

**LAKE FOREST  
HOUSING AUTHORITY**

**(A COMPONENT UNIT OF  
THE CITY OF LAKE FOREST)**

**ANNUAL FINANCIAL REPORT**

**JUNE 30, 2012**

LAKE FOREST HOUSING AUTHORITY

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## INDEPENDENT AUDITORS' REPORT

The Board of Directors  
Lake Forest Housing Authority  
Lake Forest, California

We have audited the accompanying financial statements of the governmental activities and the major fund of the Lake Forest Housing Authority (the Authority), (a component unit of the City of Lake Forest, California), as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements, as listed in the table of contents. These component unit financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Authority as of June 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated January 18, 2013 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison schedule, as listed in the table of contents as required supplementary information, are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. This information is an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the management's discussion and analysis 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 the audit of the basic financial statements. We do not express an opinion or provide any assurance on the management's discussion and analysis because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison schedule 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 Authority 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.

*White Nelson Dick Evans LLP*

Irvine, California

January 18, 2013

# LAKE FOREST HOUSING AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

The following discussion and analysis of the Lake Forest Housing Authority (Authority) financial performance provides an overview of the financial activities for the fiscal year ended June 30, 2012. Readers are encouraged to consider the information presented here in conjunction with the accompanying basic financial statements.

### Financial Highlights

- The Authority's net assets increased by \$1,310,137 as a result of this year's operations.
- The total government-wide revenue was \$125,474.
- The total cost of all Authority programs was \$165,825.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to basic financial statements.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of the Authority's assets and liabilities, with the difference between the two reported as *total net assets*. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *Statement of Activities* presents information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing related to cash flows. Thus, revenues and expenditures are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

Both of the government-wide financial statements report on functions of the Authority that are principally supported by property taxes (*governmental activities*). The governmental activities are affordable housing activities.

**Fund financial statements.** A *fund* is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Authority are governmental funds.

See independent auditors' report.

# LAKE FOREST HOUSING AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

### Overview of the Financial Statements (Continued)

**Fund financial statements (continued).** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Authority's near-term financing decisions. Both the governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Authority adopts an annual appropriated budget. A budgetary comparison schedule has been provided to demonstrate compliance with this budget.

**Notes to basic financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

### Government-wide Financial Analysis

Our analysis focuses on the net assets of the Authority's governmental activities for the fiscal year ended June 30, 2012.

#### Condensed Statement of Net Assets

	<u>Governmental Activities</u>	
	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Current and other assets	\$ 1,407,462	\$ 327,202
Non-current assets	1,304,417	473,835
Total assets	<u>2,711,879</u>	<u>801,037</u>
Other liabilities	<u>601,357</u>	<u>652</u>
Total liabilities	<u>601,357</u>	<u>652</u>
Net assets:		
Invested in capital assets	1,304,417	473,835
Restricted	<u>806,105</u>	<u>326,550</u>
Total net assets	<u>\$ 2,110,522</u>	<u>\$ 800,385</u>

See independent auditors' report.

**LAKE FOREST HOUSING AUTHORITY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2012**

**Government-wide Financial Analysis (Continued)**

Restricted net assets of \$806,105 represent resources that are subject to external restriction on how they may be used.

During the current fiscal year, the Authority's net assets increased by \$1,310,137. Key elements of this are as follows:

	<b>Governmental Activities</b>	
	<b>Year Ended June 30, 2012</b>	<b>Year Ended June 30, 2011</b>
Revenues:		
Program revenues:		
Operating grants and contributions	\$ 65,779	\$ 326,000
Capital grants and contributions	-	507,168
Other	59,695	1,202
Total revenues	<u>125,474</u>	<u>834,370</u>
Expenses:		
Affordable housing	<u>165,825</u>	<u>33,985</u>
Total expenses	<u>165,825</u>	<u>33,985</u>
Change in net assets, before extraordinary items	(40,351)	800,385
Extraordinary items:		
Gain on dissolution of Lake Forest Redevelopment Agency	1,948,205	-
Repayment of Lake Forest Redevelopment Agency transfers	<u>(597,717)</u>	<u>-</u>
Total extraordinary items	<u>1,350,488</u>	<u>-</u>
Change in net assets	1,310,137	800,385
Net assets at beginning of year	<u>800,385</u>	<u>-</u>
Net assets at end of year	<u>\$ 2,110,522</u>	<u>\$ 800,385</u>

See independent auditors' report.

