

City of Highland California



Comprehensive Annual Financial Report
For Fiscal Year Ended June 30, 2013



CITY OF HIGHLAND
Highland, California

Comprehensive Annual Financial Report

For the fiscal year ended June 30, 2013



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Chuck Dantuono
Director of Administrative Services/City Treasurer



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December 10, 2013

To the Honorable Mayor, Members of the City Council and the Citizens of Highland:

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, 2013.

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.

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, 2013. 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 53,926 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 Operating Corporation 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 construction of the new Fire Station No. 1, construct the infrastructure in the golden triangle, develop Orange County/Lewis Operating Corporation specific plan, complete construction of Boulder & Greenspot bridges and the specific plan for Third Street/Fifth Street Corridor; 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

Highland has seen revenue sources stabilize or even increase in 2012/2013. Although sales tax did increase, Highland is still feeling the effect of the State stealing an additional local revenue source, vehicle license fees. Other revenues such as charges for services decreased while the extraction tax increased. Intergovernmental revenue also saw a slight decrease. Because of declining interest rates, investment income was down. With some declining revenues over the last four years, it was the efficient and careful watch of expenditures that made it possible for the general fund to be balanced 2012/2013. 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. Highland is mainly a residential community and as a result, the City's second highest revenue source is property taxes. The City has a light industrial and manufacturing area in town with many small retail shops and three large plazas. These plazas supply the City with jobs and sales tax revenues. This light manufacturing and industrial base adds to a stable unemployment rate in Highland.

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. Meanwhile, the City will expend \$14M on improving Greenspot Road.

It is also anticipated that in the next few years, the newly annexed area on the east side of Highland will be developed.

Opening in the near future in Highland will be Family Dollar. They are currently under construction in the Town Center on Base Line west of SR-210. CVS Pharmacy and a Baker's have already opened in this area. Family Dollar is also considering opening an additional store near Base Line/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-six 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 was \$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 and will continue to have long lasting effects on local governments.

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 2013-2015. This budget award is the highest form of recognition a City can receive in governmental budgeting. This was the twenty-third 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 2013-2015. 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 2015-2017 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, 2012 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-third consecutive year that the City has received such recognition. Seven 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, 2012. 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 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, 2013

Elected Officials

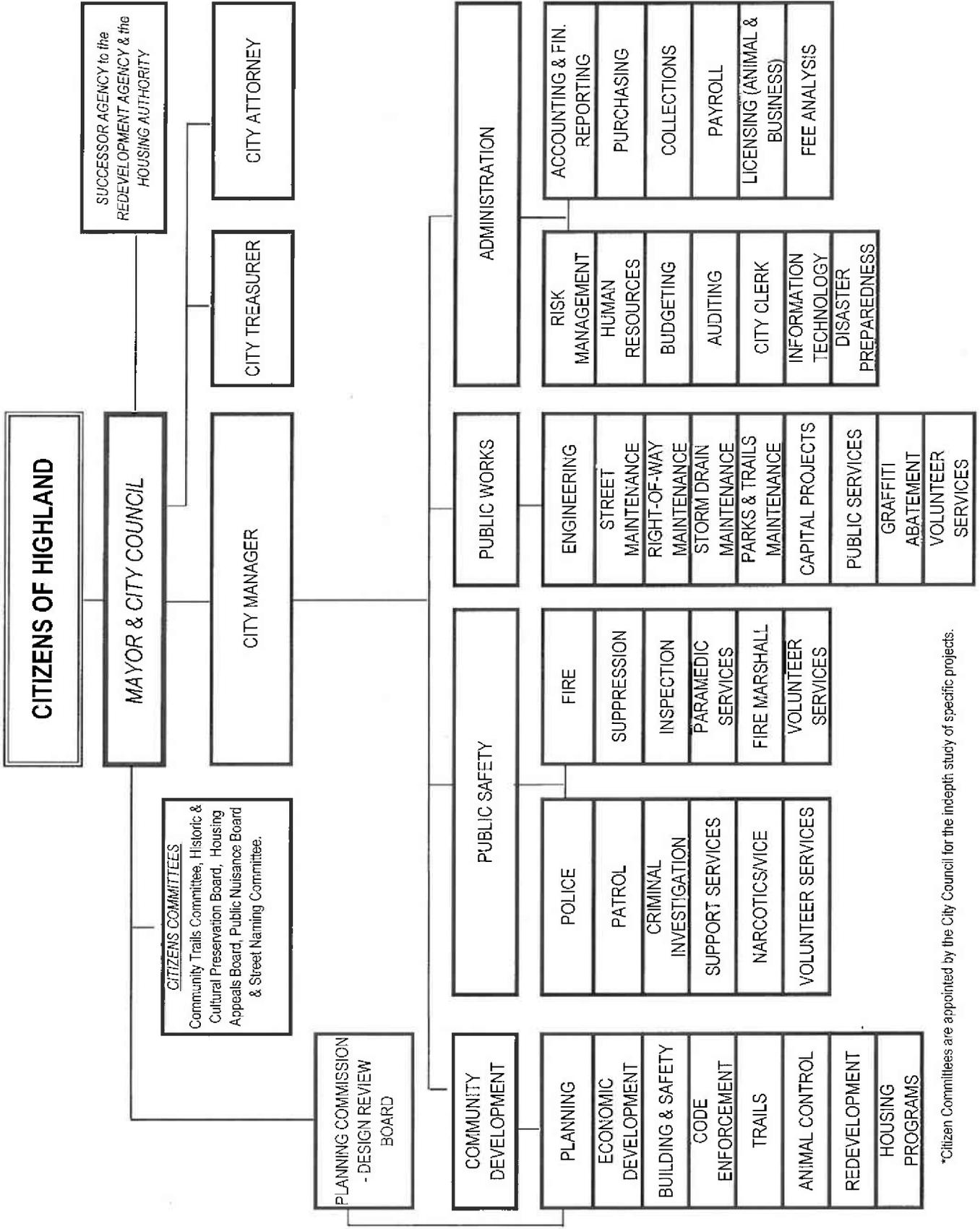
Mayor	Larry McCallon
Mayor Pro Tem	Penny Lilburn
Council member	Sam J. Racadio
Council member	Jody Scott
Council member	John P. Timmer

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. Rod Torres
Lieutenant	Tony DeCecio
Fire Chief (Battalion Chief)	Jesse Estrada



*Citizen Committees are appointed by the City Council for the in-depth study of specific projects.



Government Finance Officers Association

**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, 2012

Executive Director/CEO



INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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 (the City), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1D to the basic financial statements, the City incorporated deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure of net position due to the adoption of Governmental Accounting Standards Board's Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*". The adoption of this standard also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Our opinion is not modified with respect to this matter.

As discussed in Note 1D and 17 to the basic financial statements, the City has changed its method for accounting and reporting certain items previously reported as assets or liabilities during fiscal year 2012-2013 due to the early adoption of Governmental Accounting Standards Board's Statement No. 65, "*Items Previously Reported as Assets and Liabilities*". The adoption of this standard required retrospective application resulting in a \$2,217,952 reduction of previously reported net position of the Successor Agency to the City of Highland Redevelopment Agency Private Purpose Fund. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of funding progress and budgetary comparison schedules, identified as required supplementary information in the accompanying table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the 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 basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the 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 on them. The budgetary comparison schedules and related note have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements of the City or to the basic 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 basic financial statements taken as a whole.

Other Matters (Continued)

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, supplementary information and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26 2013, on our consideration of the City of Highland internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Highland's internal control over financial reporting and compliance.

White Nelson Dick Evans LLP

Irvine, California
November 26, 2013



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, 2013. 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 Position 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"> • Statement of net position • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net position • Statement of revenues, expenses and changes in net position • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net position • Statement of changes in fiduciary net position
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 Position 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 position and changes in them. You can think of the City's net position – 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 position 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 Position 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 Position and the Statement of Activities) and *governmental funds* in 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 Position 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 position* follows:

Net Position June 30, 2013		
Governmental Activities		
	2013	2012
Current and other assets	59,282,526	59,352,103
Capital assets, net	<u>198,932,543</u>	<u>190,778,099</u>
Total assets	258,215,069	250,130,202
Long-term liabilities	852,762	4,589,714
Other liabilities	<u>6,197,083</u>	<u>795,220</u>
Total liabilities	7,049,845	5,384,934
Net position:		
Net Investment in capital assets	198,932,543	190,924,669
Restricted	28,766,146	29,100,083
Unrestricted	<u>23,466,535</u>	<u>24,720,516</u>
Total net position	\$251,165,224	\$244,745,268

The largest portion of the City's net position (79.2%) 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 (11.5%) 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 (9.3%) 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 Position
June 30, 2013
Governmental Activities

	<u>2013</u>	<u>2012</u>
Program Revenues:		
Charges for services	5,471,971	5,411,262
Operating contributions & grants	2,346,472	3,975,957
Capital contributions & grants	7,866,306	5,771,257
Total Program Revenues	15,684,749	15,158,476
General Revenues:		
Property taxes	7,528,512	8,030,404
Sales & use tax	1,643,959	1,612,077
Transient occupancy tax	228,490	204,296
Franchise fees	1,471,668	1,482,418
Business license tax	232,909	243,218
Intergovernmental	57,684	83,100
Investment income	58,651	117,613
State motor vehicle in lieu	3,764,950	3,750,346
Rental Income	120,601	168,109
Land Contribution from Successor Agency	1,645,592	-
Miscellaneous	463,553	94,458
Total General Revenues	17,216,569	15,786,039
Total revenues	<u>32,901,318</u>	<u>30,944,515</u>
Expenses:		
General government	7,992,150	7,223,527
Highways & streets	10,858,918	8,701,612
Public safety	5,461,910	10,427,656
Interest and fiscal charges	-	1,684,540
Total expenses	24,312,978	28,037,335
Change in net position	8,588,340	2,907,180
Loss on transfer of assets	-	(880,571)
Extraordinary Item-Repayment of Advance (note 16)	(2,168,384)	-
Change in net position	6,419,956	2,206,609
Beginning net position	244,745,268	242,718,659
Ending net position	251,165,224	244,745,268

The increase or decrease in net position can provide an indication as to whether the overall financial position of the city improved or deteriorated during the year. The net position of the City's governmental activities increased by 2.6% (\$244.7M compared to \$251.1M). The net position (financial position) of the City changed as a result of the revenue and expense fluctuations described below.

The increase in Total Program Revenues above is due to the increased use of grants this past year. Highland utilized an HBP (Highway Bridge Program) grant for the construction of Boulder Avenue Bridge. General Revenues would have been flat if it were not for the land that was contributed by the Successor Agency. This land includes the property that Jeffrey Court Senior Apartment is located on as well as the 13 vacant lots on Lillian Lane that will be developed in the future. Combining these two items explains why total revenues increased by \$1.9M (from \$30.9M to \$32.9M).

Expenses in the general fund increased as a result of the increase in the Sheriff contract. Other increases in the general fund were due to the state eliminating the RDA and the City having to transfer over \$500,000 in salary and benefits to the general fund. Expenses in Highways & Streets increased as a result of grant activity primarily because of the Boulder Avenue Bridge construction. Public Safety expenses were reduced by \$5M in 2012/2013. This was due to the construction of the new Police Station being completed in 2011/2012-there was no construction activity in 2012/2013. With the elimination of the RDA, there should be no expenses for Interest and Fiscal Charges because the City has no debt.

The change in net position before applying Extraordinary Items is a result of the situations discussed above. This increase amounts to \$5.6M (from \$2.9M to \$8.5M). In 2012/2013, Highland incurred an Extraordinary Item loss of \$2,168,384 because the City was required by the State to pay back the loans the RDA has previously paid back to the City.

For the reasons stated above, the City's net position increased by \$6.4M (\$244.7M to \$251.1M).

Governmental Activities

Revenues by Source

	2012/2013	%	2011/2012	%
Charges for services	5,471,971	16.6%	5,411,262	17.5%
Operating contributions & grants	2,346,472	7.1%	3,975,957	12.8%
Capital contributions & grants	7,866,306	23.9%	5,771,257	18.7%
Property taxes	7,528,512	22.9%	8,030,404	26.0%
Sales & use tax	1,643,959	5.0%	1,612,077	5.2%
Transient occupancy tax	228,490	0.7%	204,296	0.7%
Franchise fees	1,471,668	4.5%	1,482,418	4.8%
Business license tax	232,909	0.7%	243,218	0.8%
Intergovernmental	57,684	0.2%	83,100	0.3%
Investment income	58,651	0.2%	117,613	0.4%
State motor vehicle in lieu	3,764,950	11.4%	3,750,346	12.1%
Rental income	120,601	0.4%	168,109	0.5%
Land contribution from SA	1,645,592	5.0%	-	0.0%
Miscellaneous	463,553	1.4%	94,458	0.2%
Total Revenues	\$32,901,318	100.0%	\$30,944,515	100.0%

Expenses by Function

	2012/2013	%	2011/2012	%
General government	7,992,150	32.9%	7,223,527	25.8%
Highways & streets	10,858,918	44.7%	8,701,612	31.0%
Public safety	5,461,910	22.5%	10,427,656	37.2%
Interest and fiscal charges	-	0.0%	1,684,540	6.0%
Total Expenses	\$24,312,978	100.0%	\$28,037,335	100.0%

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 \$8,575,357. 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). Committed means the City Council has committed these funds for a specific project or intent. And lastly, Assigned means the City Council has given permission to the City Manager to assign 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) increased by \$3,490,743, a 21.2% increase. This increase is directly reflective of the \$2,556,372 that the City received as a result of the RDA dissolving. As a result of the RDA dissolution, the City received a portion of the amount that the RDA paid to the State, roughly 24% of the \$14,676,119. See footnote 16 on page 73 for more details. Taxes increased by 23.8% or \$3,487,827 due to a slight increase in property values, an increase in sales tax and the reason listed above. Miscellaneous revenue increased by 55.5% or \$107,355. Intergovernmental revenue decreased by 28.4% or \$35,423 mainly because of the state taking the VLF funds and Charges for Services decreased by 8.4% or \$77,502 due in part to development not coming back as strong as hoped. Interest income decreased by 3.9% as a result of declining interest rates. With the passage of Proposition 57 and AB 1768, some motor vehicle in lieu and sales tax funds that used to be classified as intergovernmental funds is now classified as taxes.
- Total expenses (excluding the gas tax expenses and operating transfers) increased by \$521,853. Although there was an increase in the Sheriff contract, all departments were vigilant with their budgets and this accounted for an overall increase of expenses of only 4.0%.
- Fund Balance in the general fund decreased by \$1,424,679 primarily due to the City having to repay back loans to the Successor Agency. This loan has been accrued and will be paid back to the City when the DOF approves of this on a future ROPS.

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 increased from \$26,019 in 2011/2012 to \$463,882 in 2012/2013 primarily due to the settlement received from the County of San Bernardino regarding the Property tax Admin Fees lawsuit. As with most funds, investment income decreased by 23.3% or \$4,916.

- Expenses in this fund increased by \$110,513 due to this fund being used to match grants for capital projects. This fund assisted with various street projects.
- Although there was a transfer of \$3,493,864 from the General Fund, the fund balance in this fund increased overall by \$1,369,382. The difference is the loan of \$1,702,868 that this fund was forced to pay back to the Successor Agency. This loan has been accrued and will be paid back to the City when the DOF approves of this on a future ROPS.

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.

