

**CITY OF LAKE FOREST, CALIFORNIA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**WITH REPORT ON AUDIT**  
**BY INDEPENDENT**  
**CERTIFIED PUBLIC ACCOUNTANTS**  
**FISCAL YEAR ENDED JUNE 30, 2011**

**Prepared by:**

**Finance Department**

**Keith D. Neves**  
**Director of Finance/City Treasurer**

CITY OF LAKE FOREST

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**Mayor**  
Peter Herzog

**Mayor Pro Tem**  
Mark Tettmer

**Council Members**  
Kathryn McCullough  
Marcia Rudolph  
Scott Voigts

**City Manager**  
Robert C. Dunek

December 28, 2011

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

The Comprehensive Annual Financial Report of the City of Lake Forest, for the fiscal year ended June 30 2011, is submitted herewith; this report was prepared by the auditors and the Finance Department.

This report consists of management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all information presented in this report. To provide a reasonable basis for making these representations, the management of the City has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with generally-accepted accounting principals ("GAAP"). Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by White Nelson Diehl Evans LLP., a firm of certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ending June 30, 2011, are free of material misstatement. The independent audit involved 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; and, evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified ("clean") opinion that the City's financial statements for the fiscal year ended June 30, 2011, were fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

As a recipient of Federal, State, and County financial assistance, the City is also responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluations by management. Under Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, which was revised June 24, 1997, the City met the criteria



for periodic evaluation and, therefore, was required to and did have a single audit performed for fiscal year ending June 30, 2011.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the Independent Auditors Report.

### **Profile of the Government**

The City of Lake Forest ("City"), incorporated on December 20, 1991, is located in southern Orange County, California, in the area commonly referred to as the Saddleback Valley. It currently occupies 16.6 square miles and serves a population of 74,104. It is the County's 31<sup>st</sup> city and the 2<sup>nd</sup> largest city within the Saddleback Valley. The City is empowered by state statute to extend its corporate limits by annexation, which it has done from time to time.

The City has operated under the council-manager form of government since 1991. Policy making and legislative authority are vested in a City Council consisting of the mayor and four other council members. The City Council is responsible for, among other things, passing ordinances, adopting the budget, appointing committees, and hiring the City Manager. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the City, and for appointing the heads of the various departments. The City Council is elected on a non-partisan basis. Council members serve four-year staggered terms. The mayor serves a one-year term and is selected for the position annually by the City Council as a whole. All members of the Council are elected at large, not by district.

Lake Forest is a "contract city," primarily utilizing agreements with other governmental entities and private firms to provide traditional municipal services to the community. Through this process, the City provides a full range of services, including: police protection; the construction and maintenance of highways, streets, and other infrastructure; recreational and cultural activities; and, building and safety, land use planning, and zoning control services. The City is financially accountable for the Lake Forest Redevelopment Agency and the Lake Forest Housing Authority, which are reported separately within the City's financial statements. The County continues to provide library services, independent of the City. Fire services are provided by a joint powers authority of which the City is a member. Additional information regarding all of these legally separate entities can be found in the notes to the basic financial statements.

The annual budget serves as the foundation for the City's financial planning and control. All departments of the City are required to submit request for appropriation to the City Manager in January of each year. The City Manager uses these request as the starting point for developing a proposed budget. After a series of study sessions with the community and the City Council, the City Manager formally presents this proposed budget to the City Council for review in May. The City Council is required to hold public hearings on the proposed budget and to adopt a final budget on or around June 30, the close of the fiscal year. The adopted budget is prepared by fund, function, and department. The City Manager may transfer resources within and between departments and/or capital projects as long as overall appropriations are not increased; and, Council notification is required. All other changes to the budget require special approval from the Council.

## **Factors Affecting Financial Condition**

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City operates.

### **Local Economy**

The health of the general economy of the area has started to bounce back over the last couple years, and the City's overall revenues have either grown or remained stable over this period. It is anticipated that modest revenue increases will continue into the fiscal year that is upon us. Major industries located within the City's boundaries include internationally known brand manufacturers of scientific and spectrographic instruments, sunglasses and sports-related goggles, computer hard drives and industrial automation software, hand and power tools, as well as financial institutions, real estate, and insurance companies. Included in a broad retail base are major national chain restaurants, general merchandise, home improvement and specialty stores, situated within fourteen separate shopping centers.

Major sources of employment from industries and companies located within the City's boundaries include: sales, office, and administrative support (30%); management, business, and financial operations (22%); professional-related occupations (22%); and services (12%). In addition, companies contributing to the City's tax base are well diversified among general consumer goods, business and industry, restaurants, hotels, and autos/transportation.

Because of its location in a region with a varied economic base, unemployment has been relatively stable. During the last ten years, the unemployment rate rose from an initial low of 2.3% in 2006 to a high of 5.3% in 2011 due to the ongoing effects of the recession. Unemployment is expected to stabilize within the next year or so with modest decreases in later years as the economy recovers.

As a result of revitalization efforts, the City's central location, and diversity of businesses, occupancy rates on commercial properties are currently positive when considering the economic climate. Occupancy rates range from 78% for office space to 95% for industrial properties.

During the past ten years, the City's operating expenditures in the General Fund increased 83%, primarily due to annexations, park additions, and expansion of services and maintenance requirements as the young City matured. In the City's major cost centers, expenditures related to police services and public works increased 95% and 94% respectively. The City has contracted police protection services with the County of Orange since incorporation, and the contract represents approximately 33% of the General Fund operating budget. Public works cost increases have also been attributed to the Council's dedication to infrastructure and landscape maintenance and an increase from 19 to 27 public parks during the past ten years. In addition, State requirements in regard to water quality have contributed to increased costs. Other functions in the City have increased in scope and budget on a lesser scale.

During the same ten year period, the City's General Fund operating revenues have grown 20%, with the largest components being property taxes, transient occupancy taxes, franchise fees, and motor vehicle in lieu fees (a majority of which is now backfilled from the State). This net increase includes significant revenue losses during

the last few years from the recession and financial market crisis. Revenues are expected to stabilize and increase modestly over the next few years.

### **Long-term financial planning**

Unreserved fund balance in the General Fund (162% of total General Fund revenues) falls well above the reserve policy set by the Council for planning and budgetary purposes (i.e. 40% of General Fund revenues and a \$3 million reserve for disasters).