## **LAKE FOREST HOUSING AUTHORITY**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012**

#### **Government-wide Financial Analysis (Continued)**

The Authority's net assets decreased by \$40,351, before extraordinary items during the current fiscal year. For further details on the extraordinary items and the former Lake Forest Redevelopment Agency, see Note 5, Recent Changes in Legislation Affecting California Redevelopment Agencies. Key elements of the \$40,351 decrease are as follows:

- Total revenues for current year were \$125,474, a decrease of \$708,896 in comparison of prior year. The Authority received a one-time property contribution of \$507,168 and a one-time land held for resale contribution of \$326,000 from the Lake Forest Redevelopment Agency in prior year.
- Total expenses for current year were \$165,825, an increase of \$131,840 in comparison of prior year. The Authority elected to serve as Housing Successor Agency, in which resulted increase in operation and maintenance costs of the affordable housing.

#### **Financial Analysis of the Authority's Fund**

As of June 30, 2012, the Authority's governmental fund reported ending fund balance of \$342,725. Of this amount, \$326,000 is non-spendable land held for resale which is reserved to indicate that it is not available for new spending because it offsets noncurrent financial resources that are not expected to be liquidated in the near term. The remaining \$16,725 fund balance is restricted for affordable housing purposes. The Authority's fund balance increased \$16,175 during the current fiscal year. Key factors in this increase are as follows:

- Revenues decreased by \$201,728 mainly due to a one-time property contribution received from the Lake Forest Redevelopment Agency.
- Expenditures increased by \$118,247 related directly to the activities in affordable housing program and the maintenance of housing assets.

See independent auditors' report.

**LAKE FOREST HOUSING AUTHORITY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2012**

**Capital Assets**

As of June 30, 2012, the Authority's investment in capital assets amounts to \$1,304,417, net of accumulated depreciation. Capital assets increased by \$830,582 as a result of the contribution of building and improvements from the Lake Forest Redevelopment Agency. For further detail, see Note 4, Capital Assets.

	<u>Governmental Activities</u>	
	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Land	\$ 7,168	\$ 7,168
Buildings and improvements	1,297,249	466,667
Total capital assets, net	<u>\$ 1,304,417</u>	<u>\$ 473,835</u>

**Contacting the Authority's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. Questions concerning any of the information provided in this report or request for additional information should be addressed to the Director of Finance, Lake Forest Housing Authority, 25550 Commercentre Drive, Suite 100, Lake Forest, California 92630.

See independent auditors' report.

LAKE FOREST HOUSING AUTHORITY

STATEMENT OF NET ASSETS

June 30, 2012

ASSETS:

Cash and investments	\$ 617,729
Accounts receivable	353
Loans receivable	463,380
Land held for resale	326,000
Capital assets:	
Not depreciated	7,168
Being depreciated, net	<u>1,297,249</u>
 TOTAL ASSETS	 <u>2,711,879</u>

LIABILITIES:

Accounts payable	3,640
Due to Successor Agency of the Lake Forest Redevelopment Agency	<u>597,717</u>
 TOTAL LIABILITIES	 <u>601,357</u>

NET ASSETS:

Invested in capital assets	1,304,417
Restricted for:	
Affordable housing	<u>806,105</u>
 TOTAL NET ASSETS	 <u><u>\$ 2,110,522</u></u>

