

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the 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, the financial statements of the governmental activity 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, 2014, and the related notes to the basic financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated December 22, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

White Nelson Nick Evans LLP

Irvine, California
December 22, 2014

**LAKE FOREST
HOUSING AUTHORITY**

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

ANNUAL FINANCIAL REPORT

JUNE 30, 2014

LAKE FOREST HOUSING AUTHORITY

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activity 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, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, 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 from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activity and the major fund of the Authority, as of June 30, 2014, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1c to the basic financial statements, the Authority has changed its method for accounting and reporting certain items previously reported as assets or liabilities during fiscal year 2013-2014 due to the adoption of Governmental Accounting Standards Board's Statement No. 65, "*Items Previously Reported as Assets and Liabilities*". The adoption of this standard required retrospective application resulting in a \$391,387 increase of previously reported fund balance of the Authority. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison schedule, listed in the table of contents as required supplementary information, 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 the audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2014, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

White Nelson Dick Evans LLP

Irvine, California
December 22, 2014

LAKE FOREST HOUSING AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

The following discussion and analysis of the Lake Forest Housing Authority (the Authority) financial performance provides an overview of the financial activities for the fiscal year ended June 30, 2014. Readers are encouraged to consider the information presented here in conjunction with the accompanying basic financial statements.

Financial Highlights

- The Authority's net position increased by \$69,878 as a result of this year's operations.
- The total government-wide revenue was \$150,081.
- The total cost of all Authority programs was \$80,023.

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 Position* presents information on all of the Authority's assets and liabilities, with the difference between the two reported as *total net position*. Over time, increases and decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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 loan repayment and reimbursements (*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, 2014

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 position of the Authority's governmental activities for the fiscal year ended June 30, 2014.

	June 30, 2014	June 30, 2013
Current and other assets	\$ 936,359	\$ 819,188
Non-current assets	1,210,565	1,257,491
Total assets	2,146,924	2,076,679
Other liabilities	2,234	1,867
Total liabilities	2,234	1,867
Net position:		
Net investment in capital assets	1,210,565	1,257,491
Restricted	934,125	817,321
Total net position	\$ 2,144,690	\$ 2,074,812

See independent auditors' report.

LAKE FOREST HOUSING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

Government-wide Financial Analysis (Continued)

Restricted net position of \$934,125 represents resources that are subject to external restriction on how they may be used.

During the current fiscal year, the Authority's net position increased by \$69,878. Key elements of this are as follows:

Change in Net Position

	Governmental Activities	
	Year Ended June 30, 2014	Year Ended June 30, 2013
Revenues:		
General revenues:		
Investment income	\$ 319	\$ 383
Loan repayments and reimbursements	149,762	78,383
Total revenues	<u>150,081</u>	<u>78,766</u>
Expenses:		
Affordable housing	<u>80,203</u>	<u>114,476</u>
Total expenses	<u>80,203</u>	<u>114,476</u>
Change in net position	69,878	(35,710)
Net position at beginning of year	<u>2,074,812</u>	<u>2,110,522</u>
Net position at end of year	<u><u>\$ 2,144,690</u></u>	<u><u>\$ 2,074,812</u></u>

See independent auditors' report.

LAKE FOREST HOUSING AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

Government-wide Financial Analysis (Continued)

The Authority's net position increased by \$69,878 during the current fiscal year. Key elements of the increase are as follows:

- Total revenues for current year were \$150,081, an increase of \$71,315 in comparison of prior year. The Authority received a one-time promissory note repayment from the Successor Agency to the former Lake Forest Redevelopment Agency of \$71,056. The promissory note of \$255,281 was between the City of Lake Forest and the former Lake Forest Redevelopment Agency. The California Department of Finance (DOF) issued a Finding of Completion on April 26, 2013 in which the DOF concurred that the promissory note was for legitimate redevelopment purposes. As required by law, 20% of the promissory note repayment from the Successor Agency was required to be deposited with the Authority. The remainder of the promissory note repayment was deposited with the City of Lake Forest. The promissory note has been repaid in full as of June 30, 2014.
- Total expenses for current year were \$80,023, a decrease of \$34,273 in comparison of prior year. The decrease resulted from the decrease in maintenance costs of the housing assets.