- Expenses in this fund increased by \$4,409,773 primarily because of the HBP (Highway Bridge Program) grant the City used to construct the Boulder Avenue Bridge.
- 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 decrease in revenues in this fund of 7.4% due to property taxes decreasing by 8.7%. Other reductions in revenue include Intergovernmental income of 35.2% and Interest Income of 22.3%. Licenses & Permits increased by \$1,013 or 2.8%.
- The overall expenses in this department increase by \$118,122 or 6.8%, solely due to the loss of a state funded engine at Fire Station No. 1. The City picked up this cost starting on January 1, 2013. Fiscal year 2013/2014 will be the first full year of this increase.
- The fund balance of this fund increased by \$247,306. This was due to the contract services line item coming in under budget.

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 \$907,407 increase in revenues from the prior year. Investment income decreased by \$5,276.
- The overall expenses in this department increased by \$60,000 primarily due to the construction of the Boulder Avenue Bridge winding down. The DIF fund is used as a match to the HBP grant discussed earlier under Major Grant funds.

- The fund balance of this fund increased by \$88,609 due to a combination of expenses coming in less than expected and revenues coming in higher than expected.

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 \$842,464 was due to a grant in the amount of \$742,413 received from SANBAG for the Church Street improvement project. Measure I funds (the ½ cent sales tax increase on gasoline) received were almost identical to the amount received in 2011/2012. Investment income decreased by \$4,478.
- As projected last year, the overall expenses in this department increased by \$1,485,553 primarily due to this fund not being utilized in 2011/2012, and heavily utilized in 2012/2013. This fund was used for projects such as, Boulder Bridge project, the Greenspot Road Bridge project, the Church Street improvement project, the Base Line median project and the 9th Street Safety Improvements project.
- The fund balance of this fund increased by \$34,260. This fund will continue see more activity with the construction of Greenspot Bridge in 2013/2014.

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 2012/2013.

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:

- \$1,953,040 General Fund transfer to the Successor Agency for the repayment of loans as a result of the RDA dissolution.
- \$120,000 increase in the Planning Department's Contract Services line item regarding the Greenspot Village and Marketplace project. This cost will be paid by the developer.
- \$555,000 for the transfer of salaries and benefits from the RDA to the General Fund as a result of the RDA dissolution.

Additional information on the City's budget adjustments and policies can be found in the notes to required supplementary information on page 85.

CAPITAL ASSETS

Capital Assets (net of depreciation) Governmental Activities

	<u>2013</u>	<u>2012</u>
Land	\$6,081,976	\$4,436,384
Rights of Way	86,675,312	86,675,312
Construction in progress	11,992,960	4,320,306
Buildings & improvements	34,177,050	34,849,865
Equipment, furniture & software	2,633,100	2,038,877
Vehicles	1,487,910	1,205,442
Infrastructure	55,884,235	57,251,913
Total	<u>\$198,932,543</u>	<u>\$190,778,099</u>

The major additions to capital assets during the year ended June 30, 2013 were as follows:

- Purchased a new fire engine.
- Installed ALPR (Automated License Plate Readers) throughout the City.
- Installed a new floor in the gymnasium at the Community Center.
- Upgraded the Speed Trailer with solar panels and an ALPR system
- Purchased equipment for the Emergency Operations Center (EOC) at the new Police Station.

Infrastructure additions include but are no limited to:

- Project No. OLA 11-001 Pavement Rehab, Bikeway & Nature Trail.
- Palm Avenue & Fifth Street
- Tract 18677.

Additional information on the City's capital assets can be found in the notes to the financial statements starting on page 58.

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 59.

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 Position 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 Position 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 position* and changes in them. You can think of the City's net position-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 position 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 Position and the Statement of Activities, present information about the following:

- Governmental activities-All of the City's basic services are considered to be governmental activities, including general government, community development, public safety, and public works. Vehicle license fees, property taxes, sales taxes, transient occupancy taxes, and franchise fees finance most of these activities.
- Component units-The City's governmental activities include the blending of two separate legal entities-the Highland Public Financing Authority and the City of 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 POSITION

June 30, 2013

	Governmental Activities
ASSETS:	
Cash and investments	\$ 44,399,472
Cash and investments with fiscal agent	828,398
Receivables, net:	
Accounts	1,311,285
Interest	23,508
Property taxes	70,800
Loans	695,728
Due from other governments	9,894,908
Advance to Successor Agency	1,900,000
Inventory	2,921
Prepays items	8,936
Capital assets:	
Nondepreciable	104,896,818
Depreciable, net of accumulated depreciation	94,182,295
TOTAL ASSETS	258,215,069
LIABILITIES:	
Accounts payable	4,227,818
Accrued liabilities	87,897
Retention payable	1,010,185
Deposits payable	871,183
Long-term liabilities:	
Due within one year	153,703
Due in more than one year	699,059
TOTAL LIABILITIES	7,049,845
NET POSITION:	
Net investment in capital assets	199,079,113
Restricted for:	
Public safety	10,442,756
Highways and streets	17,078,055
Affordable housing	1,245,335
Unrestricted	23,319,965
TOTAL NET POSITION	\$ 251,165,224

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

CITY OF HIGHLAND

STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2013

Functions/programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position 2012
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
General government	\$ 7,992,150	\$ 939,407	\$ 165,229	\$ 1,645,592	\$ (5,241,922)
Public safety	5,461,910	3,565,197	221,423	-	(1,675,290)
Highways and streets	10,858,918	967,367	1,959,820	7,866,306	(65,425)
Total governmental activities	<u>\$ 24,312,978</u>	<u>\$ 5,471,971</u>	<u>\$ 2,346,472</u>	<u>\$ 9,511,898</u>	<u>(6,982,637)</u>
General revenues:					
Taxes:					
Property taxes					7,528,512
Sales and use tax					1,643,959
Transient occupancy tax					228,490
Franchise taxes					1,471,668
Business license tax					232,909
Intergovernmental					57,684
Investment income					58,651
State motor vehicle in lieu, unrestricted					3,764,950
Rental income					120,601
Miscellaneous					463,553
Total general revenues					<u>15,570,977</u>
Change in net position, before extraordinary item					8,588,340
Extraordinary Item:					
Repayment of advance					<u>(2,168,384)</u>
Change in net position					6,419,956
Net position - Beginning of Year					<u>244,745,268</u>
Net position - End of Year					<u>\$ 251,165,224</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, deferred outflows of resources, liabilities, deferred inflows of resources, revenues (excluding extraordinary items), or expenditures/expenses (excluding extraordinary items), of that fund are at least 10 percent of the corresponding total (assets, deferred outflows of resources, 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, deferred outflows of resources, liabilities, deferred inflows of resources, 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 Special Revenue Funds have been classified as major funds in the accompanying financial statements:

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 and 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. 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 - 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 - This fund accounts for federal grants that are not required to be maintained in their own fund.

GOVERNMENTAL FUNDS (CONTINUED)

Major Funds (Continued)

Capital Projects Fund

Capital Projects Fund is used to account for the acquisition and construction of major capital facilities. The following Capital Projects Fund has been classified as a major fund 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.

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, 2013

	General	Special Revenue Funds	
		Development Impact Fees	Measure I
ASSETS			
Cash and investments	\$ 2,925,972	\$ 6,563,448	\$ 7,675,737
Cash and investments with fiscal agent	-	-	-
Receivables:			
Accounts	675,697	-	-
Interest	5,519	1,894	3,296
Property taxes	30,324	-	-
Loans	-	-	-
Due from other governments	411,643	59,573	132,563
Due from other funds	5,024,759	-	-
Inventory	2,921	-	-
Advance to Successor Agency	1,040,000	-	-
Prepaid items	8,936	-	-
TOTAL ASSETS	\$ 10,125,771	\$ 6,624,915	\$ 7,811,596
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 593,069	1,000	\$ 434,128
Accrued liabilities	83,521	-	-
Retention payable	-	-	68,453
Deposits payable	871,183	-	-
Due to other funds	-	-	-
TOTAL LIABILITIES	1,547,773	1,000	502,581
DEFERRED INFLOWS OF RESOURCES:			
Unavailable revenues	2,641	-	-
TOTAL DEFERRED INFLOWS OF RESOURCES	2,641	-	-
FUND BALANCES (DEFICIT):			
Nonspendable	1,051,857	-	-
Restricted	-	6,623,915	7,309,015
Assigned	4,623,896	-	-
Unassigned	2,899,604	-	-
TOTAL FUND BALANCES (DEFICIT)	8,575,357	6,623,915	7,309,015
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 10,125,771	\$ 6,624,915	\$ 7,811,596

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

Special Revenue Funds (Continued)		Capital Projects Fund		
Fire Department	Major Grants	General Capital Financing	Other Governmental Funds	Total Governmental Funds
\$ 7,167,624	\$ -	\$ 4,937,926	\$ 8,191,829	\$ 37,462,536
-	804,966	-	23,432	828,398
497,907	-	-	76,429	1,250,033
2,348	-	3,951	3,393	20,401
8,334	-	-	32,142	70,800
-	-	-	695,728	695,728
-	8,210,684	-	1,080,445	9,894,908
-	-	4,528,127	-	9,552,886
-	-	-	-	2,921
-	-	480,000	380,000	1,900,000
-	-	-	-	8,936
<u>\$ 7,676,213</u>	<u>\$ 9,015,650</u>	<u>\$ 9,950,004</u>	<u>\$ 10,483,398</u>	<u>\$ 61,687,547</u>
\$ 981,956	\$ 276,408	\$ 15,615	\$ 690,743	\$ 2,992,919
-	-	-	2,586	86,107
-	804,966	91,366	32,500	997,285
-	-	-	-	871,183
-	8,282,915	-	1,269,971	9,552,886
<u>981,956</u>	<u>9,364,289</u>	<u>106,981</u>	<u>1,995,800</u>	<u>14,500,380</u>
-	676,166	-	1,530,272	2,209,079
-	<u>676,166</u>	-	<u>1,530,272</u>	<u>2,209,079</u>
-	-	480,000	380,000	1,911,857
6,694,257	-	-	7,820,544	28,447,731
-	-	9,363,023	-	13,986,919
-	(1,024,805)	-	(1,243,218)	631,581
<u>6,694,257</u>	<u>(1,024,805)</u>	<u>9,843,023</u>	<u>6,957,326</u>	<u>44,978,088</u>
<u>\$ 7,676,213</u>	<u>\$ 9,015,650</u>	<u>\$ 9,950,004</u>	<u>\$ 10,483,398</u>	<u>\$ 61,687,547</u>



CITY OF HIGHLAND

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

June 30, 2013

Fund balances for governmental funds \$ 44,978,088

Amounts reported for governmental activities in the Statement of Net Position 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 Position includes those capital assets among the assets of the City as a whole.

Capital assets, not being depreciated	\$ 104,896,818	
Capital assets, being depreciated	143,544,736	
Accumulated depreciation	<u>(49,362,441)</u>	
		199,079,113

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 Position.

Compensated absences	(486,152)	
Other post employment benefits	<u>(225,611)</u>	
		(711,763)

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 Position because they primarily service governmental activities of the City.

5,610,707

Unearned Revenues

Earned revenue in the Statement of Net Position has been reported as unavailable revenues in the fund financial statements if collectible after the availability period.

2,209,079

Net position of governmental activities \$ 251,165,224

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, 2013

	General	Special Revenue Funds	
		Development Impact Fees	Measure I
REVENUES:			
Taxes	\$ 14,610,071	\$ -	\$ -
Licenses and permits	525,799	-	-
Intergovernmental	124,896	59,559	1,588,853
Charges for services	926,161	1,300,674	-
Fines and forfeitures	90,711	-	-
Investment income	18,149	15,173	17,543
Rental income	-	-	-
Miscellaneous	193,393	-	-
TOTAL REVENUES	<u>16,489,180</u>	<u>1,375,406</u>	<u>1,606,396</u>
EXPENDITURES:			
Current:			
General government	5,538,302	-	-
Highways and streets	1,122,123	112,293	1,135,134
Public safety	7,493,423	-	-
Capital outlay	775,815	1,159,634	437,002
TOTAL EXPENDITURES	<u>14,929,663</u>	<u>1,271,927</u>	<u>1,572,136</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>1,559,517</u>	<u>103,479</u>	<u>34,260</u>
OTHER FINANCING SOURCES (USES):			
Transfers in	1,917,935	46,815	-
Transfers out	(3,576,610)	(61,685)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(1,658,675)</u>	<u>(14,870)</u>	<u>-</u>
CHANGE IN FUND BALANCES, BEFORE EXTRAORDINARY ITEMS	(99,158)	88,609	34,260
EXTRAORDINARY ITEMS:			
Repayment of advance to Successor Agency	(1,065,516)	-	-
Loss on transfer of advance to Successor Agency	(260,000)	-	-
Gain on transfer of advance to Successor Agency	-	-	-
NET CHANGE IN FUND BALANCES	(1,424,674)	88,609	34,260
FUND BALANCES (DEFICIT) - BEGINNING OF YEAR	<u>10,000,031</u>	<u>6,535,306</u>	<u>7,274,755</u>
FUND BALANCES (DEFICIT) - END OF YEAR	<u>\$ 8,575,357</u>	<u>\$ 6,623,915</u>	<u>\$ 7,309,015</u>

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

<u>Special Revenue Funds (Continued)</u>		Capital Projects Fund		
Fire Department	Major Grants	General Capital Financing	Other Governmental Funds	Total Governmental Funds
\$ 2,143,484	\$ -	\$ -	\$ 1,013,699	\$ 17,767,254
37,774	-	-	-	563,573
87,484	7,796,358	79,172	1,984,077	11,720,399
497,907	-	-	190,946	2,915,688
-	-	-	232,616	323,327
14,433	-	21,103	27,891	114,292
-	-	-	120,601	120,601
-	-	363,607	59,841	616,841
<u>2,781,082</u>	<u>7,796,358</u>	<u>463,882</u>	<u>3,629,671</u>	<u>34,141,975</u>
133,747	-	221,615	164,861	6,058,525
-	1,127,854	-	1,320,449	4,817,853
1,734,193	-	-	1,206,504	10,434,120
506	4,090,363	1,114,480	706,854	8,284,654
<u>1,868,446</u>	<u>5,218,217</u>	<u>1,336,095</u>	<u>3,398,668</u>	<u>29,595,152</u>
912,636	2,578,141	(872,213)	231,003	4,546,823
-	61,685	3,493,864	905,847	6,426,146
<u>(665,330)</u>	<u>(185,185)</u>	<u>(29,401)</u>	<u>(1,907,935)</u>	<u>(6,426,146)</u>
<u>(665,330)</u>	<u>(123,500)</u>	<u>3,464,463</u>	<u>(1,002,088)</u>	<u>-</u>
247,306	2,454,641	2,592,250	(771,085)	4,546,823
-	-	(1,102,868)	-	(2,168,384)
-	-	(120,000)	-	(380,000)
-	-	-	380,000	380,000
247,306	2,454,641	1,369,382	(391,085)	2,378,439
6,446,951	(3,479,446)	8,473,641	7,348,411	42,599,649
<u>\$ 6,694,257</u>	<u>\$ (1,024,805)</u>	<u>\$ 9,843,023</u>	<u>\$ 6,957,326</u>	<u>\$ 44,978,088</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, 2013

Net change in fund balances, after extraordinary items - total governmental funds \$ 2,378,439

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	\$ 10,360,200	
Transfer of land from successor agency	1,645,592	
Depreciation of capital assets	(3,724,614)	
Disposal of capital assets	(126,734)	8,154,444
		<hr/>

Long-Term Debt Transactions

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	(7,159)	
Changes in other post employment benefits	(40,203)	(47,362)
		<hr/>

Unavailable Revenues

Earned revenue in the Statement of Net Position has been reported as unavailable revenues in the fund financial statements if collectible after the availability period. (2,767,273)

Internal Service Funds

Internal service funds are used by management to charge the costs of certain activities to individual City funds. The net revenues (expenses) of the Internal Service Funds is reported in the Statement of Activities. (1,298,292)

Change in net position of governmental activities, after extraordinary items \$ 6,419,956

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 and 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 and repairs.

