			
	General	Development	Measure I	Fire
		Impact Fees		Department
REVENUES:				
Taxes	\$ 11,122,244	\$ -	\$ -	\$ 2,348,191
Licenses and permits	520,920	-	-	36,761
Intergovernmental	160,319	-	741,911	135,099
Charges for services	1,003,663	447,550	-	463,051
Fines and forfeitures	86,398	-	-	-
Investment income	18,855	20,449	22,021	18,568
Rental income	-	-	-	-
Miscellaneous	86,038	-	-	-
<b>TOTAL REVENUES</b>	<b>12,998,437</b>	<b>467,999</b>	<b>763,932</b>	<b>3,001,670</b>
EXPENDITURES:				
Current:				
General government	5,262,834	-	-	131,543
Highways and streets	1,405,712	103,150	4,868	-
Public safety	7,247,038	-	-	1,618,275
Capital outlay	102,292	1,228,777	81,715	525,709
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Pass-through payments	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>14,017,876</b>	<b>1,331,927</b>	<b>86,583</b>	<b>2,275,527</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(1,019,439)</b>	<b>(863,928)</b>	<b>677,349</b>	<b>726,143</b>
OTHER FINANCING SOURCES (USES):				
Transfers in (Note 4)	1,528,005	-	-	-
Transfers out (Note 4)	(483,053)	(21,652)	-	(1,011,589)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>1,044,952</b>	<b>(21,652)</b>	<b>-</b>	<b>(1,011,589)</b>
<b>NET CHANGE IN FUND BALANCES, BEFORE EXTRAORDINARY ITEM</b>	<b>25,513</b>	<b>(885,580)</b>	<b>677,349</b>	<b>(285,446)</b>
EXTRAORDINARY ITEM:				
Loss on transfer to successor agency (Note 16)	-	-	-	-
<b>NET CHANGE IN FUND BALANCES</b>	<b>25,513</b>	<b>(885,580)</b>	<b>677,349</b>	<b>(285,446)</b>
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<b>9,974,518</b>	<b>7,420,886</b>	<b>6,597,406</b>	<b>6,732,397</b>
<b>FUND BALANCES (DEFICIT) - END OF YEAR</b>	<b>\$ 10,000,031</b>	<b>\$ 6,535,306</b>	<b>\$ 7,274,755</b>	<b>\$ 6,446,951</b>

See independent auditors' report and notes to basic financial statements.

Special Revenue Funds (Continued)	Debt Service Fund	Capital Projects Funds		Other Governmental Funds	Total Governmental Funds
		General Capital Financing	Redevelopment Agency		
Major Grants	Redevelopment Agency				
\$ -	\$ 4,759,252	\$ -	\$ -	\$ 964,035	\$ 19,193,722
-	-	-	-	-	557,681
1,773,280	-	-	-	3,742,889	6,553,498
-	-	-	-	119,311	2,033,575
-	-	-	-	198,560	284,958
-	17,320	26,019	34,787	47,031	205,050
-	-	-	-	168,109	168,109
-	-	-	-	16,131	102,169
<u>1,773,280</u>	<u>4,776,572</u>	<u>26,019</u>	<u>34,787</u>	<u>5,256,066</u>	<u>29,098,762</u>
-	13,250	111,102	418,061	724,950	6,661,740
221,325	-	-	-	2,060,309	3,795,364
-	-	-	-	1,086,845	9,952,158
5,031,401	-	543,321	1,046,063	724,886	9,284,164
-	1,170,000	-	-	-	1,170,000
-	1,405,454	-	-	-	1,405,454
-	828,396	-	-	-	828,396
<u>5,252,726</u>	<u>3,417,100</u>	<u>654,423</u>	<u>1,464,124</u>	<u>4,596,990</u>	<u>33,097,276</u>
<u>(3,479,446)</u>	<u>1,359,472</u>	<u>(628,404)</u>	<u>(1,429,337)</u>	<u>659,076</u>	<u>(3,998,514)</u>
-	-	450,000	443,557	1,113,538	3,535,100
-	(443,557)	-	-	(1,575,249)	(3,535,100)
-	(443,557)	450,000	443,557	(461,711)	-
(3,479,446)	915,915	(178,404)	(985,780)	197,365	(3,998,514)
-	(15,752,254)	-	(33,421,959)	(6,369,369)	(55,543,582)
(3,479,446)	(14,836,339)	(178,404)	(34,407,739)	(6,172,004)	(59,542,096)
-	14,836,339	8,652,045	34,407,739	13,520,415	102,141,745
<u>\$ (3,479,446)</u>	<u>\$ -</u>	<u>\$ 8,473,641</u>	<u>\$ -</u>	<u>\$ 7,348,411</u>	<u>\$ 42,599,649</u>

CITY OF HIGHLAND

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF  
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
TO THE STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2012

Net change in fund balances, after extraordinary items - total governmental funds \$ (59,542,096)

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	\$ 7,061,907	
Depreciation of capital assets	(3,239,427)	
Disposal of capital assets	(455,580)	3,366,900
		<hr/>

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	1,170,000	
Amortization of bond issuance costs	(53,532)	1,116,468
		<hr/>

To record as an expense the net change in compensated absences and other post employment benefits in the Statement of Activities.

Changes in compensated absences	39,214	
Changes in other post employment benefits	(44,852)	(5,638)
		<hr/>

Accrued Interest

Interest expense reported in the Statement of Activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in governmental funds.

Net change in accrued interest		(225,553)
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Deferred Revenues

Earned revenue has been deferred in the fund financial statements if it is collected after the availability period.

2,653,517

Transfer of assets liabilities of Dissolved Redevelopment Agency

The Highland Redevelopment Agency was dissolved as of February 1, 2012 pursuant to Assembly Bill 1x 27 and 1484. Assets and liabilities of the dissolved Agency as of February 1, 2012 was transferred to the successor agency:

Transfer of capital assets to the successor agency	(1,645,593)	
Transfer of long-term debt to the successor agency	55,848,810	
Transfer of accrued interest payable to the successor agency	459,794	54,663,011
		<hr/>

Change in net assets of governmental activities, after extraordinary items \$ 2,026,609

See independent auditors' report and notes to 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 for both 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, 2012

	Governmental Activities - Internal Service Funds
ASSETS	Funds
CURRENT ASSETS:	
Cash and investments	\$ 7,060,328
Interest receivable	4,773
TOTAL ASSETS	7,065,101
LIABILITIES	
CURRENT LIABILITIES:	
Accounts payable	32,010
Accrued liabilities	2,273
Claims payable	13,011
TOTAL CURRENT LIABILITIES	47,294
LONG-TERM LIABILITIES:	
Claims payable	117,808
TOTAL LONG-TERM LIABILITIES	117,808
TOTAL LIABILITIES	165,102
NET ASSETS	
NET ASSETS:	
Unrestricted	6,899,999
TOTAL NET ASSETS	\$ 6,899,999

See independent auditors' report and notes to basic financial statements.

CITY OF HIGHLAND  
PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Fiscal Year Ended June 30, 2012

	Governmental Activities - Internal Service Funds
OPERATING REVENUES:	
Charges for services	\$ 574,570
TOTAL OPERATING REVENUES	<u>574,570</u>
OPERATING EXPENSES:	
Salaries and benefits	83,846
Insurance premiums	193,858
Claims and judgements	19,631
Legal fees	109,462
Administrative expenses	179,687
Insurance adjusting fees	8,718
TOTAL OPERATING EXPENSES	<u>595,202</u>
OPERATING LOSS	<u>(20,632)</u>
NONOPERATING REVENUES:	
Investment income	<u>20,632</u>
TOTAL NONOPERATING REVENUES	<u>20,632</u>
CHANGE IN NET ASSETS	-
TOTAL NET ASSETS - BEGINNING OF YEAR	<u>6,899,999</u>
TOTAL NET ASSETS - END OF YEAR	<u>\$ 6,899,999</u>

See independent auditors' report and notes to basic financial statements.

CITY OF HIGHLAND  
 PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

For the Fiscal Year Ended June 30, 2012

	Governmental Activities - Internal Service Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash received for services	\$ 574,570
Cash payments to employees for services	(105,877)
Cash payments made to suppliers/vendors	<u>(472,286)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>(3,593)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Interest received on investments	<u>22,264</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>22,264</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	18,671
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>7,041,657</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 7,060,328</u></u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:</b>	
Operating loss	<u>\$ (20,632)</u>
Adjustments to reconcile operating loss to net cash used by operating activities:	
Increase (decrease) in accounts payable	2,940
Increase (decrease) in accrued liabilities	(1,239)
Increase (decrease) in claims payable	<u>15,338</u>
Total Adjustments	<u>17,039</u>
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ (3,593)</u></u>

See independent auditors' report and notes to 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.

Successor Agency Private Purpose Trust – This fund accounts for the activities of the Successor Agency to the Highland Redevelopment Agency.

CITY OF HIGHLAND  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS

June 30, 2012

	Successor Agency to the City of Highland Redevelopment Agency Private Purpose Trust Fund	Agency Fund	Totals
	<u>          </u>	<u>          </u>	<u>          </u>
<b>ASSETS:</b>			
Cash and investments	\$ 46,878,764	\$ -	\$ 46,878,764
Cash and investments with fiscal agent (note 2)	5,203,059	3,937,504	9,140,563
Interest receivable	12,262	-	12,262
Prepaid items	100,000	-	100,000
Unamortized bond issuance costs	2,217,952	-	2,217,952
Capital assets:			
Nondepreciable	<u>1,645,592</u>	<u>-</u>	<u>1,645,592</u>
 TOTAL ASSETS	 <u>56,057,629</u>	 <u>3,937,504</u>	 <u>59,995,133</u>
 <b>LIABILITIES:</b>			
Accounts payable	168,402	-	168,402
Accrued interest payable	218,591	-	218,591
Held for bondholders	-	3,937,504	3,937,504
Long-term liabilities:			
Due within one year	1,215,000	-	1,215,000
Due in more than one year	<u>56,890,000</u>	<u>-</u>	<u>56,890,000</u>
 TOTAL LIABILITIES	 <u>58,491,993</u>	 <u>3,937,504</u>	 <u>62,429,497</u>
 NET ASSETS (DEFICIT) HELD IN TRUST	 <u>\$ (2,434,364)</u>	 <u>\$ -</u>	 <u>\$ (2,434,364)</u>

See independent auditors' report and notes to basic financial statements.

CITY OF HIGHLAND

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS

For the period from February 1, 2012 to June 30, 2012

	Successor Agency to the City of Highland Redevelopment Agency Private Purpose Trust Fund
ADDITIONS:	
Taxes	\$ 236,026
Investment income	55,138
	<hr/>
TOTAL ADDITIONS	291,164
	<hr/>
DEDUCTIONS:	
Personal services	304,871
Capital assets contributions to City of Highland	2,124,812
Interest	1,138,178
Amortization	38,238
	<hr/>
TOTAL DEDUCTIONS	3,606,099
	<hr/>
EXTRAORDINARY GAIN (NOTE 16)	880,571
	<hr/>
CHANGE IN NET ASSETS	(2,434,364)
	<hr/>
NET ASSETS - FEBRUARY 1, 2012	-
	<hr/>
NET ASSETS (DEFICIT) - END OF YEAR	\$ (2,434,364)
	<hr/> <hr/>

See independent auditors' report and notes to basic financial statements.



CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2012

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:

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.

Because each component unit meets the above-mentioned criteria, included within the financial reporting entity of the City of Highland are the Highland Redevelopment Agency (through January 31, 2012), City of Highland Public Financing Authority and City of Highland Housing Authority.

The Highland Redevelopment Agency (the Agency) was created by Ordinance No. 97 of the Highland City Council, adopted on February 27, 1990. The Agency was established pursuant to the Community Redevelopment Law of California. The primary purpose of the Agency was to eliminate visual, economic physical and social blight within the project areas. Effective February 1, 2012, the Highland Redevelopment Agency was dissolved as a result of Assembly Bill X26 (the Dissolution Act). See Note 16 for additional information. The Agency' financial transactions for the seven month period from July 1, 2011 through January 31, 2012 are included within the special revenue, debt service and capital projects fund type.

See independent auditors' report.

CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

A. Description of Reporting Entity (Continued):

The City of Highland Public Financing Authority (the Authority) was created by a joint exercise of joint powers agreement between the City of Highland and the Highland Redevelopment Agency on October 27, 1992. The Authority was created for the purpose of assisting the financing or refinancing of certain public capital facilities by the City. The Authority is governed by a five-member Board of Directors which consists of members of the City Council. During the current fiscal year, the Authority had no fiscal activity.

The City of Highland Housing Authority (the Housing Authority) was established by the City Council in 2011, and is responsible for the administration of providing affordable housing in the City. The Housing Authority is governed by a five-member Board of Directors which consists of members of the City Council. The Housing Authority's financial transactions are reported in the Special Revenue Fund.

Since the City Council serves as the governing board for these component units, all of the City's component units are considered to be blended component units. Blended component units, although legally separate entities, are in substance, part of the City's operations and so data from these units are reported with the interfund data of the primary government. These component units do not issue separate component unit financial statements.

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

**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.

See independent auditors' report.

CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

B. Basis of Accounting and Measurement Focus (Continued):

**Government-wide Financial Statements (Continued):**

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) 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.

See independent auditors' report.

CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

B. Basis of Accounting and Measurement Focus (Continued):

**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 other governmental funds in the aggregate for governmental funds. Proprietary statements include financial information for internal service funds. Fiduciary statements include financial information for private purpose trust funds and agency funds. Fiduciary funds of the City represent assets held by the City in a custodial capacity for other individuals or organizations.

**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 collectible 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.

See independent auditors' report.

CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

B. Basis of Accounting and Measurement Focus (Continued):

**Governmental Funds (Continued):**

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.

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.

See independent auditors' report.

CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

B. Basis of Accounting and Measurement Focus (Continued):

**Governmental Funds (Continued):**

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

Nonspendable - This classification includes amounts that cannot be spent because they are either (a) not in spendable form (such as inventory) or (b) legally or contractually required to be maintained intact (such as endowments).

Restricted - This classification 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 - This classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The governing council is the highest level of decision-making authority for the government that can, by adoption of or resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken to remove or revise the limitation.

Assigned - This classification includes amounts to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

Unassigned - This classification includes the residual balance for the government's general fund and includes all spendable amounts not contained in other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

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.

See independent auditors' report.

CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

B. Basis of Accounting and Measurement Focus (Continued):

**Proprietary and Fiduciary Funds:**

In the fund financial statements, proprietary funds and private purpose trust 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.

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.

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

C. Fund Classifications:

The accounts of the City are organized and operated on the basis of funds, each of which is considered a separate accounting entity with a self-balancing set of accounts, established for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

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 Capital Projects Fund which has been elected to be presented as major.

See independent auditors' report.

CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

C. Fund Classifications (Continued):

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.

*Development Impact Fees Special Revenue Fund* - 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 and recreation facilities, storm drains, streets/sidewalks, traffic control, bridges/culverts, streetlights, medians/landscaping and major arterials.