Financial Analysis of the Authority's Fund

As of June 30, 2014, the Authority's governmental fund reported ending fund balance of \$934,125. The \$934,125 fund balance is restricted for affordable housing purposes. The Authority's fund balance increased \$116,804 during the current fiscal year. Key factors in this increase are as follows:

- Expenditures decreased by \$34,273 in comparison of prior year. The decrease resulted from the decrease in maintenance costs of the housing assets.

See independent auditors' report.

LAKE FOREST HOUSING AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

Capital Assets

As of June 30, 2014, the Authority's investment in capital assets amounts to \$1,210,565 net of accumulated depreciation. Capital assets decreased by \$46,926 related to depreciation expense on the assets. For further detail, see Note 4, Capital Assets.

	<u>Governmental Activities</u>	
	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Land	\$ 7,168	\$ 7,168
Buildings and improvements	1,203,397	1,250,323
Total capital assets, net	<u>\$ 1,210,565</u>	<u>\$ 1,257,491</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 POSITION

June 30, 2014

ASSETS:

Cash and investments	\$ 218,822
Accounts receivable	150
Loans receivable	391,387
Land held for resale	326,000
Capital assets:	
Not depreciated	7,168
Being depreciated, net	<u>1,203,397</u>

TOTAL ASSETS 2,146,924

LIABILITIES:

Accounts payable	<u>2,234</u>
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TOTAL LIABILITIES 2,234

NET POSITION:

Investment in capital assets	1,210,565
Restricted for:	
Affordable housing	<u>934,125</u>

TOTAL NET POSITION \$ 2,144,690

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

LAKE FOREST HOUSING AUTHORITY

STATEMENT OF ACTIVITIES

For the year ended June 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
					Governmental Activity
Governmental activities:					
Affordable housing	\$ 80,203	\$ -	\$ -	\$ -	\$ (80,203)
Total governmental activities	<u>\$ 80,203</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(80,203)</u>
General revenues:					
Investment income					319
Loan repayments and reimbursements					78,706
Payment from successor agency					<u>71,056</u>
Total general revenues					<u>150,081</u>
Change in net position					69,878
Net position at beginning of year					<u>2,074,812</u>
Net position at end of year					<u>\$ 2,144,690</u>

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

LAKE FOREST HOUSING AUTHORITY

BALANCE SHEET
GOVERNMENTAL FUND

June 30, 2014

ASSETS	
Cash and investments	\$ 218,822
Accounts receivable	150
Loans receivable	391,387
Land held for resale	<u>326,000</u>
 TOTAL ASSETS	 <u>\$ 936,359</u>
 LIABILITIES AND FUND BALANCE	
LIABILITIES:	
Accounts payable	<u>\$ 2,234</u>
 TOTAL LIABILITIES	 <u>2,234</u>
FUND BALANCE:	
Restricted for:	
Affordable housing	<u>934,125</u>
 TOTAL FUND BALANCE	 <u>934,125</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u>\$ 936,359</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 POSITION

June 30, 2014

Fund balance - total governmental fund \$ 934,125

Amounts reported for governmental activities in the Statement of Net
Position 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>(204,370)</u>	<u>1,210,565</u>

Net position of governmental activities \$ 2,144,690

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, 2014

REVENUES:	
Investment income	\$ 319
Loan repayments and reimbursements	78,706
Payment from the successor agency	<u>71,056</u>
TOTAL REVENUES	<u>150,081</u>
EXPENDITURES:	
Current:	
Affordable housing	3,477
Capital outlay	<u>29,800</u>
TOTAL EXPENDITURES	<u>33,277</u>
EXCESS OF REVENUES OVER EXPENDITURES	116,804
FUND BALANCE - BEGINNING OF YEAR, AS RESTATED	<u>817,321</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 934,125</u></u>

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, 2014

Net change in fund balance - total governmental fund \$ 116,804

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 position decreased by the amount of depreciation expense charged for the year. Donation of capital assets increase net position 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:

Depreciation expense	<u>(46,926)</u>
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Change in net position of governmental activities	<u><u>\$ 69,878</u></u>
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See independent auditors' report and notes to basic financial statements.

LAKE FOREST HOUSING AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2014

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 Position and a Statement of Activities. These statements present summaries of Governmental Activity 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, deferred outflows of resources, liabilities and deferred inflows of resources, including capital assets as well as long-term debt, if any, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. 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.