CITY OF HIGHLAND
PROPRIETARY FUNDS

STATEMENT OF NET POSITION

June 30, 2013

	<u>Governmental Activities - Internal Service Funds</u>
ASSETS:	
CURRENT ASSETS:	
Cash and investments	\$ 6,936,936
Accounts receivable	61,252
Interest receivable	<u>3,107</u>
TOTAL ASSETS	<u>7,001,295</u>
LIABILITIES:	
CURRENT LIABILITIES:	
Accounts payable	1,234,899
Accrued liabilities	1,790
Retentions payable	12,900
Claims payable	<u>10,292</u>
TOTAL CURRENT LIABILITIES	<u>1,259,881</u>
LONG-TERM LIABILITIES:	
Claims payable	<u>130,707</u>
TOTAL LONG-TERM LIABILITIES	<u>130,707</u>
TOTAL LIABILITIES	<u>1,390,588</u>
NET POSITION:	
Unrestricted	<u>5,610,707</u>
TOTAL NET POSITION	<u>\$ 5,610,707</u>

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

CITY OF HIGHLAND
 PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Fiscal Year Ended June 30, 2013

	Governmental Activities - Internal Service Funds
OPERATING REVENUES:	
Charges for services	\$ 513,145
Miscellaneous	<u>175</u>
TOTAL OPERATING REVENUES	<u>513,320</u>
OPERATING EXPENSES:	
Salaries and benefits	77,731
Insurance premiums	137,143
Claims and judgements	1,010,682
Legal fees	288,652
Administrative expenses	295,369
Insurance adjusting fees	<u>9,793</u>
TOTAL OPERATING EXPENSES	<u>1,819,370</u>
OPERATING LOSS	<u>(1,306,050)</u>
NONOPERATING REVENUES:	
Investment income	<u>16,758</u>
TOTAL NONOPERATING REVENUES	<u>16,758</u>
CHANGE IN NET POSITION	(1,289,292)
TOTAL NET POSITION - BEGINNING OF YEAR	<u>6,899,999</u>
TOTAL NET POSITION - END OF YEAR	<u>\$ 5,610,707</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, 2013

	Governmental Activities - Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received for services	\$ 452,068
Cash payments to employees for services	(92,633)
Cash payments made to suppliers/vendors	<u>(501,251)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>(141,816)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received on investments	<u>18,424</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>18,424</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(123,392)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>7,060,328</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 6,936,936</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:	
Operating loss	<u>\$ (1,306,050)</u>
Adjustments to reconcile operating loss to net cash used by operating activities:	
(Increase) decrease in accounts receivable	(61,252)
Increase (decrease) in accounts payable	1,202,889
Increase (decrease) in accrued liabilities	(483)
Increase (decrease) in retentions payable	12,900
Increase (decrease) in claims payable	<u>10,180</u>
Total Adjustments	<u>1,164,234</u>
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ (141,816)</u></u>

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

FIDUCIARY FUNDS

Fiduciary funds 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.

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

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 NET POSITION
FIDUCIARY FUNDS

June 30, 2013

	Successor Agency to the City of Highland Redevelopment Agency Private Purpose Trust Fund	Agency Fund
ASSETS:		
Cash and investments	\$ 36,332,858	\$ -
Cash and investments with fiscal agent	5,213,851	3,898,221
Interest receivable	1,723	-
	41,548,432	3,898,221
TOTAL ASSETS	41,548,432	\$ 3,898,221
LIABILITIES:		
Accounts payable	196,951	\$ -
Accrued interest payable	214,533	-
Advance from City of Highland	1,900,000	-
Held for bondholders	-	3,898,221
Long-term liabilities:		
Due within one year	1,265,000	-
Due in more than one year	55,625,000	-
	59,201,484	3,898,221
TOTAL LIABILITIES	59,201,484	\$ 3,898,221
NET POSITION HELD IN TRUST	\$ (17,653,052)	

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

CITY OF HIGHLAND

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND

For the Fiscal Year Ended June 30, 2013

	Successor Agency to the City of Highland Redevelopment Agency Private Purpose Trust Fund
ADDITIONS:	
Taxes	\$ 5,362,944
Investment income	75,738
Miscellaneous	676
	<hr/>
TOTAL ADDITIONS	5,439,358
	<hr/>
DEDUCTIONS:	
Program expenses	484,063
Capital contributions to City of Highland	2,719,194
Interest	2,729,102
Residual payment to county auditor controller	14,676,119
	<hr/>
TOTAL DEDUCTIONS	20,608,478
	<hr/>
EXTRAORDINARY GAIN (NOTE 16)	2,168,384
	<hr/>
CHANGE IN NET POSITION	(13,000,736)
	<hr/>
NET POSITION - BEGINNING OF YEAR, AS RESTATED (NOTE 17)	(4,652,316)
	<hr/>
NET POSITION - END OF YEAR	\$ (17,653,052)
	<hr/> <hr/>

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



CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2013

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. Financial accountability is defined 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 City of Highland Public Financing Authority and City of Highland Housing Authority.

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.

See independent auditors' report.

CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

A. Description of Reporting Entity (Continued):

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. The Housing Authority does not prepare separate financial statements.

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, 2013

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, 2013

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, 2013

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, 2013

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 City Council is the highest level of decision-making authority for the City 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 that are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The City Council has by resolution authorized the City Manager to assign fund balance. The City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Unassigned - This classification includes the residual balance for the City'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, 2013

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, all deferred outflows of resources, all liabilities and all deferred inflows of resources (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 position.

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.

See independent auditors' report.

CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

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.

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

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.

See independent auditors' report.

CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

C. Fund Classifications (Continued):

City's Fund Types (Continued):

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. New Accounting Pronouncements:

Implemented:

In fiscal year 2012-2013, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*". This statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, "*Elements of Financial Statements*" into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new Statement of Net Position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

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CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Implemented (Continued):

In fiscal year 2012-2013, the City early implemented GASB Statement No. 65, "*Items Previously Reported as Assets and Liabilities*". This statement established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. Due to the early implementation of this statement, bond issuance costs, which should be recognized as an expense in the period incurred, were eliminated. Accounting changes adopted to conform to the provisions of this statement should be applied retroactively. The result of the implementation of this standard was to decrease the net position at July 1, 2012 by \$2,217,952 in the Successor Agency to the Highland Redevelopment Agency Private Purpose Trust Fund, which is the amount of unamortized bond issuance costs at July 1, 2012.

Pending Accounting Standards:

GASB has issued the following statements which may impact the City's financial reporting requirements in the future:

- GASB 66 - "*Technical Corrections, an amendment of GASB Statement No. 10 and Statement No. 62*", effective for periods beginning after December 15, 2012.
- GASB 67 - "*Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25*", effective for the fiscal years beginning after June 15, 2013.
- GASB 68 - "*Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*", effective for the fiscal years beginning after June 15, 2014.
- GASB 69 - "*Government Combinations and Disposals of Government Operations*", effective for periods beginning after December 15, 2013.
- GASB 70 - "*Accounting and Financial Reporting for Nonexchange Financial Guarantees*", effective for the periods beginning after June 15, 2013.

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CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

E. Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has no items that qualify for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenues from grants and long-term notes receivables*, is reported only in the governmental fund balance sheet. The governmental funds report unavailable revenues from grants. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

F Net Position Flow Assumption:

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the City's practice to consider restricted - net position to have been depleted before unrestricted - net position is applied.

G. 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.

See independent auditors' report.

CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

H. 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.

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.

I. Advances to Successor Agency:

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

J. 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, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

J. 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

K. 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.

L. 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, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

M. 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.

N. Inventories and prepaid items:

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

Prepaid items are for payments to vendors for costs applicable to future accounting periods. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

O. 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.

P. 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.

Q. 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

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.

See independent auditors' report.

CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

R. 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.

2. CASH AND INVESTMENTS:

Cash and Investments:

Cash and investments at June 30, 2013 are classified in the accompanying financial statements as follows:

	<u>Primary Government Government- Wide Statement of Net Position</u>	<u>Fiduciary Funds Statement of Net Position</u>	<u>Total</u>
Cash and investments	\$ 44,399,472	\$ 36,332,858	\$ 80,732,330
Cash and investments with fiscal agent	<u>828,398</u>	<u>9,112,072</u>	<u>9,940,470</u>
Total Cash and Investments	<u>\$ 45,227,870</u>	<u>\$ 45,444,930</u>	<u>\$ 90,672,800</u>

Cash and investments at June 30, 2013 consisted of the following:

Primary Government

Cash on hand	\$ 1,150
Deposits with financial institutions	12,767,405
Investments	<u>32,459,315</u>
Total Cash and Investments	<u>\$ 45,227,870</u>

See independent auditors' report.

CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

2. CASH AND INVESTMENTS (CONTINUED):

Cash and Investments (Continued):

Fiduciary Funds

Pooled cash and investments with the Primary Government	\$ 33,495,468
Investments	<u>11,949,462</u>
Total Cash and Investments	<u>\$ 45,444,930</u>

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 Authorized by State Law	Authorized by Investment Policy	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
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
Mutual Funds	Yes	5 years	15%	10%
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, 2013

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.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
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, 2013

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	More than 60 Months	
California Asset Management Program (CAMP)	\$ 25,135,556	\$ -	\$ 25,135,556
LAIF - City	40,795,795	-	40,795,795
LAIF - Successor Agency	2,837,390	-	2,837,390
Held by bond fiscal agent:			
Money market mutual funds:			
City	23,432	-	23,432
Successor Agency	5,213,851	-	5,213,851
CFD	2,918,221	-	2,918,221
Investment contracts - CFD	-	980,000	980,000
Total	<u>\$ 76,924,245</u>	<u>\$ 980,000</u>	<u>\$ 77,904,245</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, 2013	Minimum Legal Rating	Not Rated	
			AAA	
CAMP	\$ 25,135,556	N/A	\$ 25,135,556	\$ -
LAIF - City	40,795,795	N/A	-	40,795,795
LAIF - Successor Agency	2,837,390	N/A	-	2,837,390
Held by bond fiscal agent:				
Money market mutual funds:				
City	23,432	A	-	23,432
Successor Agency	5,213,851	A	-	5,213,851
CFD	2,918,221	A	-	2,918,221
Investment contracts - CFD	980,000	N/A	-	980,000
Total	<u>\$ 77,904,245</u>		<u>\$ 25,135,556</u>	<u>\$ 52,768,689</u>

N/A - Not Applicable
See independent auditors' report.

CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

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, 2013, the City and the Successor Agency deposits (bank balances) were either insured by the Federal Depository Insurance Corporation or 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, 2013

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, 2013, 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	\$ 4,141,458
	Other Governmental Funds	883,301
General Capital Financing	Major Grants	
Capital Projects Fund	Special Revenue Fund	4,141,457
	Other Governmental Funds	386,670
		<u>\$ 9,552,886</u>

These interfund balances are short-term borrowings to cover deficit cash. These borrowings are expected to be repaid in fiscal year 2013.

See independent auditors' report.

CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

4. INTERFUND TRANSFERS:

Interfund transfers at June 30, 2013, 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)	\$ 3,493,864
	Other Governmental Funds	82,746
Development Impact Fees Special Revenue Fund	Major Grants Special Revenue Fund	61,685
Fire Department Special Revenue Fund	General Fund	10,000
	Other Governmental Funds (b)	655,330
Major Grants Special Revenue Fund	Development Impact Fees Special Revenue Fund	46,815
	Other Governmental Funds (c)	138,370
General Capital Financing Capital Projects Fund	Other Governmental Funds	29,401
Other Governmental Funds	General Fund (d)	<u>1,907,935</u>
		<u>\$ 6,426,146</u>

(a) The General Fund transferred \$3,493,864 to the General Capital Financing Capital Projects Fund to fund future infrastructure and facilities projects.

(b) The Fire Department Special Revenue Fund transferred \$655,330 to the Paramedic Department Special Revenue Fund to fund expenditures.

(c) The Major Grants Special Revenue Fund transferred \$125,192 to the Gas Tax Special Revenue Fund to reimburse the Gas Tax Special Revenue Fund for expenses incurred for a construction project.

(d) The Gas Tax and Paramedic Development Special Revenue Funds transferred \$1,897,935 and \$10,000, respectively, to the General Fund to reimburse the General Fund for gas tax and administrative expenditures.

See independent auditors' report.

CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

5. CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2013 was as follows:

	Balance at				Balance at
	July 1, 2012	Additions	Deletions	Transfers	June 30, 2013
Capital assets, not being depreciated:					
Land	\$ 4,582,954	\$ 1,645,592	\$ -	\$ -	\$ 6,228,546
Rights of way	86,675,312	-	-	-	86,675,312
Construction in progress	4,320,306	8,752,022	-	(1,079,368)	11,992,960
Total capital assets, not being depreciated	95,578,572	10,397,614	-	(1,079,368)	104,896,818
Capital assets, being depreciated:					
Buildings and improvements	39,855,527	129,000	-	-	39,984,527
Equipment, furniture and software	2,830,849	70,774	(64,860)	640,608	3,477,371
Vehicles	2,122,190	20,473	(219,822)	438,760	2,361,601
Infrastructure - road system	85,064,777	1,361,718	(407,793)	-	86,018,702
Infrastructure - storm drains	11,676,885	26,213	(563)	-	11,702,535
Total capital assets, being depreciated	141,550,228	1,608,178	(693,038)	1,079,368	143,544,736
Less accumulated depreciation for:					
Buildings and improvements	(5,005,662)	(801,815)	-	-	(5,807,477)
Equipment, furniture and software	(791,972)	(117,159)	64,860	-	(844,271)
Vehicles	(916,748)	(96,930)	139,987	-	(873,691)
Infrastructure - road system	(37,666,776)	(2,544,546)	361,196	-	(39,850,126)
Infrastructure - storm drains	(1,822,973)	(164,164)	261	-	(1,986,876)
Total accumulated depreciation	(46,204,131)	(3,724,614)	566,304	-	(49,362,441)
Total capital assets, being depreciated, net	95,346,097	(2,116,436)	(126,734)	1,079,368	94,182,295
Total governmental activities capital assets, net	\$ 190,924,669	\$ 8,281,178	\$ (126,734)	\$ -	\$ 199,079,113

See independent auditors' report.

CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

5. CAPITAL ASSETS (CONTINUED):

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

Governmental activities:	
General government	\$ 580,213
Highways and streets	2,719,603
Public safety	<u>424,798</u>
 Total	 <u>\$ 3,724,614</u>

6. LONG-TERM LIABILITIES:

Long-term liability activity for the year ended June 30, 2013, was as follows:

	Balance at July 1, 2012	Additions	Deletions	Balance at June 30, 2013	Due Within One Year	Due in More Than One Year
Other Liabilities:						
Claims payable	\$ 130,819	\$ 10,180	\$ -	\$ 140,999	\$ 10,292	\$ 130,707
Compensated absences	478,993	288,507	(281,348)	486,152	143,411	342,741
Other post-employment benefits (Note 7)	<u>185,408</u>	<u>54,003</u>	<u>(13,800)</u>	<u>225,611</u>	<u>-</u>	<u>225,611</u>
 Total	 <u>\$ 795,220</u>	 <u>\$ 352,690</u>	 <u>\$ (295,148)</u>	 <u>\$ 852,762</u>	 <u>\$ 153,703</u>	 <u>\$ 699,059</u>

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, 2013 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, 2013 for general liability amounted to \$140,999 and for workers' compensation was \$0.