*Measure I Special Revenue Fund* - 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).

*Fire Department Special Revenue Fund* - This fund accounts for all revenues and expenditures relating to the fire department. The City contracts "With the State (Cal-Fire) for this service.

*Major Grants Special Revenue Fund* - This fund accounts for federal grants that are not required to be maintained in their own fund.

*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. The Agency was dissolved effective February 1, 2012.

*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 Corporation Yard, the new Police Station and various storm drain and sidewalk projects. The Agency was dissolved effective February 1, 2012.

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

See independent auditors' report.

CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

C. Fund Classifications (Continued):

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

*Special Revenue Funds* - are used to account for specific revenues that are legally restricted to expenditure for a particular purpose.

*Capital Projects Funds* - are used to account for the acquisition and construction of major capital facilities.

*Proprietary Funds:*

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.

*Fiduciary Funds:*

Private Purpose Trust Fund - is used to account for the activities of the Successor Agency to the Highland Redevelopment Agency.

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.

See independent auditors' report.

CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

E. Cash and Investments (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.

See independent auditors' report.

CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

G. Capital Assets (Continued):

The range of lives used for depreciation purposes for each capital asset class is 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
Equipment and furniture	3 - 20 years
Vehicles and major equipment	3 - 15 years
Infrastructure	40 - 90 years

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.

See independent auditors' report.

CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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.

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. 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:	First Installment - November 1 Second Installment - March 1
Delinquent Dates:	First Installment - December 10 Second Installment - April 10

See independent auditors' report.

CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

N. Property Tax Calendar (Continued):

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.

O. Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Specifically, the City has made certain estimates and assumptions related to the collectability of its receivables (e.g. accounts receivable, intergovernmental receivables, loans receivable, amounts due from other funds and amounts advanced to other funds), the depreciation of its capital assets and the ultimate outcome of claims and judgments. Actual results could differ from those estimates and assumptions.

P. Subsequent Event:

In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through November 27, 2012, the date the financial statements were available to be issued.

See independent auditors' report.

CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

2. CASH AND INVESTMENTS:

**Cash and Investments:**

Cash and investments at June 30, 2012 are classified in the accompanying financial statements as follows:

	Primary Government Government- Wide Statement of Net Assets	Fiduciary Funds Statement of Net Assets	Total
Cash and investments	\$ 50,972,271	\$ 46,878,764	\$ 97,851,035
Cash and investments with fiscal agent	<u>23,432</u>	<u>9,140,563</u>	<u>9,163,995</u>
Total Cash and Investments	<u>\$ 50,995,703</u>	<u>\$ 56,019,327</u>	<u>\$ 107,015,030</u>

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

Primary Government

Cash on hand	\$ 1,150
Deposits with financial institutions	7,303,959
Investments	<u>43,690,594</u>
Total Cash and Investments	<u>\$ 50,995,703</u>

Fiduciary Funds

Pooled cash and investments with the Primary Government	\$ 33,073,245
Investments	<u>22,946,082</u>
Total Cash and Investments	<u>\$ 56,019,327</u>

See independent auditors' report.

CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

2. CASH AND INVESTMENTS (CONTINUED):

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

The table below 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, credit 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.

Investment Types <u>Authorized by State Law</u>	Authorized by Investment <u>Policy</u>	Maximum Maturity*	Maximum Percentage of Portfolio*	Maximum Investment in One Issuer*
California Local Agency Bonds	Yes	5 years	None	None
U.S. Treasury Obligations	Yes	5 years	None	None
Securities of the State of California	Yes	5 years	None	None
United States Agency Securities	Yes	5 years	None	None
Banker's Acceptances	Yes	180 days	40%	30%
Commercial Paper	Yes	270 days	25%	10%
Certificates of Deposit	Yes	5 years	None	None
Negotiable Certificates of Deposit	Yes	5 years	30%	None
Repurchase Agreements	Yes	1 year	None	None
Reverse Repurchase Agreements	Yes	92 days	20% of base value	None
Medium-Term Notes	Yes	5 years	30%	None
Mutual Funds	Yes	5 years	15%	10%
Mortgage Pass-Through Securities	Yes	5 years	20%	None
California Asset Management Program (CAMP)	Yes	N/A	None	None
Local Agency Investment Fund (LAIF)	Yes	N/A	None	None

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

N/A - Not Applicable

See independent auditors' report.

CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

2. CASH AND INVESTMENTS (CONTINUED):

**Investments Authorized by Debt Agreements:**

Investments 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.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
United States Treasury Obligations	None	None	None
United States 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

N/A - Not Applicable

**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.

See independent auditors' report.

CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

2. CASH AND INVESTMENTS (CONTINUED):

**Disclosures Relating to Interest Rate Risk (Continued):**

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:

Investment Type	Remaining Maturity (in Months)				Total
	1 to 3 Months	4 to 6 Months	7 to 12 Months	More than 12 Months	
California Asset Management Program (CAMP)	\$ 39,402,974	\$ -	\$ -	\$ -	\$ 39,402,974
LAIF - City	35,855,374	-	-	-	35,855,374
LAIF - Successor Agency	13,805,519	-	-	-	13,805,519
Money market accounts	1,665,839	-	-	-	1,665,839
Held by bond fiscal agent:					
Money market mutual funds:					
City	23,431	-	-	-	23,431
Successor Agency	5,203,059	-	-	-	5,203,059
CFD	2,957,504	-	-	-	2,957,504
Investment contracts - CFD	-	-	-	980,000	980,000
Total	<u>\$ 98,913,700</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 980,000</u>	<u>\$ 99,893,700</u>

**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 as 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 as of June 30, 2012	Minimum Legal Rating	Rating			
			AAA	AA	Aa	Not Rated
CAMP	\$ 39,402,974	N/A	\$ 39,402,974	\$ -	\$ -	\$ -
LAIF - City	35,855,374	N/A	-	-	-	35,855,374
LAIF - Successor Agency	13,805,519	N/A	-	-	-	13,805,519
Money market accounts	1,665,839	N/A	-	-	-	1,665,839
Held by bond fiscal agent:						
Money market mutual funds:						
City	23,431	Aa	-	-	-	23,431
Successor Agency	5,203,059	Aa	-	-	-	5,203,059
CFD	2,957,504	Aa	-	-	-	2,957,504
Investment contracts - CFD	980,000	-	-	-	-	980,000
Total	<u>\$ 99,893,700</u>		<u>\$ 39,402,974</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 60,490,726</u>

N/A - Not Applicable

See independent auditors' report.

CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

2. CASH AND INVESTMENTS (CONTINUED):

**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 the City's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. At June 30, 2012, the City and the Successor Agency deposits (bank balances) were insured by the Federal Depository Insurance Corporation and the remaining balances were collateralized under California Law.

**Investment in State Investment Pool:**

The City and the Successor Agency are voluntary participants in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The 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 invests in this investment trust, which is similar to a money market mutual fund. The fund invests primarily in certificates of deposit, commercial paper, and U.S. Government and Agency obligations. The City is a voluntary participant in the investment pool.

See independent auditors' report.

CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

2. CASH AND INVESTMENTS (CONTINUED):

**California Asset Management Program (Continued):**

The CAMP Cash Reserve Portfolio (the Pool) is exempt from registration with the Securities and Exchange Commission (SEC) under the Investment Company Act of 1940, but operates in a manner consistent with SEC Rule 2a-7, "Money Market Funds", of that Act. Accordingly, the Pool meets the definition of a "2a7-like pool" set forth in GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and External Investment Pools". While the Pool itself is exempt from SEC registration, the Pool's investment advisor and administrator, PFM Asset Management, LLC, is registered with the SEC as an investment advisor under the Investment Advisors Act of 1940. PFM Asset Management, LLC has also filed a notice with the California Department of Corporations, as well as various other states, as an investment advisor under state securities laws. In addition, the Pool also meets the definition of "Municipal Fund Security" outlined by Municipal Securities Rulemaking Board (MSRB) Rule 0-12, therefore contracts with prospective investors relating to shares of the Pool are conducted through PFM Asset Management's wholly-owned subsidiary, PFMAM, Inc., a broker-dealer which is registered with the SEC and MSRB, and is a member of the National Association of Securities Dealers (NASD). The Pool also files an income tax return annually with the Internal Revenue Service, though the net income of the Pool is generally exempt from federal income tax.

3. INTERFUND RECEIVABLES AND PAYABLES:

The composition of interfund balances as of June 30, 2012, is as follows:

**Due From/To Other Funds:**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Major Grants Special Revenue Fund	\$ 2,087,027
	Other Governmental Funds	2,065,500
General Capital Financing Capital Projects Fund	Major Grants Special Revenue Fund	1,500,000
		<u>\$ 5,652,527</u>

These interfund balances are short-term borrowings to cover deficit cash in the Major Grants Special Revenue Fund, and the following Other Governmental Special Revenue Funds: (1) CDBG Fund, (2) Street Lighting District Fund, (3) FEMA Fund, (4) Grants Fund and (5) Housing Authority Fund. These borrowings are expected to be repaid in fiscal year 2013.

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CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

4. INTERFUND TRANSFERS:

Interfund transfers at June 30, 2012, consisted of the following:

<u>Transfer Out of Fund</u>	<u>Transfers In to Fund</u>	<u>Amount</u>
General Fund	General Capital Financing Capital Projects Fund (a)	\$ 450,000
	Other Governmental Funds	33,053
Development Impact Fees Special Revenue Fund	Other Governmental Funds	21,652
Fire Department Special Revenue Fund	General Fund	10,000
	Other Governmental Funds (b)	1,001,589
Redevelopment Agency Debt Service Fund	Redevelopment Agency Capital Projects Fund (c)	443,557
Other Governmental Funds	General Fund (d)	1,518,005
	Other Governmental Funds	<u>57,244</u>
		<u>\$ 3,535,100</u>

- (a) The General Fund transferred \$450,000 to the General Capital Financing Capital Projects Fund to be used to fund future infrastructure and facilities projects.
- (b) The Fire Department Special Revenue Fund provided funding of \$549,383 to the Other Governmental Paramedic Special Revenue Fund to cover the Medic Tax shortfall. The Fire Department Special Revenue Fund also provided funding of \$452,206 to the Other Governmental FEMA Special Revenue Fund to cover disaster relief expenditures that were not reimbursed by FEMA.
- (c) The Redevelopment Agency Debt Service Fund transferred \$443,557 to the Redevelopment Agency Capital Projects Fund to reimburse the capital projects fund for non-project related costs.
- (d) To reimburse the General Fund for eligible Other Governmental Gas Tax Special Revenue Fund expenditures in the amount of \$1,508,005. The Other Governmental Paramedic Special Revenue Fund reimbursed the General Fund for administrative expenditures in the amount of \$10,000.

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CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

5. CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2012 was as follows:

	Balance at July 1, 2011 (As Restated) (See Note 17)	Additions	Deletions	Transfers	Balance at June 30, 2012
Capital assets, not being depreciated:					
Land	\$ 6,081,976	\$ -	\$ -	\$ (1,645,592)	\$ 4,436,384
Rights of way	86,509,631	165,681	-	-	86,675,312
Construction in progress	<u>9,871,110</u>	<u>6,124,761</u>	<u>-</u>	<u>(11,675,565)</u>	<u>4,320,306</u>
Total capital assets, not being depreciated	<u>102,462,717</u>	<u>6,290,442</u>	<u>-</u>	<u>(13,321,157)</u>	<u>95,432,002</u>
Capital assets, being depreciated:					
Buildings and improvements	32,580,164	-	(821,762)	8,097,125	39,855,527
Equipment, furniture and software	2,059,384	771,465	-	-	2,830,849
Vehicles	2,122,190	-	-	-	2,122,190
Infrastructure - road system	82,548,020	-	(520,916)	3,037,673	85,064,777
Infrastructure - storm drains	<u>11,141,253</u>	<u>-</u>	<u>(5,135)</u>	<u>540,767</u>	<u>11,676,885</u>
Total capital assets, being depreciated	<u>130,451,011</u>	<u>771,465</u>	<u>(1,347,813)</u>	<u>11,675,565</u>	<u>141,550,228</u>
Less accumulated depreciation for:					
Buildings and improvements	(4,924,971)	(591,278)	510,587	-	(5,005,662)
Equipment, furniture and software	(745,904)	(46,068)	-	-	(791,972)
Vehicles	(843,186)	(73,562)	-	-	(916,748)
Infrastructure - road system	(35,676,529)	(2,371,549)	381,302	-	(37,666,776)
Infrastructure - storm drains	<u>(1,666,347)</u>	<u>(156,970)</u>	<u>344</u>	<u>-</u>	<u>(1,822,973)</u>
Total accumulated depreciation	<u>(43,856,937)</u>	<u>(3,239,427)</u>	<u>892,233</u>	<u>-</u>	<u>(46,204,131)</u>
Total capital assets, being depreciated, net	<u>86,594,074</u>	<u>(2,467,962)</u>	<u>(455,580)</u>	<u>11,675,565</u>	<u>95,346,097</u>
Total governmental activities capital assets, net	<u>\$ 189,056,791</u>	<u>\$ 3,822,480</u>	<u>\$ (455,580)</u>	<u>\$ (1,645,592)</u>	<u>(a) \$ 190,778,099</u>

(a) The net transfer of \$1,645,592 relates to the transfer of land to the successor agency for the redevelopment agency. See Note 16 for additional information

See independent auditors' report.

CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

5. CAPITAL ASSETS (CONTINUED):

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

Governmental activities:	
General government	\$ 92,620
Highways and streets	164,323
Public safety	<u>2,982,484</u>
Total	<u>\$ 3,239,427</u>

6. LONG-TERM LIABILITIES:

Long-term liability activity for the year ended June 30, 2012, was as follows:

	Balance at				Balance at	Due	Due in
	July 1, 2011	Additions	Deletions	Transfers (a)	June 30, 2012	Within	More Than
						One Year	One Year
Bonds Payable:							
2004A Tax Allocation							
Bonds	\$ 15,755,000	\$ -	\$ (315,000)	\$ (15,440,000)	\$ -	\$ -	\$ -
2004B Tax Allocation							
Refunding Bonds	2,785,000	-	(140,000)	(2,645,000)	-	-	-
2007 Tax Allocation							
Bonds	<u>40,735,000</u>	<u>-</u>	<u>(715,000)</u>	<u>(40,020,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Subtotal	<u>59,275,000</u>	<u>-</u>	<u>(1,170,000)</u>	<u>(58,105,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other Liabilities:							
Claims payable	115,480	15,339	-	-	130,819	13,011	117,808
Compensated absences	518,207	245,446	(284,660)	-	478,993	140,459	338,534
Other post-employment							
benefits (Note 7)	<u>140,556</u>	<u>58,852</u>	<u>(14,000)</u>	<u>-</u>	<u>185,408</u>	<u>-</u>	<u>185,408</u>
Subtotal	<u>774,243</u>	<u>319,637</u>	<u>(298,660)</u>	<u>-</u>	<u>795,220</u>	<u>153,470</u>	<u>641,750</u>
Total	<u>\$ 60,049,243</u>	<u>\$ 319,637</u>	<u>\$ (1,468,660)</u>	<u>\$ (58,105,000)</u>	<u>\$ 795,220</u>	<u>\$ 153,470</u>	<u>\$ 641,750</u>

(a) The transfers relate to the transfer of long-term liabilities to the successor agency from the former the redevelopment agency. See Note 16 for additional information

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CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

6. LONG-TERM LIABILITIES (CONTINUED):

**Claims Payable:**

The City retains the risk of loss for general liability and workers' compensation claims as described in Note 9. 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, 2012 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, 2012 for general liability amounted to \$130,817 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, 2012 is \$478,993.

7. OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN:

**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>

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CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

7. OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (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 2011-12, the City contributed \$14,000 to the plan for current premiums.

**Annual OPEB Cost and Net OPEB Obligation:**

The City's annual OPEB cost (expense) is calculated based on the ARC, an amount actuarially determined in accordance with parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded liabilities of the plan over a period not to exceed thirty years. The ARC for the fiscal year ended June 30, 2012 was \$58,852 and was determined as part of an actuarial valuation dated July 1, 2009.

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
Adjustment to annual required contribution	<u>(2,343)</u>
Annual OPEB cost (expense)	58,852
Actual contributions made	<u>(14,000)</u>
Change in net OPEB obligation	44,852
Net OPEB Obligation - beginning of year	<u>140,556</u>
Net OPEB Obligation - end of year	<u>\$ 185,408</u>

The net OPEB obligation of \$185,408 is expected to be paid in future years primarily from the general fund.

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CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

7. OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED):

**Annual OPEB Cost and Net OPEB Obligation (Continued):**

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2012 and the two preceding years, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Actual Contribution (Net of Adjustments)	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
6/30/10	\$ 58,852	\$ 12,000	20.39 %	\$ 93,704
6/30/11	58,852	12,000	20.39 %	140,556
6/30/12	58,852	14,000	23.79 %	185,408

**Funded Status and Funding Progress:**

As of July 1, 2009, the first and latest actuarial valuation date, the Plan was 0.0 percent funded. The actuarial accrued liability for benefits was \$394,460, and the actuarial value of assets was zero, resulting in an unfunded accrued actuarial liability (UAAL) of \$394,460. The covered payroll (annual payroll of active employees covered by the plan) was \$2,562,490 and the ratio of the UAAL to the covered payroll was 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 rates of employee turnover, retirement, mortality, as well as economic assumptions regarding claim costs per retiree, healthcare inflation and interest rates. 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 benefits.

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CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

7. OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED):

**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 the 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 value of assets, consistent with the long-term perspective of the calculations. In the July 1, 2009 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included an investment return/discount rate of 5% per annum, projected salary increases of 5% per annum, a general inflation rate of 0% per annum, and a medical trend rate of between 5% and 8%. A level percentage of payroll method was used to allocate amortization cost by year. A closed amortization period of 30 years was used.

8. 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 the PERS' annual financial report may be obtained from the PERS Executive Office - 400 P Street, Sacramento, California 95814.

**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, 2012 is 14.512% 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 ended June 30, 2012, 2011 and 2010 were \$370,660, \$345,102 and \$352,248, respectively, and were equal to the required contributions for each year.

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CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

8. CITY EMPLOYEES RETIREMENT PLAN (DEFINED BENEFIT PENSION PLAN)  
(CONTINUED):

**Three-Year Trend Information:**

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/10	14.046%	\$ 352,248	100%	\$ -
6/30/11	13.765%	345,102	100%	-
6/30/12	14.512%	370,660	100%	-

9. 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, 2012 were as follows:

Workers' compensation claims	\$ -
General liability claims	<u>130,817</u>
<b>Total</b>	<b><u>\$ 130,817</u></b>

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.

The claims liability at June 30, 2012 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.

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CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

9. RISK MANAGEMENT (CONTINUED):

Changes in the claims liability amounts were:

Fiscal Year	Beginning Balance	Current Year Claims and Changes in Estimates	Claim Payments	Ending Balance
6/30/10	\$ 103,700	\$ -	\$ (54,451)	\$ 49,249
6/30/11	49,249	66,231	-	115,480
6/30/12	115,480	15,337	-	130,817

10. 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 9).

11. DEBT ISSUED WITHOUT GOVERNMENT COMMITMENT:

**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, 2012 the outstanding Revenue Bonds totaled \$6,620,000.

**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.

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CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

11. DEBT ISSUED WITHOUT GOVERNMENT COMMITMENT (CONTINUED):

**2001 Special Tax Bonds (Mello-Roos) (Continued):**

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, 2012, the amount outstanding was \$5,355,000.

**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, 2012, the amount outstanding was \$3,790,000.

12. 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.

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CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

13. INDIVIDUAL FUND DISCLOSURES:

**Deficit Fund Balances:**

For the year ended June 30, 2012, the following funds had deficit fund balances:

Major Fund:

Major Grants Special Revenue Fund \$ (3,479,446)

Other Governmental Funds:

Street Light District Special Revenue Fund (431,073)

FEMA Special Revenue Fund (615,815)

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

Major Grant Special Revenue Fund - The negative fund balance for this fund relates to deferred revenues for receivable from other governmental agencies that are outside of the availability period. Once the receivables are collected, the fund balance will be zero.

Street Light District Special Revenue 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 Special Revenue Fund - The negative fund balance for this fund relates to deferred revenues for receivable from other governmental agencies that are outside of the availability period. Once the receivables are collected, the fund balance will be zero.

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CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

14. GOVERNMENTAL FUND BALANCE CLASSIFICATIONS:

The various fund balance classifications as of June 30, 2012 were as follows:

	Special Revenue Funds					Capital Projects Fund	Other Governmental Funds
	Development			Fire Department	Major Grants	General Capital Financing	
	General	Impact	Measure I				
		Fees					
<b>Nonspendable:</b>							
Inventory and prepaid items	\$ 11,679	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Restricted:</b>							
Public safety	-	-	-	6,446,951	-	-	3,656,481
Highways and street projects	-	6,535,306	7,274,755	-	-	-	3,592,458
Parks and recreation	-	-	-	-	-	-	657,515
Low and moderate income housing	-	-	-	-	-	-	21,635
Other purposes	-	-	-	-	-	-	467,210
<b>Assigned:</b>							
Public safety:							
Vehicle replacement	475,000	-	-	-	-	-	-
Equipment replacement	200,000	-	-	-	-	-	-
Public safety enhancement	200,000	-	-	-	-	-	-
Other purposes:							
Compensated absences	478,993	-	-	-	-	-	-
Capital projects	1,180,620	-	-	-	-	5,320,641	-
Technical enhancements	300,000	-	-	-	-	-	-
Service enhancements	1,686,720	-	-	-	-	-	-
City Hall	1,400,000	-	-	-	-	-	-
Public improvements	-	-	-	-	-	3,153,000	-
<b>Unassigned</b>	<u>4,067,019</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,479,446)</u>	<u>-</u>	<u>(1,046,388)</u>
	<u>\$ 10,000,031</u>	<u>\$ 6,535,306</u>	<u>\$ 7,274,755</u>	<u>\$ 6,446,951</u>	<u>\$ (3,479,446)</u>	<u>\$ 8,473,641</u>	<u>\$ 7,348,411</u>

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CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

15. SUCCESSOR AGENCY DISCLOSURES:

The assets and liabilities of the former Redevelopment Agency were transferred to the Successor Agency to the City of Highland Redevelopment Agency on February 1, 2012 as a result of the dissolution of the former Redevelopment Agency. The City is acting in a fiduciary capacity for the assets and liabilities. Disclosure related to capital assets and long-term liabilities are as follows:

Capital Assets:

At June 30, 2012, the Successor Agency had land of \$1,645,993.

Long-Term Liabilities:

Long-term liability activity for the year ended June 30, 2012 was as follows:

	Balance at					Balance at		Due	Due in
	July 1, 2011	Additions	Deletions	Transfers (a)	June 30, 2012	Within	One Year	More Than	One Year
Bonds Payable:									
2004A Tax Allocation									
Bonds	\$ -	\$ -	\$ -	\$ 15,440,000	\$ 15,440,000	\$ -	\$ -	\$ -	\$ -
2004B Tax Allocation									
Refunding Bonds	-	-	-	2,645,000	2,645,000	-	-	-	-
2007 Tax Allocation									
Bonds	-	-	-	40,020,000	40,020,000	-	-	-	-
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 58,105,000</u>	<u>\$ 58,105,000</u>	<u>\$ 1,215,000</u>	<u>\$ -</u>	<u>\$ 56,890,000</u>	<u>\$ -</u>

(a) The transfers relate to the transfer of long-term liabilities from the former the redevelopment agency. The Successor Agency of the Highland Redevelopment Agency has assumed these liabilities as a result of the dissolution of the Redevelopment Agency. See Notes 6 and 16 for additional information

**2004A Tax Allocation Bonds:**

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, 2012 unspent bond proceeds specifically set aside for these capital asset/infrastructure projects that remains unspent is \$5,669,712.

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.

See independent auditors' report.

CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

15. SUCCESSOR AGENCY DISCLOSURES (CONTINUED):

Long-Term Liabilities (Continued):

**2004A Tax Allocation Bonds (Continued):**

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.

Per the terms of the bond indenture, a reserve of \$1,348,000 is required to be maintained. At June 30, 2012, the reserve was fully funded and the outstanding balance of the bonds was \$15,440,000.

**2004B Tax Allocation Refunding Bonds:**

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 \$294,000 is required to be maintained. At June 30, 2012, the reserve was fully funded and the outstanding balance of the bonds was \$2,645,000.

See independent auditors' report.

CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

15. SUCCESSOR AGENCY DISCLOSURES (CONTINUED):

Long-Term Liabilities (Continued):

**2007 Tax Allocation Bonds:**

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 \$25,627,616.

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.

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 \$3,338,000 is required to be maintained. At June 30, 2012, the reserve was \$3,560,926 and the outstanding balance of the bonds was \$40,020,000.

See independent auditors' report.

CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

15. SUCCESSOR AGENCY DISCLOSURES (CONTINUED):

**Debt Service Requirements:**

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

Year Ending June 30,	Principal	Interest	Total
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	1,435,000	2,507,666	3,942,666
2018 - 2022	8,235,000	11,437,605	19,672,605
2023 - 2027	10,420,000	9,220,479	19,640,479
2028 - 2032	13,225,000	6,366,994	19,591,994
2033 - 2037	16,110,000	2,788,481	18,898,481
2038	3,505,000	83,243	3,588,243
Totals	<u>\$ 58,105,000</u>	<u>\$ 43,012,443</u>	<u>\$ 101,117,443</u>

16. RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES:

On June 29, 2011, Assembly Bills 1x 26 (the "Dissolution Act") and 1x 27 were enacted as part of the fiscal year 2011-12 state budget package. The Dissolution Act required each California redevelopment agency to suspend nearly all activities except to implement existing contracts, meet already-incurred obligations, preserve its assets and prepare for impending dissolution. Assembly Bill 1x 27 provided a means for redevelopment agencies to continue to exist and operate by means of a Voluntary Alternative Redevelopment Program.

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 the Dissolution Act and Assembly Bill 1x 27 on the grounds that these bills violate the California Constitution.

On December 29, 2011, the California Supreme Court upheld the Dissolution Act and struck down Assembly Bill 1x 27.

On June 27, 2012, as part of the fiscal year 2012-13 state budget package, the Legislature passed and the Governor signed AB 1484, which made technical and substantive amendments to the Dissolution Act based on experience to-date at the state and local level in implementing the Dissolution Act.

See independent auditors' report.

CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

16. RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES (CONTINUED):

Under the Dissolution Act, each California redevelopment agency (each a "Dissolved RDA") was dissolved as of February 1, 2012, and the sponsoring community that formed the Dissolved RDA, together with other designated entities, have initiated the process under the Dissolution Act to unwind the affairs of the Dissolved RDA. A Successor Agency was created for each Dissolved RDA which is the sponsoring community of the Dissolved RDA unless it elected not to serve as the Successor Agency. On January 10, 2012, the City elected to serve as the Successor Agency of the City of Highland Redevelopment Agency.

The Dissolution Act also created oversight boards which monitor the activities of the successor agencies. The roles of the successor agencies and oversight boards is to administer the wind down of each Dissolved RDA which includes making payments due on enforceable obligations, disposing of the assets (other than housing assets) and remitting the unencumbered balances of the Dissolved RDAs to the County Auditor-Controller for distribution to the affected taxing entities.

The Dissolution Act allowed the sponsoring community that formed the Dissolved RDA to elect to assume the housing functions and take over the certain housing assets of the Dissolved RDA. If the sponsoring community does not elect to become the Successor Housing Agency and assume the Dissolved RDA's housing functions, such housing functions and all related housing assets will be transferred to the local housing authority in the jurisdiction. AB 1484 modified and provided some clarifications on the treatment of housing assets under the Dissolution Act. The City of Highland Housing Authority elected on January 27, 2012, to serve as the Housing Successor Agency.

Prior to February 1, 2012, the final seven months of activity of the Dissolved RDA are reported in the governmental funds of the City. After the date of dissolution, the housing assets, obligations, and activities of the Dissolved RDA have been transferred and are reported in a special revenue fund (Housing Authority Special Revenue Fund) in the financial statements of the City. All other assets, obligations, and activities of the Dissolved RDA have been transferred and are reported in a fiduciary fund (private-purpose trust fund) in the financial statements of the City.

The transfer of the assets and liabilities of the Dissolved RDA as of February 1, 2012 (except for certain assets of the former Low and Moderate Income Housing Fund, which were transferred to the Housing Authority Special Revenue Fund) (effectively the same date as January 31, 2012) from the governmental funds of the City to the fiduciary fund was reported in the governmental funds as an extraordinary loss (or gain) in the governmental fund financial statements. The receipt of these assets and liabilities as of February 1, 2012 was also reported in the fiduciary fund as an extraordinary gain (or loss).

See independent auditors' report.

CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

16. RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES (CONTINUED):

Because of the different measurement focus of the governmental funds (*current financial resources measurement focus*) and the measurement focus of the fiduciary private-purpose trust fund (*economic resources measurement focus*), the extraordinary loss (gain) recognized in the governmental funds was not the same amount as the extraordinary gain (loss) that was recognized in the fiduciary fund financial statements.

The difference between the extraordinary loss recognized in the fund financial statements and the extraordinary gain recognized in the fiduciary fund financial statements is reconciled as follows:

Total extraordinary loss reported in governmental funds - increase to net assets of the Successor Agency Trust Fund	\$ 55,543,582
Capital assets recorded in the government-wide financial statements - increase to net assets of the Successor Agency Trust Fund	1,645,593
Accrued bond interest reported in the government-wide financial statements - decrease to net assets of the Successor Agency Trust Fund	(459,794)
Long-term debt reported in the government-wide financial statements including related bond deferral costs - decrease to net assets of the Successor Agency Trust Fund	<u>(55,848,810)</u>
Net increase to net assets of the Successor Agency Trust Fund as a result of initial transfer (equal to amount of extraordinary gain reported in the government-wide financial statements of the City)	<u>\$ 880,571</u>

The Dissolution Act and AB 1484 also establish roles for the County Auditor-Controller, the California Department of Finance (the "DOF") and the California State Controller's office in the dissolution process and the satisfaction of enforceable obligations of the Dissolved RDAs.

