

**HIGHLANDS RECREATION DISTRICT**  
**SAN MATEO, CALIFORNIA**  
**ANNUAL FINANCIAL REPORT**  
**JUNE 30, 2022**

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Highlands Recreation District  
San Mateo, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Highlands Recreation District as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise Highlands Recreation District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Highlands Recreation District, as of June 30, 2022, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Highlands Recreation District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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. In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Highlands Recreation District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with auditing standards generally accepted in the United States of America, we:

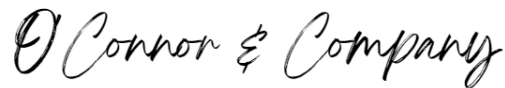
- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Highlands Recreation District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Highlands Recreation District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matters

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-6 and page 21, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



O'Connor & Company

San Rafael, California  
March 20, 2023

Highlands Recreation District  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2022  
(Unaudited)

This section of Highlands Recreation District's (the District's) basic financial statements presents management's overview and analysis of the financial activities of the organization for the fiscal year ended June 30, 2022. We encourage the reader to consider the information presented here in conjunction with the District's basic financial statements, including notes and supplementary information that immediately follow this section, as a whole.

**Introduction to the Basic Financial Statements**

This discussion and analysis is intended to serve as an introduction to the District's audited financial statements, which are comprised of the basic financial statements. This annual report is prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for States and Local Governments*.

The required financial statements include the Government-wide and Fund Financial Statements; Statement of Net Position and Governmental Fund Balance Sheet; Statement of Activities and Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances; and the Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - All Governmental Fund Types.

These statements are supported by notes to the basic financial statements. All sections must be considered together to obtain a complete understanding of the financial picture of the District.

**The Basic Financial Statements**

The Basic Financial Statements comprise the Government-wide Financial Statements and the Fund Financial Statements; these two sets of financial statements provide two different views of the District's financial activities and financial position.

The Government-wide Financial Statements provide a longer-term view of the District's activities as a whole, and comprise the Statement of Net Position and the Statement of Activities. The Statement of Net Position provides information about the financial position of the District as a whole, including all of its capital assets and long-term liabilities on the full accrual basis, similar to that used by corporations. The Statement of Activities provides information about all of the District's revenues and all of its expenses, also on the full accrual basis, with the emphasis on measuring net revenues or expenses of the District's programs. The Statement of Activities explains in detail the change in Net Position for the year.

All of the District's activities are grouped into Government Activities, as explained below.

The Fund Financial Statements report the District's operations in more detail than the Government-wide statements and focus primarily on the short-term activities of the District's General Fund and other Major Funds. The Fund Financial Statements measure only current revenues and expenditures and fund balances; they exclude capital assets, long-term debt and other long-term amounts.

Major Funds account for the major financial activities of the District and are presented individually. Major Funds are explained below.

**The Government-wide Financial Statements**

Government-wide Financial Statements are prepared on the accrual basis, which means they measure the flow of all economic resources of the District as a whole.

Highlands Recreation District  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
 For the Year Ended June 30, 2022  
 (Unaudited)

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

Governmental Activities

The District's basic services are considered to be governmental activities. These services are supported by general District revenues such as taxes, and by specific program revenues such as user fees and charges.

**Fund Financial Statements**

The Fund Financial Statements provide detailed information about each of the District's most significant funds, called Major Funds. The concept of Major Funds, and the determination of which are Major Funds, was established by GASB Statement No. 34 and replaces the concept of combining like funds and presenting them in total. Instead, each Major Fund is presented individually; the District has no Non-major Funds. Major Funds present the major activities of the District for the year, and may change from year to year as a result of changes in the pattern of the District's activities.

In the District's case, the General Fund is the only Major Governmental Fund.

Governmental Fund Financial Statements are prepared on the modified accrual basis, which means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are not presented in the Governmental Fund Financial Statements.

Comparisons of Budget and Actual financial information are presented for the General Fund.

**Analyses of Major Funds**

Governmental Funds

General Fund revenues increased \$1,185,084 this fiscal year due primarily to the increase in recreation fee revenues and a onetime COVID relief grant. Property taxes increased \$66,926 as assessed valuations increased. Actual revenues were more than budgeted amounts by \$551,366.