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CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

6. LONG-TERM LIABILITIES (CONTINUED):

Compensated Absences:

The City's policies relating to compensated absences are described in Note 1K. This liability, to be paid in future years primarily from the general fund, at June 30, 2013 is \$486,152.

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. The plan does not issue a separate financial report.

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, 2012, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	6
Active plan members	<u>25</u>
Total	<u>31</u>

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 2012-13, the City contributed \$13,800 to the plan for current premiums.

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CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

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

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, 2013 was \$54,003 and was determined as part of an actuarial valuation dated July 1, 2012.

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	\$ 54,003
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	54,003
Actual contributions made	<u>(13,800)</u>
Change in net OPEB obligation	40,203
Net OPEB Obligation - beginning of year	<u>185,408</u>
Net OPEB Obligation - end of year	<u>\$ 225,611</u>

The net OPEB obligation of \$225,611 is expected to be paid in future years primarily from the general fund.

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, 2013 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)
6/30/11	\$ 58,852	\$ 12,000	20.39 %	\$ 140,556
6/30/12	58,852	14,000	23.79 %	185,408
6/30/13	54,003	13,800	25.55%	225,611

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CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

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

Funded Status and Funding Progress:

As of July 1, 2012, the latest actuarial valuation date, the Plan was zero percent funded. The actuarial accrued liability for benefits was \$506,596, and the actuarial value of assets was zero, resulting in an unfunded accrued actuarial liability (UAAL) of \$506,596. The covered payroll (annual payroll of active employees covered by the plan) was \$2,554,160 and the ratio of the UAAL to the covered payroll was 19.83%.

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.

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, 2012 actuarial valuation, the alternative measurement method was used. The actuarial assumptions included an investment return/discount rate of 4% per annum, projected ultimate trend rate of 5% per annum, a general inflation rate of 0% per annum, and a health care trend rate starting at 8%, decreasing by 1% per annum to an ultimate rate of 5%, and dental rate of 4%. A level percentage of payroll method was used to allocate amortization cost by year. A closed amortization period of 30 years was used.

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CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

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:

Active plan members in the Plan are required to contribute 7% (classic members) or 6.25% (new members) of their annual covered salary. For classic employees (employees hired before January 1, 2013 or employees hired after January 1, 2013 and have been in the PERS System), the City pays the employee contribution on behalf of the employees. For new members (employees hired after January 1, 2013 and are new entrants to the PERS System or have been out of the PERS System for more than six months), the members are responsible for their contribution. The City is required to contribute at an actuarially determined rate. The rate for the year ended June 30, 2013 is 14.744% 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, 2013, 2012 and 2011 were \$354,460, \$370,660 and \$345,102, respectively, and were equal to the required contributions for each year.

Three-Year Trend Information:

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/11	13.765%	\$ 345,102	100%	\$ -
6/30/12	14.512%	370,660	100%	-
6/30/13	14.744%	354,460	100%	-

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CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

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, 2013 were as follows:

Workers' compensation claims	\$ -
General liability claims	<u>140,999</u>
Total	<u>\$ 140,999</u>

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

The claims liability at June 30, 2013 is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Changes in the claims liability amounts were:

Fiscal Year	Beginning Balance	Current Year Claims and Changes in Estimates	Claim Payments	Ending Balance
6/30/12	\$ 115,480	\$ 15,339	\$ -	\$ 130,819
6/30/13	130,819	10,180	-	140,999

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CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

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, 2013 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.

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, 2013, the amount outstanding was \$5,120,000.

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CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

11. DEBT ISSUED WITHOUT GOVERNMENT COMMITMENT (CONTINUED):

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, 2013, the amount outstanding was \$2,905,000.

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.

13. INDIVIDUAL FUND DISCLOSURES:

Deficit Fund Balances:

For the year ended June 30, 2013, the following funds had deficit fund balances:

Major Fund:	
Major Grants Special Revenue Fund	\$ (1,024,805)
Other Governmental Funds:	
Street Light District Special Revenue Fund	(591,790)
FEMA Special Revenue Fund	(651,428)

See independent auditors' report.

CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

13. INDIVIDUAL FUND DISCLOSURES (CONTINUED):

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 unavailable 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 unavailable 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.

14. GOVERNMENTAL FUND BALANCE CLASSIFICATIONS:

The various fund balance classifications as of June 30, 2013 were as follows:

	Special Revenue Funds					Capital Projects Fund	Other Governmental Funds
	Development		Fire Department	Major Grants	General Capital Financing		
	General	Impact Fees					
Nonspendable:							
Inventory and prepaid items	\$ 11,857	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Loans receivable	1,040,000	-	-	-	-	480,000	380,000
Restricted:							
Public safety	-	-	-	6,694,257	-	-	3,748,499
Highways and street projects	-	6,623,915	7,309,015	-	-	-	3,169,397
Parks and recreation	-	-	-	-	-	-	285,675
Low and moderate income housing	-	-	-	-	-	-	169,606
Other purposes	-	-	-	-	-	-	447,367
Assigned:							
Public safety:							
Vehicle replacement	475,000	-	-	-	-	-	-
Equipment replacement	200,000	-	-	-	-	-	-
Public safety enhancement	200,000	-	-	-	-	-	-
Other purposes:							
Compensated absences	486,152	-	-	-	-	-	-
Capital projects	180,620	-	-	-	-	5,325,023	-
Technical enhancements	300,000	-	-	-	-	-	-
Service enhancements	1,782,124	-	-	-	-	-	-
City Hall	1,000,000	-	-	-	-	-	-
Public improvements	-	-	-	-	-	4,038,000	-
Unassigned	<u>2,899,004</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,024,805)</u>	<u>-</u>	<u>(1,243,218)</u>
	<u>\$ 8,575,352</u>	<u>\$ 6,623,915</u>	<u>\$ 7,309,015</u>	<u>\$ 6,694,257</u>	<u>\$ (1,024,805)</u>	<u>\$ 9,843,023</u>	<u>\$ 6,957,326</u>

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CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

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:

Advances To/From the City of Highland:

The composition of advances as of June 30, 2013, was as follows:

<u>Advances From</u>	<u>Advances To</u>	<u>Amount</u>
General Fund	Successor Agency	\$ 1,040,000
General Capital Financing Capital Projects Fund	Successor Agency	<u>480,000</u>
	Subtotal	1,520,000
Housing Authority Special Revenue Fund	Successor Agency	<u>380,000</u>
	Total	<u>\$ 1,900,000</u>

The advances from the General Fund and General Capital Financing were made to the Successor Agency to finance activities in the project areas. The advances from the Housing Authority Special Revenue Fund to the Successor Agency represents 20% of the total advances made by the General Fund and General Capital Financing Fund.

AB 1484 specifies the actions to be taken and the method of repayment for advances by the Successor Agency to the various funds of the City. Upon application and approval by the successor agency and approval by the oversight board, loan agreements (advances) entered into by former redevelopment agency and the city shall be deemed to be enforceable obligations provided that the oversight board makes a finding that the advances were for legitimate redevelopment purposes. The accumulated interest on the remaining amount of advances will be recalculated from origination at the interest rate earned by funds deposited into the Local Agency Investment Fund.

The advances are to be repaid with a defined schedule over a reasonable term of years at an interest rate not to exceed the interest rate earned by the funds deposited into the Local Agency Investment Fund. The annual advances repayments are subject to certain limitations. Advance repayments shall not be prior to the 2013-2014 fiscal year, are subject to a formula distribution, and have a lower priority for repayment as described in AB 1484 (Health and Safety Code Section 34191.4(2)(A)).

On June 30, 2013, the Successor Agency made principal and interest payments totaling \$1,953,036 on various loans from the City. These payments were included in the approved ROPS for the period January 1, 2013 to June 30, 2013 on lines 17 and 18.

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CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

15. SUCCESSOR AGENCY DISCLOSURES (CONTINUED):

Long-Term Liabilities:

Long-term liability activity for the year ended June 30, 2013 was as follows:

	Balance at July 1, 2012	Additions	Deletions	Balance at June 30, 2013	Due Within One Year	Due in More Than One Year
Bonds Payable:						
2004A Tax Allocation						
Bonds	\$ 15,440,000	\$ -	\$ (295,000)	\$ 15,145,000	\$ 305,000	\$ 14,840,000
2004B Tax Allocation						
Refunding Bonds	2,645,000	-	(150,000)	2,495,000	155,000	2,340,000
2007 Tax Allocation						
Bonds	<u>40,020,000</u>	<u>-</u>	<u>(770,000)</u>	<u>39,250,000</u>	<u>805,000</u>	<u>38,445,000</u>
Total	<u>\$ 58,105,000</u>	<u>\$ -</u>	<u>\$ (1,215,000)</u>	<u>\$ 56,890,000</u>	<u>\$ 1,265,000</u>	<u>\$ 55,625,000</u>

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, 2013 unspent bond proceeds specifically set aside for these capital asset/infrastructure projects that remains unspent is \$5,625,511.

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

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

Per the terms of the bond indenture, a reserve of \$1,348,000 is required to be maintained. At June 30, 2013, the reserve was fully funded and the outstanding balance of the bonds was \$15,145,000.

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CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

15. SUCCESSOR AGENCY DISCLOSURES (CONTINUED):

Long-Term Liabilities (Continued):

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, 2013, the reserve was fully funded and the outstanding balance of the bonds was \$2,495,000.

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, 2013 unspent bond proceeds specifically set aside for these capital asset/infrastructure projects that remains unspent is \$24,427,494.

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.

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CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

15. SUCCESSOR AGENCY DISCLOSURES (CONTINUED):

Long-Term Liabilities (Continued):

2007 Tax Allocation Bonds (Continued):

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

Per the terms of the bond indenture, a reserve of \$3,338,000 is required to be maintained. At June 30, 2013, the reserve was \$3,571,718 which was fully funded, and the outstanding balance of the bonds was \$39,250,000.

Debt Service Requirements:

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

<u>Year Ending June 30.</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	1,495,000	2,438,140	3,933,140
2019 - 2023	8,630,000	11,039,817	19,669,817
2024 - 2028	10,930,000	8,703,601	19,633,601
2029 - 2033	13,865,000	5,710,719	19,575,719
2034 - 2038	16,575,000	2,004,525	18,579,525
Totals	<u>\$ 56,890,000</u>	<u>\$ 40,279,283</u>	<u>\$ 97,169,283</u>

See independent auditors' report.

CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

16. RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES:

On June 29, 2011, Assembly Bills x1 26 (the "Dissolution Act") and 1x 27 were enacted as part of the fiscal year 2011-12 state budget package which dissolved Redevelopment.

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.

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.

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.

See independent auditors' report.

CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

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

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.

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 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.

As part of the dissolution process AB1484 required the Successor Agency to have due diligence reviews of both the low and moderate income housing funds and all other funds to be completed by October 15, 2012 and January 15, 2013 to compute the funds (cash) which were not needed by the Successor Agency to be retained to pay for existing enforceable obligations. These funds were to be remitted to the CAC after the DOF completed its review of the due diligence reviews. The Successor Agency remitted \$3,937,969 to the CAC on December 11, 2012 for low and moderate income housing funds due diligence review. The Successor Agency remitted \$10,738,150 on April 30, 2013 for all other funds.

See independent auditors' report.

CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

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

The DOF issued a Finding of Completion on May 24, 2013 in which DOF concurred that the Successor Agency has made full payments of any payments required as a result of the due diligence reviews. The Finding of Completion allowed the placement of loan agreements between the former redevelopment agency and the City on the ROPS, as an enforceable obligation, provided the oversight board makes a finding that the loan was for legitimate redevelopment purposes. Loan repayments could begin in the 2013-14 fiscal year as governed by the criteria in the health and code safety section. The oversight board adopted Resolution No. OBSARDA 2013-003 which amended and restated the cooperation agreement between the City and the former RDA was for legitimate redevelopment purposes and therefore, should be recognized as enforceable obligations. The DOF will consider the enforceability of these loan agreements once repayments requests are placed on the ROPS. When the repayments begin, 20% of the repayments of the loan agreement amounts are to be allocated to the Low and Moderate Income Housing Fund. At June 30, 2013, the long-term advances to the Successor Agency totaled \$1,900,000. In the financial statements, 80 percent of the advance and related interest are reported in the General Fund and General Capital Financing Capital Projects Fund, and 20% in the Housing Authority Special Revenue Fund.

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. The State Controller has not completed its review of transfers of assets between the former RDA, the City and or other public agencies.

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.

See independent auditors' report.

CITY OF HIGHLAND

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

17. RESTATEMENT OF NET POSITION:

Note 1D describes the GASB pronouncements the City is adopting for this and the prior fiscal years. There is a financial impact for the adoption of GASB Statement No. 65, "*Items Previously Reported as Assets and Liabilities*". Implementation of GASB Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*", reclassifies certain assets and liabilities to deferred inflows and outflows.

The implementation of GASB Statement No. 65 recognizes cost of issuance and is applied retroactively by restating financial statements, if practical for all periods presented. The implementation of GASB No. 65 resulted in reducing net position of the Successor Agency to the Highland Redevelopment Agency Private-Purpose Trust Fund in the amount of \$2,217,952 as of July 1, 2012, to remove bond issue costs reported as deferred costs.

18. SUBSEQUENT EVENTS:

In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through November 26, 2013, the date the financial statements were available to be issued.

See independent auditors' report.



REQUIRED SUPPLEMENTARY INFORMATION

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 and 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. 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 - 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 - This fund accounts for federal grants that are not required to be maintained in their own fund.

CITY OF HIGHLAND

SCHEDULE OF FUNDING PROGRESS

For the Fiscal Year Ended June 30, 2013

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%
07/01/12	\$ -	\$ 506,596	\$ 506,596	0.00%	\$ 2,554,160	19.83%

See independent auditors' report.