Every two years, the City's Five Year Strategic Business Plan ("Plan") is updated and approved by the Council. In the current Plan, the Council envisions developing a sports park, recreation center, closing existing gaps on Alton and Rancho Parkways, synchronization of traffic signals, streetscape improvements, and several park renovation projects. Much of the funding for projects will be reimbursed upon new development in future years.

### **Relevant financial policies**

The City has a variety of important financial policies to assist in making sound decisions. These policies are shown below:

1. Investment Policy which is more restrictive than State law
2. Long-Term Financing Policy
3. Purchasing and Contract Guidelines
4. Reserve Policy
5. Carryover Appropriation and Revenue Policy

### **Major initiatives**

The City is currently putting forth efforts on a variety of projects as are shown below:

1. Complete a comprehensive update of the Five-Year Strategic Business Plan.
2. Conduct resident and business satisfaction surveys.
3. Implement Phase IV of the Opportunities Study, focusing on planning efforts for a sports park, recreation center, meeting facility, and civic center.
4. Complete the process to eliminate the current gap in Alton Parkway in coordination with the County of Orange and private property owner.
5. Continue work on streetscape projects on Rockfield Boulevard, El Toro Road, and Jeronimo Road to implement traffic calming measures and to construct new medians and parkways.
6. Synchronize traffic signals throughout the City.
7. Continue implementation of the Revitalization Action Plan in the Light Industrial Area.
8. Develop an economic development strategy to attract new businesses and high quality jobs to the City.
9. Continue implementation of the Five-Year Parks and Recreation Master Plan.



## Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to the City for its comprehensive annual financial report for the Fiscal Year ended June 30, 2010. This was the eighteenth consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the City had to publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the efficient and dedicated service of the City's entire management team and staff of the Finance Department. Special thanks are due to Kevin Shirah, Accounting Manager, and Lee Siow, Accountant. Their dedicated efforts in the preparation of the final financial documents are reflected in the quality of this report. Credit also must be given to the City Council for their unfailing support for maintaining the highest standards of professionalism in the management of the City's finances.

Respectfully Submitted,



Robert C. Dunek  
City Manager



Keith D. Neves  
Director of Finance/City Treasurer

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Lake Forest  
California

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



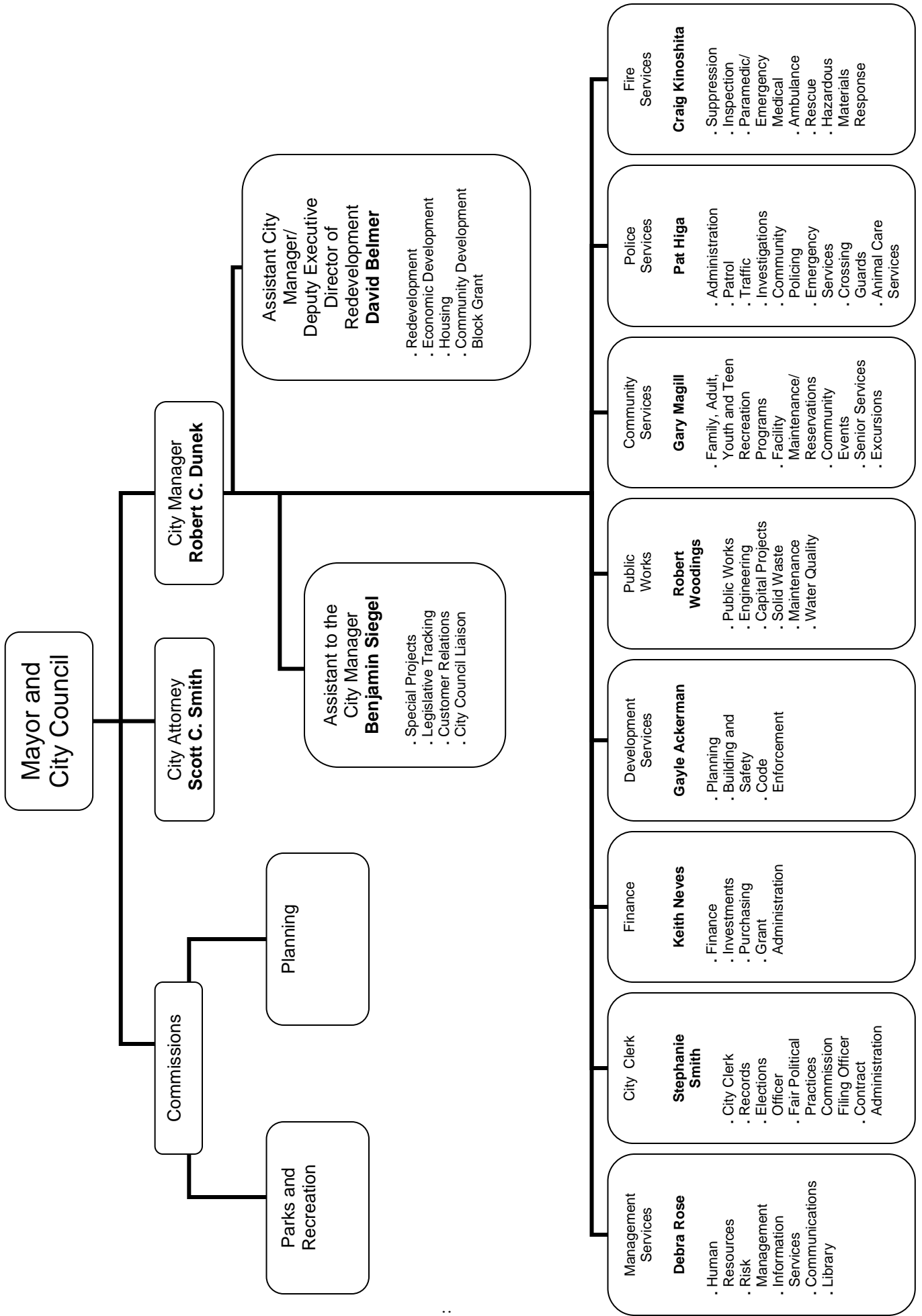
*Linda C. Dandson*

President

*Jeffrey R. Emer*

Executive Director

# ORGANIZATIONAL CHART



# ***City of Lake Forest***

## ***City Officials***

### City Council

Peter Herzog, Mayor  
Mark Tetterer, Mayor Pro Tem  
Kathryn McCullough, Council Member  
Marcia Rudolph, Council Member  
Scott Voigts, Council Member