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

LAKE FOREST HOUSING AUTHORITY

STATEMENT OF ACTIVITIES

For the year ended June 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
Governmental activities:					
Affordable housing	\$ 165,825	\$ -	\$ 65,779	\$ -	\$ (100,046)
Total governmental activities	<u>\$ 165,825</u>	<u>\$ -</u>	<u>\$ 65,779</u>	<u>\$ -</u>	<u>(100,046)</u>
General revenues:					
Other					<u>59,695</u>
Total general revenues					<u>59,695</u>
Change in net assets, before extraordinary items					<u>(40,351)</u>
Extraordinary items:					
Gain on dissolution of Lake Forest Redevelopment Agency					1,948,205
Repayment of Lake Forest Redevelopment Agency transfers					<u>(597,717)</u>
Total extraordinary items					<u>1,350,488</u>
Change in net assets					1,310,137
Net assets at beginning of year					<u>800,385</u>
Net assets at end of year					<u>\$ 2,110,522</u>

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

LAKE FOREST HOUSING AUTHORITY

BALANCE SHEET  
GOVERNMENTAL FUND

June 30, 2012

ASSETS	
Cash and investments	\$ 617,729
Accounts receivable	353
Loans receivable	463,380
Land held for resale	<u>326,000</u>
TOTAL ASSETS	<u>\$ 1,407,462</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES:	
Accounts payable	\$ 3,640
Due to Successor Agency of the Lake Forest Redevelopment agency	597,717
Deferred revenue	<u>463,380</u>
TOTAL LIABILITIES	<u>1,064,737</u>
FUND BALANCE:	
Nonspendable	326,000
Restricted for: Affordable housing	<u>16,725</u>
TOTAL FUND BALANCE	<u>342,725</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 1,407,462</u>

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

LAKE FOREST HOUSING AUTHORITY

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

June 30, 2012

Fund balance - total governmental fund \$ 342,725

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

Capital assets, net of depreciation have not been included as financial resources in governmental fund activities:

Capital assets, not depreciated	\$ 7,168	
Capital assets, being depreciated	1,407,767	
Accumulated depreciation	<u>(110,518)</u>	1,304,417

Long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the fund financial statements.

Loans receivable		<u>463,380</u>
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Net assets of governmental activities		<u><u>\$ 2,110,522</u></u>
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See independent auditors' report and notes to basic financial statements.

LAKE FOREST HOUSING AUTHORITY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
IN FUND BALANCE GOVERNMENTAL FUND

For the year ended June 30, 2012

REVENUES:

Contribution from the Lake Forest Redevelopment Agency	\$ 65,779
Other	<u>59,695</u>
 TOTAL REVENUES	 <u>125,474</u>

EXPENDITURES:

Current:	
Affordable housing	70,231
Capital outlay	<u>48,668</u>
 TOTAL EXPENDITURES	 <u>118,899</u>

EXCESS OF REVENUES OVER EXPENDITURES	 <u>6,575</u>
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EXTRAORDINARY ITEMS:

Gain on dissolution of Lake Forest Redevelopment Agency	607,317
Repayment of Lake Forest Redevelopment Agency transfers	<u>(597,717)</u>
 TOTAL EXTRAORDINARY ITEMS	 <u>9,600</u>

NET CHANGE IN FUND BALANCE	16,175
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FUND BALANCE - BEGINNING OF YEAR	<u>326,550</u>
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FUND BALANCE - END OF YEAR	<u><u>\$ 342,725</u></u>
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See independent auditors' report and notes to basic financial statements.

LAKE FOREST HOUSING AUTHORITY

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

For the year ended June 30, 2012

Net change in fund balance - total governmental fund \$ 16,175

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

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. As a result, fund balance decreased by the amount of financial resources expended, whereas net assets decreased by the amount of depreciation expense charged for the year. Donation of capital assets increase net assets in the Statement of Activities, but do not appear in the governmental funds because they are not financial resources.

The effect of these adjustments are:

Contribution of capital assets from the Lake Forest		
Redevelopment Agency	\$ 877,508	
Depreciation expense	<u>(46,926)</u>	830,582

Some revenues reported in the Statement of Activities are not considered to be available to finance current expenditures and, therefore, are not reported as revenues in the governmental funds:

Contribution of notes receivable from the Lake Forest		
Redevelopment Agency		<u>463,380</u>

Change in net assets of governmental activities \$1,310,137

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

LAKE FOREST HOUSING AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2012

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Lake Forest Housing Authority (the Authority) conform to accounting principles generally accepted in the United States of America as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for governmental accounting and financial reporting principles. The following is a summary of the Authority's significant accounting policies:

a. Description of the Reporting Entity:

On February 1, 2011, the City Council activated the Lake Forest Housing Authority pursuant to the State of California Health and Safety Code, Section 33000, entitled "Community Redevelopment Law". The primary purpose of the Authority is to develop affordable housing for families of low and moderate income within the City of Lake Forest. The Authority is an integral part of the reporting entity of the City of Lake Forest. The funds of the Authority have been included within the scope of the basic financial statements of the City because the City Council exercises oversight responsibility over the operations of the Authority.