CITY OF HIGHLAND

Budgetary Comparison Schedule
General Fund

For the Fiscal Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:				
Taxes:				
Secured property taxes	\$ 3,073,945	\$ 3,073,945	\$ 6,322,651	\$ 3,248,706
Unsecured property taxes	-	-	121,765	121,765
In-lieu sales tax	580,000	580,000	577,102	(2,898)
Other property taxes	-	-	151,899	151,899
Sales and use tax	1,560,000	1,560,000	1,643,959	83,959
Extraction tax	85,000	85,000	258,204	173,204
In-lieu motor vehicle license fees	3,815,000	3,815,000	3,737,441	(77,559)
Transient occupancy tax	168,000	168,000	228,490	60,490
Franchise fees	1,429,000	1,429,000	1,471,668	42,668
Property transfer tax	90,000	90,000	96,892	6,892
Total taxes	<u>10,800,945</u>	<u>10,800,945</u>	<u>14,610,071</u>	<u>3,809,126</u>
Licenses and permits:				
Building permits	500,000	500,000	449,621	(50,379)
Miscellaneous permits	72,500	72,500	76,178	3,678
Total licenses and permits	<u>572,500</u>	<u>572,500</u>	<u>525,799</u>	<u>(46,701)</u>
Intergovernmental:				
Motor vehicle license fees	-	-	27,509	27,509
Grants	112,240	112,240	97,387	(14,853)
Total intergovernmental	<u>112,240</u>	<u>112,240</u>	<u>124,896</u>	<u>12,656</u>
Charges for services:				
Business license fees	145,000	145,000	155,916	10,916
Planning fees	260,000	260,000	237,635	(22,365)
Engineering fees	420,000	420,000	197,768	(222,232)
Other charges	321,500	321,500	334,842	13,342
Total charges for services	<u>1,146,500</u>	<u>1,146,500</u>	<u>926,161</u>	<u>(220,339)</u>
Fines and forfeitures	120,000	120,000	90,711	(29,289)
Investment income	45,000	45,000	18,149	(26,851)
Miscellaneous	37,400	37,400	193,393	155,993
TOTAL REVENUES	<u>12,834,585</u>	<u>12,834,585</u>	<u>16,489,180</u>	<u>3,654,595</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, 2013

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
EXPENDITURES:				
Current:				
General government:				
City Council	\$ 145,900	\$ 145,900	\$ 135,092	\$ 10,808
City Clerk	275,175	277,570	276,573	997
General government	654,320	686,500	665,248	21,252
Personnel	73,865	71,775	63,753	8,022
Finance	478,165	495,315	471,435	23,880
Engineering	674,525	630,535	630,512	23
Planning	667,775	988,000	983,804	4,196
Community mandates	457,460	436,040	385,955	50,085
Building and safety	414,960	411,220	321,459	89,761
Code enforcement	301,990	399,900	399,776	124
Parks	1,097,865	1,043,880	1,007,608	36,272
Graffiti	111,405	111,405	105,062	6,343
Community volunteer services	58,255	85,255	83,692	1,563
Trails	15,400	15,400	8,333	7,067
Total general government	<u>5,427,060</u>	<u>5,798,695</u>	<u>5,538,302</u>	<u>260,393</u>
Highways and streets:				
Public works	<u>1,961,965</u>	<u>2,003,760</u>	<u>1,122,123</u>	<u>881,637</u>
Public safety:				
Police department	6,944,140	7,325,590	7,130,068	195,522
Animal control	432,550	432,550	363,355	69,195
Total public safety	<u>7,376,690</u>	<u>7,758,140</u>	<u>7,493,423</u>	<u>264,717</u>
Capital outlay	120,000	120,000	775,815	(655,815)
TOTAL EXPENDITURES	<u>14,885,715</u>	<u>15,680,595</u>	<u>14,929,663</u>	<u>750,932</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(2,051,130)</u>	<u>(2,846,010)</u>	<u>1,559,517</u>	<u>4,405,527</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	4,226,800	4,226,800	1,917,935	(2,308,865)
Transfers out	<u>(7,899,320)</u>	<u>(7,899,320)</u>	<u>(3,576,610)</u>	<u>4,322,710</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(3,672,520)</u>	<u>(3,672,520)</u>	<u>(1,658,675)</u>	<u>2,013,845</u>
CHANGE IN FUND BALANCES, BEFORE EXTRAORDINARY ITEMS	(5,723,650)	(6,518,530)	(99,158)	6,419,372
EXTRAORDINARY ITEMS:				
Repayment of advance to Successor Agency	-	-	(1,065,516)	(1,065,516)
Loss on transfer of advance to Successor Agency	-	-	<u>(260,000)</u>	<u>(260,000)</u>
NET CHANGE IN FUND BALANCES	(5,723,650)	(6,518,530)	(1,424,674)	5,093,856
FUND BALANCE - BEGINNING OF YEAR	<u>10,000,031</u>	<u>10,000,031</u>	<u>10,000,031</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 4,276,381</u>	<u>\$ 3,481,501</u>	<u>\$ 8,575,357</u>	<u>\$ 5,093,856</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, 2013

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:				
Intergovernmental	\$ -	\$ -	\$ 59,559	\$ 59,559
Charges for services	100,000	100,000	1,300,674	1,200,674
Investment income	30,000	30,000	15,173	(14,827)
TOTAL REVENUES	130,000	130,000	1,375,406	1,245,406
EXPENDITURES:				
Current:				
Highways and streets	202,000	202,000	112,293	89,707
Capital outlay	668,000	1,418,000	1,159,634	258,366
TOTAL EXPENDITURES	870,000	1,620,000	1,271,927	348,073
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(740,000)	(1,490,000)	103,479	1,593,479
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	46,815	46,815
Transfers out	-	-	(61,685)	(61,685)
TOTAL OTHER FINANCING SOURCES (USES)	-	-	(14,870)	(14,870)
NET CHANGE IN FUND BALANCE	(740,000)	(1,490,000)	88,609	1,578,609
FUND BALANCE - BEGINNING OF YEAR	6,535,306	6,535,306	6,535,306	-
FUND BALANCE - END OF YEAR	\$ 5,795,306	\$ 5,045,306	\$ 6,623,915	\$ 1,578,609

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, 2013

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:				
Intergovernmental	\$ 1,715,000	\$ 1,715,000	\$ 1,588,853	\$ (126,147)
Investment income	15,000	15,000	17,543	2,543
TOTAL REVENUES	<u>1,730,000</u>	<u>1,730,000</u>	<u>1,606,396</u>	<u>(123,604)</u>
EXPENDITURES:				
Current:				
Highways and streets	2,035,000	2,035,000	1,135,134	899,866
Capital outlay	<u>2,914,000</u>	<u>2,914,000</u>	<u>437,002</u>	<u>2,476,998</u>
TOTAL EXPENDITURES	<u>4,949,000</u>	<u>4,949,000</u>	<u>1,572,136</u>	<u>3,376,864</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(3,219,000)	(3,219,000)	34,260	3,253,260
FUND BALANCE - BEGINNING OF YEAR	<u>7,274,755</u>	<u>7,274,755</u>	<u>7,274,755</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 4,055,755</u>	<u>\$ 4,055,755</u>	<u>\$ 7,309,015</u>	<u>\$ 3,253,260</u>

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, 2013

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:				
Taxes	\$ 2,127,365	\$ 2,127,365	\$ 2,143,484	\$ 16,119
Licenses and permits	77,400	77,400	37,774	(39,626)
Intergovernmental	190,000	190,000	87,484	(102,516)
Charges for services	473,000	473,000	497,907	24,907
Investment income	35,000	35,000	14,433	(20,567)
TOTAL REVENUES	2,902,765	2,902,765	2,781,082	(121,683)
EXPENDITURES:				
Current:				
General government	142,635	142,635	133,747	8,888
Public safety	1,951,620	1,951,620	1,734,193	217,427
Capital outlay	36,800	36,800	506	36,294
TOTAL EXPENDITURES	2,131,055	2,131,055	1,868,446	262,609
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	771,710	771,710	912,636	140,926
OTHER FINANCING USES:				
Transfers out	(894,790)	(1,026,410)	(665,330)	361,080
TOTAL OTHER FINANCING USES	(894,790)	(1,026,410)	(665,330)	361,080
NET CHANGE IN FUND BALANCE	(123,080)	(254,700)	247,306	502,006
FUND BALANCE - BEGINNING OF YEAR	6,446,951	6,446,951	6,446,951	-
FUND BALANCE - END OF YEAR	\$ 6,323,871	\$ 6,192,251	\$ 6,694,257	\$ 502,006

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, 2013

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:				
Intergovernmental	\$ 16,215,000	\$ 16,228,000	\$ 7,796,358	\$ (8,431,642)
TOTAL REVENUES	16,215,000	16,228,000	7,796,358	(8,431,642)
EXPENDITURES:				
Current:				
Highways and streets	-	-	1,127,854	(1,127,854)
Capital outlay	16,215,000	16,228,000	4,090,363	12,137,637
TOTAL EXPENDITURES	16,215,000	16,228,000	5,218,217	11,009,783
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	-	2,578,141	2,578,141
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	61,685	61,685
Transfers out	-	-	(185,185)	(185,185)
TOTAL OTHER FINANCING SOURCES (USES)	-	-	(123,500)	(123,500)
NET CHANGE IN FUND BALANCE	-	-	2,454,641	2,454,641
FUND BALANCE (DEFICIT) - BEGINNING OF YEAR	(3,479,446)	(3,479,446)	(3,479,446)	-
FUND BALANCE (DEFICIT) - END OF YEAR	\$ (3,479,446)	\$ (3,479,446)	\$ (1,024,805)	\$ 2,454,641

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

CITY OF HIGHLAND

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2013

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 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 \$2,664,500 for supplemental appropriations during the year ended June 30, 2013.

See independent auditors' report.



OTHER GOVERNMENTAL FUNDS

Special Revenue Funds

The following Special Revenue Funds have been classified as other governmental funds in the accompanying financial statements:

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.

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 and Prop 42 funds.

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.

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 u-ails 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.

OTHER GOVERNMENTAL FUNDS
(CONTINUED)

Special Revenue Funds (Continued)

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

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

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

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

Housing Authority - This fund accounts for the housing funds and certain housing assets of the dissolved RDA after the date of dissolution.

Capital Projects Fund

The following Capital Projects Fund has been classified as an other governmental fund in the accompanying financial statements:

Community Facilities Districts - The Greenspot Corridor (CPD 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, 2013

	Special Revenue Funds	Community Facilities Districts Capital Projects Fund	Total Other Governmental Funds
ASSETS			
Cash and investments	\$ 8,163,719	\$ 28,110	\$ 8,191,829
Cash and investments with fiscal agent	-	23,432	23,432
Receivables, net:			
Accounts	69,200	7,229	76,429
Interest	3,393	-	3,393
Property taxes	15,911	16,231	32,142
Loans	695,728	-	695,728
Due from other governments	1,080,445	-	1,080,445
Advance to Successor Agency	380,000	-	380,000
TOTAL ASSETS	\$ 10,408,396	\$ 75,002	\$ 10,483,398
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 674,512	\$ 16,231	\$ 690,743
Accrued liabilities	2,586	-	2,586
Retention payable	32,500	-	32,500
Due to other funds	1,269,971	-	1,269,971
TOTAL LIABILITIES	1,979,569	16,231	1,995,800
DEFERRED INFLOWS OF RESOURCES:			
Unavailable revenues	1,530,272	-	1,530,272
TOTAL DEFERRED INFLOWS OF RESOURCES	1,530,272	-	1,530,272
FUND BALANCES:			
Nonspendable	380,000	-	380,000
Restricted	7,761,773	58,771	7,820,544
Unassigned	(1,243,218)	-	(1,243,218)
TOTAL FUND BALANCES	6,898,555	58,771	6,957,326
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 10,408,396	\$ 75,002	\$ 10,483,398

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, 2013

	Special Revenue Funds	Community Facilities Districts Capital Projects Fund	Total Other Governmental Funds
REVENUES:			
Taxes	\$ 1,013,699	\$ -	\$ 1,013,699
Intergovernmental	1,984,077	-	1,984,077
Charges for services	190,946	-	190,946
Fine and forfeitures	232,616	-	232,616
Investment income	27,891	-	27,891
Rental income	120,601	-	120,601
Miscellaneous	52,612	7,229	59,841
TOTAL REVENUES	<u>3,622,442</u>	<u>7,229</u>	<u>3,629,671</u>
EXPENDITURES:			
Current:			
General government	157,632	7,229	164,861
Highways and streets	1,320,449	-	1,320,449
Public safety	1,206,504	-	1,206,504
Capital outlay	706,854	-	706,854
TOTAL EXPENDITURES	<u>3,391,439</u>	<u>7,229</u>	<u>3,398,668</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>231,003</u>	<u>-</u>	<u>231,003</u>
OTHER FINANCING SOURCES (USES):			
Transfers in	905,847	-	905,847
Transfers out	<u>(1,907,935)</u>	<u>-</u>	<u>(1,907,935)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(1,002,088)</u>	<u>-</u>	<u>(1,002,088)</u>
NET CHANGE IN FUND BALANCES, BEFORE EXTRAORDINARY ITEM	(771,085)	-	(771,085)
EXTRAORDINARY ITEM:			
Gain on transfer of advance to Successor Agency	<u>380,000</u>	<u>-</u>	<u>380,000</u>
NET CHANGE IN FUND BALANCES	(391,085)	-	(391,085)
FUND BALANCES - BEGINNING OF YEAR	<u>7,289,640</u>	<u>58,771</u>	<u>7,348,411</u>
FUND BALANCES - END OF YEAR	<u>\$ 6,898,555</u>	<u>\$ 58,771</u>	<u>\$ 6,957,326</u>

See independent auditors' report.



CITY OF HIGHLAND

COMBINING BALANCE SHEET
Other Governmental Special Revenue Funds

June 30, 2013

	Traffic Safety	Gas Tax	CDBG
ASSETS			
Cash and investments	\$ 567,053	\$ 2,267,547	\$ -
Receivables:			
Accounts	-	-	-
Interest	104	780	-
Property taxes	-	-	-
Loans	-	-	-
Due from other governments	26,591	119,194	57,453
Advance to Successor Agency	-	-	-
TOTAL ASSETS	\$ 593,748	\$ 2,387,521	\$ 57,453
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 30,071	\$ -	\$ 1,917
Accrued liabilities	-	-	2,242
Retention payable	1,712	-	-
Due to other funds	-	-	53,294
TOTAL LIABILITIES	31,783	-	57,453
DEFERRED INFLOWS OF RESOURCES:			
Unavailable revenues	-	-	-
TOTAL DEFERRED INFLOWS OF RESOURCES	-	-	-
FUND BALANCES (DEFICITS):			
Nonspendable	-	-	-
Restricted for:			
Public safety	561,965	-	-
Highways and streets	-	2,387,521	-
Parks and recreation	-	-	-
Low and moderate income housing	-	-	-
Other purposes	-	-	-
Unassigned	-	-	-
TOTAL FUND BALANCES (DEFICITS)	561,965	2,387,521	-
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 593,748	\$ 2,387,521	\$ 57,453

See independent auditors' report.

Developer Fees	Landscape Maintenance District	Street Light District	Community Trails District	Parks Maintenance District	FEMA
\$ 3,163,794	\$ 480,728	\$ -	\$ 23,859	\$ 68,182	\$ -
-	-	-	-	-	-
1,437	164	-	3	-	-
-	2,610	4,643	106	833	-
-	-	-	-	-	-
-	-	-	-	-	651,428
-	-	-	-	-	-
<u>\$ 3,165,231</u>	<u>\$ 483,502</u>	<u>\$ 4,643</u>	<u>\$ 23,968</u>	<u>\$ 69,015</u>	<u>\$ 651,428</u>
\$ -	\$ 36,135	\$ 41,423	\$ 4,250	\$ 10,024	\$ -
344	-	-	-	-	-
3,418	-	-	-	-	-
-	-	555,010	-	-	651,428
<u>3,762</u>	<u>36,135</u>	<u>596,433</u>	<u>4,250</u>	<u>10,024</u>	<u>651,428</u>
-	-	-	-	-	651,428
-	-	-	-	-	651,428
-	-	-	-	-	-
3,161,469	-	-	-	-	-
-	-	-	-	-	-
-	-	-	19,718	58,991	-
-	-	-	-	-	-
-	447,367	-	-	-	-
-	-	(591,790)	-	-	(651,428)
<u>3,161,469</u>	<u>447,367</u>	<u>(591,790)</u>	<u>19,718</u>	<u>58,991</u>	<u>(651,428)</u>
<u>\$ 3,165,231</u>	<u>\$ 483,502</u>	<u>\$ 4,643</u>	<u>\$ 23,968</u>	<u>\$ 69,015</u>	<u>\$ 651,428</u>

(Continued)

CITY OF HIGHLAND

COMBINING BALANCE SHEET (CONTINUED)
Other Governmental Special Revenue Funds

June 30, 2013

	AQMD	COPS	Street and Strom Drain Maintenance District
ASSETS			
Cash and investments	\$ 451,440	\$ -	\$ 255,854
Receivables:			
Accounts	-	-	-
Interest	100	-	74
Property taxes	-	-	172
Loans	-	-	-
Due from other governments	16,951	10,239	-
Advance to Successor Agency	-	-	-
TOTAL ASSETS	\$ 468,491	\$ 10,239	\$ 256,100
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 1,486	\$ -	\$ -
Accrued liabilities	-	-	-
Retention payable	-	-	-
Due to other funds	-	10,239	-
TOTAL LIABILITIES	1,486	10,239	-
DEFERRED INFLOWS OF RESOURCES:			
Unavailable revenues	-	-	-
TOTAL DEFERRED INFLOWS OF RESOURCES	-	-	-
FUND BALANCES (DEFICITS):			
Nonspendable	-	-	-
Restricted for:			
Public safety	-	-	-
Highways and streets	467,005	-	256,100
Parks and recreation	-	-	-
Low and moderate income housing	-	-	-
Other purposes	-	-	-
Unassigned	-	-	-
TOTAL FUND BALANCES (DEFICITS)	467,005	-	256,100
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 468,491	\$ 10,239	\$ 256,100

See independent auditors' report.