### City Manager

Robert C. Dunek

### Administrative Staff

Gayle Ackerman, Director of Development Services  
David Belmer, Assistant City Manager/  
Deputy Executive Director of Redevelopment  
Lt. Pat Higa, Chief of Police Services  
Craig Kinoshita, Division Chief - Fire Services  
Gary Magill, Director of Community Services  
Keith D. Neves, Director of Finance/City Treasurer  
Debra Rose, Director of Management Services  
Benjamin Siegel, Assistant to the City Manager  
Scott C. Smith, City Attorney  
Stephanie D. Smith, City Clerk  
Robert Woodings, Director of Public Works/City Engineer

Prepared by the Department of Finance

## INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council  
City of Lake Forest  
Lake Forest, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Lake Forest (the City), as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Lake Forest's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Lake Forest, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Notes 6 and 9, the City has implemented the provisions of Governmental Accounting Standards Board Statement Numbers 45 and 54, "Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions" and "Fund Balance Reporting and Governmental Fund Type Definitions", respectively, for the year ended June 30, 2011.

As explained further in Note 14, the California State Legislature has enacted legislation that is intended to provide for the dissolution of redevelopment agencies in the State of California. The effects of this legislation are uncertain pending the result of certain lawsuits that have been initiated to challenge the constitutionality of this legislation.

In accordance with Government Auditing Standards, we have also issued our report dated December 28, 2011 on our consideration of the City of Lake Forest'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, schedule of funding progress and budgetary comparison schedules, 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 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lake Forest's basic financial statements as a whole. The introductory section, supplementary information and statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion or provide any assurance on them.

*White Nelson Duerl Evans LLP*

December 28, 2011  
Irvine, California

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the City of Lake Forest ("City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2011. It is encouraged that the readers consider the information presented here in conjunction with additional information that has been furnished in the letter of transmittal and the accompanying basic financial statements.

### **Financial Highlights**

#### Government-Wide

- Assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$288.2 million (net assets). Of this amount, \$81.4 million (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$12.4 million. This increase is attributable to revenues being in excess of expenses.
- Total revenues from all sources were \$56.4 million as compared to the cost for all City programs of \$44 million.

Further discussion of changes in net assets, revenues, and expenses is included in the Government-wide Financial Analysis section.

#### Fund Based

- Total governmental fund balances were \$89.6 million. Nonspendable were \$0.2 million, restricted were \$9.7 million, assigned were \$24.5 million, and unassigned were \$55.2 million.
- Total governmental fund balances decreased by \$16.6 million. This decrease is attributable to an excess of expenditures as compared to revenues.
- Total governmental revenues from all sources were \$44.6 million as compared to expenditures of \$61.1 million.

Further discussion of revenues and expenditures is included in the Financial Analysis of the Government's Funds section.

### **Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

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

See independent auditors' report.

**CITY OF LAKE FOREST  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2011**

The *statement of activities* presents information on how the City's net assets changed during the 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 of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods; (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements include not only the City itself (known as the primary government), but also the legally-separate Lake Forest Redevelopment Agency (Agency), the Lake Forest Housing Authority (Authority) and the Rancho Cañada Financing Authority (Authority) for which the City is financially accountable. Financial information for the Agency (a component unit) is reported separately from the financial information presented for the primary government itself. The Authorities are presented as other governmental funds. The Agency and Authorities function for all practical purposes as departments of the City, and therefore, have been included as an integral part of the primary government. The City does not account for any of its services on a business-type activity basis.

*Fund financial statements.* A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

*Governmental funds.* 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 on 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 City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and government-wide activities.

The City maintains eighteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Community Development Block Grant Special Revenue, and Opportunities Study Area Capital Projects, which are all considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for all governmental funds. A budgetary comparison statement has been provided for each of the funds with appropriated budgets to demonstrate compliance with these budgets.

See independent auditors' report.



**CITY OF LAKE FOREST  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2011**

*Proprietary funds.* The City of Lake Forest maintains one type of proprietary fund – an internal service fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City maintains one internal service fund to account for the replacement of its fleet of vehicles. Because these services predominantly benefit the governmental function, they have been included within governmental activities in the government-wide financial statements.

*Fiduciary funds.* Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs.

*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.

The combining statements referred to earlier in connection with other governmental funds are presented immediately following the required supplementary information.

**Government-Wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$288.2 million at the close of the most recent fiscal year. By far, the largest portion of the City's net assets (68%) reflects its investment in capital assets (e.g., infrastructure, land, buildings, machinery, and equipment). There is \$8.1 million in debt outstanding related to the acquisition or construction of these capital assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

**Table 1**  
Net Assets  
(in millions)

	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
Current and other assets	\$100.3	\$116.0
Capital assets	<u>204.3</u>	<u>176.4</u>
Total assets	<u>\$304.6</u>	<u>\$292.4</u>
Other liabilities	\$7.6	\$7.7
Long-term debt liabilities	<u>8.8</u>	<u>8.9</u>
Total liabilities	<u>\$16.4</u>	<u>\$16.6</u>
Net assets:		
Invested in capital assets, net of debt	\$196.2	\$168.0
Restricted	10.5	10.9
Unrestricted	<u>81.5</u>	<u>96.9</u>
Total net assets	<u>\$288.2</u>	<u>\$275.8</u>

An additional portion of the City's net assets (4%) represents resources that are subject to external restrictions in how they may be used. The remaining balance of \$81.5 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

See independent auditors' report.

**CITY OF LAKE FOREST  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2011**

The City's net assets increased by \$12.4 million during the current fiscal year. Key elements of this increase are as follows:

Total revenues were \$56.4 million as compared to prior year revenues of \$41.7 million and major contributing revenue variations from the prior year are described below.