The County Auditor-Controller is charged with establishing a Redevelopment Property Tax Trust Fund (the "RPTFF") for each Successor Agency and depositing into the RPTFF for each six-month period the amount of property taxes that would have been redevelopment property tax increment had the Dissolved RDA not been dissolved. The deposit in the RPTFF fund is to be used to pay to the Successor Agency the amounts due on the Successor Agency's enforceable obligations for the upcoming six-month period.

See independent auditors' report.

CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

16. RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES (CONTINUED):

The Successor Agency is required to prepare a recognized obligation payment schedule (the "ROPS") approved by the oversight board setting forth the amounts due for each enforceable obligation during each six month period. The ROPS is submitted to the DOF for approval. The County Auditor-Controller will make payments to the Successor Agency from the RPTFF fund based on the ROPS amount approved by the DOF. The ROPS is prepared in advance for the enforceable obligations due over the next six months. The Successor Agency received \$236,026 from the County Auditor-Controller on June 18, 2012 for the ROPS for the period July 1, 2012 to December 31, 2012.

The process of making RPTFF deposits to be used to pay enforceable obligations of the Dissolved RDA will continue until all enforceable obligations have been paid in full and all non-housing assets of the Dissolved RDA have been liquidated.

The State Controller of the State of California has been directed to review the propriety of any transfers of assets between Dissolved RDA and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency.

Management believes, in consultation with legal counsel, that the obligations of the Dissolved RDA due to the City are valid enforceable obligations payable by the Successor Agency under the requirements of the Dissolution Act and AB 1484. The City's position on this issue is not a position of settled law and there is considerable legal uncertainty regarding this issue. It is reasonably possible that a legal determination may be made at a later date by an appropriate judicial authority that would resolve this issue unfavorably to the City.

17. RESTATEMENT OF NET ASSETS:

Net assets at July 1, 2011 were increased by \$2,383,179 to \$242,718,659 to increase the construction in progress balance to include infrastructure projects that were in progress at July 1, 2011.

See independent auditors' report.

## **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*:

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.

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. In 2010, the taxpayers voted to extend this tax increase until 2040. These funds are kept locally for major road and transportation expenses and are disbursed to the City by San Bernardino Associated Governments (SANBAG).

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.

Major Grants Fund - This fund is used to account for federal grants that are 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, COPS, Safe Route to Schools and the Department of Energy grants.

CITY OF HIGHLAND

SCHEDULE OF FUNDING PROGRESS

For the Fiscal Year Ended June 30, 2012

**OTHER POST-EMPLOYMENT BENEFITS PLAN**

Actuarial Valuation Date	Actuarial Asset Value (a)	Entry Age Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b) - (a)	Funded Ratio AVA (a)/(b)	Covered Payroll (c)	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll [(b)-(a)]/(c)
07/01/09	\$ -	\$ 394,460	\$ 394,460	0.00%	\$ 2,562,490	15.39%

See independent auditors' report.

CITY OF HIGHLAND

Budgetary Comparison Schedule  
General Fund

For the Fiscal Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>REVENUES:</b>				
Taxes:				
Secured property taxes	\$ 2,790,000	\$ 2,790,000	\$ 3,129,979	\$ 339,979
Unsecured property taxes	-	-	117,772	117,772
In-lieu sales tax	575,000	575,000	489,612	(85,388)
Other property taxes	-	-	108,984	108,984
Sales and use tax	1,525,000	1,525,000	1,612,077	87,077
Extraction tax	85,000	85,000	164,106	79,106
In-lieu motor vehicle license fees	3,800,000	3,800,000	3,723,906	(76,094)
Transient occupancy tax	168,000	168,000	204,296	36,296
Franchise fees	1,429,000	1,429,000	1,482,418	53,418
Property transfer tax	90,000	90,000	89,094	(906)
Total taxes	<u>10,462,000</u>	<u>10,462,000</u>	<u>11,122,244</u>	<u>660,244</u>
Licenses and permits:				
Building permits	465,000	465,000	432,177	(32,823)
Miscellaneous permits	123,190	123,190	88,743	(34,447)
Total licenses and permits	<u>588,190</u>	<u>588,190</u>	<u>520,920</u>	<u>(67,270)</u>
Intergovernmental:				
Motor vehicle license fees	130,000	130,000	26,440	(103,560)
Grants	112,240	142,425	133,879	(8,546)
Total intergovernmental	<u>242,240</u>	<u>272,425</u>	<u>160,319</u>	<u>(112,106)</u>
Charges for services:				
Business license fees	145,000	145,000	153,460	8,460
Planning fees	200,000	413,080	398,054	(15,026)
Engineering fees	360,000	360,000	121,829	(238,171)
Other charges	321,500	321,500	330,320	8,820
Total charges for services	<u>1,026,500</u>	<u>1,239,580</u>	<u>1,003,663</u>	<u>(235,917)</u>
Fines and forfeitures	120,000	120,000	86,398	(33,602)
Investment income	40,000	40,000	18,855	(21,145)
Miscellaneous	37,500	37,500	86,038	48,538
TOTAL REVENUES	<u>12,516,430</u>	<u>12,759,695</u>	<u>12,998,437</u>	<u>238,742</u>

See independent auditors' report and note to required supplementary information.

(Continued)

CITY OF HIGHLAND

Budgetary Comparison Schedule (Continued)  
General Fund

For the Fiscal Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>EXPENDITURES:</b>				
Current:				
General government:				
City Council	\$ 145,400	\$ 145,400	\$ 130,957	\$ 14,443
City Clerk	243,670	243,670	230,096	13,574
General government	650,260	650,260	718,650	(68,390)
Personnel	72,700	72,700	66,151	6,549
Finance	483,415	483,415	470,353	13,062
Engineering	643,335	643,335	639,807	3,528
Planning	667,465	920,290	784,121	136,169
Community mandates	434,425	434,425	391,218	43,207
Building and safety	412,890	412,890	420,248	(7,358)
Code enforcement	298,670	348,670	331,266	17,404
Parks	1,037,460	1,037,460	920,497	116,963
Graffiti	109,225	109,225	94,688	14,537
Community volunteer services	57,545	57,545	64,682	(7,137)
Trails	15,400	15,400	100	15,300
Total general government	<u>5,271,860</u>	<u>5,574,685</u>	<u>5,262,834</u>	<u>311,851</u>
Highways and streets:				
Public works	<u>1,980,675</u>	<u>1,980,675</u>	<u>1,405,712</u>	<u>574,963</u>
Public safety:				
Police department	6,820,580	6,943,650	6,856,397	87,253
Animal control	470,940	470,940	390,641	80,299
Total public safety	<u>7,291,520</u>	<u>7,414,590</u>	<u>7,247,038</u>	<u>167,552</u>
Capital outlay	<u>775,815</u>	<u>775,815</u>	<u>102,292</u>	<u>673,523</u>
TOTAL EXPENDITURES	<u>15,319,870</u>	<u>15,745,765</u>	<u>14,017,876</u>	<u>1,727,889</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(2,803,440)</u>	<u>(2,986,070)</u>	<u>(1,019,439)</u>	<u>1,966,631</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	2,776,490	2,776,490	1,528,005	(1,248,485)
Transfers out	<u>(36,160)</u>	<u>(36,160)</u>	<u>(483,053)</u>	<u>(446,893)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>2,740,330</u>	<u>2,740,330</u>	<u>1,044,952</u>	<u>(1,695,378)</u>
NET CHANGE IN FUND BALANCE	(63,110)	(245,740)	25,513	271,253
FUND BALANCE - BEGINNING OF YEAR	<u>9,974,518</u>	<u>9,974,518</u>	<u>9,974,518</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 9,911,408</u>	<u>\$ 9,728,778</u>	<u>\$ 10,000,031</u>	<u>\$ 271,253</u>

See independent auditors' report and note to required supplementary information.

CITY OF HIGHLAND

Budgetary Comparison Schedule  
Development Impact Fees Special Revenue Fund

For the Fiscal Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:				
Charges for services	\$ 100,000	\$ 100,000	\$ 447,550	\$ 347,550
Investment income	30,000	30,000	20,449	(9,551)
TOTAL REVENUES	130,000	130,000	467,999	337,999
EXPENDITURES:				
Current:				
Highways and streets	34,000	103,150	103,150	-
Capital outlay	406,000	1,228,777	1,228,777	-
TOTAL EXPENDITURES	440,000	1,331,927	1,331,927	-
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(310,000)	(1,201,927)	(863,928)	337,999
OTHER FINANCING USES:				
Transfers out	-	-	(21,652)	(21,652)
TOTAL OTHER FINANCING USES	-	-	(21,652)	(21,652)
NET CHANGE IN FUND BALANCE	(310,000)	(1,201,927)	(885,580)	316,347
FUND BALANCE - BEGINNING OF YEAR	7,420,886	7,420,886	7,420,886	-
FUND BALANCE - END OF YEAR	\$ 7,110,886	\$ 6,218,959	\$ 6,535,306	\$ 316,347

See independent auditors' report and note to required supplementary information.

CITY OF HIGHLAND

Budgetary Comparison Schedule  
Measure I Special Revenue Fund

For the Fiscal Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:				
Intergovernmental	\$ 1,368,000	\$ 1,368,000	\$ 741,911	\$ (626,089)
Investment income	20,000	20,000	22,021	2,021
TOTAL REVENUES	1,388,000	1,388,000	763,932	(624,068)
EXPENDITURES:				
Current:				
Highways and streets	1,183,000	1,183,000	4,868	1,178,132
Capital outlay	3,654,000	3,654,000	81,715	3,572,285
TOTAL EXPENDITURES	4,837,000	4,837,000	86,583	4,750,417
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(3,449,000)	(3,449,000)	677,349	4,126,349
FUND BALANCE - BEGINNING OF YEAR	6,597,406	6,597,406	6,597,406	-
FUND BALANCE - END OF YEAR	\$ 3,148,406	\$ 3,148,406	\$ 7,274,755	\$ 4,126,349

See independent auditors' report and note to required supplementary information.

CITY OF HIGHLAND

Budgetary Comparison Schedule  
Fire Department Special Revenue Fund

For the Fiscal Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:				
Taxes	\$ 2,104,740	\$ 2,104,740	\$ 2,348,191	\$ 243,451
Licenses and permits	73,225	73,225	36,761	(36,464)
Intergovernmental	180,000	180,000	135,099	(44,901)
Charges for services	473,000	473,000	463,051	(9,949)
Investment income	35,000	35,000	18,568	(16,432)
TOTAL REVENUES	<u>2,865,965</u>	<u>2,865,965</u>	<u>3,001,670</u>	<u>135,705</u>
EXPENDITURES:				
Current:				
General government	142,635	142,635	131,543	11,092
Public safety	1,828,540	1,828,540	1,618,275	210,265
Capital outlay	635,795	635,795	525,709	110,086
TOTAL EXPENDITURES	<u>2,606,970</u>	<u>2,606,970</u>	<u>2,275,527</u>	<u>331,443</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>258,995</u>	<u>258,995</u>	<u>726,143</u>	<u>467,148</u>
OTHER FINANCING USES:				
Transfers out	(940,360)	(940,360)	(1,011,589)	(71,229)
TOTAL OTHER FINANCING USES	<u>(940,360)</u>	<u>(940,360)</u>	<u>(1,011,589)</u>	<u>(71,229)</u>
NET CHANGE IN FUND BALANCE	(681,365)	(681,365)	(285,446)	395,919
FUND BALANCE - BEGINNING OF YEAR	<u>6,732,397</u>	<u>6,732,397</u>	<u>6,732,397</u>	-
FUND BALANCE - END OF YEAR	<u>\$ 6,051,032</u>	<u>\$ 6,051,032</u>	<u>\$ 6,446,951</u>	<u>\$ 395,919</u>

See independent auditors' report and note to required supplementary information.

CITY OF HIGHLAND

Budgetary Comparison Schedule  
Major Grants Special Revenue Fund

For the Fiscal Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:				
Intergovernmental	\$ 27,743,000	\$ 27,743,000	\$ 1,773,280	\$ (25,969,720)
TOTAL REVENUES	<u>27,743,000</u>	<u>27,743,000</u>	<u>1,773,280</u>	<u>(25,969,720)</u>
EXPENDITURES:				
Current:				
Highways and streets	269,000	269,000	221,325	47,675
Capital outlay	<u>27,474,000</u>	<u>27,474,000</u>	<u>5,031,401</u>	<u>22,442,599</u>
TOTAL EXPENDITURES	<u>27,743,000</u>	<u>27,743,000</u>	<u>5,252,726</u>	<u>22,490,274</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	-	(3,479,446)	(3,479,446)
FUND BALANCE - BEGINNING OF YEAR	-	-	-	-
FUND BALANCE (DEFICIT) - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,479,446)</u>	<u>\$ (3,479,446)</u>

See independent auditors' report and note to required supplementary information.

CITY OF HIGHLAND

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2012

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 14, 2011 for fiscal years 2011-12 and 2012-13. 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 \$6,695,350 for supplemental appropriations during the year ended June 30, 2012.



## Other Governmental Funds

### Other Special Revenue Funds

The following Special Revenue Funds have been classified as Other Governmental 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.

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.

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.

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 and storm drain 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 paramedic program. 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.

### **Other Capital Projects Funds**

The following Capital Projects Funds have been classified as Other Governmental 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

COMBINING BALANCE SHEET  
ALL OTHER GOVERNMENTAL FUNDS

June 30, 2012

	Special Revenue Funds	Community Facilities Districts Capital Projects Fund	Total Other Governmental Funds
<b>ASSETS</b>			
Cash and investments	\$ 9,241,544	\$ 28,673	\$ 9,270,217
Cash and investments with fiscal agent	-	23,432	23,432
Receivables, net:			
Accounts	63,359	6,665	70,024
Interest	5,323	-	5,323
Property taxes	15,164	22,821	37,985
Loans	695,728	-	695,728
Due from other funds	1,399,527	-	1,399,527
<b>TOTAL ASSETS</b>	<b>\$ 11,420,645</b>	<b>\$ 81,591</b>	<b>\$ 11,502,236</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES:</b>			
Accounts payable	\$ 565,962	\$ 22,820	\$ 588,782
Accrued liabilities	2,305	-	2,305
Retention payable	2,578	-	2,578
Deferred revenue	1,494,660	-	1,494,660
Due to other funds	2,065,500	-	2,065,500
<b>TOTAL LIABILITIES</b>	<b>4,131,005</b>	<b>22,820</b>	<b>4,153,825</b>
<b>FUND BALANCES:</b>			
Restricted	8,336,528	58,771	8,395,299
Unassigned	(1,046,888)	-	(1,046,888)
<b>TOTAL FUND BALANCES</b>	<b>7,289,640</b>	<b>58,771</b>	<b>7,348,411</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 11,420,645</b>	<b>\$ 81,591</b>	<b>\$ 11,502,236</b>

See independent auditors' report.