General Fund expenditures were \$3,053,378 an increase of \$314,615 from the prior year due to COVID related closures in the previous year. Expenditures were less than budgeted by \$100,712.

**Governmental Activities**

Table 1  
Governmental Net Position

	Governmental Activities	
	2022	2021
Current assets	\$ 3,736,357	\$ 2,742,621
Capital assets	4,567,984	4,706,190
Total assets	8,304,341	7,448,811
Current liabilities	259,753	249,784
Noncurrent liabilities	2,161,000	2,294,000
Total liabilities	2,420,753	2,543,784
Net position		
Invested in capital assets, net of related debt	2,406,984	2,412,190
Unrestricted	3,476,604	2,492,837
Total net position	\$ 5,883,588	\$ 4,905,027

Highlands Recreation District  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
 For the Year Ended June 30, 2022  
 (Unaudited)

The District's governmental net position amounted to \$5,883,588 as of June 30, 2022, an increase of \$978,561 over 2021. The increase is the Change in Net Position reflected in the Governmental Activities column of the Statement of Activities shown in Table 2.

The Statement of Activities presents program revenues and expenses and general revenues in detail. All of these are elements in the Changes in Governmental Net Position summarized below.

Table 2  
Changes in Governmental Net Assets

	Governmental Activities	
	2022	2021
<u>Expenses</u>		
Recreation and Parks	\$ 2,989,531	\$ 2,608,886
Interest expense	67,678	71,775
Total expenses	3,057,209	2,680,661
<u>Revenues</u>		
Program revenues:		
Operating grants and contributions	456,025	80,000
Charges for services	2,793,058	2,051,321
Total program revenues	3,249,083	2,131,321
General revenues:		
Property taxes	760,971	694,045
Interest income	25,716	25,320
Total general revenues	786,687	719,365
Total revenues	4,035,770	2,850,686
Change in net position	\$ 978,561	\$ 170,025

As Table 2 above shows, \$3,249,083, or 80%, of the District's fiscal year 2022 governmental revenue came from program revenues and \$786,687, or 20%, came from general revenues such as taxes and interest.

Program revenues were composed of charges for services of \$2,793,058 and operating grants of \$456,025.

General revenues are not allocable to programs. General revenues are used to pay for the net cost of governmental programs.

**Financial Analysis of the District's Funds**

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds - The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental General Fund reported ending fund balance of \$3,498,934, a change of \$982,392 at the close of the 2022 fiscal year.

Highlands Recreation District  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2022  
(Unaudited)

Capital Assets

Detail on capital assets, current year additions and construction in progress can be found in Note 4.

Debt Administration

The District's debt issue is discussed in detail in Note 5 to the basic financial statements. As of June 30, 2022, the District's debt comprised:

Certificates of Participation	\$ <u>2,161,000</u>
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Economic Outlook and Major Initiatives

The District's financial position continues to be adequate. Financial planning is based on specific assumptions from recent trends in real property values, State of California economic forecasts and historical growth patterns in the various communities served by the District.

The economic condition of the District as it appears on the balance sheet reflects financial stability. The District will continue to maintain a watchful eye over expenditures and remain committed to sound fiscal management practices to deliver the highest quality service to the citizens of the area.

Contacting the District Financial Management

This comprehensive Annual Financial Report is intended to provide citizens, taxpayers, and creditors with a general overview of the District's finances. Questions regarding this report should be directed to: General Manager of Highlands Recreation District, 1851 Lexington Avenue, San Mateo, California 94402.



Highlands Recreation District  
STATEMENT OF NET POSITION  
June 30, 2022

ASSETS

Cash and investments	\$ 3,708,758
Accounts and interest receivable	8,632
Prepaid items	18,967
Non-depreciable capital assets	46,994
Depreciable capital assets, net of accumulated depreciation	<u>4,520,990</u>
Total assets	<u>8,304,341</u>

LIABILITIES

Accounts payable	51,661
Accrual claims and other liabilities	208,092
Long-term liabilities:	
Due within one year	115,000
Due in more than one year	<u>2,046,000</u>
Total liabilities	<u>2,420,753</u>

NET POSITION

Net investment in capital assets	2,406,984
Unrestricted	<u>3,476,604</u>
Total net position	<u>\$ 5,883,588</u>