- Charges for services increased by \$0.8 million, primarily due to development impact fees for park improvements and fees related to a rezoning project.
- Operating grants and contributions decreased by \$0.6 million due to decreased grant funds utilized for street repaving and slurry seal projects.
- Capital grants and contributions increased by \$11.1 million due to contributions of land to be used for the Sports Park and Recreation Center.
- Tax increment decreased by \$1.2 million, primarily attributable to the continuing housing market decline from the recession.
- Sales and transient occupancy taxes increased by \$1.7 million and \$0.5 million, respectively, due to stronger growth in retail sales and gasoline prices.
- Investment earnings decreased by \$0.7 million in response to continuing declines in interest rates that occurred during the year in response to the financial crisis in late 2008.

Total costs for all City programs were \$44 million as compared to prior year costs of \$44.1 million and material variances from the prior year are described below.

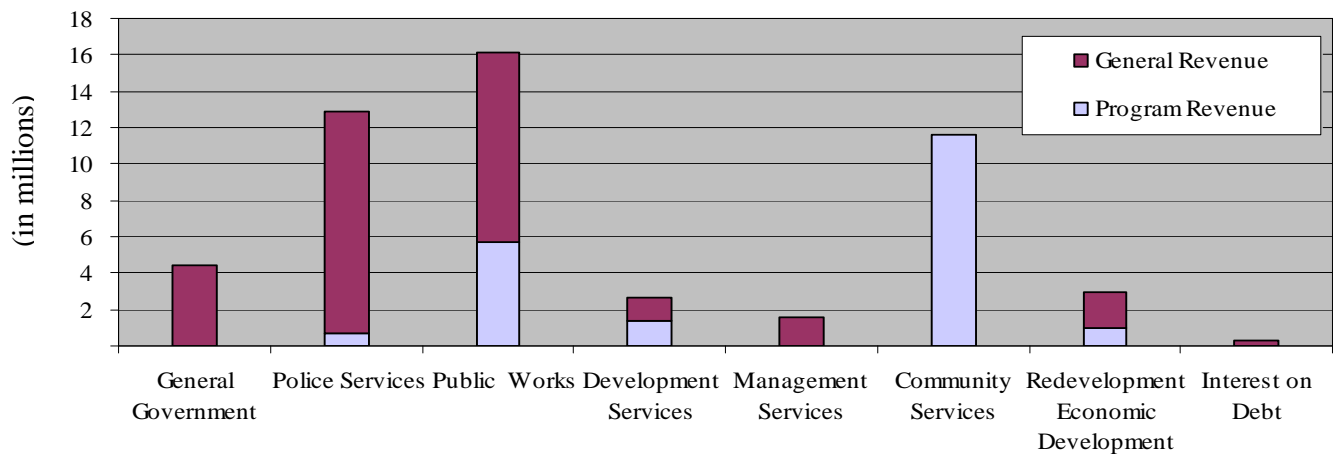
- Governmental activities costs decreased roughly \$0.1 million across various departments as a result of City wide cutbacks in expenditures in order to match revenues.

**CITY OF LAKE FOREST  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2011**

**Table 2**  
Changes in Net Assets  
(in millions)

	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
Revenues:		
Program revenues:		
Charges for services	\$3.2	\$2.4
Operating contributions and grants	4.8	5.5
Capital contributions and grants	12.4	1.3
General revenues:		
Taxes:		
Property taxes	17.3	15.7
Sales taxes	12.6	10.9
Transient occupancy taxes	2.5	2.0
Franchise taxes	2.3	2.2
Motor vehicle in-lieu tax	0.4	0.2
Investment income	0.5	1.2
Other	<u>0.4</u>	<u>0.3</u>
Total revenues	<u>\$56.4</u>	<u>\$41.7</u>
Expenses:		
General government	\$4.4	\$4.6
Public safety	12.9	13.0
Public works	16.1	16.9
Development services	2.7	2.8
Management services	1.6	1.8
Community services	3.0	3.1
Redevelopment/economic development	3.0	1.5
Interest on long-term debt	<u>0.3</u>	<u>0.4</u>
Total expenses	<u>\$44.0</u>	<u>\$44.1</u>
Increase (decrease) in net assets	<u>\$12.4</u>	<u>(\$2.4)</u>

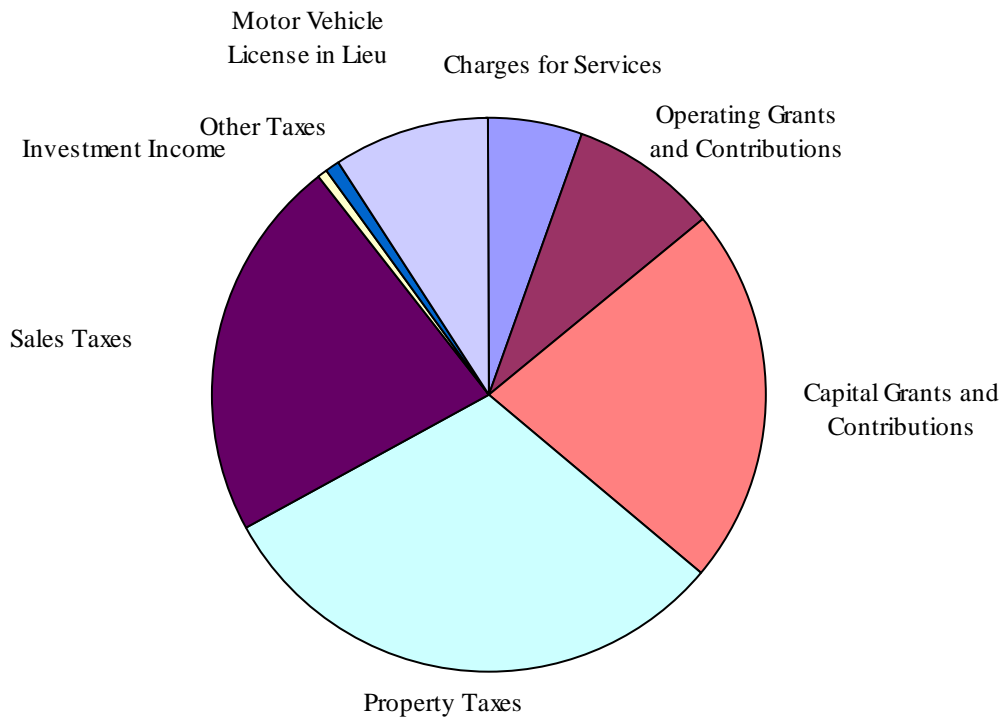
**Funding of Governmental Activities**



See independent auditors' report.