Justice Assistance Grant	Grants	Paramedic Department	Housing Authority	Total Other Governmental Special Revenue Funds
\$ 25,065	\$ 276,022	\$ 483,585	\$ 100,590	\$ 8,163,719
-	-	-	69,200	69,200
-	731	-	-	3,393
-	-	7,547	-	15,911
-	-	-	695,728	695,728
-	198,589	-	-	1,080,445
-	-	-	380,000	380,000
<u>\$ 25,065</u>	<u>\$ 475,342</u>	<u>\$ 491,132</u>	<u>\$ 1,245,518</u>	<u>\$ 10,408,396</u>
\$ -	\$ 57,891	\$ 491,132	\$ 183	\$ 674,512
-	-	-	-	2,586
-	27,370	-	-	32,500
-	-	-	-	1,269,971
-	85,261	491,132	183	1,979,569
-	183,115	-	695,729	1,530,272
-	183,115	-	695,729	1,530,272
-	-	-	380,000	380,000
25,065	-	-	-	3,748,499
-	-	-	-	3,110,626
-	206,966	-	-	285,675
-	-	-	169,606	169,606
-	-	-	-	447,367
-	-	-	-	(1,243,218)
<u>25,065</u>	<u>206,966</u>	<u>-</u>	<u>549,606</u>	<u>6,898,555</u>
<u>\$ 25,065</u>	<u>\$ 475,342</u>	<u>\$ 491,132</u>	<u>\$ 1,245,518</u>	<u>\$ 10,408,396</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, 2013

	Traffic Safety	Gas Tax	CDBG
REVENUES:			
Taxes	\$ -	\$ -	\$ -
Intergovernmental	-	1,279,714	169,664
Charges for services	-	-	-
Fine and forfeitures	232,616	-	-
Investment income	755	6,199	-
Rental income	-	-	-
Miscellaneous	-	525	-
TOTAL REVENUES	233,371	1,286,438	169,664
EXPENDITURES:			
Current:			
General government	-	-	-
Highways and streets	-	-	169,664
Public safety	255,699	-	-
Capital outlay	-	-	-
TOTAL EXPENDITURES	255,699	-	169,664
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(22,328)	1,286,438	-
OTHER FINANCING SOURCES (USES):			
Transfers in	-	125,192	-
Transfers out	-	(1,897,935)	-
TOTAL OTHER FINANCING SOURCES (USES)	-	(1,772,743)	-
NET CHANGE IN FUND BALANCES, BEFORE EXTRAORDINARY ITEM	(22,328)	(486,305)	-
EXTRAORDINARY ITEM:			
Gain on transfer of advance to Successor Agency	-	-	-
NET CHANGE IN FUND BALANCES	(22,328)	(486,305)	-
FUND BALANCES (DEFICITS) - BEGINNING OF YEAR	584,293	2,873,826	-
FUND BALANCES (DEFICITS) - END OF YEAR	\$ 561,965	\$ 2,387,521	\$ -

See Independent auditors' report.

Developer Fees	Landscape Maintenance District	Street Light District	Community Trails District	Parks Maintenance District	FEMA
\$ -	\$ 200,563	\$ 356,971	\$ 8,121	\$ 64,022	\$ -
-	-	-	-	-	-
190,946	-	-	-	-	-
-	-	-	-	-	-
7,771	863	-	31	-	-
-	-	-	-	-	-
-	18,216	-	-	-	-
<u>198,717</u>	<u>219,642</u>	<u>356,971</u>	<u>8,152</u>	<u>64,022</u>	<u>-</u>
-	-	-	-	-	-
123,234	239,485	517,688	9,922	84,092	35,613
-	-	-	-	-	-
-	-	-	-	-	-
<u>123,234</u>	<u>239,485</u>	<u>517,688</u>	<u>9,922</u>	<u>84,092</u>	<u>35,613</u>
-	-	-	-	-	-
75,483	(19,843)	(160,717)	(1,770)	(20,070)	(35,613)
-	-	-	-	-	-
49,110	-	-	-	33,637	-
-	-	-	-	-	-
<u>49,110</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>33,637</u>	<u>-</u>
-	-	-	-	-	-
124,593	(19,843)	(160,717)	(1,770)	13,567	(35,613)
-	-	-	-	-	-
<u>124,593</u>	<u>(19,843)</u>	<u>(160,717)</u>	<u>(1,770)</u>	<u>13,567</u>	<u>(35,613)</u>
-	-	-	-	-	-
3,036,876	467,210	(431,073)	21,488	45,424	(615,815)
<u>\$ 3,161,469</u>	<u>\$ 447,367</u>	<u>\$ (591,790)</u>	<u>\$ 19,718</u>	<u>\$ 58,991</u>	<u>\$ (651,428)</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, 2013

	AQMD	COPS	Street and Strom Drain Maintenance District
REVENUES:			
Taxes	\$ -	\$ -	\$ 34,740
Intergovernmental	64,736	100,021	-
Charges for services	-	-	-
Fine and forfeitures	-	-	-
Investment income	682	-	444
Rental income	-	-	-
Miscellaneous	-	-	-
TOTAL REVENUES	<u>65,418</u>	<u>100,021</u>	<u>35,184</u>
EXPENDITURES:			
Current:			
General government	-	-	-
Highways and streets	21,835	-	15,523
Public safety	-	100,021	-
Capital outlay	-	-	-
TOTAL EXPENDITURES	<u>21,835</u>	<u>100,021</u>	<u>15,523</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>43,583</u>	<u>-</u>	<u>19,661</u>
OTHER FINANCING SOURCES (USES):			
Transfers in	-	-	-
Transfers out	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES, BEFORE EXTRAORDINARY ITEM	<u>43,583</u>	<u>-</u>	<u>19,661</u>
EXTRAORDINARY ITEM:			
Gain on transfer of advance to Successor Agency	-	-	-
NET CHANGE IN FUND BALANCES	<u>43,583</u>	<u>-</u>	<u>19,661</u>
FUND BALANCES (DEFICITS) - BEGINNING OF YEAR	<u>423,422</u>	<u>-</u>	<u>236,439</u>
FUND BALANCES (DEFICITS) - END OF YEAR	<u>\$ 467,005</u>	<u>\$ -</u>	<u>\$ 256,100</u>

See independent auditors' report.

Justice Assistance Grant	Grants	Paramedic Department	Housing Authority	Total Other Governmental Special Revenue Funds
\$ -	\$ -	\$ 349,282	\$ -	\$ 1,013,699
17,926	352,016	-	-	1,984,077
-	-	-	-	190,946
-	-	-	-	232,616
-	3,843	-	7,303	27,891
-	-	-	120,601	120,601
-	-	7,344	26,527	52,612
<u>17,926</u>	<u>355,859</u>	<u>356,626</u>	<u>154,431</u>	<u>3,622,442</u>
-	-	151,172	6,460	157,632
28,173	75,220	-	-	1,320,449
-	-	850,784	-	1,206,504
-	706,854	-	-	706,854
<u>28,173</u>	<u>782,074</u>	<u>1,001,956</u>	<u>6,460</u>	<u>3,391,439</u>
<u>(10,247)</u>	<u>(426,215)</u>	<u>(645,330)</u>	<u>147,971</u>	<u>231,003</u>
-	42,578	655,330	-	905,847
-	-	(10,000)	-	(1,907,935)
-	42,578	645,330	-	(1,002,088)
(10,247)	(383,637)	-	147,971	(771,085)
-	-	-	380,000	380,000
(10,247)	(383,637)	-	527,971	(391,085)
35,312	590,603	-	21,635	7,289,640
<u>\$ 25,065</u>	<u>\$ 206,966</u>	<u>\$ -</u>	<u>\$ 549,606</u>	<u>\$ 6,898,555</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, 2013

	Final Budget	Actual	Variance Positive (Negative)
REVENUES:			
Fine and forfeitures	\$ 310,000	\$ 232,616	\$ (77,384)
Investment income	1,500	755	(745)
TOTAL REVENUES	<u>311,500</u>	<u>233,371</u>	<u>(78,129)</u>
EXPENDITURES:			
Current:			
Public safety	<u>368,400</u>	<u>255,699</u>	<u>112,701</u>
TOTAL EXPENDITURES	<u>368,400</u>	<u>255,699</u>	<u>112,701</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(56,900)	(22,328)	34,572
FUND BALANCE - BEGINNING OF YEAR	<u>584,293</u>	<u>584,293</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 527,393</u>	<u>\$ 561,965</u>	<u>\$ 34,572</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, 2013

	Final Budget	Actual	Variance Positive (Negative)
REVENUES:			
Intergovernmental	\$ 1,458,500	\$ 1,279,714	\$ (178,786)
Investment income	1,000	6,199	5,199
Miscellaneous	-	525	525
TOTAL REVENUES	1,459,500	1,286,438	(173,062)
OTHER FINANCING SOURCES (USES):			
Transfers in	125,195	125,192	(3)
Transfers out	(2,003,760)	(1,897,935)	105,825
TOTAL OTHER FINANCING SOURCES (USES)	(1,878,565)	(1,772,743)	105,822
NET CHANGE IN FUND BALANCE	(419,065)	(486,305)	(67,240)
FUND BALANCE - BEGINNING OF YEAR	2,873,826	2,873,826	-
FUND BALANCE - END OF YEAR	<u>\$ 2,454,761</u>	<u>\$ 2,387,521</u>	<u>\$ (67,240)</u>

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, 2013

	Final Budget	Actual	Variance Positive (Negative)
REVENUES:			
Intergovernmental	\$ 511,465	\$ 169,664	\$ (341,801)
TOTAL REVENUES	<u>511,465</u>	<u>169,664</u>	<u>(341,801)</u>
EXPENDITURES:			
Current:			
Highways and streets	205,465	169,664	35,801
Capital outlay	<u>306,000</u>	<u>-</u>	<u>306,000</u>
TOTAL EXPENDITURES	<u>511,465</u>	<u>169,664</u>	<u>341,801</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, 2013

	Final Budget	Actual	Variance Positive (Negative)
REVENUES:			
Charges for services	\$ 10,000	\$ 190,946	\$ 180,946
Investment income	12,000	7,771	(4,229)
TOTAL REVENUES	22,000	198,717	176,717
EXPENDITURES:			
Current:			
Highways and streets	136,195	123,234	12,961
TOTAL EXPENDITURES	136,195	123,234	12,961
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(114,195)	75,483	189,678
OTHER FINANCING SOURCES:			
Transfers in	49,110	49,110	-
TOTAL OTHER FINANCING SOURCES	49,110	49,110	-
NET CHANGE IN FUND BALANCE	(65,085)	124,593	189,678
FUND BALANCE - BEGINNING OF YEAR	3,036,876	3,036,876	-
FUND BALANCE - END OF YEAR	\$ 2,971,791	\$ 3,161,469	\$ 189,678

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, 2013

	Final Budget	Actual	Variance Positive (Negative)
REVENUES:			
Taxes	\$ 170,000	\$ 200,563	\$ 30,563
Investment income	1,500	863	(637)
Miscellaneous	-	18,216	18,216
TOTAL REVENUES	<u>171,500</u>	<u>219,642</u>	<u>48,142</u>
EXPENDITURES:			
Current:			
Highways and streets	<u>239,600</u>	<u>239,485</u>	<u>115</u>
TOTAL EXPENDITURES	<u>239,600</u>	<u>239,485</u>	<u>115</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(68,100)</u>	<u>(19,843)</u>	<u>48,257</u>
OTHER FINANCING SOURCES:			
Transfers in	<u>20,000</u>	<u>-</u>	<u>(20,000)</u>
TOTAL OTHER FINANCING SOURCES	<u>20,000</u>	<u>-</u>	<u>(20,000)</u>
NET CHANGE IN FUND BALANCE	(48,100)	(19,843)	28,257
FUND BALANCE - BEGINNING OF YEAR	<u>467,210</u>	<u>467,210</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 419,110</u>	<u>\$ 447,367</u>	<u>\$ 28,257</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, 2013

	Final Budget	Actual	Variance Positive (Negative)
REVENUES:			
Taxes	\$ 390,000	\$ 356,971	\$ (33,029)
TOTAL REVENUES	<u>390,000</u>	<u>356,971</u>	<u>(33,029)</u>
EXPENDITURES:			
Current:			
Highways and streets	<u>571,600</u>	<u>517,688</u>	<u>53,912</u>
TOTAL EXPENDITURES	<u>571,600</u>	<u>517,688</u>	<u>53,912</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(181,600)	(160,717)	20,883
FUND BALANCE (DEFICIT) - BEGINNING OF YEAR	<u>(431,073)</u>	<u>(431,073)</u>	<u>-</u>
FUND BALANCE (DEFICIT) - END OF YEAR	<u>\$ (612,673)</u>	<u>\$ (591,790)</u>	<u>\$ 20,883</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, 2013

	Final Budget	Actual	Variance Positive (Negative)
REVENUES:			
Taxes	\$ 8,500	\$ 8,121	\$ (379)
Investment income	-	31	31
TOTAL REVENUES	<u>8,500</u>	<u>8,152</u>	<u>(348)</u>
EXPENDITURES:			
Current:			
Highways and streets	<u>16,700</u>	<u>9,922</u>	<u>6,778</u>
TOTAL EXPENDITURES	<u>16,700</u>	<u>9,922</u>	<u>6,778</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(8,200)	(1,770)	6,430
FUND BALANCE - BEGINNING OF YEAR	<u>21,488</u>	<u>21,488</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 13,288</u>	<u>\$ 19,718</u>	<u>\$ 6,430</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, 2013

	Final Budget	Actual	Variance Positive (Negative)
REVENUES:			
Taxes	\$ 60,500	\$ 64,022	\$ 3,522
TOTAL REVENUES	<u>60,500</u>	<u>64,022</u>	<u>3,522</u>
EXPENDITURES:			
Current:			
Highways and streets	94,470	84,092	10,378
TOTAL EXPENDITURES	<u>94,470</u>	<u>84,092</u>	<u>10,378</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(33,970)</u>	<u>(20,070)</u>	<u>13,900</u>
OTHER FINANCING SOURCES:			
Transfers in	37,790	33,637	(4,153)
TOTAL OTHER FINANCING SOURCES	<u>37,790</u>	<u>33,637</u>	<u>(4,153)</u>
NET CHANGE IN FUND BALANCE	3,820	13,567	9,747
FUND BALANCE - BEGINNING OF YEAR	<u>45,424</u>	<u>45,424</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 49,244</u>	<u>\$ 58,991</u>	<u>\$ 9,747</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, 2013