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

Highlands Recreation District  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2022

<u>Functions/Programs</u>	<u>Expenditures</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants &amp; Contributions</u>	<u>Governmental Activities</u>
Governmental activities:				
Recreation and parks	\$ 2,989,531	\$ 2,793,058	\$ 456,025	\$ 259,552
Interest	67,678	-	-	(67,678)
Total governmental activities	\$ 3,057,209	\$ 2,793,058	\$ 456,025	191,874
General revenues:				
Property taxes				760,971
Interest and investment earnings				25,716
Total general revenues				786,687
Change in net position				978,561
Net position, beginning of period				4,905,027
Net position, end of period				\$ 5,883,588

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

Highlands Recreation District  
 GOVERNMENTAL FUND  
BALANCE SHEET  
 June 30, 2022

<u>ASSETS</u>	<u>General Fund</u>
Cash and investments available for operation	\$ 3,708,758
Accounts and interest receivable	8,632
Prepaid items	<u>18,967</u>
Total assets	<u>\$ 3,736,357</u>
<u>LIABILITIES</u>	
Accounts payable	\$ 51,661
Accrued expenditures	<u>185,762</u>
Total liabilities	<u>237,423</u>
<u>FUND BALANCES</u>	
Nonspendable fund balance	18,967
Assigned for capital outlay	473,296
Assigned for contingencies	350,000
Assigned for general reserve	250,000
Assigned for building renovations reserve	100,000
Unassigned	<u>2,306,671</u>
Total fund balances	<u>3,498,934</u>
Total liabilities and fund balances	<u>\$ 3,736,357</u>

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

Highlands Recreation District  
Reconciliation of the  
GOVERNMENTAL FUND - BALANCE SHEET  
with the Governmental Activities  
STATEMENT OF NET POSITION  
For the Year Ended June 30, 2022

TOTAL FUND BALANCES - GOVERNMENTAL FUND \$ 3,498,934

Amounts reported for Governmental Activities in the Statement of Net Position are different from those reported in the Governmental Fund above because of the following:

CAPITAL ASSETS

Capital Assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Fund.

4,567,984

LONG-TERM ASSETS AND LIABILITIES

The assets and liabilities below are not due and payable in the current period and therefore are not reported in the Funds:

Accrued interest payable

(22,330)

General Obligation Bond

(2,161,000)

NET POSITION OF GOVERNMENTAL ACTIVITIES

\$ 5,883,588

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

Highlands Recreation District  
 GOVERNMENTAL FUND  
STATEMENT OF REVENUES,  
 EXPENDITURES AND CHANGES IN FUND BALANCES  
 For the Year Ended June 30, 2022

	<u>General Fund</u>
Revenues:	
Property taxes	\$ 760,971
Park and recreation fees	2,763,890
Intergovernmental revenue	456,025
Miscellaneous and interest	<u>54,884</u>
Total revenues	<u>4,035,770</u>
Expenditures:	
Salaries and fringe benefits (not include program specialist)	1,991,853
Professional services (includes program specialist)	124,331
Operating expenses	439,219
Office expenses	118,359
Repair and maintenance	91,524
Capital outlay (capitalized and not capitalized)	86,039
Debt service:	
Principal expense	133,000
Interest expense	<u>69,053</u>
Total expenditures	<u>3,053,378</u>
Excess (deficit) of revenues over (under) expenditures	982,392
Fund balances, beginning of period	<u>2,516,542</u>
Fund balances, end of period	<u>\$ 3,498,934</u>

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

Highlands Recreation District  
 Reconciliation of the  
GOVERNMENTAL FUND - STATEMENT OF REVENUES,  
 EXPENDITURES AND CHANGES IN FUND BALANCES  
 with the Governmental Activities  
STATEMENT OF ACTIVITIES  
 For the Year Ended June 30, 2022

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUND \$ 982,392

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

CAPITAL ASSETS TRANSACTIONS

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are capitalized and allocated over their estimated useful lives and reported as depreciation expense.