See independent auditors' report.

LAKE FOREST HOUSING AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

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

b. Financial Statement Presentation (Continued):

Government-Wide Financial Statements (Continued)

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, and
3. Capital grants and contributions.

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.

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

Governmental Fund Financial Statements

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenue, Expenditures, and Changes in Fund Balance for all major governmental funds. The Authority has presented its major fund 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, current liabilities and deferred inflows of resources are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balance presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in fund balance. 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.

See independent auditors' report.

LAKE FOREST HOUSING AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

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

b. Financial Statement Presentation (Continued):

Governmental Fund Financial Statements (Continued)

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.

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, deferred inflows of resources, 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. New Accounting Pronouncements:

Implemented:

GASB 65 - "*Items Previously Reported as Assets and Liabilities*", required to be implemented in the current fiscal year. This statement established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. Due to the implementation of this statement, loans receivable, which were previously offset by deferred revenue should be a balance sheet item only and should not be offset by deferred inflows of resources or unearned revenue. Accounting changes adopted to conform to the provisions of this statement should be applied retroactively. The result of the implementation of this standard was to increase the fund balance of the Authority at July 1, 2013 by \$391,387, which is the amount of previously recorded deferred revenue at July 1, 2013.

GASB 66 - "*Technical Corrections, an amendment of GASB Statement No. 10 and Statement No. 62*", required to be implemented in the current fiscal year did not impact the Authority.

See independent auditors' report.

LAKE FOREST HOUSING AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

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

c. New Accounting Pronouncements (Continued):

Implemented (Continued):

GASB 70 - *“Accounting and Financial Reporting for Nonexchange Financial Guarantees”*, required to be implemented in the current fiscal year did not impact the Authority.

Pending Accounting Standards:

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

- GASB 68 - *“Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27”*, effective for the fiscal years beginning after June 15, 2014.
- GASB 69 - *“Government Combinations and Disposals of Government Operations”*, effective for periods beginning after December 15, 2013.
- GASB 71 - *“Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68”*, effective for periods beginning after June 15, 2014.

d. 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.

See independent auditors’ report.

LAKE FOREST HOUSING AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

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

e. 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, 2014, the Authority reported land held for resale in the amount of \$326,000.

f. 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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g. Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of net position and the governmental fund balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expenditure) until that time. The Authority does not have any applicable deferred outflows of resources.

In addition to liabilities, the statement of net position and the governmental fund balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The Authority does not have any applicable deferred inflows of resources.

See independent auditors' report.

LAKE FOREST HOUSING AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

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

h. Classification of Net Position and Governmental Fund Balances:

Net Position Classifications

In the government-wide financial statements, net position is classified in the following categories:

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

Restricted Net Position - 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 Position - This category represents the net position of the Authority that is not restricted for any project or other purpose.

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

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

Governmental Fund Balance Classifications

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, 2014

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

h. Classification of Net Position and Governmental Fund Balances (Continued):

Governmental Fund Balance Classifications (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 the City Council. The City Council has not delegated the authority to assign amounts.

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.

i. Use of Estimates:

The preparation of financial statements in accordance 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, 2014

2. CASH AND INVESTMENTS:

Cash and Investments

Cash and investments as of June 30, 2014 are classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and investments	<u>\$ 218,822</u>
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Cash and investments as of June 30, 2014 consist of the following:

Equity in City investment pool	<u>\$ 218,822</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.

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

The table below identifies the investment types that are authorized for the Authority 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.

See independent auditors' report.

LAKE FOREST HOUSING AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

2. CASH AND INVESTMENTS (CONTINUED):

Investments Authorized by the California Government Code and the City's Investment Policy for the Authority (Continued)

Investment Types Authorized by State Law	Authorized by Investment Policy	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
Money Market Mutual Funds	Yes	2 years	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 Million	None
JPA Pools (other investment pools)	Yes	None	30%	None

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

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.

See independent auditors' report.

LAKE FOREST HOUSING AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

2. CASH AND INVESTMENTS (CONTINUED):

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure the Authority's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. At June 30, 2014, the City's investment pool deposits (bank balances) were insured by the Federal Deposit Insurance Corporation or collateralized as required under California Law.