	Final Budget	Actual	Variance Positive (Negative)
REVENUES:			
Intergovernmental	\$ 32,380	\$ -	\$ (32,380)
TOTAL REVENUES	<u>32,380</u>	<u>-</u>	<u>(32,380)</u>
EXPENDITURES:			
Current:			
Highways and streets	35,620	35,613	7
TOTAL EXPENDITURES	<u>35,620</u>	<u>35,613</u>	<u>7</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(3,240)	(35,613)	(32,373)
FUND BALANCE (DEFICIT) - BEGINNING OF YEAR	<u>(615,815)</u>	<u>(615,815)</u>	<u>-</u>
FUND BALANCE (DEFICIT) - END OF YEAR	<u>\$ (619,055)</u>	<u>\$ (651,428)</u>	<u>\$ (32,373)</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, 2013

	Final Budget	Actual	Variance Positive (Negative)
REVENUES:			
Intergovernmental	\$ 60,000	\$ 64,736	\$ 4,736
Investment income	1,200	682	(518)
TOTAL REVENUES	<u>61,200</u>	<u>65,418</u>	<u>4,218</u>
EXPENDITURES:			
Current:			
Highways and streets	45,000	21,835	23,165
Capital outlay	228,500	-	228,500
TOTAL EXPENDITURES	<u>273,500</u>	<u>21,835</u>	<u>251,665</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(212,300)	43,583	255,883
FUND BALANCE - BEGINNING OF YEAR	<u>423,422</u>	<u>423,422</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 211,122</u>	<u>\$ 467,005</u>	<u>\$ 255,883</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, 2013

	Final Budget	Actual	Variance Positive (Negative)
REVENUES:			
Intergovernmental	\$ 100,025	\$ 100,021	\$ (4)
TOTAL REVENUES	<u>100,025</u>	<u>100,021</u>	<u>(4)</u>
EXPENDITURES:			
Current:			
Public safety	100,025	100,021	4
TOTAL EXPENDITURES	<u>100,025</u>	<u>100,021</u>	<u>4</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
Street and Storm Drain Maintenance District Special Revenue Fund

For the Fiscal Year Ended June 30, 2013

	Final Budget	Actual	Variance Positive (Negative)
REVENUES:			
Taxes	\$ 26,500	\$ 34,740	\$ 8,240
Investment income	700	444	(256)
TOTAL REVENUES	<u>27,200</u>	<u>35,184</u>	<u>7,984</u>
EXPENDITURES:			
Current:			
Highways and streets	<u>19,500</u>	<u>15,523</u>	<u>3,977</u>
TOTAL EXPENDITURES	<u>19,500</u>	<u>15,523</u>	<u>3,977</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	7,700	19,661	11,961
FUND BALANCE - BEGINNING OF YEAR	<u>236,439</u>	<u>236,439</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 244,139</u></u>	<u><u>\$ 256,100</u></u>	<u><u>\$ 11,961</u></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, 2013

	Final Budget	Actual	Variance Positive (Negative)
REVENUES:			
Intergovernmental	\$ -	\$ 17,926	\$ 17,926
TOTAL REVENUES	<u>-</u>	<u>17,926</u>	<u>17,926</u>
EXPENDITURES:			
Current:			
Highways and streets	28,180	28,173	7
TOTAL EXPENDITURES	<u>28,180</u>	<u>28,173</u>	<u>7</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(28,180)	(10,247)	17,933
FUND BALANCE - BEGINNING OF YEAR	<u>35,312</u>	<u>35,312</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 7,132</u>	<u>\$ 25,065</u>	<u>\$ 17,933</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, 2013

	Final Budget	Actual	Variance Positive (Negative)
REVENUES:			
Intergovernmental	\$ 3,110,000	\$ 352,016	\$ (2,757,984)
Investment income	-	3,843	3,843
TOTAL REVENUES	3,110,000	355,859	(2,754,141)
EXPENDITURES:			
Current:			
Highways and streets	1,192,000	75,220	1,116,780
Capital outlay	1,915,865	706,854	1,209,011
TOTAL EXPENDITURES	3,107,865	782,074	2,325,791
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	2,135	(426,215)	(428,350)
OTHER FINANCING SOURCES:			
Transfers in	-	42,578	42,578
TOTAL OTHER FINANCING SOURCES	-	42,578	42,578
NET CHANGE IN FUND BALANCE	2,135	(383,637)	(385,772)
FUND BALANCE - BEGINNING OF YEAR	590,603	590,603	-
FUND BALANCE - END OF YEAR	\$ 592,738	\$ 206,966	\$ (385,772)

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, 2013

	Final Budget	Actual	Variance Positive (Negative)
REVENUES:			
Taxes	\$ 351,000	\$ 349,282	\$ (1,718)
Miscellaneous	-	7,344	7,344
TOTAL REVENUES	<u>351,000</u>	<u>356,626</u>	<u>5,626</u>
EXPENDITURES:			
Current:			
General government	144,110	151,172	(7,062)
Public safety	<u>1,213,300</u>	<u>850,784</u>	<u>362,516</u>
TOTAL EXPENDITURES	<u>1,357,410</u>	<u>1,001,956</u>	<u>355,454</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,006,410)</u>	<u>(645,330)</u>	<u>361,080</u>
OTHER FINANCING SOURCES (USES):			
Transfers in	1,016,410	655,330	(361,080)
Transfers out	<u>(10,000)</u>	<u>(10,000)</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>1,006,410</u>	<u>645,330</u>	<u>(361,080)</u>
NET CHANGE IN FUND BALANCE	-	-	-
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
Housing Authority Special Revenue Fund

For the Fiscal Year Ended June 30, 2013

	Final Budget	Actual	Variance Positive (Negative)
REVENUES:			
Investment income	\$ -	\$ 7,303	\$ 7,303
Rental income	-	120,601	120,601
Miscellaneous	-	26,527	26,527
TOTAL REVENUES	-	154,431	154,431
EXPENDITURES:			
Current:			
General government	6,465	6,460	5
TOTAL EXPENDITURES	6,465	6,460	5
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES, BEFORE EXTRAORDINARY ITEM	(6,465)	147,971	154,436
EXTRAORDINARY ITEM:			
Gain on transfer of advance to Successor Agency	-	380,000	380,000
NET CHANGE IN FUND BALANCE	(6,465)	527,971	534,436
FUND BALANCE - BEGINNING OF YEAR	21,635	21,635	-
FUND BALANCE - END OF YEAR	<u>\$ 15,170</u>	<u>\$ 549,606</u>	<u>\$ 534,436</u>

See independent auditors' report.



MAJOR AND OTHER GOVERNMENTAL FUNDS

Capital Projects Funds

The following Capital Projects Fund has been classified as a major fund 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.

The following Capital Projects Fund has been classified as an other governmental fund 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, 2013

	Final Budget	Actual	Variance Positive (Negative)
REVENUES:			
Intergovernmental	\$ -	\$ 79,172	\$ 79,172
Investment income	22,000	21,103	(897)
Miscellaneous	-	363,607	363,607
TOTAL REVENUES	22,000	463,882	441,882
EXPENDITURES:			
Current:			
General government	178,000	221,615	(43,615)
Capital outlay	1,210,000	1,114,480	95,520
TOTAL EXPENDITURES	1,388,000	1,336,095	51,905
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,366,000)	(872,213)	493,787
OTHER FINANCING SOURCES (USES):			
Transfers in	3,493,865	3,493,864	(1)
Transfers out	(1,702,870)	(29,401)	1,673,469
TOTAL OTHER FINANCING SOURCES (USES)	1,790,995	3,464,463	1,673,468
NET CHANGE IN FUND BALANCE, BEFORE EXTRAORDINARY ITEMS	424,995	2,592,250	2,167,255
EXTRAORDINARY ITEMS:			
Repayment of advance to Successor Agency	-	(1,102,868)	(1,102,868)
Loss on transfer of advance to Successor Agency	-	(120,000)	(120,000)
NET CHANGE IN FUND BALANCE	424,995	1,369,382	944,387
FUND BALANCE - BEGINNING OF YEAR	8,473,641	8,473,641	-
FUND BALANCE - END OF YEAR	\$ 8,898,636	\$ 9,843,023	\$ 944,387

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, 2013

	Final Budget	Actual	Variance Positive (Negative)
REVENUES:			
Miscellaneous	\$ 5,600	\$ 7,229	\$ 1,629
TOTAL REVENUES	<u>5,600</u>	<u>7,229</u>	<u>1,629</u>
EXPENDITURES:			
Current:			
General government	7,250	7,229	21
TOTAL EXPENDITURES	<u>7,250</u>	<u>7,229</u>	<u>21</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,650)	-	1,650
FUND BALANCE - BEGINNING OF YEAR	<u>58,771</u>	<u>58,771</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 57,121</u>	<u>\$ 58,771</u>	<u>\$ 1,650</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 other departments on a cost reimbursement basis. The City has two internal service funds; the Insurance Fund and 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 POSITION
 INTERNAL SERVICE FUNDS

June 30, 2013

	Insurance	General Services	Totals
ASSETS:			
CURRENT ASSETS:			
Cash and investments	\$ 5,205,726	\$ 1,731,210	\$ 6,936,936
Receivable:			
Accounts	61,252	-	61,252
Interest	2,144	963	3,107
	5,269,122	1,732,173	7,001,295
TOTAL ASSETS			
LIABILITIES:			
CURRENT LIABILITIES:			
Accounts payable	1,226,646	8,253	1,234,899
Accrued liabilities	1,478	312	1,790
Retentions payable	-	12,900	12,900
Claims payable	10,292	-	10,292
	1,238,416	21,465	1,259,881
TOTAL CURRENT LIABILITIES			
LONG-TERM LIABILITIES:			
Claims payable	130,707	-	130,707
	130,707	-	130,707
TOTAL LONG-TERM LIABILITIES			
	1,369,123	21,465	1,390,588
TOTAL LIABILITIES			
NET POSITION:			
Unrestricted	3,899,999	1,710,708	5,610,707
	\$ 3,899,999	\$ 1,710,708	\$ 5,610,707
TOTAL NET POSITION			

See independent auditors' report.

CITY OF HIGHLAND

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

For the Fiscal Year Ended June 30, 2013

	Insurance	General Services	Totals
OPERATING REVENUES:			
Charges for services	\$ 513,145	\$ -	\$ 513,145
Miscellaneous	175	-	175
TOTAL OPERATING REVENUES	513,320	-	513,320
OPERATING EXPENSES:			
Salaries and benefits	77,731	-	77,731
Insurance premiums	137,143	-	137,143
Claims and judgements	1,010,682	-	1,010,682
Legal fees	288,652	-	288,652
Administrative expenses	806	294,563	295,369
Insurance adjusting fees	9,793	-	9,793
TOTAL OPERATING EXPENSES	1,524,807	294,563	1,819,370
OPERATING LOSS	(1,011,487)	(294,563)	(1,306,050)
NONOPERATING REVENUES:			
Investment income	11,487	5,271	16,758
TOTAL NONOPERATING REVENUES	11,487	5,271	16,758
CHANGES IN NET POSITION	(1,000,000)	(289,292)	(1,289,292)
TOTAL NET POSITION - BEGINNING OF YEAR	4,899,999	2,000,000	6,899,999
TOTAL NET POSITION - END OF YEAR	\$ 3,899,999	\$ 1,710,708	\$ 5,610,707

See independent auditors' report.

CITY OF HIGHLAND
 COMBINING STATEMENT OF CASH FLOWS
 INTERNAL SERVICE FUNDS

For the Fiscal Year Ended June 30, 2013

	Insurance	General Services	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received for services	\$ 452,068	\$ -	\$ 452,068
Cash payments to employees for services	(78,231)	(14,402)	(92,633)
Cash payments made to suppliers/vendors	(230,295)	(270,956)	(501,251)
	<u>143,542</u>	<u>(285,358)</u>	<u>(141,816)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received on investments	12,637	5,787	18,424
	<u>12,637</u>	<u>5,787</u>	<u>18,424</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES			
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
	156,179	(279,571)	(123,392)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>5,049,547</u>	<u>2,010,781</u>	<u>7,060,328</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 5,205,726</u>	<u>\$ 1,731,210</u>	<u>\$ 6,936,936</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating loss	\$ (1,011,487)	\$ (294,563)	\$ (1,306,050)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:			
(Increase) decrease in accounts receivable	(61,252)	-	(61,252)
Increase (decrease) in accounts payable	1,206,601	(3,712)	1,202,889
Increase (decrease) in accrued liabilities	(500)	17	(483)
Increase (decrease) in retentions payable	-	12,900	12,900
Increase (decrease) in claims payable	10,180	-	10,180
	<u>1,155,029</u>	<u>9,205</u>	<u>1,164,234</u>
Total Adjustments			
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 143,542</u>	<u>\$ (285,358)</u>	<u>\$ (141,816)</u>

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, 2013

	Balance at June 30, 2012	Additions	Deductions	Balance at June 30, 2013
ASSETS:				
Cash and investments with fiscal agent	\$ 3,937,504	\$ 192	\$ 39,475	\$ 3,898,221
TOTAL ASSETS	<u>\$ 3,937,504</u>	<u>\$ 192</u>	<u>\$ 39,475</u>	<u>\$ 3,898,221</u>
LIABILITIES:				
Held for bondholders	\$ 3,937,504	\$ 192	\$ 39,475	\$ 3,898,221
TOTAL LIABILITIES	<u>\$ 3,937,504</u>	<u>\$ 192</u>	<u>\$ 39,475</u>	<u>\$ 3,898,221</u>

See independent auditors' report.

DESCRIPTION OF STATISTICAL SECTION CONTENTS

June 30, 2013

This part of the City of Highlands'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 say about the government's overall financial health.

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

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

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

Demographic and Economic Information - These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.