The construction in progress and capital outlay expenditures are therefore added back to fund balance. 78,338

Depreciation expense is deducted from the fund balance. (216,544)

LONG-TERM DEBT PROCEEDS AND PAYMENT

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of bond principal is an expenditure in the governmental funds, but in the Statement of Net Position the repayment reduces long-term liabilities: 133,000

ACCRUAL OF NON-CURRENT ITEMS

The amounts below included in the Statement of Activities do not provide (or require) the use of current financial resources and therefore are not reported as revenue or expenditures in the governmental funds (net change):  
 Accrued interest 1,375

Changes in net position of governmental activities \$ 978,561

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

Highlands Recreation District  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2022

NOTE 1 - GENERAL

The Highlands Recreation District (the District) functions under the Community Services District law pursuant to government code 61000 et seq, for the purpose of providing recreational services within the District. Services are provided under the leadership and direction of an elected Board of Directors. The Board of Directors is committed to responding to the needs of the community based on timely and fiscally responsible prioritized planning. Financial support for planning, organizing, and conducting all activities is derived from property taxes, program fees and special purpose grants. Some activities are available to non-residents of the District on a fee for service basis.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Accounts and Records

The District maintains a cash receipts journal for recording fees collected at 1851 Lexington Avenue. The assessment of property, collection of taxes, disbursement of cash, and the maintenance of the general ledger for funds held by the County are provided by the County of San Mateo. Custodianship of the District's account and records for funds held by the County are vested with the Treasurer of San Mateo County. The District also maintains funds at Silicon Valley Bank. These funds are held in a checking account for operating expenses only and are not invested.

The County of San Mateo maintains its financial records on a computer, utilizing a monthly reporting cycle. Every month the Controller issues a computer printout of revenues collected, disbursements by objective and a trial balance for the period then ended. Silicon Valley Bank issues statements every month, which includes transactions such as ACH, recurring credit card deposits, credit card transactions deposits, fees and payroll deductions.

B. Accounting Principles

The District accounts for its financial transactions in accordance with the policies and procedures recommended by the State of California. The accounting policies of the District conform to U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants.

(1) Government-wide and Fund Financial Statements: The government-wide financial statements (the statement of net position and the statement of activities) report on the District as a whole. The statement of activities demonstrates the degree to which the direct expenses of the District's functions are offset by program revenues. *Direct expenses* are those that are clearly identifiable with the District's functions. *Program revenues* include charges for services, which are mainly from park and recreation fees. Other items not properly included among program revenues are reported instead as *general revenues*. The District's General Fund is presented as a separate financial statement (balance sheet and the statement of revenues, expenditures and changes in fund balance).

(2) Measurement Focus, Basis of Accounting and Financial Statement Presentation:

Government-wide Financial Statements

The statement of net position and the statement of activities are prepared using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of the related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Highlands Recreation District  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Accounting Principles (continued)

Fund Financial Statements

The underlying accounting system of the District is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Major Funds

GASB Statement 34 defines major funds and requires that the District's major governmental and business-type funds be identified and presented separately in the fund financial statements. All other funds, called non-major funds, are combined and reported in a single column, regardless of their fund-type.

Major funds are defined as funds that have assets, liabilities, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. The General Fund is always a major fund. The District may also select other funds it believes should be presented as major funds. The District has no other funds at this time.

The District reported the following major governmental funds in the accompanying financial statements:

General Fund: This fund accounts for the operations of the District. The General Fund is used for all the general revenues of the District not specifically levied or collected for other District funds and the related expenditures. The General Fund accounts for all financial resources of a governmental unit that are not accounted for in another fund.

The financial statements - governmental funds report fund balances as non-spendable, restricted, committed, assigned or unassigned based primarily on the extent to which the District is bound to honor constraints on how specific amounts can be spent.

Unassigned Fund Equity – The residual classification for the government's General Fund that includes all amounts not contained in the other classifications.

Assigned Fund Equity – Amounts intended to be used by the government for specific purposes but that do not meet the criteria to be classified as restricted or committed.

Non-spendable Fund Balance – Includes amounts that cannot be spent because either 1) it is not in a spendable form, such as inventory, leases receivable more than deferred inflows of resources, prepaid items or 2) it is legally or contractually required to be maintained intact.