**CITY OF LAKE FOREST  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2011**

**Revenues by Source - Governmental Activities**



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

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

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

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$89.6 million, a decrease of \$16.6 million in comparison with the prior year. Of this amount, \$0.2 is Nonspendable prepaid items that are 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, \$9.7 million is for a variety of restricted purposes, \$24.5 million is assigned for capital projects, and \$55.2 million is unassigned which is available for spending at the government's discretion.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$55.3 million, while total fund balance reached \$55.5 million. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund operating expenditures. Unassigned fund balance represents 144% of total General Fund expenditures, while total fund balance represents 145% of that same amount.

See independent auditors' report.

**CITY OF LAKE FOREST  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2011**

Fund balance in the City's General Fund decreased \$19.8 million during the current fiscal year. Key factors in this decrease are as follows:

- Revenues increased from a year ago by \$0.4 million. Taxes increased by \$1.9 million, primarily attributable to the economy starting to bounce back after the ongoing effect of the recession. Intergovernmental revenues decreased by \$1.2 million mostly due to less grant opportunities for capital improvement projects. Investment income decreased by \$0.8 million from the continuing effects of financial crisis on interest rates. The remaining portion is related to smaller fluctuations in other revenue accounts.
- Expenditures increased by \$2.7 million. Capital outlay costs increased by \$3.3 million primarily due to a certain larger projects in progress during the fiscal year, such as street repaving and slurry seal, the Alton Parkway Gap Closure, and various park improvement projects. The remaining portion is related to smaller variances in various expenditure accounts in other departments.
- Net interfund transfers out decreased by \$5.8 million as a result of the City's advance funding of the sports park, recreation center, and intersection improvements. Much of these funds will be recovered when future development occurs.

The City has two other major funds, the Community Development Block Grant Special Revenue and the Opportunities Study Area Capital Projects Funds.

The Community Development Block Grant Special Revenue Fund is used to account for receipts and expenditures under the federal Community Development Block Grant Program. The fund ended the year with a decrease in fund balance of \$0.1 million related directly the activities of the program.

The Opportunities Study Area Capital Projects Fund is primarily composed of funds transferred in from the General Fund to incur costs for public facilities related to future development. The major projects being funded at this time are Sports Park and Recreation Center. This fund ended the year with an increase in fund balance of \$6.7 million. Expenditures increased by \$10.8 million, mostly attributable to acquisition, planning, and design costs of the above noted capital projects. Interfund transfers decreased by \$0.5 million, reflecting the General Fund's contribution towards advancing these projects.

*Proprietary fund.* The internal service vehicle replacement fund net assets amounted to \$0.5 million at June 30, 2011. Of this amount, \$0.4 million is reported as unrestricted and net assets invested in capital assets amounted to \$0.1 million.

**General Fund Budgetary Highlights**

Revenues

The difference between original and final amended budgeted revenues was a decrease of \$1.8 million. The most notable mid-year revenue adjustments were made to Intergovernmental and Other Revenue.

See independent auditors' report.

**CITY OF LAKE FOREST  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2011**

Actual revenues were lower than budgeted amounts by \$2.2 million. Taxes exceeded the budget by \$1.5 million, mostly due to higher sales taxes when compared to the conservative mid-year budget adjustments. Intergovernmental revenues were less than the budget by \$2.1 million primarily due to outstanding grants that were to be carried over into the next fiscal year. Charges for services were higher than the budget by \$0.2 million as a result of greater than expected receipts at the building counter and fees received for various rezoning request. Investment income was less than the budget by \$0.3 million primarily due to the interest rates still at record lows. The remaining budget variance is related to smaller fluctuations in other revenue categories.

As of June 30, 2011, none of the variances noted above were expected to significantly impact future government services or liquidity. The ongoing recession has negatively impacted the City's revenues, but this has been mitigated by conservative financial management and fully funded reserves.

Expenditures

The difference between original and final amended budgeted expenditures was \$20.4 million. This difference was mostly due to \$19.7 million in carryover appropriations of operating and capital projects that were not completed in Fiscal Year 2009-10. The remaining difference of \$0.7 million was primarily attributable to mid-year and year-end budget adjustments made to departmental and capital budgets based on activity during the fiscal year and reductions to address the ongoing recession.

Total expenditures were under budgeted amounts by \$22.4 million primarily attributable to \$21.2 million in operating and capital improvement projects not yet completed and thus, will be carried over into the next fiscal year. The remaining \$1.2 million consisted of savings on capital improvement projects and savings in various departmental budgets.

**Capital Assets**

The City's investment in capital assets for its governmental activities as of June 30, 2011, amounts to \$204.3 million net of accumulated depreciation and \$196.2 million net of related outstanding debt.

Major capital asset events during the current fiscal year included the following:

- Land increased \$23.9 million primarily related to acquisition of land for the future Sports Park and Recreation Center site through purchase and contributions to the City.
- Infrastructure decreased \$1.3 million primarily related to depreciation expense on the City's infrastructure assets.
- Costs in the construction in progress category increased \$4.9 million primarily related to work performed on a sports park, recreation center, streetscapes, traffic signal preemption, Alton Parkway Gap Closure, and the Heroes Park projects.
- Costs in the building and improvements category increased by \$0.8 million due to the Redevelopment Agency's purchase of two transitional housing condominiums.

See independent auditors' report.

**CITY OF LAKE FOREST  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2011**

**City of Lake Forest - Capital Assets**  
(net of depreciation)  
(in millions)

	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
Land	\$ 72.8	\$ 48.9
Machinery and equipment	0.3	0.7
Buildings and improvements	1.4	0.6
Construction in progress	10.8	6.0
Infrastructure:		
Streets	70.5	73.4
Curbs, gutters and sidewalks	26.6	26.3
Storm drain system	6.1	6.3
Traffic signal system	2.7	2.5
Medians	3.9	4.2
Park improvements	<u>9.2</u>	<u>7.5</u>
Total	<u>\$204.3</u>	<u>\$176.4</u>

Additional information on the City's capital assets can be found in Note 3 in the Financial Section of this report.