Only the funds of the Authority are included herein, therefore, these financial statements do not purport to represent the financial position or results of operations of the City of Lake Forest, California.

b. Financial Statement Presentation:

**Government-Wide Financial Statements**

The Authority's Government-Wide Financial Statements include a Statement of Net Assets and a Statement of Activities. These statements present summaries of Governmental Activities for the Authority.

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the Authority's assets and liabilities, including capital assets as well as long-term debt, if any, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. The types of transactions reported as program revenues for the Authority can be reported in three categories: (1) Charges for services. (2) Operating grants and contributions. (3) Capital grants and contributions.

See independent auditors' report.

LAKE FOREST HOUSING AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

b. Financial Statement Presentation (Continued):

**Government-Wide Financial Statements (Continued)**

Charges for services include revenues from customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function. Grants and contributions include revenues restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

**Governmental Fund Financial Statements**

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenue, Expenditures, and Changes in Fund Balances for all major governmental funds. The Authority has presented all major funds that met the qualifications of GASB Statement No. 34.

All governmental funds are accounted for on a spending or "current financial resources" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except for revenues subject to accrual (generally 90-days after year end) are recognized when due. The primary revenue source susceptible to accrual is investment income.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. An exception to this general rule is principal and interest on general long-term debt which is recognized when due.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

See independent auditors' report.

LAKE FOREST HOUSING AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

b. Financial Statement Presentation (Continued):

**Governmental Fund Financial Statements (Continued)**

The accounts of the Authority are organized on the basis of funds, each of which is considered 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. 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.

The Authority reports the following major governmental fund:

The Special Revenue Fund is used to account for the Authority's financial resources received and used in developing affordable housing for families of low and moderate income.

c. Cash and Investments:

Investments are reported in the accompanying balance sheet at fair value. Changes in fair value that occur during a fiscal year are recognized as investment income 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.

Cash and investments are pooled with other City of Lake Forest funds for investment purposes, with interest being allocated quarterly to all funds legally requiring allocation and to other various funds at the direction of management based on average month-end pooled funds cash and investment balances. Interest income for cash and investments excluded from pooled cash is credited directly to the related fund. Investment policies applicable to the Authority's funds are those of the City of Lake Forest and are included in the notes to the City's basic financial statements.

d. Land Held for Resale:

Land held for resale is carried at lower of cost or estimated net realizable value determined at the date of an executed disposition and development agreement. As of June 30, 2012, the Authority held land held for resale in the amount of \$326,000.

See independent auditors' report.

LAKE FOREST HOUSING AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

e. Capital Assets:

Capital assets are recorded at cost where historical records are available and as an estimated original cost when no historical records exist. Contributed capital assets are valued at their estimated fair value at the date of contribution. Generally, capital assets purchases in excess of \$1,000 are capitalized if they have an expected useful life of one year or more.

The Authority does not own any infrastructure assets.

Capital assets are used in operations and depreciated over their estimated useful lives using straight-line method in the Government-wide Financial Statements. The range of useful lives used for depreciation purposes of each capital asset class are:

Buildings and improvements	10 - 30 years
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f. Classification of Net Assets and Governmental Fund Balances:

In the government-wide financial statements, net assets are classified in the following categories:

Invested in Capital Assets - This category groups all capital assets into one component of net assets. Accumulated depreciation on these assets reduces this category.

Restricted Net Assets - This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets - This category represents the net assets of the Authority that are not restricted for any project or other purpose.