Highlands Recreation District  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Accounting Principles (concluded)

(3) Use of Estimates:

The process of preparing financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures/expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

C. Budget and Budgetary Accounting

The District normally adopts an annual budget on or before August 30 for the ensuing fiscal year. The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- (1) Legally adopted annual budgets and formal budgetary integration is employed as a management control device during the year for the General Fund only.
- (2) The budgets for the General Fund are adopted on a basis consistent with GAAP.
- (3) Budgeted revenue amounts represent the original budget modified by adjustments authorized during the year. Budgeted expenditure amounts represent original appropriations adjusted for supplemental appropriations during the year, which were contingent upon new or additional revenue and re-appropriated amounts for prior year encumbrances.
- (4) Budget appropriations for the various governmental funds become effective each July 1. The Board of Directors may amend the budget during the fiscal year.

D. Capital Assets

Capital assets are those purchased or acquired that are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlay, in excess of \$5,000, that significantly extend the useful life of an asset are capitalized. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend the assets' lives are not capitalized but are expensed as incurred. Depreciation expense for June 30, 2022 was \$216,544.

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

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

E. Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, laws or regulations of other governments. All other net position is unrestricted. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Highlands Recreation District  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

F. Fair Value Hierarchy of Cash and Investments

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs are inputs - other than quoted prices included within level 1 - that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for an asset or liability.

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

NOTE 3 - CASH AND INVESTMENTS

The District's cash is held by the San Mateo County Treasurer in the San Mateo County (the County) investment pool and by Silicon Valley Bank. The Treasurer invests the cash under policy guidelines established by the County. Credit risk, concentration credit risk, and interest rate risk information regarding the cash held by the Treasurer is included in the Comprehensive Annual Financial Report of the County of San Mateo. The County is restricted by state code in the types of investments it can make. Furthermore, the Treasurer has a written investment policy, approved by the Board of Supervisors, which is more restrictive than state code as to terms of maturity and type of investment. Also, the County has an investment committee, which performs regulatory oversight for its pool as required by California Government Code Section 27134.

The County's investment policy authorizes the County to invest in obligations of the U.S. Treasury, its agencies and instrumentalities, certificates of deposit, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, bankers' acceptances, repurchase agreements, and the State Treasurer's investment pool. At June 30, 2022, the District's cash with the County Treasurer is stated at fair value. However, the value of the pool shares in the County that may be withdrawn is determined on an amortized cost basis, which is different than the fair value of the District's position in the pool.

Cash and investments consisted of the following as of June 30, 2022:

	Fair Value	Investment Risk
Petty cash	\$ 380	N/A
Cash in County Treasury	3,292,126	N/A
Cash in Silicon Valley Bank	<u>416,252</u>	N/A
Total cash and investments	<u>\$ 3,708,758</u>	

Highlands Recreation District  
NOTES TO BASIC FINANCIAL STATEMENTS  
 For the Year Ended June 30, 2022

NOTE 3 - CASH AND INVESTMENTS (concluded)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for deposits and investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

California Law requires banks and savings and loan associations to pledge government securities with a market value of 110% of the District's cash on deposit or first trust deed mortgage notes with a value of 150% of the deposit as collateral for these deposits. Under California Law, this collateral is held in the District's name and places the District ahead of general creditors of the institution.

The following is a summary of the fair value hierarchy of the fair value of investments of the District as of June 30, 2022:

<u>Investment Type</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Exempt</u>	<u>Total</u>
Silicon Valley Bank	\$ -	\$ -	\$ 416,252	\$ 416,252
San Mateo Co. Treasurer's Investment Pool	-	-	3,292,126	3,292,126
Cash on hand	-	-	380	380
Total investments	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,708,758</u>	<u>\$ 3,708,758</u>

Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Fair value is defined as the quoted market value on the last trading day of the period. These prices are obtained from various pricing sources by the custodian bank. The District's holdings with the San Mateo Co. Treasurer's Investment Pool were an uncategorized input and not defined as a Level 1-3 input.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Actual ratings as of June 30, 2022 are provided by Standard and Poor's except as noted.