**Long-Term Liabilities**

At the end of the current fiscal year, the City had total long-term liabilities outstanding of \$8.8 million, a decrease of \$0.1 million from the prior fiscal year. Total long-term debt outstanding represents the issuance of Certificates of Participation ("Certificates") for the City's share of the El Toro Road Traffic and Landscape Improvement Project, compensated absences and other post-employment benefits. Principal and interest on the Certificates are due in bi-annual payments. Debt service began in June 2004 and the Certificates mature in 2033.

**City of Lake Forest - Long-Term Liabilities**

	<u>2011</u>	<u>2010</u>
2004 Certificates of Participation	\$8,100,000	\$8,325,000
Premium on issue	41,809	43,653
Compensated absences	558,423	511,717
Other post-employment benefits	<u>63,207</u>	<u>0</u>
Totals	<u>\$8,763,439</u>	<u>\$8,880,370</u>

Additional information on the City's long-term debt can be found in Note 5 in the Financial Section of this report.

See independent auditors' report.

**CITY OF LAKE FOREST  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2011**

**Economic Factors and Next Year's Budgets and Rates**

The June 30, 2011, unemployment rate for the City was 6.6% as compared to the rate of 6.2% one year ago. The City's rate compares favorably to the State's unemployment rate of 11.3% and the national average rate of 8.6%.

The City's Fiscal Year 2011-12 Operating Budget takes into account the historical trends of property, hotel, and sales taxes. Additionally, anticipated effects of the ongoing recession were factored into the projections. The Operating Budget will be fully reviewed at mid-year to assess any further negative effects to revenues resulting from the current economic situation.

General Fund operating expenditures have been projected to remain relatively stable for the next five years due to revenue declines experienced from the recession. The City's General Fund is balanced in the Operating Budget for Fiscal Year 2011-12 and all reserves are fully funded. Reductions to expenditures will be required if revenues decline further during the remainder of the fiscal year.

All of these factors were considered in preparing the City's Budget for Fiscal Year 2011-12.

**Requests for Information**

This financial report is designed to provide a general overview of the City of Lake Forest's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, City of Lake Forest, 25550 Commercentre Drive, Suite 100, Lake Forest, California 92630.



CITY OF LAKE FOREST  
STATEMENT OF NET ASSETS

June 30, 2011

	Governmental Activities
<b>ASSETS:</b>	
Cash and investments	\$ 93,074,776
Receivables:	
Taxes	1,930,969
Accounts	307,313
Interest	277,046
Grants	806,999
Loans	1,679,451
Due from other governments	1,406,685
Prepaid items	171,428
Land held for resale	326,000
Unamortized bond issuance costs	269,895
Capital assets:	
Not being depreciated	83,611,823
Being depreciated, net	120,710,202
TOTAL ASSETS	304,572,587
<b>LIABILITIES:</b>	
Accounts payable	6,129,348
Accrued salaries and benefits	340,870
Interest payable	26,426
Retentions payable	478,452
Unearned revenue	101,996
Deposits payable	556,632
Noncurrent liabilities:	
Due within one year	645,040
Due in more than one year	8,118,399
TOTAL LIABILITIES	16,397,163
<b>NET ASSETS:</b>	
Invested in capital assets, net of related debt	196,180,216
Restricted for:	
Low and moderate income housing	326,000
Redevelopment/economic development	5,297,775
Public safety	11,369
Public works	4,679,969
Community services	232,919
Unrestricted	81,447,176
TOTAL NET ASSETS	\$ 288,175,424

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

CITY OF LAKE FOREST

STATEMENT OF ACTIVITIES

For the year ended June 30, 2011

Functions/programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental activities:</b>				
General government	\$ 4,377,337	\$ 29,311	\$ -	\$ -
Public safety	12,873,177	560,819	168,123	-
Public works	16,115,328	936,195	3,660,165	1,110,206
Development services	2,660,830	1,388,941	-	-
Management services	1,606,779	-	-	-
Community services	3,058,292	272,446	34,442	11,286,355
Redevelopment/economic development	2,958,997	-	967,658	-
Interest on long-term liabilities	332,045	-	-	-
<b>Total governmental activities</b>	<b>\$ 43,982,785</b>	<b>\$ 3,187,712</b>	<b>\$ 4,830,388</b>	<b>\$ 12,396,561</b>

General revenues:

Taxes:

- Property tax, levied for general purpose
- Property tax, redevelopment agency tax increment
- Sales tax
- Transient occupancy tax
- Franchise tax
- Motor vehicle license in lieu, unrestricted

Investment income

Other

Total general revenues

Change in net assets

Net assets at beginning of year, as restated

Net assets at end of year

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

Net (Expense)  
Revenue and  
Changes in  
Net Assets  
Governmental  
Activities

---

\$ (4,348,026)  
(12,144,235)  
(10,408,762)  
(1,271,889)  
(1,606,779)  
8,534,951  
  
(1,991,339)  
(332,045)  
  
\$ (23,568,124)

12,808,272  
4,506,012  
12,630,144  
2,439,443  
2,269,023  
398,659  
479,877  
418,151  
  
35,949,581  
  
12,381,457  
  
275,793,967  
  
\$ 288,175,424

CITY OF LAKE FOREST  
BALANCE SHEET  
GOVERNMENTAL FUNDS

June 30, 2011

		Special Revenue Fund	Capital Projects Fund
	General	Community Development Block Grant	Opportunities Study Area
<b>ASSETS</b>			
Cash and investments	\$ 58,318,762	\$ -	\$ 24,643,140
Receivables:			
Taxes	1,930,969	-	-
Accounts	303,216	-	-
Interest	253,083	43	-
Grants	487,335	99,674	-
Loans	-	1,191,892	-
Due from other governments	1,046,806	-	-
Due from other funds	206,610	-	-
Prepaid items	166,614	938	-
Land held for resale	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 62,713,395</b>	<b>\$ 1,292,547</b>	<b>\$ 24,643,140</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES:</b>			
Accounts payable	\$ 5,260,781	\$ 22,107	\$ 122,138
Accrued salaries and benefits	340,870	-	-
Retentions payable	462,783	8,862	-
Due to other funds	-	39,120	-
Deferred revenue	645,248	1,191,366	-
Deposits payable	534,136	-	22,496
<b>TOTAL LIABILITIES</b>	<b>7,243,818</b>	<b>1,261,455</b>	<b>144,634</b>
<b>FUND BALANCES:</b>			
Nonspendable	166,614	938	-
Restricted	-	30,154	-
Assigned	-	-	24,498,506
Unassigned	55,302,963	-	-
<b>TOTAL FUND BALANCES</b>	<b>55,469,577</b>	<b>31,092</b>	<b>24,498,506</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 62,713,395</b>	<b>\$ 1,292,547</b>	<b>\$ 24,643,140</b>