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

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

CITY OF HIGHLAND
 Net Position by Component
 Last Ten Fiscal Years
 (accrual basis of accounting)

	Fiscal Year									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Governmental activities:										
Net investment in capital assets	198,932,543	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
Restricted for:										
Public safety	10,442,756	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
Highways and streets	17,078,055	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
Affordable housing	1,245,335	717,363	-	-	-	-	-	-	-	-
Unrestricted	23,466,535	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
Total governmental activities net position	<u>\$251,165,224</u>	<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>

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

	Fiscal Year									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Expenses:										
Governmental activities:										
General government	7,992,150	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
Public safety	5,461,910	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
Highways and streets	10,858,918	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
Interest and fiscal charges	-	1,684,340	3,149,382	3,394,624	3,069,352	3,495,578	1,553,904	1,374,956	1,732,596	585,924
Total governmental activities expenses	<u>24,312,978</u>	<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>
Program revenues:										
Governmental activities:										
Charges for services:										
General government	939,407	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
Public safety	3,565,197	3,596,580	670,229	611,327	650,111	628,282	592,096	849,671	548,497	279,796
Highways and streets	967,367	817,326	-	-	-	-	-	-	-	-
Operating grants and contributions	2,346,472	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
Capital grants and contributions	7,866,306	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
Total governmental activities program revenues	<u>15,684,749</u>	<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>
Net revenues (expenses) governmental activities	<u>(8,628,229)</u>	<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>
General revenues and other changes in net position:										
Governmental activities:										
Taxes:										
Property taxes	7,528,512	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
Sales and use taxes	1,643,959	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
Transient occupancy tax	228,490	204,296	178,729	167,247	123,211	41,747	49,401	48,295	42,303	37,676
Franchise taxes	1,471,668	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
Business license tax	232,909	243,218	276,517	228,259	240,498	325,616	272,323	520,149	378,124	574,603
Intergovernmental	57,684	83,100	59,014	119,184	-	-	-	-	-	-
Investment income	58,651	117,613	155,081	219,248	734,256	1,331,150	2,302,140	856,547	412,637	186,688
State motor vehicle in lieu, unrestricted	3,764,950	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
Rental income	120,601	168,109	-	-	-	-	-	-	-	-
Land contribution from the Successor Agency	1,645,592	-	-	-	-	-	-	-	-	-
Miscellaneous	463,553	94,458	40,610	43,383	59,748	50,150	52,276	94,724	65,034	523,283
Total governmental activities	<u>17,216,569</u>	<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>
Changes in net position governmental activities	<u>\$ 8,588,340</u>	<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>
Extraordinary item: Loss on transfer	-	(880,571.00)	-	-	-	-	-	-	-	-
Extraordinary item: Repayment of Advance (note 1)	-	(2,168,384)	-	-	-	-	-	-	-	-
Changes in net position governmental activities	<u>\$ 6,419,956</u>	<u>\$ 2,026,609</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,904,606</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>

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

	Fiscal Year		
	2013	2012	2011
General fund:			
Nonspendable	1,051,857	11,679	12,228
Spendable:			
Restricted	-	-	-
Assigned	4,623,896	5,921,333	5,952,438
Unassigned	2,899,604	4,067,019	4,009,852
Total general fund	<u>\$ 8,575,357</u>	<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	28,827,731	28,593,540	382,837
Debt service funds	-	-	14,736,339
Capital projects funds	480,000	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	9,363,023	8,473,641	42,064,464
Unassigned:			
Special revenue funds	(2,268,023)	(4,526,334)	(1,352,280)
Debt service funds	-	-	-
Capital projects funds	-	-	995,320
Total all other governmental funds	<u>\$36,402,731</u>	<u>\$ 32,599,618</u>	<u>\$ 92,167,227</u>

The City of Highland has elected to show only the last three 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									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Revenues:										
Taxes	17,767,254	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
Licenses and permits	563,573	557,681	554,595	448,062	464,086	619,117	699,063	1,039,805	1,167,266	1,092,152
Intergovernmental	11,720,399	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
Charges for services	2,915,688	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
Fines and forfeitures	323,327	284,958	377,939	412,461	293,606	180,938	138,128	175,894	168,984	180,397
Investment income	114,292	205,050	4,171,178	673,370	2,227,472	4,545,003	4,402,668	2,578,243	1,679,173	671,757
Rental income	120,601	168,109	205,380	92,519	44,478	91,659	79,435	68,443	115,000	49,514
Miscellaneous	616,841	102,169	187,084	179,043	320,025	336,252	392,129	540,861	291,765	958,120
Total revenues	34,141,975	29,098,762	36,596,628	32,486,963	37,394,336	43,477,882	39,400,001	32,627,455	26,491,736	24,477,287
Expenditures:										
Current:										
General government+	6,058,525	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
Highways and streets+	4,817,853	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
Public safety+	10,434,120	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
Capital outlay	8,284,654	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
Debt service:										
Principal*	-	1,170,000	1,130,000	1,085,000	975,000	400,000	425,000	410,000	160,000	535,000
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
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
SERAF Payment*	-	-	655,133	3,182,076	-	-	1,608,243	-	-	-
Payment to bond escrow agent*	-	-	-	-	-	-	40,345,296	-	286,825	1,184,369
Total expenditures	29,595,152	33,097,276	43,772,450	36,160,732	33,311,506	37,995,389	40,345,296	30,184,585	24,840,205	23,516,886
Excess (deficiency) of revenues over (under) expenditures	4,546,823	(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
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	6,426,146	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
Transfers out	(6,426,146)	(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)
Total other financing sources (uses)	(2,168,384)	(55,543,582)	(830,807)	(500,000)	(500,000)	(1,150,000)	41,595,000	-	(169,943)	17,225,000
Net change in fund balances	\$ 2,378,439	\$ (59,542,096)	\$ (8,006,629)	\$ (4,173,769)	\$ 3,582,830	\$ 4,332,493	\$ 40,649,705	\$ 2,442,870	\$ 1,481,588	\$ 18,185,401
Debt service* as a percentage of noncapital+ expenditure:	0.0%	16.7%	27.1%	48.4%	32.7%	29.3%	28.5%	15.3%	15.0%	17.2%

Debt service* as a percentage of noncapital+ expenditure:
Debt service is for the former 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 Eight Fiscal Years

Category	Assessed Value							
	2013	2012	2011	2010	2009	2008	2007	2006
Residential	2,360,240,430	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	190,385,491	197,340,618	197,876,791	194,047,501	158,419,204	145,475,322	122,466,759	99,060,971
Industrial	39,608,573	38,257,586	39,108,545	39,144,816	17,548,829	16,345,050	18,347,146	11,779,501
Irrigated	1,023,979	1,003,899	1,160,051	1,219,204	1,633,753	1,601,720	1,570,314	2,212,971
Dry Farm	191,880	188,118	186,712	187,155	183,485	179,887	2,531,535	2,522,873
Recreational	2,243,540	2,416,706	2,503,273	2,496,725	2,468,984	2,465,318	3,179,482	3,022,813
Institutional	27,124,221	27,049,010	27,098,415	27,162,790	26,630,187	26,108,023	25,029,578	24,204,947
Miscellaneous	13,574,718	13,405,863	15,081,959	12,190,155	9,549,423	14,946,904	9,691,230	10,081,229
Vacant Land	77,808,833	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	31,500
Unsecured	63,946,028	63,630,188	64,760,058	63,499,158	52,729,890	46,934,714	39,558,005	37,840,343
Unknown	1,285,846	866,876	-	-	-	-	-	5,715
Exemptions	(57,924,892)	(56,024,399)	(57,634,552)	(58,825,841)	(49,794,191)	(47,479,131)	(44,223,613)	(41,692,396)
Total	2,719,540,147	2,709,691,989	2,711,491,671	2,936,016,101	3,272,381,700	3,180,583,926	2,753,571,052	2,308,561,045
Total direct rate	0.47862	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 eight years of data for this schedule.

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

	2013
City Direct Rate:	
<u>Property Tax General Fund</u>	
Assessed value of City basic rate	\$ 0.24400
Total City Direct Rate	\$ 0.24400
Overlapping Rates:	
County Free Library	\$ 0.01344
County General Fund	\$ 0.13880
County Superintendent	\$ 0.00712
Inland Empire Joint Resource Conservation District	\$ 0.00049
Education Revenue Augmentation Fund	\$ 0.21010
Flood Control Administration 3-6	\$ 0.00080
Flood Control Zone 3	\$ 0.02430
Redlands Unified	\$ 0.28670
San Bernardino Community College	\$ 0.04880
San Bernardino Valley Municipal Water	\$ 0.02510
San Bernardino Valley Water Conservation District	\$ 0.00043
Total Direct Rate	\$ 1.00000
<u>RDA Property Tax</u>	
Assessed value	n/a

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.

The RDA was dissolved on February 1, 2012.

Source: HdL

CITY OF HIGHLAND
Principal Property Tax Payers
Current Fiscal Year

Taxpayer	2013	
	Taxable Assessed Value	Percent of Total City Taxable Assessed Value
Victoria Development Company	23,483,674	0.86%
Lowes HIW Inc.	17,051,405	0.63%
Sam Menlo Trust	16,155,543	0.59%
Greenspot Ranch Investors	13,556,472	0.50%
Greenspot Village & Marketplace LLC	11,340,465	0.42%
Robertsons Ready Mix Limited	10,577,095	0.39%
Stater Bros. Markets	9,549,542	0.35%
Cole LA Highland California LP	9,470,077	0.35%
Boulder Baseline Investors	9,394,305	0.35%
THR California LLC	<u>9,276,181</u>	<u>0.34%</u>
	<u>\$ 129,854,759</u>	<u>4.77%</u>

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

Source: HdL

CITY OF HIGHLAND
Property Tax Levies and Collections
Last Eight 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%
2013	\$27,195,401	14,686,221	54.00%	80,938	14,767,159	54.30%

NOTE:

The amounts presented include City property taxes and former 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 eight years of data for this schedule.

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

Fiscal Year Ended June 30	Governmental Activities Former RDA Tax Allocation Bonds	Percentage of Personal Income ¹	Debt Per Capita ¹
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
2013	56,890,000	4.79%	1,055

¹ 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 nine years of data for this schedule.

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

Fiscal Year Ended June 30	Outstanding General Bonded Debt		Percent of Assessed Value ¹	Per Capita
	Former 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
2013	56,890,000		2.09%	1,054,964

¹ 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 nine years of data for this schedule.

CITY OF HIGHLAND
Direct and Overlapping Debt
June 30, 2013

City Assessed Valuation		\$ 2,261,351,501	
Redevelopment Agency Incremental Valuation		<u>458,188,646</u>	
Total Assessed Valuation		<u>\$ 2,719,540,147</u>	
	Percentage	Outstanding	Estimated
	Applicable ¹	Debt 6/30/2013	Share of
			Overlapping
			Debt
Overlapping Debt Repaid with Property Taxes:			
Highland RDA 2007 Tax Allocation Bonds	100.000%	\$ 39,250,000	\$ 39,250,000
Highland RDA 2004A Tax Allocation Bonds	100.000%	15,145,000	15,145,000
Highland RDA 2004B Tax Allocation Bonds	100.000%	<u>2,495,000</u>	<u>2,495,000</u>
Total overlapping debt repaid with property taxes		<u>56,890,000</u>	<u>56,890,000</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%	2,905,000	2,905,000
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>2,110,058,337</u>	<u>28,607,833</u>
Total overlapping debt		<u>\$ 2,110,058,337</u>	<u>\$ 28,607,833</u>
City direct debt			<u>56,890,000</u>
Total direct and overlapping debt			¹ <u>\$ 85,497,833</u>

Notes:

¹ 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 Seven Years

	2013	2012	2011	Fiscal Year 2010	2009	2008	2007
Assessed Valuation	\$2,719,540,147	\$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>						
Adjusted assessed valuation	\$ 679,885,037	\$ 677,422,997	\$ 677,872,918	\$ 734,004,025	\$ 818,095,425	\$ 795,145,982	\$ 688,392,763
Debt limit percentage	<u>15%</u>						
Debt limit	101,982,756	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>\$ 101,982,756</u>	<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%	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 seven years of data for this schedule.

CITY OF HIGHLAND
Pledged-Revenue Coverage
Last Nine Fiscal Years

Fiscal Year Ended June 30	Tax Allocation Bonds			
	Former 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
2013	-	1,215,000	2,733,160	-

Note: Details regarding the SARDA's outstanding debt can be found in the not 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 nine years of data for this schedule.

CITY OF HIGHLAND
Demographic and Economic Statistics
Last Sixteen 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%
2013	53,926	1,187,127	22,014	12.2%

- Sources:
- (1) State Department of Finance
 - (2) Calculated using City of Highland per capital personal income
 - (3) HdL
 - (4) State of California Employment Development Department

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

Department	Full-Time Equivalent Employees as of June 30									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
City clerk	1.950	1.800	1.800	1.800	1.950	1.950	2.000	1.000	1.000	1.000
General government	3.950	3.650	3.650	3.900	3.900	3.900	2.800	2.800	1.700	1.700
Personnel	0.300	0.300	0.300	0.300	0.300	0.300	0.500	0.500	0.500	0.500
Finance	4.400	3.900	3.900	3.900	3.600	3.300	4.000	4.000	4.000	4.000
Public works	5.000	5.250	5.250	5.500	5.500	5.500	5.000	5.000	5.700	5.700
Engineering	0.500	0.750	0.750	0.750	1.000	1.000	1.000	1.000	1.000	1.000
Planning	5.650	4.500	4.500	4.500	5.200	5.200	4.600	4.600	3.600	4.600
Public services	2.000	2.000	2.000	2.000	2.000	2.000	1.000	1.000	1.000	-
Building and safety	1.550	1.475	1.475	1.475	1.475	1.475	1.900	1.900	3.150	3.150
Code enforcement	2.400	1.775	1.775	1.775	1.775	1.775	2.200	1.700	1.450	1.450
Parks and trails	2.250	2.250	2.250	2.500	2.500	2.500	2.500	2.000	1.060	0.060
Graffiti	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
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
Assessment districts	-	-	-	-	-	-	-	-	0.190	0.190
AQMD AB 2766	-	-	-	-	-	-	-	-	-	-
General liability	0.400	0.400	0.400	0.400	0.400	0.400	0.450	0.450	0.500	0.500
Building services	0.250	0.250	0.250	0.500	0.500	0.500	-	-	0.050	0.050
Redevelopment agency	-	6.300	6.300	6.300	5.500	4.800	3.650	3.650	2.950	2.950
	<u>33.000</u>	<u>37.000</u>	<u>37.000</u>	<u>38.000</u>	<u>38.000</u>	<u>37.000</u>	<u>34.000</u>	<u>32.000</u>	<u>31.000</u>	<u>30.000</u>

Source: City of Highland.

CITY OF HIGHLAND
Operating Indicators
by Department
Last Ten Fiscal Years

	Fiscal Year									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Police department:										
Calls for service	44,270	46,260	46,253	47,608	48,089	47,789	45,467	43,589	44,274	34,343
Arrests	1,659	1,767	1,728	1,618	2,863	1,292	692	665	662	654
Animal control services:										
Calls for service	3,977	4,141	4,100	4,194	4,135	4,078	3,069	3,000	3,376	3,656
Impounds	2,579	2,260	2,274	2,202	2,298	2,255	2,105	2,006	2,370	2,466
Dog licenses issued*	2,647	3,273	2,868	3,259	3,210	1,213	n/a	n/a	n/a	n/a
Public works:										
Roadway maintained (miles)	142.81	142.50	140.96	139.96	139.96	139.96	139.96	133.10	132.60	131.76
Planning:										
Applications	151	180	157	110	98	160	116	105	76	42
Building and safety:										
Building permits issued	1,048	1,276	1,073	894	866	867	1,034	588	537	639
Administration:										
New business licenses*	627	667	574	420	447	394	n/a	n/a	n/a	n/a
Renewed business licenses*	1,287	1,239	1,072	1026	928	275	n/a	n/a	n/a	n/a
Parks:										
Number of parks	7	7	6	6	5	5	4	4	4	4
Acreage	37.25	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.

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

	Fiscal Year									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Police:										
Police stations	1	1	1	1	1	1	1	1	1	1
Fire:										
Fire stations	3	3	3	3	3	3	3	3	2	2
Public works:										
Corporation yards	1	1	1	1	1	1	1	1	1	1
Streets (miles)	142.81	142.50	140.96	139.96	139.96	139.96	139.96	133.10	132.60	131.76
Street lights	3,380	3,376	3,326	3,315	3,297	3,255	3,226	3,185	3,183	3,039
Traffic signals	73	71	71	71	71	71	71	69	58	51
Recreation:										
Parks	7	7	6	6	5	5	5	5	4	4
Community centers	1	1	1	1	1	1	1	1	1	1
Athletic centers	1	1	1	1	1	1	1	-	-	-
Libraries	1	1	1	1	1	1	1	1	1	1

Source: City of Highland



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.