The fund balances reported on the fund statements consist of the following categories:

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

Restricted Fund Balance - This classification includes amounts that can be spent only for specific purposes stipulated by constitution, external resource providers or through enabling legislation.

See independent auditors' report.

LAKE FOREST HOUSING AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

f. Classification of Net Assets and Governmental Fund Balances (Continued):

Committed Fund Balance - This classification includes amounts that have been limited to specific purposes as defined in the City's Municipal Code or through adoption of an ordinance by the City Council, the highest level of decision making authority of the City. These commitments may be changed or lifted but only by the same formal action that was used to impose the constraint originally. City Council action to commit fund balance must occur within the fiscal reporting period while the amount committed may be subsequently determined.

Assigned Fund Balance - This classification includes amounts that are intended to be used by the City for specific purposes through the City Council budgetary actions but do not meet the criteria to be classified as restricted or committed. Intent is expressed by (a) the City Council or (b) a body or official to which the City Council has delegated the authority to assign amounts to be used for specific purposes. In governmental funds, other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

Unassigned Fund Balance - This classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the Authority's policy is to apply restricted fund balance first.

When an expenditure is incurred for purposes for which committed, assigned or unassigned fund balances are available, the Authority's policy is to apply committed fund balance first, then assigned fund balance, and finally unassigned fund balance.

g. Use of 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 affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

See independent auditors' report.

LAKE FOREST HOUSING AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

2. CASH AND INVESTMENTS:

**Cash and Investments**

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

Statement of Net Assets:	
Cash and investments	<u>\$ 617,729</u>

Cash and investments as of June 30, 2012 consist of the following:

Equity in City investment pool	<u>\$ 617,729</u>
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**Equity in the Cash and Investment Pool of the City of Lake Forest**

The Authority has no separate bank accounts or investments other than in its equity in the cash and investment pool managed by the City of Lake Forest. The Authority is a voluntary participant in that pool. This pool is governed by and under the regulatory oversight of the Investment Policy adopted by the City Council of the City of Lake Forest. The Authority has not adopted an investment policy separate from that of the City of Lake Forest. The fair value of the Authority's investment in this pool is reported in the accompanying financial statements at amounts based upon the Authority's pro-rata share of the fair value calculated by the City for the entire City portfolio. The balance available for withdrawal is based on the accounting records maintained by the City, which are recorded at the estimated fair value.

See independent auditors' report.

LAKE FOREST HOUSING AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

2. CASH AND INVESTMENTS (CONTINUED):

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

The table below identifies the investment types that are authorized for the City by the California Government Code and the City's investment policy. The table also identifies certain provisions of the California Government Code (or the City's investment policy, if 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 fiscal agent that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's investment policy.

Investment Types <u>Authorized by State Law</u>	Authorized by Investment <u>Policy</u>	Maximum Maturity *	Maximum Percentage of Portfolio *	Maximum Investment in One Issuer *
Local Agency Bonds	No	5 years	None	None
U.S. Treasury Obligations	Yes	4 years	None	None
U.S. Agency Securities	Yes	4 years	60%	20%
Banker's Acceptances	Yes	180 days	20%	5%
Commercial Paper	Yes	180 days	15%	5%
Negotiable Certificates of Deposit	Yes	3 years	20%	5%
Non-negotiable Certificates of Deposit	Yes	2 years	20%	5%
Repurchase Agreements	Yes	30 days	10%	None
Reverse Repurchase Agreements	No	92 days	20% of base value	None
Medium-Term Notes	No	5 years	10%	\$ 1,000,000
Mutual Funds	No	2 years	20%	10%
Money Market Mutual Funds	Yes	None	10%	None
Mortgage Pass-Through securities	No	5 years	20%	None
County Pooled Investment Funds	No	None	None	None
California Asset Management Program	Yes	None	30%	None
State Investment Pool (LAIF)	Yes	None	50%	None
JPA Pools (other investment pools)	Yes	None	30%	None

\* - Based on state law requirements or investment policy requirements, whichever is more restrictive. The City may not invest in items that are permitted by the State but not permitted by the City's investment policy.

See independent auditors' report.