CITY OF HIGHLAND

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - ALL OTHER GOVERNMENTAL FUNDS

For the Fiscal Year Ended June 30, 2012

	Special Revenue Funds	Community Facilities Districts Capital Projects Fund	Total Other Governmental Funds
<b>REVENUES:</b>			
Taxes	\$ 964,035	\$ -	\$ 964,035
Intergovernmental	3,742,889	-	3,742,889
Charges for services	119,311	-	119,311
Fine and forfeitures	198,560	-	198,560
Investment income	47,031	-	47,031
Rental income	168,109	-	168,109
Miscellaneous	9,466	6,665	16,131
<b>TOTAL REVENUES</b>	<u>5,249,401</u>	<u>6,665</u>	<u>5,256,066</u>
<b>EXPENDITURES:</b>			
Current:			
General government	718,285	6,665	724,950
Highways and streets	2,060,309	-	2,060,309
Public safety	1,086,845	-	1,086,845
Capital outlay	724,886	-	724,886
<b>TOTAL EXPENDITURES</b>	<u>4,590,325</u>	<u>6,665</u>	<u>4,596,990</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>659,076</u>	<u>-</u>	<u>659,076</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Transfers in	1,113,538	-	1,113,538
Transfers out	(1,575,249)	-	(1,575,249)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(461,711)</u>	<u>-</u>	<u>(461,711)</u>
<b>NET CHANGE IN FUND BALANCES, BEFORE EXTRAORDINARY ITEM</b>	197,365	-	197,365
<b>EXTRAORDINARY ITEM:</b>			
Loss on transfer to successor agency	(6,369,369)	-	(6,369,369)
<b>NET CHANGE IN FUND BALANCES</b>	(6,172,004)	-	(6,172,004)
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>13,461,644</u>	<u>58,771</u>	<u>13,520,415</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 7,289,640</u>	<u>\$ 58,771</u>	<u>\$ 7,348,411</u>

See independent auditors' report.



CITY OF HIGHLAND

COMBINING BALANCE SHEET  
Other Governmental Special Revenue Funds

June 30, 2012

	Traffic Safety	Gas Tax	Article 3	CDBG
ASSETS				
Cash and investments	\$ 583,188	\$ 2,720,751	\$ -	\$ -
Receivables:				
Accounts	-	-	-	-
Interest	182	1,222	-	-
Property taxes	-	-	-	-
Loans	-	-	-	-
Due from other governments	13,999	151,853	-	28,609
TOTAL ASSETS	<u>\$ 597,369</u>	<u>\$ 2,873,826</u>	<u>\$ -</u>	<u>\$ 28,609</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 13,076	\$ -	\$ -	\$ 1,916
Accrued liabilities	-	-	-	1,990
Retention payable	-	-	-	-
Deferred revenue	-	-	-	-
Due to other funds	-	-	-	24,703
TOTAL LIABILITIES	<u>13,076</u>	<u>-</u>	<u>-</u>	<u>28,609</u>
FUND BALANCES (DEFICITS):				
Restricted for:				
Public safety	584,293	-	-	-
Highways and streets	-	2,873,826	-	-
Parks and recreation	-	-	-	-
Low and moderate income housing	-	-	-	-
Other purposes	-	-	-	-
Unassigned	-	-	-	-
TOTAL FUND BALANCES (DEFICITS)	<u>584,293</u>	<u>2,873,826</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 597,369</u>	<u>\$ 2,873,826</u>	<u>\$ -</u>	<u>\$ 28,609</u>

See independent auditors' report.

Developer Fees	Office of Traffic Safety	Landscape Maintenance District	Street Light District	Community Trails District	Parks Maintenance District
\$ 3,034,960	\$ -	\$ 484,080	\$ -	\$ 21,381	\$ 52,804
-	-	-	-	-	-
2,231	-	273	-	4	-
-	-	2,540	4,517	103	811
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 3,037,191</u>	<u>\$ -</u>	<u>\$ 486,893</u>	<u>\$ 4,517</u>	<u>\$ 21,488</u>	<u>\$ 53,615</u>

\$ -	\$ -	\$ 19,683	\$ 41,995	\$ -	\$ 8,191
315	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	393,595	-	-
<u>315</u>	<u>-</u>	<u>19,683</u>	<u>435,590</u>	<u>-</u>	<u>8,191</u>

3,036,876	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	21,488	45,424
-	-	-	-	-	-
-	-	467,210	-	-	-
-	-	-	(431,073)	-	-
<u>3,036,876</u>	<u>-</u>	<u>467,210</u>	<u>(431,073)</u>	<u>21,488</u>	<u>45,424</u>

<u>\$ 3,037,191</u>	<u>\$ -</u>	<u>\$ 486,893</u>	<u>\$ 4,517</u>	<u>\$ 21,488</u>	<u>\$ 53,615</u>
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(Continued)

CITY OF HIGHLAND

COMBINING BALANCE SHEET (CONTINUED)  
Other Governmental Special Revenue Funds

June 30, 2012

	FEMA	AQMD	COPS	Street and Strom Drain Maintenance District
ASSETS				
Cash and investments	\$ -	\$ 417,780	\$ -	\$ 236,213
Receivables:				
Accounts	-	-	-	-
Interest	-	175	-	114
Property taxes	-	-	-	112
Loans	-	-	-	-
Due from other governments	615,817	7,313	-	-
TOTAL ASSETS	<u>\$ 615,817</u>	<u>\$ 425,268</u>	<u>\$ -</u>	<u>\$ 236,439</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 2,833	\$ 1,846	\$ -	\$ -
Accrued liabilities	-	-	-	-
Retention payable	2,578	-	-	-
Deferred revenue	615,817	-	-	-
Due to other funds	610,404	-	-	-
TOTAL LIABILITIES	<u>1,231,632</u>	<u>1,846</u>	<u>-</u>	<u>-</u>
FUND BALANCES (DEFICITS):				
Restricted for:				
Public safety	-	-	-	-
Highways and streets	-	423,422	-	236,439
Parks and recreation	-	-	-	-
Low and moderate income housing	-	-	-	-
Other purposes	-	-	-	-
Unassigned	(615,815)	-	-	-
TOTAL FUND BALANCES (DEFICITS)	<u>(615,815)</u>	<u>423,422</u>	<u>-</u>	<u>236,439</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 615,817</u>	<u>\$ 425,268</u>	<u>\$ -</u>	<u>\$ 236,439</u>

See independent auditors' report.

Justice Assistance Grant	Grants	Paramedic Department	Housing Authority	RDA Low and Moderate Housing	Total Other Governmental Special Revenue Funds
\$ 35,312	\$ 1,263,628	\$ 391,447	\$ -	\$ -	\$ 9,241,544
-	-	-	63,359	-	63,359
-	1,122	-	-	-	5,323
-	-	7,081	-	-	15,164
-	-	-	695,728	-	695,728
-	581,936	-	-	-	1,399,527
<u>\$ 35,312</u>	<u>\$ 1,846,686</u>	<u>\$ 398,528</u>	<u>\$ 759,087</u>	<u>\$ -</u>	<u>\$ 11,420,645</u>
\$ -	\$ 77,894	\$ 398,528	\$ -	\$ -	\$ 565,962
-	-	-	-	-	2,305
-	-	-	-	-	2,578
-	183,115	-	695,728	-	1,494,660
-	995,074	-	41,724	-	2,065,500
<u>-</u>	<u>1,256,083</u>	<u>398,528</u>	<u>737,452</u>	<u>-</u>	<u>4,131,005</u>
35,312	-	-	-	-	3,656,481
-	-	-	-	-	3,533,687
-	590,603	-	-	-	657,515
-	-	-	21,635	-	21,635
-	-	-	-	-	467,210
-	-	-	-	-	(1,046,888)
<u>35,312</u>	<u>590,603</u>	<u>-</u>	<u>21,635</u>	<u>-</u>	<u>7,289,640</u>
<u>\$ 35,312</u>	<u>\$ 1,846,686</u>	<u>\$ 398,528</u>	<u>\$ 759,087</u>	<u>\$ -</u>	<u>\$ 11,420,645</u>

CITY OF HIGHLAND

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
Other Governmental Special Revenue Funds

For the Fiscal Year Ended June 30, 2012

	Traffic Safety	Gas Tax	Article 3	CDBG
REVENUES:				
Taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	1,487,992	-	718,997
Charges for services	-	-	-	-
Fine and forfeitures	198,560	-	-	-
Investment income	987	7,338	-	-
Rental income	-	-	-	-
Miscellaneous	-	500	-	-
TOTAL REVENUES	<u>199,547</u>	<u>1,495,830</u>	<u>-</u>	<u>718,997</u>
EXPENDITURES:				
Current:				
General government	-	-	-	-
Highways and streets	-	-	-	171,149
Public safety	207,943	-	-	-
Capital outlay	-	-	-	547,848
TOTAL EXPENDITURES	<u>207,943</u>	<u>-</u>	<u>-</u>	<u>718,997</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(8,396)</u>	<u>1,495,830</u>	<u>-</u>	<u>-</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Transfers out	-	(1,520,249)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>(1,520,249)</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES, BEFORE EXTRAORDINARY ITEM	<u>(8,396)</u>	<u>(24,419)</u>	<u>-</u>	<u>-</u>
EXTRAORDINARY ITEM:				
Loss on transfer to successor agency	-	-	-	-
NET CHANGE IN FUND BALANCES	<u>(8,396)</u>	<u>(24,419)</u>	<u>-</u>	<u>-</u>
FUND BALANCES (DEFICITS) - BEGINNING OF YEAR	<u>592,689</u>	<u>2,898,245</u>	<u>-</u>	<u>-</u>
FUND BALANCES (DEFICITS) - END OF YEAR	<u>\$ 584,293</u>	<u>\$ 2,873,826</u>	<u>\$ -</u>	<u>\$ -</u>

See independent auditors' report.

Developer Fees	Office of Traffic Safety	Landscape Maintenance District	Street Light District	Community Trails District	Parks Maintenance District
\$ -	\$ -	\$ 191,264	\$ 332,163	\$ 7,559	\$ 59,591
-	4,355	-	-	-	-
119,311	-	-	-	-	-
-	-	-	-	-	-
9,660	-	1,160	-	35	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>128,971</u>	<u>4,355</u>	<u>192,424</u>	<u>332,163</u>	<u>7,594</u>	<u>59,591</u>
-	-	-	-	-	-
17,056	-	215,231	517,829	5,852	82,639
-	4,355	-	-	-	-
-	-	-	-	-	-
<u>17,056</u>	<u>4,355</u>	<u>215,231</u>	<u>517,829</u>	<u>5,852</u>	<u>82,639</u>
111,915	-	(22,807)	(185,666)	1,742	(23,048)
-	-	-	-	-	33,052
-	-	-	-	-	-
-	-	-	-	-	33,052
111,915	-	(22,807)	(185,666)	1,742	10,004
-	-	-	-	-	-
111,915	-	(22,807)	(185,666)	1,742	10,004
2,924,961	-	490,017	(245,407)	19,746	35,420
<u>\$ 3,036,876</u>	<u>\$ -</u>	<u>\$ 467,210</u>	<u>\$ (431,073)</u>	<u>\$ 21,488</u>	<u>\$ 45,424</u>

(Continued)

CITY OF HIGHLAND

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (CONTINUED)  
Other Governmental Special Revenue Funds

For the Fiscal Year Ended June 30, 2012

	FEMA	AQMD	COPS	Street and Strom Drain Maintenance District
REVENUES:				
Taxes	\$ -	\$ -	\$ -	\$ 26,422
Intergovernmental	126,919	26,481	100,067	-
Charges for services	-	-	-	-
Fine and forfeitures	-	-	-	-
Investment income	-	904	-	538
Rental income	-	-	-	-
Miscellaneous	-	-	-	-
TOTAL REVENUES	<u>126,919</u>	<u>27,385</u>	<u>100,067</u>	<u>26,960</u>
EXPENDITURES:				
Current:				
General government	-	-	-	-
Highways and streets	88,067	31,660	-	1,055
Public safety	-	-	100,067	-
Capital outlay	-	-	-	-
TOTAL EXPENDITURES	<u>88,067</u>	<u>31,660</u>	<u>100,067</u>	<u>1,055</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>38,852</u>	<u>(4,275)</u>	<u>-</u>	<u>25,905</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	452,206	-	-	-
Transfers out	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>452,206</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES, BEFORE EXTRAORDINARY ITEM	491,058	(4,275)	-	25,905
EXTRAORDINARY ITEM:				
Lloss on transfer to successor agency	-	-	-	-
NET CHANGE IN FUND BALANCES	491,058	(4,275)	-	25,905
FUND BALANCES (DEFICITS) - BEGINNING OF YEAR	<u>(1,106,873)</u>	<u>427,697</u>	<u>-</u>	<u>210,534</u>
FUND BALANCES (DEFICITS) - END OF YEAR	<u>\$ (615,815)</u>	<u>\$ 423,422</u>	<u>\$ -</u>	<u>\$ 236,439</u>

See independent auditors' report.

Justice Assistance Grant	Grants	Paramedic Department	Housing Authority	RDA Low and Moderate Housing	Total Other Governmental Special Revenue Funds
\$ -	\$ -	\$ 347,036	\$ -	\$ -	\$ 964,035
23,591	1,254,487	-	-	-	3,742,889
-	-	-	-	-	119,311
-	-	-	-	-	198,560
-	4,750	-	3,043	18,616	47,031
-	-	-	55,083	113,026	168,109
-	-	-	8,509	457	9,466
<u>23,591</u>	<u>1,259,237</u>	<u>347,036</u>	<u>66,635</u>	<u>132,099</u>	<u>5,249,401</u>
-	-	111,939	-	606,346	718,285
21,441	908,330	-	-	-	2,060,309
-	-	774,480	-	-	1,086,845
-	177,038	-	-	-	724,886
<u>21,441</u>	<u>1,085,368</u>	<u>886,419</u>	<u>-</u>	<u>606,346</u>	<u>4,590,325</u>
<u>2,150</u>	<u>173,869</u>	<u>(539,383)</u>	<u>66,635</u>	<u>(474,247)</u>	<u>659,076</u>
-	33,897	549,383	-	45,000	1,113,538
-	-	(10,000)	(45,000)	-	(1,575,249)
-	33,897	539,383	(45,000)	45,000	(461,711)
2,150	207,766	-	21,635	(429,247)	197,365
-	-	-	-	(6,369,369)	(6,369,369)
2,150	207,766	-	21,635	(6,798,616)	(6,172,004)
<u>33,162</u>	<u>382,837</u>	<u>-</u>	<u>-</u>	<u>6,798,616</u>	<u>13,461,644</u>
<u>\$ 35,312</u>	<u>\$ 590,603</u>	<u>\$ -</u>	<u>\$ 21,635</u>	<u>\$ -</u>	<u>\$ 7,289,640</u>

CITY OF HIGHLAND

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
Traffic Safety Special Revenue Fund

For the Fiscal Year Ended June 30, 2012

	Final Budget	Actual	Variance Positive (Negative)
REVENUES:			
Fine and forfeitures	\$ 310,000	\$ 198,560	\$ (111,440)
Investment income	1,500	987	(513)
TOTAL REVENUES	<u>311,500</u>	<u>199,547</u>	<u>(111,953)</u>
EXPENDITURES:			
Current:			
Public safety	334,400	207,943	126,457
TOTAL EXPENDITURES	<u>334,400</u>	<u>207,943</u>	<u>126,457</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(22,900)	(8,396)	14,504
FUND BALANCE - BEGINNING OF YEAR	<u>592,689</u>	<u>592,689</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 569,789</u>	<u>\$ 584,293</u>	<u>\$ 14,504</u>

See independent auditors' report.