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

Other Governmental Funds	Total Governmental Funds
\$ 9,624,867	\$ 92,586,769
-	1,930,969
4,097	307,313
23,920	277,046
219,990	806,999
487,559	1,679,451
359,879	1,406,685
-	206,610
3,876	171,428
326,000	326,000
<u>\$ 11,050,188</u>	<u>\$ 99,699,270</u>

\$ 724,322	\$ 6,129,348
-	340,870
6,807	478,452
167,490	206,610
509,818	2,346,432
-	556,632
<u>1,408,437</u>	<u>10,058,344</u>

3,876	171,428
9,690,834	9,720,988
-	24,498,506
(52,959)	55,250,004
<u>9,641,751</u>	<u>89,640,926</u>
<u>\$ 11,050,188</u>	<u>\$ 99,699,270</u>

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CITY OF LAKE FOREST

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

June 30, 2011

Fund balances - total governmental funds		\$ 89,640,926
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 funds.		
Capital assets	\$ 289,610,132	
Accumulated depreciation	<u>(85,343,939)</u>	
		204,266,193
Long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the fund financial statements.		
		2,244,436
Governmental funds report bond issuance costs as an expenditure when incurred. These costs are capitalized and amortized over the life of the bonds in the Statement of Net Assets. This amount represents the remaining costs to be amortized over the life of the bonds.		
		269,895
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds. Long-term liabilities consists of the following:		
Compensated absences	(558,423)	
Certificates of participation bonds payable	(8,100,000)	
Unamortized premium on certificates of participation bonds	<u>(41,809)</u>	
Total long-term liabilities		(8,700,232)
OPEB obligation is not accrued in governmental funds, but rather is recognized as an expenditure when paid.		
		(63,207)
Interest expenditures are recognized in the governmental funds when due. Interest expense is recorded on the accrual basis in the government-wide financial statements, and therefore these statements reflect a liability for accrued interest payable.		
		(26,426)
Internal service funds are used by management to charge the costs of vehicle replacement to individual funds. The assets and liabilities of the internal service fund are included in the Statement of Net Assets.		
		<u>543,839</u>
Net assets of governmental activities		<u><u>\$ 288,175,424</u></u>

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

CITY OF LAKE FOREST

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

For the year ended June 30, 2011

	General	Special Revenue Fund Community Development Block Grant	Capital Projects Fund Opportunities Study Area
<b>REVENUES:</b>			
Taxes	\$ 30,146,882	\$ -	\$ -
Licenses and permits	513,965	-	-
Intergovernmental	1,140,624	925,059	-
Charges for services	1,076,174	-	-
Developer contributions	-	-	750,000
Fines and forfeitures	557,083	-	-
Investment income	257,662	787	-
Other	545,667	41,945	37,504
<b>TOTAL REVENUES</b>	<b>34,238,057</b>	<b>967,791</b>	<b>787,504</b>
<b>EXPENDITURES:</b>			
Current:			
General government	3,832,714	-	37,504
Public safety	12,729,389	-	-
Public works	6,761,185	-	-
Development services	2,440,911	-	-
Management services	1,484,102	-	-
Community services	3,054,343	-	-
Redevelopment/economic development	280,302	370,918	-
SERAF payment to State	-	-	-
Capital outlay	7,748,721	693,315	13,207,552
Debt service:			
Principal payments	-	-	-
Interest and fiscal charges	-	-	-
Pass-through payments	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>38,331,667</b>	<b>1,064,233</b>	<b>13,245,056</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(4,093,610)</b>	<b>(96,442)</b>	<b>(12,457,552)</b>
<b>OTHER FINANCING SOURCES (USES):</b>			
Transfers in	3,397,351	-	19,139,000
Transfers out	(19,139,000)	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(15,741,649)</b>	<b>-</b>	<b>19,139,000</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(19,835,259)</b>	<b>(96,442)</b>	<b>6,681,448</b>
<b>FUND BALANCES - BEGINNING OF YEAR, AS RESTATED</b>	<b>75,304,836</b>	<b>127,534</b>	<b>17,817,058</b>
<b>FUND BALANCES - END OF YEAR</b>	<b>\$ 55,469,577</b>	<b>\$ 31,092</b>	<b>\$ 24,498,506</b>

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



Other Governmental Funds	Total Governmental Funds
\$ 4,506,012	\$ 34,652,894
-	513,965
3,680,985	5,746,668
264,835	1,341,009
-	750,000
-	557,083
69,419	327,868
41,836	666,952
<u>8,563,087</u>	<u>44,556,439</u>
210,262	4,080,480
118,520	12,847,909
1,823,975	8,585,160
123,228	2,564,139
5,502	1,489,604
-	3,054,343
866,535	1,517,755
249,002	249,002
3,023,363	24,672,951
225,000	225,000
322,138	322,138
1,532,740	1,532,740
<u>8,500,265</u>	<u>61,141,221</u>
<u>62,822</u>	<u>(16,584,782)</u>
1,852,848	24,389,199
<u>(5,250,199)</u>	<u>(24,389,199)</u>
<u>(3,397,351)</u>	<u>-</u>
(3,334,529)	(16,584,782)
<u>12,976,280</u>	<u>106,225,708</u>
<u>\$ 9,641,751</u>	<u>\$ 89,640,926</u>

CITY OF LAKE FOREST

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

For the year ended June 30, 2011

Net change in fund balances - total governmental funds \$ (16,584,782)

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

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense or allocated to the appropriate functional expense when the cost is below the capitalization threshold. Donated capital assets increase net assets in the Statement of Activities, but do not appear in the governmental funds because they are not financial resources. This activity is reconciled as follows:

Depreciation	\$ (5,252,772)	
Donated capital assets	11,286,353	
Capital outlay, net of disposals	<u>21,947,212</u>	27,980,793

The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of issuance costs when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities:

Bonds payable	\$ 225,000	
Current year amortization of bond premium	1,844	
Current year amortization of bond issuance costs	<u>(11,907)</u>	214,937

Interest on noncurrent liabilities is not accrued in governmental funds, but rather is recognized as an expenditure when due.