<u>Investment Type (Not rated):</u>	<u>Total</u>
Silicon Valley Bank	\$ 416,252
San Mateo County Investment Pool	3,292,126
Cash on hand	380
Total cash and investments	<u>\$ 3,708,758</u>

Highlands Recreation District  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2022

NOTE 4 - CAPITAL ASSETS

An analysis of fixed assets at June 30, 2022, is as follows:

<u>Governmental Activities</u>	<u>Balance 6/30/21</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 6/30/22</u>
Capital assets, not being depreciated:				
Land	\$ 19,532	\$ -	\$ -	\$ 19,532
Construction in progress	<u>2,517</u>	<u>24,945</u>	<u>-</u>	<u>27,462</u>
Total capital assets, not being depreciated	<u>22,049</u>	<u>24,945</u>	<u>-</u>	<u>46,994</u>
Capital assets, being depreciated:				
Buildings	5,815,567	-	-	5,815,567
Improvements	355,288	24,934	-	380,222
Equipment	<u>267,534</u>	<u>28,459</u>	<u>29,488</u>	<u>266,505</u>
Total capital assets, being depreciated	<u>6,438,389</u>	<u>53,393</u>	<u>29,488</u>	<u>6,462,294</u>
Less accumulated depreciation for:				
Buildings	1,344,493	187,276	-	1,531,769
Improvements	250,389	10,967	-	261,356
Equipment	<u>159,366</u>	<u>18,301</u>	<u>29,488</u>	<u>148,179</u>
Total accumulated depreciation	<u>1,754,248</u>	<u>216,544</u>	<u>29,488</u>	<u>1,941,304</u>
Total capital assets being depreciated net	<u>4,684,141</u>	<u>(163,151)</u>	<u>-</u>	<u>4,520,990</u>
Capital assets – net depreciation	<u>\$ 4,706,190</u>	<u>\$ (138,206)</u>	<u>\$ -</u>	<u>\$ 4,567,984</u>

NOTE 5 - LONG-TERM DEBT

The following is a summary of debt transactions for the year ended June 30, 2022:

General Obligation Bonds, Series A

On December 9, 2010, the District issued \$3,195,000 of certificates of participation. The debt was issued for the purpose of constructing a new early childcare center. The debt was issued with a maturity of September 1, 2040 and will carry an interest rate of 5.5%.

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

The following is a summary of changes in long-term debt as of June 30, 2022:

	<u>June 30, 2021</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2022</u>	<u>Current</u>
General Obligation	<u>\$ 2,294,000</u>	<u>\$ -</u>	<u>\$ 133,000</u>	<u>\$ 2,161,000</u>	<u>\$ 138,000</u>

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

Highlands Recreation District  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2022

NOTE 5 - LONG-TERM DEBT (concluded)

Year Ending June 30	Principal	Interest	Debt Service Total
2023	\$ 138,000	\$ 64,852	\$ 202,852
2024	144,000	60,481	204,481
2025	148,000	55,955	203,955
2026	153,000	51,290	204,290
2027	153,000	46,547	199,547
2028	158,000	41,726	199,726
2029	167,000	36,689	203,689
2030	171,000	31,450	202,450
2031	174,000	26,102	200,102
2032	182,000	20,584	202,584
2033	185,000	14,896	199,896
2034	193,000	9,037	202,037
2035	<u>195,000</u>	<u>3,023</u>	<u>198,023</u>
Total	<u>\$ 2,161,000</u>	<u>\$ 462,629</u>	<u>\$ 2,623,629</u>

NOTE 6 - PROPERTY TAX LEVY, COLLECTION AND MAXIMUM RATES

The State of California Constitution Article XIII A provides that the combined maximum property tax rate on any given property may not exceed 1% of its assessed value unless voters have approved an additional amount. Assessed value is calculated at 100% of market value as defined by Article XIII A and may be increased by no more than 2% per year unless the property is sold or transferred. The State Legislature has determined the method of distribution of receipts from a 1% tax levy among counties, cities, school districts and other districts. Counties, cities, school districts and other districts may levy such additional tax as is necessary to provide for voter approved debt service.

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

	<u>Secured</u>	<u>Unsecured</u>
Valuation dates	March 1	March 1
Lien/levy dates	July 1	July 1
Due dates	50% on November 1 50% on February 1	Upon receipt of billing
Delinquent as of	December 10 (for November) April 10 (for February)	August 31

The term "unsecured" refers to taxes on property not secured by liens on real property.