CITY OF HIGHLAND

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
Gas Tax Special Revenue Fund

For the Fiscal Year Ended June 30, 2012

	Final Budget	Actual	Variance Positive (Negative)
REVENUES:			
Intergovernmental	\$ 1,458,500	\$ 1,487,992	\$ 29,492
Investment income	7,000	7,338	338
Miscellaneous	-	500	500
	<u>1,465,500</u>	<u>1,495,830</u>	<u>30,330</u>
OTHER FINANCING USES:			
Transfers out	<u>(1,520,249)</u>	<u>(1,520,249)</u>	-
	<u>(1,520,249)</u>	<u>(1,520,249)</u>	-
NET CHANGE IN FUND BALANCE	(54,749)	(24,419)	30,330
FUND BALANCE - BEGINNING OF YEAR	<u>2,898,245</u>	<u>2,898,245</u>	-
FUND BALANCE - END OF YEAR	<u>\$ 2,843,496</u>	<u>\$ 2,873,826</u>	<u>\$ 30,330</u>

See independent auditors' report and notes to basic financial statements.

CITY OF HIGHLAND

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
Article 3 Special Revenue Fund

For the Fiscal Year Ended June 30, 2012

	Final Budget	Actual	Variance Positive (Negative)
REVENUES:			
Taxes	\$ -	\$ -	\$ -
TOTAL REVENUES	-	-	-
EXPENDITURES	-	-	-
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	-	-
OTHER FINANCING USES:			
Transfers out	-	-	-
TOTAL OTHER FINANCING USES	-	-	-
NET CHANGE IN FUND BALANCE	-	-	-
FUND BALANCE - BEGINNING OF YEAR	-	-	-
FUND BALANCE - END OF YEAR	\$ -	\$ -	\$ -

See independent auditors' report.

CITY OF HIGHLAND

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
Community Development Block Grant Special Revenue Fund

For the Fiscal Year Ended June 30, 2012

	Final Budget	Actual	Variance Positive (Negative)
REVENUES:			
Intergovernmental	\$ 854,370	\$ 718,997	\$ (135,373)
TOTAL REVENUES	<u>854,370</u>	<u>718,997</u>	<u>(135,373)</u>
EXPENDITURES:			
Current:			
Highways and streets	251,370	171,149	80,221
Capital outlay	603,000	547,848	55,152
TOTAL EXPENDITURES	<u>854,370</u>	<u>718,997</u>	<u>135,373</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	-	-
FUND BALANCE - BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See independent auditors' report.

CITY OF HIGHLAND

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
 Developer Fees Special Revenue Fund

For the Fiscal Year Ended June 30, 2012

	Final Budget	Actual	Variance Positive (Negative)
REVENUES:			
Charges for services	\$ 10,000	\$ 119,311	\$ 109,311
Investment income	12,000	9,660	(2,340)
 TOTAL REVENUES	 22,000	 128,971	 106,971
EXPENDITURES:			
Current:			
Highways and streets	26,195	17,056	9,139
 TOTAL EXPENDITURES	 26,195	 17,056	 9,139
 EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	 (4,195)	 111,915	 116,110
 FUND BALANCE - BEGINNING OF YEAR	 2,924,961	 2,924,961	 -
 FUND BALANCE - END OF YEAR	 \$ 2,920,766	 \$ 3,036,876	 \$ 116,110

See independent auditors' report.

CITY OF HIGHLAND

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
Office of Traffic Safety Special Revenue Fund

For the Fiscal Year Ended June 30, 2012

	Final Budget	Actual	Variance Positive (Negative)
REVENUES:			
Intergovernmental	\$ -	\$ 4,355	\$ 4,355
TOTAL REVENUES	<u>-</u>	<u>4,355</u>	<u>4,355</u>
Expenditures:			
Current:			
Public safety	4,355	4,355	-
TOTAL EXPENDITURES	<u>4,355</u>	<u>4,355</u>	<u>-</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(4,355)	-	4,355
FUND BALANCE - BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,355</u>

See independent auditors' report.

CITY OF HIGHLAND

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
Landscape Maintenance District Special Revenue Fund

For the Fiscal Year Ended June 30, 2012

	Final Budget	Actual	Variance Positive (Negative)
REVENUES:			
Taxes	\$ 167,500	\$ 191,264	\$ 23,764
Investment income	1,500	1,160	(340)
TOTAL REVENUES	<u>169,000</u>	<u>192,424</u>	<u>23,424</u>
EXPENDITURES:			
Current:			
Highways and streets	215,231	215,231	-
TOTAL EXPENDITURES	<u>215,231</u>	<u>215,231</u>	<u>-</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(46,231)	(22,807)	23,424
FUND BALANCE - BEGINNING OF YEAR	<u>490,017</u>	<u>490,017</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 443,786</u>	<u>\$ 467,210</u>	<u>\$ 23,424</u>

See independent auditors' report.

CITY OF HIGHLAND

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
Street Light District Special Revenue Fund

For the Fiscal Year Ended June 30, 2012

	Final Budget	Actual	Variance Positive (Negative)
REVENUES:			
Taxes	\$ 390,000	\$ 332,163	\$ (57,837)
TOTAL REVENUES	<u>390,000</u>	<u>332,163</u>	<u>(57,837)</u>
EXPENDITURES:			
Current:			
Highways and streets	577,300	517,829	59,471
TOTAL EXPENDITURES	<u>577,300</u>	<u>517,829</u>	<u>59,471</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(187,300)	(185,666)	1,634
FUND BALANCE (DEFICIT) - BEGINNING OF YEAR	<u>(245,407)</u>	<u>(245,407)</u>	<u>-</u>
FUND BALANCE (DEFICIT) - END OF YEAR	<u>\$ (432,707)</u>	<u>\$ (431,073)</u>	<u>\$ 1,634</u>

See independent auditors' report.

CITY OF HIGHLAND

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
Community Trails District Special Revenue Fund

For the Fiscal Year Ended June 30, 2012

	Final Budget	Actual	Variance Positive (Negative)
REVENUES:			
Taxes	\$ 8,000	\$ 7,559	\$ (441)
Investment income	-	35	35
TOTAL REVENUES	<u>8,000</u>	<u>7,594</u>	<u>(406)</u>
EXPENDITURES:			
Current:			
Highways and streets	16,650	5,852	10,798
TOTAL EXPENDITURES	<u>16,650</u>	<u>5,852</u>	<u>10,798</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(8,650)	1,742	10,392
FUND BALANCE - BEGINNING OF YEAR	<u>19,746</u>	<u>19,746</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 11,096</u>	<u>\$ 21,488</u>	<u>\$ 10,392</u>

See independent auditors' report.

CITY OF HIGHLAND

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
Parks Maintenance District Special Revenue Fund

For the Fiscal Year Ended June 30, 2012

	Final Budget	Actual	Variance Positive (Negative)
REVENUES:			
Taxes	\$ 60,000	\$ 59,591	\$ (409)
TOTAL REVENUES	<u>60,000</u>	<u>59,591</u>	<u>(409)</u>
EXPENDITURES:			
Current:			
Highways and streets	90,390	82,639	7,751
TOTAL EXPENDITURES	<u>90,390</u>	<u>82,639</u>	<u>7,751</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(30,390)</u>	<u>(23,048)</u>	<u>7,342</u>
OTHER FINANCING SOURCES:			
Transfers in	36,160	33,052	(3,108)
TOTAL OTHER FINANCING SOURCES	<u>36,160</u>	<u>33,052</u>	<u>(3,108)</u>
NET CHANGE IN FUND BALANCE	5,770	10,004	4,234
FUND BALANCE - BEGINNING OF YEAR	<u>35,420</u>	<u>35,420</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 41,190</u>	<u>\$ 45,424</u>	<u>\$ 4,234</u>

See independent auditors' report.

CITY OF HIGHLAND

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

For the Fiscal Year Ended June 30, 2012

	Final Budget	Actual	Variance Positive (Negative)
REVENUES:			
Intergovernmental	\$ -	\$ 126,919	\$ 126,919
TOTAL REVENUES	<u>-</u>	<u>126,919</u>	<u>126,919</u>
EXPENDITURES:			
Current:			
Highways and streets	88,067	88,067	-
TOTAL EXPENDITURES	<u>88,067</u>	<u>88,067</u>	<u>-</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(88,067)</u>	<u>38,852</u>	<u>126,919</u>
OTHER FINANCING SOURCES:			
Transfers in	-	452,206	452,206
TOTAL OTHER FINANCING SOURCES	<u>-</u>	<u>452,206</u>	<u>452,206</u>
NET CHANGE IN FUND BALANCE	(88,067)	491,058	579,125
FUND BALANCE (DEFICIT) - BEGINNING OF YEAR	<u>(1,106,873)</u>	<u>(1,106,873)</u>	<u>-</u>
FUND BALANCE (DEFICIT) - END OF YEAR	<u>\$ (1,194,940)</u>	<u>\$ (615,815)</u>	<u>\$ 579,125</u>

See independent auditors' report.

CITY OF HIGHLAND

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
Air Quality Management District Special Revenue Fund

For the Fiscal Year Ended June 30, 2012

	Final Budget	Actual	Variance Positive (Negative)
REVENUES:			
Intergovernmental	\$ 60,000	\$ 26,481	\$ (33,519)
Investment income	1,200	904	(296)
TOTAL REVENUES	<u>61,200</u>	<u>27,385</u>	<u>(33,815)</u>
EXPENDITURES:			
Current:			
Highways and streets	31,660	31,660	-
TOTAL EXPENDITURES	<u>31,660</u>	<u>31,660</u>	<u>-</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	29,540	(4,275)	(33,815)
FUND BALANCE - BEGINNING OF YEAR	<u>427,697</u>	<u>427,697</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 457,237</u>	<u>\$ 423,422</u>	<u>\$ (33,815)</u>

See independent auditors' report.

CITY OF HIGHLAND

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

For the Fiscal Year Ended June 30, 2012

	Final Budget	Actual	Variance Positive (Negative)
REVENUES:			
Intergovernmental	\$ 100,000	\$ 100,067	\$ 67
TOTAL REVENUES	<u>100,000</u>	<u>100,067</u>	<u>67</u>
EXPENDITURES:			
Current:			
Public safety	100,067	100,067	-
TOTAL EXPENDITURES	<u>100,067</u>	<u>100,067</u>	<u>-</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(67)	-	67
FUND BALANCE - BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ (67)</u>	<u>\$ -</u>	<u>\$ 67</u>

See independent auditors' report.

CITY OF HIGHLAND

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
Street and Storm Drain Maintenance District Special Revenue Fund

For the Fiscal Year Ended June 30, 2012

	Final Budget	Actual	Variance Positive (Negative)
REVENUES:			
Taxes	\$ 26,000	\$ 26,422	\$ 422
Investment income	700	538	(162)
TOTAL REVENUES	<u>26,700</u>	<u>26,960</u>	<u>260</u>
EXPENDITURES:			
Current:			
Highways and streets	<u>19,500</u>	<u>1,055</u>	<u>18,445</u>
TOTAL EXPENDITURES	<u>19,500</u>	<u>1,055</u>	<u>18,445</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	7,200	25,905	18,705
FUND BALANCE - BEGINNING OF YEAR	<u>210,534</u>	<u>210,534</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 217,734</u>	<u>\$ 236,439</u>	<u>\$ 18,705</u>

See independent auditors' report.

CITY OF HIGHLAND

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
Justice Assistance Grant Special Revenue Fund

For the Fiscal Year Ended June 30, 2012

	Final Budget	Actual	Variance Positive (Negative)
REVENUES:			
Intergovernmental	\$ 23,595	\$ 23,591	\$ (4)
TOTAL REVENUES	<u>23,595</u>	<u>23,591</u>	<u>(4)</u>
EXPENDITURES:			
Current:			
Highways and streets	23,595	21,441	2,154
TOTAL EXPENDITURES	<u>23,595</u>	<u>21,441</u>	<u>2,154</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	2,150	2,150
FUND BALANCE - BEGINNING OF YEAR	<u>33,162</u>	<u>33,162</u>	-
FUND BALANCE - END OF YEAR	<u>\$ 33,162</u>	<u>\$ 35,312</u>	<u>\$ 2,150</u>

See independent auditors' report.

CITY OF HIGHLAND

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

For the Fiscal Year Ended June 30, 2012

	Final Budget	Actual	Variance Positive (Negative)
REVENUES:			
Intergovernmental	\$ 7,731,000	\$ 1,254,487	\$ (6,476,513)
Investment income	-	4,750	4,750
TOTAL REVENUES	<u>7,731,000</u>	<u>1,259,237</u>	<u>(6,471,763)</u>
EXPENDITURES:			
Current:			
Highways and streets	669,000	908,330	(239,330)
Capital outlay	8,092,000	177,038	7,914,962
TOTAL EXPENDITURES	<u>8,761,000</u>	<u>1,085,368</u>	<u>7,675,632</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,030,000)</u>	<u>173,869</u>	<u>1,203,869</u>
OTHER FINANCING SOURCES:			
Transfers in	-	33,897	33,897
TOTAL OTHER FINANCING SOURCES	<u>-</u>	<u>33,897</u>	<u>33,897</u>
NET CHANGE IN FUND BALANCE	<u>(1,030,000)</u>	<u>207,766</u>	<u>1,237,766</u>
FUND BALANCE - BEGINNING OF YEAR	<u>382,837</u>	<u>382,837</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ (647,163)</u>	<u>\$ 590,603</u>	<u>\$ 1,237,766</u>

See independent auditors' report.

CITY OF HIGHLAND

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
 Paramedic Department Special Revenue Fund

For the Fiscal Year Ended June 30, 2012

	Final Budget	Actual	Variance Positive (Negative)
REVENUES:			
Taxes	\$ 351,000	\$ 347,036	\$ (3,964)
TOTAL REVENUES	<u>351,000</u>	<u>347,036</u>	<u>(3,964)</u>
EXPENDITURES:			
Current:			
General government	144,210	111,939	32,271
Public safety	1,127,150	774,480	352,670
TOTAL EXPENDITURES	<u>1,271,360</u>	<u>886,419</u>	<u>384,941</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(920,360)</u>	<u>(539,383)</u>	<u>380,977</u>
OTHER FINANCING SOURCES (USES):			
Transfers in	930,360	549,383	(380,977)
Transfers out	(10,000)	(10,000)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>920,360</u>	<u>539,383</u>	<u>(380,977)</u>
NET CHANGE IN FUND BALANCE	-	-	-
FUND BALANCE - BEGINNING OF YEAR	-	-	-
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See independent auditors' report.