LAKE FOREST HOUSING AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

2. CASH AND INVESTMENTS (CONTINUED):

**Disclosures Relating to Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Authority 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.

**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.

**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 Authority'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 Authority deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

**Disclosures Relating to Interest Rate Risk, Credit Risk and Custodial Credit Risk**

Additional disclosures related to interest rate risk, credit risk and custodial credit risk are available in the City of Lake Forest's Comprehensive Annual Financial Report.

See independent auditors' report.

LAKE FOREST HOUSING AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

3. LOANS RECEIVABLE:

Upon the dissolution of the Lake Forest Redevelopment Agency on February 1, 2012, \$486,380 of rehabilitation loans receivable were transferred to the Authority. The rehabilitation loans are for home repairs and improvements of qualified applicants and consist of zero-interest deferred loans and 3% annual interest with fifteen years to maturity loans. The total principal payment is due at the time of sale or transfer of title of the property. As of June 30, 2012, the balance of these loans is \$463,380. See Note 5.

4. CAPITAL ASSETS:

The following is a summary of the capital asset activity for the year ended June 30, 2012:

	Balance at <u>July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	Contribution from Lake Forest Redevelopment Agency <u>(a)</u>	Balance at <u>June 30, 2012</u>
Capital assets, not being depreciated:					
Land and right of way	\$ 7,168	\$ -	\$ -	\$ -	\$ 7,168
Capital assets, being depreciated:					
Buildings and improvements	<u>500,000</u>	<u>-</u>	<u>-</u>	<u>907,767</u>	<u>1,407,767</u>
Total capital assets, being depreciated	<u>500,000</u>	<u>-</u>	<u>-</u>	<u>907,767</u>	<u>1,407,767</u>
Less accumulated depreciation for:					
Buildings and improvements	<u>(33,333)</u>	<u>(46,926)</u>	<u>-</u>	<u>(30,259)</u>	<u>(110,518)</u>
Total accumulated depreciation	<u>(33,333)</u>	<u>(46,926)</u>	<u>-</u>	<u>(30,259)</u>	<u>(110,518)</u>
Total capital assets, being depreciated, net	<u>466,667</u>	<u>(46,926)</u>	<u>-</u>	<u>877,508</u>	<u>1,297,249</u>
Total governmental activities capital, net	<u>\$ 473,835</u>	<u>\$ (46,926)</u>	<u>\$ -</u>	<u>\$ 877,508</u>	<u>\$ 1,304,417</u>

Depreciation expense of \$46,926 was charged to the affordable housing function in the Statement of Activities.

(a) The net contribution of \$877,508 represents capital assets transferred to the Authority due to the dissolution of the Lake Forest Redevelopment Agency on February 1, 2012 (see Note 5).

See independent auditors' report.

LAKE FOREST HOUSING AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

5. RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES:

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

The League of California Cities and the California Redevelopment Association (CRA) filed a lawsuit on July 18, 2011 on behalf of cities, counties and redevelopment agencies petitioning the California Supreme Court to overturn the Dissolution Act and Assembly Bill 1x 27 on the grounds that these bills violate the California Constitution.

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

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

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 17, 2012, the City elected to serve as the Successor Agency to the Lake Forest Redevelopment Agency.

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 Lake Forest Housing Authority elected on January 17, 2012 to serve as the Housing Successor Agency.

See independent auditors’ report.

LAKE FOREST HOUSING AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

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

After the date of dissolution, the housing assets, obligations, and activities of the Dissolved RDA have been transferred and are reported in the Authority. The transfer of the assets and liabilities of the Dissolved RDA as of February 1, 2012 to the Authority are reported in the governmental funds as an extraordinary loss (or gain) in the governmental fund financial statements.

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

The difference between the extraordinary gain recognized in the fund financial statements and the extraordinary gain recognized in the government-wide financial statements is reconciled as follows:

Total extraordinary gain reported in governmental fund financial statements	\$ 607,317
Transfer of low and moderate income housing assets to the Housing Successor (Authority) that have not been included as financial resources in governmental funds - increase the extraordinary gain reported in government-wide financial statements	877,508
Loans receivable transferred to the Housing Successor (Authority) that are not considered to be available to finance current expenditures and, therefore, are not reported as revenues in the governmental fund financial statements - increase the extraordinary gain reported in government-wide financial statements	<u>463,380</u>
Net extraordinary gain reported in government-wide financial statements	<u>\$ 1,948,205</u>

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.