Property taxes levied are recorded as revenue when received, in the fiscal year of levy, due to the adoption of the "alternate method" of property tax distribution, known as the Teeter Plan, by the District and the County of San Mateo. The Teeter Plan authorizes the auditor/controller of the County of San Mateo to allocate 100% of the secured property taxes billed, but not yet paid.

The County of San Mateo remits tax monies to the District in five installments as follows:

- 5% remitted in November
- 45% remitted in December
- 5% remitted in March
- 35% remitted in April
- 10% remitted in June

Highlands Recreation District  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2022

NOTE 7 - RISK MANAGEMENT

The District is insured for general liability and property by the California Association for Park Recreation Insurance, a joint powers agency comprised of California special districts. The District's general liability limits are as follows:

<u>COVERAGE</u>	<u>LIMIT</u>
General Liability	\$25,000,000 per occurrence
Automobile Liability	\$25,000,000 per occurrence
Public Officials and Employee Liability	\$25,000,000 per occurrence

Flood and Earthquake coverage has an annual aggregate limit of \$10,000,000 for flood and \$5,000,000 for earthquake for all member districts. The deductible for all loss or damage arising from the risks of flood or wildfire is \$50,000, and earthquake is \$50,000, per occurrence or 5% of the value of the building, contents and/or structure damage, whichever is greater.

A \$20,000 deductible applies to any covered claim under Public Officials and Employment Practices Liability for wrongful termination. All-Risks Property Loss coverage is subject to a \$2,000 deductible per occurrence. The employment practices liability coverage deductible can be reduced to \$5,000 by getting an attorney with an employment law background involved prior to termination. If the attorney reviews the personnel file and advises on what to do prior to termination, and the District follows those instructions, the District would be eligible for the lower deductible. The general and auto liability coverage has a \$0 deductible.

NOTE 8 - EMPLOYEE BENEFIT PLAN

The District has a Tax Deferred Simple IRA Plan that is available to employees who earned \$5,000 in the current year and are expected to earn in the following year. The District contributes 3% of the employee's gross annual salary. The District's contributions for the year ending June 30, 2022 were \$31,803.

NOTE 9 - DEFERRED COMPENSATION

District employees may defer a portion of their compensation under the District sponsored Deferred Compensation Plan created in accordance with Internal Revenue Code Section 457. Under these plans, participants are not taxed on the deferred portion of their compensation until distributed to them; distributions may be made only at termination, retirement, and death or in an emergency as defined by the Plans. The District's contribution for the year ending June 30, 2022 was \$24,188. The laws governing deferred compensation plan assets require plan assets to be held in a Trust for the exclusive benefit of plan participants and their beneficiaries. Since the assets held under these plans are not the District's property, are not managed by the District and are not subject to claims by general creditors of the District, they have been excluded from these financial statements.

NOTE 10 - COVID RELIEF FUNDING

The District received \$454,025 in COVID relief funds from the State of California during the fiscal year ended June 30, 2022.

Highlands Recreation District  
 GOVERNMENTAL FUND  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
 Budget and Actual  
 For the Year Ended June 30, 2022  
 (Unaudited)

	General Fund			
	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>Revenues:</b>				
Property taxes	\$ 732,922	\$ 732,922	\$ 760,971	\$ 28,049
Interest	25,320	25,320	25,716	396
Park and recreation fees	2,709,662	2,709,662	2,763,890	54,228
Intergovernmental revenue	-	-	456,025	456,025
Miscellaneous	16,500	16,500	29,168	12,668
Total revenues	<u>3,484,404</u>	<u>3,484,404</u>	<u>4,035,770</u>	<u>551,366</u>
<b>Expenditures:</b>				
Salaries and employee benefits	2,135,165	2,135,165	1,991,853	143,312
District operating expenses	699,372	699,372	773,433	(74,061)
Debt service expense	202,053	202,053	202,053	-
Capital outlay	117,500	117,500	86,039	31,461
Total expenditures	<u>3,154,090</u>	<u>3,154,090</u>	<u>3,053,378</u>	<u>100,712</u>
Excess (deficit) of revenues over (under) expenditures	<u>\$ 330,314</u>	<u>\$ 330,314</u>	982,392	<u>\$ 652,078</u>
Fund balances, beginning of period			<u>2,516,542</u>	
Fund balances, end of period			<u>\$ 3,498,934</u>	