CITY OF HIGHLAND

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
Housing Authority Special Revenue Fund

For the Fiscal Year Ended June 30, 2012

	Final Budget	Actual	Variance Positive (Negative)
REVENUES:			
Investment income	\$ -	\$ 3,043	\$ 3,043
Rental income	-	55,083	55,083
Miscellaneous	-	8,509	8,509
 TOTAL REVENUES	 -	 66,635	 66,635
OTHER FINANCING USES:			
Transfers out	-	(45,000)	(45,000)
 TOTAL OTHER FINANCING USES	 -	 (45,000)	 (45,000)
 NET CHANGE IN FUND BALANCE	 -	 21,635	 21,635
 FUND BALANCE - BEGINNING OF YEAR	 -	 -	 -
 FUND BALANCE - END OF YEAR	 \$ -	 \$ 21,635	 \$ 21,635

See independent auditors' report.

CITY OF HIGHLAND

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
RDA Low and Moderate Housing Special Revenue Fund

For the Period from July 1, 2011 to January 31, 2012

	Final Budget	Actual	Variance Positive (Negative)
REVENUES:			
Taxes	\$ 1,625,000	\$ -	\$ (1,625,000)
Investment income	40,000	18,616	(21,384)
Rental income	90,000	113,026	23,026
Miscellaneous	-	457	457
TOTAL REVENUES	<u>1,755,000</u>	<u>132,099</u>	<u>(1,622,901)</u>
EXPENDITURES:			
Current:			
General government	3,524,455	606,346	2,918,109
Debt service:			
Principal	281,250	-	281,250
Interest	672,750	-	672,750
TOTAL EXPENDITURES	<u>4,478,455</u>	<u>606,346</u>	<u>3,872,109</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(2,723,455)</u>	<u>(474,247)</u>	<u>2,249,208</u>
OTHER FINANCING SOURCES:			
Transfers in	-	45,000	45,000
TOTAL OTHER FINANCING SOURCES	<u>-</u>	<u>45,000</u>	<u>45,000</u>
NET CHANGE IN FUND BALANCE, BEFORE EXTRAORDINARY ITEM	<u>(2,723,455)</u>	<u>(429,247)</u>	<u>2,294,208</u>
EXTRAORDINARY ITEM:			
Loss on transfer to successor agency	<u>(6,369,369)</u>	<u>(6,369,369)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>(9,092,824)</u>	<u>(6,798,616)</u>	<u>2,294,208</u>
FUND BALANCE - BEGINNING OF YEAR	<u>6,798,616</u>	<u>6,798,616</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ (2,294,208)</u>	<u>\$ -</u>	<u>\$ 2,294,208</u>

See independent auditors' report.

## 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 2004A bonds, 2004B bonds & the 2007 bonds.

CITY OF HIGHLAND

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
Redevelopment Agency Debt Service Fund - Major Fund

For the Period from July 1, 2011 to January 31, 2012

	Final Budget	Actual	Variance Positive (Negative)
<b>REVENUES:</b>			
Taxes	\$ 6,500,000	\$ 4,759,252	\$ (1,740,748)
Investment income	80,000	17,320	(62,680)
<b>TOTAL REVENUES</b>	<b>6,580,000</b>	<b>4,776,572</b>	<b>(1,803,428)</b>
<b>EXPENDITURES:</b>			
Current:			
General government	13,250	13,250	-
Debt service:			
Principal	1,170,000	1,170,000	-
Interest	1,405,454	1,405,454	-
Pass-through payments	828,396	828,396	-
<b>TOTAL EXPENDITURES</b>	<b>3,417,100</b>	<b>3,417,100</b>	<b>-</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>3,162,900</b>	<b>1,359,472</b>	<b>(1,803,428)</b>
<b>OTHER FINANCING USES:</b>			
Transfers out	(3,249,160)	(443,557)	2,805,603
<b>TOTAL OTHER FINANCING USES</b>	<b>(3,249,160)</b>	<b>(443,557)</b>	<b>2,805,603</b>
<b>NET CHANGE IN FUND BALANCE, BEFORE EXTRAORDINARY ITEM</b>	<b>(86,260)</b>	<b>915,915</b>	<b>1,002,175</b>
<b>EXTRAORDINARY ITEM:</b>			
Loss on transfer to successor agency	(15,752,254)	(15,752,254)	-
<b>NET CHANGE IN FUND BALANCE</b>	<b>(15,838,514)</b>	<b>(14,836,339)</b>	<b>1,002,175</b>
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<b>14,836,339</b>	<b>14,836,339</b>	<b>-</b>
<b>FUND BALANCE - END OF YEAR</b>	<b>\$ (1,002,175)</b>	<b>\$ -</b>	<b>\$ 1,002,175</b>

See independent auditors' report.

## **Major and Other Capital Project Funds**

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

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

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, additional 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. The Agency was dissolved effective February 1, 2012.

**The following Capital Projects Funds have been classified as Other Governmental 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

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
 General Capital Financing Capital Projects Fund - Major Fund

For the Fiscal Year Ended June 30, 2012

	Final Budget	Actual	Variance Positive (Negative)
REVENUES:			
Investment income	\$ 22,000	\$ 26,019	\$ 4,019
TOTAL REVENUES	<u>22,000</u>	<u>26,019</u>	<u>4,019</u>
EXPENDITURES:			
Current:			
General government	190,000	111,102	78,898
Capital outlay	1,238,400	543,321	695,079
TOTAL EXPENDITURES	<u>1,428,400</u>	<u>654,423</u>	<u>773,977</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,406,400)</u>	<u>(628,404)</u>	<u>777,996</u>
OTHER FINANCING SOURCES:			
Transfers in	-	450,000	450,000
TOTAL OTHER FINANCING SOURCES	<u>-</u>	<u>450,000</u>	<u>450,000</u>
NET CHANGE IN FUND BALANCE	(1,406,400)	(178,404)	1,227,996
FUND BALANCE - BEGINNING OF YEAR	<u>8,652,045</u>	<u>8,652,045</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 7,245,645</u>	<u>\$ 8,473,641</u>	<u>\$ 1,227,996</u>

See independent auditors' report.

CITY OF HIGHLAND

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
Redevelopment Agency Capital Projects Fund - Major Fund

For the Period from July 1, 2011 to January 31, 2012

	Final Budget	Actual	Variance Positive (Negative)
REVENUES:			
Investment income	\$ 90,000	\$ 34,787	\$ (55,213)
TOTAL REVENUES	<u>90,000</u>	<u>34,787</u>	<u>(55,213)</u>
EXPENDITURES:			
Current:			
General government	743,820	418,061	325,759
Capital outlay	15,253,490	1,046,063	14,207,427
TOTAL EXPENDITURES	<u>15,997,310</u>	<u>1,464,124</u>	<u>14,533,186</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(15,907,310)</u>	<u>(1,429,337)</u>	<u>14,477,973</u>
OTHER FINANCING SOURCES:			
Transfers in	3,249,160	443,557	(2,805,603)
TOTAL OTHER FINANCING SOURCES	<u>3,249,160</u>	<u>443,557</u>	<u>(2,805,603)</u>
NET CHANGE IN FUND BALANCE, BEFORE EXTRAORDINARY ITEM	(12,658,150)	(985,780)	11,672,370
EXTRAORDINARY ITEM:			
Loss on transfer to successor agency	(33,421,959)	(33,421,959)	-
NET CHANGE IN FUND BALANCE	(46,080,109)	(34,407,739)	11,672,370
FUND BALANCE - BEGINNING OF YEAR	<u>34,407,739</u>	<u>34,407,739</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ (11,672,370)</u>	<u>\$ -</u>	<u>\$ 11,672,370</u>

See independent auditors' report.

CITY OF HIGHLAND

Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
Community Facilities Districts Capital Projects Fund

For the Fiscal Year Ended June 30, 2012

	Final Budget	Actual	Variance Positive (Negative)
REVENUES:			
Miscellaneous	\$ 5,600	\$ 6,665	\$ 1,065
TOTAL REVENUES	<u>5,600</u>	<u>6,665</u>	<u>1,065</u>
EXPENDITURES:			
Current:			
General government	6,665	6,665	-
TOTAL EXPENDITURES	<u>6,665</u>	<u>6,665</u>	<u>-</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,065)	-	1,065
FUND BALANCE - BEGINNING OF YEAR	<u>58,771</u>	<u>58,771</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 57,706</u></u>	<u><u>\$ 58,771</u></u>	<u><u>\$ 1,065</u></u>

See independent auditors' report.

## **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

COMBINING STATEMENT OF NET ASSETS  
INTERNAL SERVICE FUNDS

June 30, 2012

	<u>Insurance</u>	<u>General Services</u>	<u>Totals</u>
ASSETS			
CURRENT ASSETS:			
Cash and investments	\$ 5,049,547	\$ 2,010,781	\$ 7,060,328
Receivable:			
Interest	<u>3,294</u>	<u>1,479</u>	<u>4,773</u>
TOTAL ASSETS	<u>5,052,841</u>	<u>2,012,260</u>	<u>7,065,101</u>
LIABILITIES			
CURRENT LIABILITIES:			
Accounts payable	20,045	11,965	32,010
Accrued liabilities	1,978	295	2,273
Claims payable	<u>13,011</u>	<u>-</u>	<u>13,011</u>
TOTAL CURRENT LIABILITIES	<u>35,034</u>	<u>12,260</u>	<u>47,294</u>
LONG-TERM LIABILITIES:			
Claims payable	<u>117,808</u>	<u>-</u>	<u>117,808</u>
TOTAL LONG-TERM LIABILITIES	<u>117,808</u>	<u>-</u>	<u>117,808</u>
TOTAL LIABILITIES	<u>152,842</u>	<u>12,260</u>	<u>165,102</u>
NET ASSETS			
NET ASSETS:			
Unrestricted	<u>4,899,999</u>	<u>2,000,000</u>	<u>6,899,999</u>
TOTAL NET ASSETS	<u>\$ 4,899,999</u>	<u>\$ 2,000,000</u>	<u>\$ 6,899,999</u>

See independent auditors' report.

CITY OF HIGHLAND

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
INTERNAL SERVICE FUNDS

For the Fiscal Year Ended June 30, 2012

	<u>Insurance</u>	<u>General Services</u>	<u>Totals</u>
OPERATING REVENUES:			
Charges for services	\$ 402,217	\$ 172,353	\$ 574,570
TOTAL OPERATING REVENUES	<u>402,217</u>	<u>172,353</u>	<u>574,570</u>
OPERATING EXPENSES:			
Salaries and benefits	83,846	-	83,846
Insurance premiums	193,858	-	193,858
Claims and judgements	19,631	-	19,631
Legal fees	109,462	-	109,462
Administrative expenses	858	178,829	179,687
Insurance adjusting fees	8,718	-	8,718
TOTAL OPERATING EXPENSES	<u>416,373</u>	<u>178,829</u>	<u>595,202</u>
OPERATING LOSS	<u>(14,156)</u>	<u>(6,476)</u>	<u>(20,632)</u>
NONOPERATING REVENUES:			
Investment income	14,156	6,476	20,632
TOTAL NONOPERATING REVENUES	<u>14,156</u>	<u>6,476</u>	<u>20,632</u>
CHANGES IN NET ASSETS	-	-	-
TOTAL NET ASSETS - BEGINNING OF YEAR	<u>4,899,999</u>	<u>2,000,000</u>	<u>6,899,999</u>
TOTAL NET ASSETS - END OF YEAR	<u>\$ 4,899,999</u>	<u>\$ 2,000,000</u>	<u>\$ 6,899,999</u>

See independent auditors' report.

CITY OF HIGHLAND  
 COMBINING STATEMENT OF CASH FLOWS  
 INTERNAL SERVICE FUNDS

For the Fiscal Year Ended June 30, 2012

	Insurance	General Services	Totals
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Cash received for services	\$ 402,217	\$ 172,353	\$ 574,570
Cash payments to employees for services	(84,052)	(21,825)	(105,877)
Cash payments made to suppliers/vendors	(317,797)	(154,489)	(472,286)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	368	(3,961)	(3,593)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Interest received on investments	15,249	7,015	22,264
NET CASH PROVIDED BY INVESTING ACTIVITIES	15,249	7,015	22,264
NET INCREASE IN CASH AND CASH EQUIVALENTS	15,617	3,054	18,671
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	5,033,930	2,007,727	7,041,657
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 5,049,547	\$ 2,010,781	\$ 7,060,328
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>			
Operating loss	\$ (14,156)	\$ (6,476)	\$ (20,632)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:			
Increase (decrease) in accounts payable	(607)	3,547	2,940
Increase (decrease) in accrued liabilities	(207)	(1,032)	(1,239)
Increase (decrease) in claims payable	15,338	-	15,338
Total Adjustments	14,524	2,515	17,039
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 368	\$ (3,961)	\$ (3,593)

See independent auditors' report.

## **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

STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES  
COMMUNITIES FACILITIES DISTRICTS AGENCY FUND

June 30, 2012

	Balance at June 30, 2011	Additions	Deductions	Balance at June 30, 2012
ASSETS:				
Cash and investments with fiscal agent	\$ 4,326,075	\$ 1,185,749	\$ (1,574,320)	\$ 3,937,504
TOTAL ASSETS	<u>\$ 4,326,075</u>	<u>\$ 1,185,749</u>	<u>\$ (1,574,320)</u>	<u>\$ 3,937,504</u>
LIABILITIES:				
Held for bondholders	\$ 4,326,075	\$ 1,185,749	\$ (1,574,320)	\$ 3,937,504
TOTAL LIABILITIES	<u>\$ 4,326,075</u>	<u>\$ 1,185,749</u>	<u>\$ (1,574,320)</u>	<u>\$ 3,937,504</u>

See independent auditors' report.