See independent auditors' report.

LAKE FOREST HOUSING AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2012

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

In February 2011, the Authority contracted with Lake Forest Redevelopment Agency to provide funding from the Redevelopment Agency's Low and Moderate Income Housing for the purposes of creating affordable housing. The Redevelopment Agency's Low and Moderate Income housing fund transferred land held for resale and real property to the Housing Authority on March 15, 2011. The cost basis of the land transferred amounted to \$792,667. In addition, upon dissolution of the Agency on February 1, 2012, the Redevelopment Agency's Low and Moderate Income housing fund transferred loans and notes receivable with a cost of \$486,380 and real property with a net cost of \$877,508 to the Housing Authority. Also, on April 24, 2012, \$607,317 of cash was transferred from the Redevelopment Agency's Low and Moderate Income housing fund to the Housing Authority for recognized obligation payment schedule 1 line items. However, the State of California Department of Finance disallowed \$597,717 of this transfer. As of June 30, 2012, a liability due to the Successor Agency has been recognized as an extraordinary item by the Authority for the disallowed portion of \$597,717.

The Authority's management believes, in consultation with legal counsel, that the obligations which include transfers are valid enforceable obligations payable by the Successor Agency under the requirements of the Dissolution Act and AB 1484. The Authority'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 and Authority.

6. SUBSEQUENT EVENTS:

On December 28, 2012, the Authority remitted the \$597,717 disallowed transfer (see Note 5) to the Orange County Auditor Controller.

In preparing these financial statements, the Authority has evaluated events and transactions for potential recognition or disclosure through January 18, 2013, the date the financial statements were available to be issued.

See independent auditors' report.

**REQUIRED SUPPLEMENTARY INFORMATION**

CITY OF LAKE FOREST HOUSING AUTHORITY

BUDGETARY COMPARISON SCHEDULE

SPECIAL REVENUE FUND

For the year ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Contribution from the Lake				
Forest Redevelopment Agency	\$ 170,600	\$ 170,600	\$ 65,779	\$ (104,821)
Other	-	-	59,695	59,695
TOTAL REVENUES	170,600	170,600	125,474	(45,126)
EXPENDITURES:				
Current:				
Affordable housing	170,600	170,600	70,231	100,369
Capital outlay	-	-	48,668	(48,668)
TOTAL EXPENDITURES	170,600	170,600	118,899	51,701
EXCESS OF REVENUES OVER EXPENDITURES	-	-	6,575	6,575
EXTRAORDINARY ITEMS:				
Gain on dissolution of redevelopment agency	-	-	607,317	607,317
Repayment of redevelopment agency transfers	-	-	(597,717)	(597,717)
TOTAL EXTRAORDINARY ITEMS	-	-	9,600	9,600
NET CHANGE IN FUND BALANCE	-	-	16,175	16,175
FUND BALANCE - BEGINNING OF YEAR	326,550	326,550	326,550	-
FUND BALANCE - END OF YEAR	\$ 326,550	\$ 326,550	\$ 342,725	\$ 16,175

See independent auditors' report.

LAKE FOREST HOUSING AUTHORITY

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2012

1. BUDGETARY DATA:

The Authority adopts an annual budget prepared on the modified accrual basis for all funds. The Executive Director is required to prepare and submit to the Authority Board of Directors the annual budget of the Authority and administer it after adoption. Any revisions that alter the total appropriations must be approved by the Authority Board of Directors. The Authority's level of budgetary control for the operating budget is within a department or a capital project. Certain unexpended and unencumbered appropriations, which are available and recommended for continuation to the following fiscal year, are approved by the Authority Board for carryover. Encumbered appropriations lapse at year-end but are recommended to the Authority Board for carryover. Total expenditures may not legally exceed total appropriations at the department level.

See independent auditors' report.