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.

3. LOANS RECEIVABLE:

The Authority's 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, 2014, the balance of these loans is \$391,387.

See independent auditors' report.

LAKE FOREST HOUSING AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

4. CAPITAL ASSETS:

The following is a summary of the capital asset activity for the year ended June 30, 2014:

	<u>Balance at</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at</u> <u>June 30, 2014</u>
Capital assets, not being depreciated:				
Land and right of way	\$ 7,168	\$ -	\$ -	\$ 7,168
Capital assets, being depreciated:				
Buildings and improvements	<u>1,407,767</u>	<u>-</u>	<u>-</u>	<u>1,407,767</u>
Total capital assets, being depreciated	<u>1,407,767</u>	<u>-</u>	<u>-</u>	<u>1,407,767</u>
Less accumulated depreciation for:				
Buildings and improvements	<u>(157,444)</u>	<u>(46,926)</u>	<u>-</u>	<u>(204,370)</u>
Total accumulated depreciation	<u>(157,444)</u>	<u>(46,926)</u>	<u>-</u>	<u>(204,370)</u>
Total capital assets, being depreciated, net	<u>1,250,323</u>	<u>(46,926)</u>	<u>-</u>	<u>1,203,397</u>
Capital assets, net	<u>\$ 1,257,491</u>	<u>\$ (46,926)</u>	<u>\$ -</u>	<u>\$ 1,210,565</u>

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

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, which dissolved the redevelopment agency.

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

See independent auditors' report.

LAKE FOREST HOUSING AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

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

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.

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 State Controller of the State of California has been directed to review the propriety of any transfers of assets between Dissolved RDA and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency. The State Controller completed its review on October 21, 2014 and did not identify any unallowable transfers of assets that occurred during the audit between the former RDA, the City or other public agencies that had not already been corrected by the City.

The DOF issued a Finding of Completion on April 26, 2013 in which DOF concurred that the Successor Agency has made full payments of any payments required as a result of the due diligence reviews. The Successor Agency was not required to adopt a Long Range Property Management Program (LRPMP).

The Finding of Completion, and finding that the loans were for legitimate redevelopment purposes allowed the placement of formerly disallowed expenditures between the former redevelopment agency and the City on the ROPS in fiscal year 2013-14. This resulted in the loan repayment from the Successor Agency to the City totaling \$355,281 in fiscal year 2013-14. As required by law, 20% of the loan repayment from the Successor Agency, totaling \$71,056, is reported in the Authority's major fund, which serves as the Low and Moderate Income Housing Asset Fund. The remainder of the loan repayment, totaling \$284,225, is reported in the City's General Fund. The loan has been repaid in full as of June 30, 2014.

See independent auditors' report.

LAKE FOREST HOUSING AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

6. RESTATEMENT OF FUND BALANCE:

Fund balance for the Authority fund financial statements as of July 1, 2013 was restated as follows:

	<u>Authority</u>
Fund balance as previously reported as of June 30, 2013	\$ 425,934
Increase in fund balance to remove previously recorded deferred revenue due to the implementation of GASB No. 65	<u>391,387</u>
Fund balance as restated July 1, 2013	<u><u>\$ 817,321</u></u>

7. SUBSEQUENT EVENTS:

In preparing these financial statements, the Authority has evaluated events and transactions for potential recognition or disclosure through December 22, 2014, 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, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Investment income	\$ -	\$ -	\$ 319	\$ 319
Loan repayments and reimbursements	75,600	75,600	78,706	3,106
Payment from the successor agency	-	-	71,056	71,056
TOTAL REVENUES	75,600	75,600	150,081	74,481
EXPENDITURES:				
Current:				
Affordable housing	10,500	63,900	3,477	60,423
Capital outlay	65,100	65,100	29,800	35,300
TOTAL EXPENDITURES	75,600	129,000	33,277	95,723
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	(53,400)	116,804	170,204
FUND BALANCE - BEGINNING OF YEAR, AS RESTATED	817,321	817,321	817,321	-
FUND BALANCE - END OF YEAR	\$ 817,321	\$ 763,921	\$ 934,125	\$ 170,204

See independent auditors' report.

LAKE FOREST HOUSING AUTHORITY

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2014

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.