## 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 Ten Fiscal Years  
 (accrual basis of accounting)

	Fiscal Year									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Governmental activities:										
Invested in capital assets, net of related det	190,924,669	169,128,729	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	10,103,434	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	18,279,286	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
Affordable housing	717,363	-	-	-	-	-	-	-	-	-
Unrestricted	24,720,516	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>\$244,745,268</u>	<u>\$242,718,659</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>

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

	Fiscal Year									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
<b>Expenses:</b>										
<b>Governmental activities:</b>										
General government	7,223,527	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	10,427,656	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	8,701,612	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	1,684,540	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>28,037,335</u>	<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>
<b>Program revenues:</b>										
<b>Governmental activities:</b>										
Charges for services:										
General government	997,356	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	3,596,580	670,229	611,327	650,111	628,282	592,096	849,671	548,497	279,796	39,446
Highways and streets	817,326	-	-	-	-	-	-	-	-	-
Operating grants and contributions	3,975,957	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	5,771,257	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	<u>15,158,476</u>	<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>
program revenues	<u>(12,878,859)</u>	<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>
Net revenues (expenses) governmental activities										
General revenues and other changes in net assets:										
<b>Governmental activities:</b>										
Taxes:										
Property taxes	8,030,404	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	1,612,077	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	204,296	178,729	167,247	123,211	41,747	49,401	48,295	42,303	37,676	29,121
Franchise taxes	1,482,418	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	243,218	276,517	228,259	240,498	325,616	272,323	520,149	378,124	574,603	386,082
Intergovernmental	83,100	59,014	119,184	-	-	-	-	-	-	-
Investment income	117,613	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	3,750,346	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
Rental income	168,109	-	-	-	-	-	-	-	-	-
Miscellaneous	94,458	40,610	43,383	59,748	50,150	52,276	94,724	65,034	523,283	246,865
Total governmental activities	<u>15,786,039</u>	<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>\$ 2,907,180</u>	<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>
Extraordinary item: Loss on transfer (note 16)	<u>(880,571.00)</u>									
Changes in net assets governmental activities	<u>\$ 2,026,609</u>									

CITY OF HIGHLAND  
Fund Balances of Governmental Funds  
Last Two Fiscal Years  
(modified accrual basis of accounting)

	Fiscal Year	
	2012	2011
General fund:		
Nonspendable	11,679	12,228
Spendable:		
Restricted	-	-
Assigned	5,921,333	5,952,438
Unassigned	4,067,019	4,009,852
Total general fund	<u>\$ 10,000,031</u>	<u>\$ 9,974,518</u>
All other governmental funds:		
Nonspendable:		
Special revenue funds	-	-
Debt service funds	-	100,000
Capital projects funds	-	-
Restricted:		
Special revenue funds	28,593,540	382,837
Debt service funds	-	14,736,339
Capital projects funds	58,771	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	8,473,641	42,064,464
Unassigned:		
Special revenue funds	(4,526,334)	(1,352,280)
Debt service funds	-	-
Capital projects funds	-	995,320
Total all other governmental funds	<u>\$ 32,599,618</u>	<u>\$ 92,167,227</u>

The City of Highland has elected to show only the last two years of this data due to the implementation of GASB 54.

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

	Fiscal Year									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
<b>Revenues:</b>										
Taxes	19,193,722	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	557,681	554,595	448,062	464,086	619,117	699,063	1,039,805	1,167,266	1,092,152	1,149,152
Intergovernmental	6,553,498	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	2,033,575	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	284,958	377,939	412,461	293,606	180,938	138,128	175,894	168,984	180,397	160,167
Investment income	205,050	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	168,109	205,380	92,519	44,478	91,659	79,435	68,443	115,000	49,514	87,075
Miscellaneous	102,169	187,084	179,043	320,025	336,252	392,129	540,861	291,765	958,120	291,266
<b>Total revenues</b>	<b>29,098,762</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+	6,661,740	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+	3,795,364	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+	9,952,158	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	9,284,164	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
Debt service:										
Principal*	1,170,000	1,130,000	1,085,000	975,000	400,000	425,000	410,000	160,000	535,000	80,000
Interest*	1,405,454	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*	828,396	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	-	-	-	-	286,825	1,184,369	-
Payment to bond escrow agent*	-	-	-	-	-	1,608,243	-	-	-	-
<b>Total expenditures</b>	<b>33,097,276</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>
Excess (deficiency) of revenues over (under) expenditures	(3,998,514)	(7,175,822)	(3,673,769)	4,082,830	5,482,493	(945,295)	2,442,870	1,651,531	960,401	2,345,028
Other financing sources (uses):										
Issuance of long term debt	-	-	-	-	-	42,645,000	-	3,690,000	17,525,000	-
Payment to bond escrow agent	-	-	-	-	-	-	-	(3,509,943)	-	-
Transfers in	3,535,100	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	(3,535,100)	(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)
Total other financing sources (uses)	-	(830,807)	(500,000)	(500,000)	(1,150,000)	41,595,000	-	(169,943)	17,225,000	(500,000)
Net change in fund balances	<b>\$(3,998,514)</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>
Debt service* as a percentage of noncapital+ expenditure	16.7%	27.1%	48.4%	32.7%	29.3%	28.5%	15.3%	15.0%	17.2%	13.2%

Debt service\* as a percentage of noncapital+ expenditure  
Debt service is for the RDA. The City has no debt.  
The RDA was dissolved on February 1, 2012.

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

Category	Assessed Value						
	2012	2011	2010	2009	2008	2007	2006
Residential	2,340,010,673	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	197,340,618	197,876,791	194,047,501	158,419,501	145,475,322	122,466,759	99,060,971
Industrial	38,257,586	39,108,545	39,144,816	17,548,829	16,345,050	18,347,146	11,779,501
Irrigated	1,003,899	1,160,051	1,219,204	1,633,753	1,601,720	1,570,314	2,212,971
Dry Farm	188,118	186,712	187,155	183,485	179,887	2,531,535	2,522,873
Recreational	2,416,706	2,503,273	2,496,725	2,468,984	2,465,318	3,179,482	3,022,813
Institutional	27,049,010	27,098,415	27,162,790	26,630,187	26,108,023	25,029,578	24,204,947
Miscellaneous	13,405,863	15,081,959	12,190,155	9,549,423	14,946,904	9,691,230	10,081,229
Vacant Land	81,515,351	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	31,500
Unsecured	63,630,188	64,760,058	63,499,158	52,729,890	46,934,714	39,558,005	37,840,343
Unknown	866,876	-	-	-	-	-	5,715
Exemptions	(56,024,399)	(57,634,552)	(58,825,841)	(49,794,191)	(47,479,131)	(44,223,613)	(41,692,396)
<b>Total</b>	<b>2,709,691,989</b>	<b>2,711,491,671</b>	<b>2,936,016,101</b>	<b>3,272,381,700</b>	<b>3,180,583,926</b>	<b>2,753,571,052</b>	<b>2,308,561,045</b>
Total direct rate	0.48340	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 seven years of data for this schedule.

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

	2012
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	2012	
	Taxable Assessed Value	Percent of Total City Taxable Assessed Value
Victoria Development Company	23,023,210	0.85%
Lowes HIW Inc.	19,494,827	0.72%
Sam Menlo Trust	15,838,767	0.58%
Greenspot Ranch Investors	13,506,032	0.50%
Greenspot Village & Marketplace	11,172,511	0.41%
Stater Bros. Markets	10,185,246	0.38%
Cole LA Highland California LP	9,284,389	0.34%
Boulder Baseline Investors	9,210,103	0.34%
RRM Properties Limited	9,053,918	0.33%
Wesmor Investments LLC	<u>8,587,880</u>	<u>0.32%</u>
	<u>\$ 129,356,883</u>	<u>4.77%</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 Seven Fiscal Years

Fiscal Year Ended June 30	Taxes Levied for the Fiscal Year	Amount Collected	Percent of Levy	Collections in Subsequent Years	Amount Collected	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%
2012	\$27,096,920	11,241,456	41.49%	75,746	11,317,202	41.77%

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 seven years of data for this schedule.

CITY OF HIGHLAND  
Ratios of Outstanding Debt by Type  
Last Eight 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
2012	58,105,000	4.82%	1,083

<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 Successor Agency to the Highland Redevelopment Agency. The City currently does not have any del

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

CITY OF HIGHLAND  
Ratio of General Bonded Debt Outstanding  
Last Eight 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
2012	58,105,000		2.14%	1,082,756

<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 eight years of data for this schedule.

CITY OF HIGHLAND  
Direct and Overlapping Debt  
June 30, 2012

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 Applicable <sup>1</sup>	Outstanding Debt 6/30/2012	Estimated Share of Overlapping Debt
Overlapping Debt Repaid with Property Taxes:			
Highland RDA 2007 Tax Allocation Bonds	100.000%	\$ 40,020,000	\$ 40,020,000
Highland RDA 2004A Tax Allocation Bonds	100.000%	15,440,000	15,440,000
Highland RDA 2004B Tax Allocation Bonds	100.000%	<u>2,645,000</u>	<u>2,645,000</u>
Total overlapping debt repaid with property taxes		<u>58,105,000</u>	<u>58,105,000</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%	3,790,000	3,790,000
City of Highland CFD 2001-1	100.000%	5,145,000	5,145,000
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>2,110,943,337</u>	<u>29,492,833</u>
Total overlapping debt		<u>\$ 2,110,943,337</u>	<u>\$ 29,492,833</u>
City direct debt			<u>58,105,000</u>
Total direct and overlapping debt			<u>\$ 87,597,833</u>

Notes:

<sup>1</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 Six Years

	Fiscal Year					
	2012	2011	2010	2009	2008	2007
Assessed Valuation	\$2,709,691,989	\$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>	<u>25%</u>
Adjusted assessed valuation	\$ 677,422,997	\$ 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>	<u>15%</u>
Debt limit	101,613,450	101,680,938	110,100,604	122,714,314	119,271,897	103,258,914
Total net debt applicable to	-	-	-	-	-	-
Legal debt margin	<u>\$ 101,613,450</u>	<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%	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 six years of data for this schedule.

CITY OF HIGHLAND  
Pledged-Revenue Coverage  
Last Eight 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
2012	4,759,252	1,170,000	2,784,835	1.20

Note: Details regarding the SARDA's outstanding debt can be found in the notes to the financial statements. The RDA was dissolved on 2/1/2012.

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 eight years of data for this schedule.

CITY OF HIGHLAND  
Demographic and Economic Statistics  
Last Fifteen 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%
2012	53,664	1,206,313	22,479	12.3%

- 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

Department	Full-Time Equivalent Employees as of June 30									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
City clerk	1.800	1.800	1.800	1.950	1.950	2.000	1.000	1.000	1.000	1.000
General government	3.900	3.900	3.900	3.900	3.900	2.800	2.800	1.700	1.700	2.700
Personnel	0.300	0.300	0.300	0.300	0.300	0.500	0.500	0.500	0.500	0.500
Finance	3.900	3.900	3.900	3.600	3.300	4.000	4.000	4.000	4.000	4.000
Public works	5.750	5.750	5.750	5.500	5.500	5.000	5.000	5.700	5.700	5.200
Engineering	0.750	0.750	0.750	1.000	1.000	1.000	1.000	1.000	1.000	0.500
Planning	4.500	4.500	4.500	5.150	5.150	4.600	4.600	3.600	4.600	4.550
Public services	2.500	2.500	2.500	2.500	2.500	1.000	1.000	1.000	-	-
Building and safety	1.475	1.475	1.475	1.475	1.300	1.900	1.900	3.150	3.150	2.150
Code enforcement	2.275	2.275	2.275	2.075	1.750	2.200	1.700	1.450	1.450	1.450
Parks and trails	2.500	2.500	2.500	2.500	2.500	2.500	2.000	1.060	0.060	0.060
Graffiti	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	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
Assessment districts	-	-	-	-	-	-	-	0.190	0.190	0.190
AQMD AB 2766	-	-	-	-	-	-	-	-	-	0.050
Fire Department	0.250	0.250	0.250	0.250	0.250	-	-	-	-	-
General liability	0.400	0.400	0.400	0.400	0.400	0.450	0.450	0.500	0.500	0.550
Building services	0.500	0.500	0.500	0.500	0.500	-	-	0.050	0.050	0.200
Redevelopment agency	6.300	6.300	6.300	5.500	4.800	3.650	3.650	2.950	2.950	2.650
	<u>40.000</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>

Source: City of Highland.

CITY OF HIGHLAND  
 Operating Indicators  
 by Department  
 Last Nine Fiscal Years

	Fiscal Year								
	2012	2011	2010	2009	2008	2007	2006	2005	2004
<b>Police department:</b>									
Calls for service	46,260	46,253	47,608	48,089	47,789	45,467	43,589	44,274	34,343
Arrests	1,767	1,728	1,618	2,863	1,292	692	665	662	654
<b>Animal control services:</b>									
Calls for service	4,141	4,100	4,194	4,135	4,078	3,069	3,000	3,376	3,656
Impounds	2,260	2,274	2,202	2,298	2,255	2,105	2,006	2,370	2,466
Dog licenses issued*	3,273	2,868	3,259	3,210	1,213	n/a	n/a	n/a	n/a
<b>Public works:</b>									
Roadway maintained (miles)	142.50	140.96	139.96	139.96	139.96	139.96	133.10	132.60	131.76
<b>Planning:</b>									
Applications	180	157	110	98	160	116	105	76	42
<b>Building and safety:</b>									
Building permits issued	1,276	1,073	894	866	867	1,034	588	537	639
<b>Administration:</b>									
New business licenses*	667	574	420	447	394	n/a	n/a	n/a	n/a
Renewed business licenses*	1,239	1,072	1026	928	275	n/a	n/a	n/a	n/a
<b>Parks:</b>									
Number of parks	7	6	6	5	5	4	4	4	4
Acreage	37.25	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 nine years of data for this schedule.

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

	Fiscal Year								
	2012	2011	2010	2009	2008	2007	2006	2005	2004
<b>Police:</b>									
Police stations	1	1	1	1	1	1	1	1	1
<b>Fire:</b>									
Fire stations	3	3	3	3	3	3	3	2	2
<b>Public works:</b>									
Corporation yards	1	1	1	1	1	1	1	1	1
Streets (miles)	142.50	140.96	139.96	139.96	139.96	139.96	133.10	132.60	131.76
Street lights	3,376	3,326	3,315	3,297	3,255	3,226	3,185	3,183	3,039
Traffic signals	71	71	71	71	71	71	69	58	51
<b>Recreation:</b>									
Parks	7	6	6	5	5	5	5	4	4
Community centers	1	1	1	1	1	1	1	1	1
Athletic centers	1	1	1	1	1	1	-	-	-
Libraries	1	1	1	1	1	1	1	1	1

Source: City of Highland

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



# **THE CITY OF HIGHLAND MISSION AND VALUES**

Highland is dedicated to the betterment of the individual, the family, the neighborhood and the community. The City Council and the staff of the City of Highland are dedicated to providing the quality of public facilities and services that its citizens are willing to fund and will do so as efficiently as possible.

This Mission is established to reflect the following beliefs which represent the predominant beliefs of the community. They express what matters most in the conduct of public affairs affecting the citizenry of Highland.

## **RESPONSIBILITY**

Everyone in the community has rights and is responsible for their own actions.

## **SERVICE**

Volunteer service is a valued community resource.

## **ACCOUNTABILITY**

Public resources and finances are to be stewarded carefully and conservatively-we live within our means and will not place huge debts on future generations.

## **CREATIVITY**

Creative solutions are the norm, not the exception.

## **NEIGHBORHOOD STABILITY**

Neighborhood stability and a sense of ownership are to be encouraged and strengthened.

## **VISION**

The community has a vision of the future and how it will get there.

## **FAMILY**

Families are the basic unit of society and the essence of what makes our community. All values should be encouraged at this family level.