Accrued interest		156
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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:

Investment income		42,540
Intergovernmental		522,971

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:

OPEB expense		(63,207)
--------------	--	----------

Compensated absences reported on the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. The net change is reported on the Statement of Activities.

		(46,706)
--	--	----------

Long-term loans are reported as expenditures when made and as revenue when repaid in the governmental funds. However, there is no impact in the Statement of Activities when loans are made or repaid.

		296,439
--	--	---------

Internal service funds are used by management to charge the costs of vehicle replacement to individual funds. The net revenues of the internal service fund are reported with governmental activities.

		<u>18,316</u>
--	--	---------------

Change in net assets of governmental activities

	\$	<u><u>12,381,457</u></u>
--	----	--------------------------

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

CITY OF LAKE FOREST  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND

June 30, 2011

	ASSETS	Governmental Activites <hr/> Internal Service Fund <hr/>
CURRENT ASSETS:		
Cash and investments		<u>\$ 488,007</u>
NONCURRENT ASSETS:		
Capital assets:		
Being depreciated		419,380
Less: accumulated depreciation		<u>(363,548)</u>
TOTAL NONCURRENT ASSETS		<u>55,832</u>
TOTAL ASSETS		<u><u>\$ 543,839</u></u>
	NET ASSETS	
Invested in capital assets		\$ 55,832
Unrestricted		<u>488,007</u>
NET ASSETS		<u><u>\$ 543,839</u></u>

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

CITY OF LAKE FOREST

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUND

For the year ended June 30, 2011

	<u>Governmental Activites Internal Service Fund</u>
OPERATING REVENUES:	
Current service charges	\$ 77,300
OPERATING EXPENSES:	
Depreciation	<u>58,984</u>
OPERATING INCOME/CHANGE IN NET ASSETS	18,316
NET ASSETS AT BEGINNING OF YEAR	<u>525,523</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 543,839</u></u>

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

CITY OF LAKE FOREST  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND

For the year ended June 30, 2011

	Governmental Activites
	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from user departments	\$ 77,300
NET INCREASE IN CASH AND CASH EQUIVALENTS	77,300
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	410,707
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 488,007
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	\$ 18,316
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	58,984
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 77,300

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

CITY OF LAKE FOREST  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
ALL AGENCY FUNDS

June 30, 2011

ASSETS

Cash and investments	<u>\$ 15,332</u>
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LIABILITIES

Deposits payable	<u>\$ 15,332</u>
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See independent auditor's report and notes to basic financial statements.

# CITY OF LAKE FOREST

## NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the City of Lake Forest (the City) 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 City has implemented GASB Statement No. 34 and these statements are presented according to those requirements. The following is a summary of the significant policies.

#### a. Description of the Reporting Entity:

This report includes all fund types of the City of Lake Forest (the "primary government"), the Lake Forest Redevelopment Agency (the Agency), the Lake Forest Housing Authority (the Housing Authority) and the Rancho Cañada Financing Authority (the Financing Authority). The Agency and the Authorities meet the definition of a "component unit," and are presented on a "blended" basis, as if they are part of the primary government. Although they are legally separate entities, the governing board of the Agency and the Housing and Financing Authorities are comprised of the same membership as the City Council. The City may impose its will on the Agency and the Housing and Financing Authorities, including the ability to appoint, hire, reassign, or dismiss management. There is also a financial benefit/burden relationship between the City, the Agency, and the Housing and Financing Authorities.

The City of Lake Forest was incorporated on December 20, 1991, under the laws of the State of California and enjoys all the rights and privileges pertaining to "General Law" cities. The City operates under a council-manager form of government and currently provides public safety, planning, building, code enforcement, engineering, street maintenance, street lighting, parks, recreation, and general administrative services.

The Lake Forest Redevelopment Agency was activated in October 1995 pursuant to the State of California Health and Safety Code Section 33000, entitled "Community Redevelopment Law." Its purpose is to prepare and carry out plans for improvement, rehabilitation, and redevelopment of blighted areas within the territorial limits of the City of Lake Forest. The activity of the Agency is reported in the Special Revenue, Debt Service and Capital Projects Funds.

The Rancho Cañada Financing Authority was established pursuant to the Rancho Cañada Financing Authority Joint Exercise of Powers Agreement, dated as of September 15, 1998, by and between the City and the Authority, under the provision of Chapter 5, Division 7, Title 1 of the Government Code of the State. The Board of Directors of the Authority is composed of the five members in connection with the acquisition, construction and improvement of public capital improvements, working capital requirements or insurance programs of the members. The activity of the Financing Authority is reported in the Debt Service Fund.

See independent auditors' report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

a. Description of the Reporting Entity (Continued):

The Lake Forest Housing Authority was established by the City Council in February 2011, and is partly responsible for the administration of providing affordable housing in the City. The activity of the Housing Authority is reported in the Special Revenue Fund.

Separate financial statements for the Lake Forest Redevelopment Agency and the Lake Forest Housing Authority can be obtained from the City of Lake Forest Finance Department located at City Hall, 25550 Commercentre Drive, Suite 100, Lake Forest, California, 92630. The Rancho Cañada Financing Authority does not issue separate financial statements.

b. Basis of Accounting, Measurement Focus and Financial Statement Presentation:

The *basic financial statements* of the City are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to basic financial statements

**Government-Wide Financial Statements**

Government-wide financial statements display information about the reporting government as a whole, except for its fiduciary activities. These statements include a single column for the governmental activities of the primary government. The City of Lake Forest has no business-type activities. Eliminations have been made in the Statement of Activities so that certain allocated expenses are recorded only once (by the function to which they were allocated). However, general government expenses have not been allocated as indirect expenses to the various functions of the City.

Government-wide financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*, as is the fiduciary fund financial statements. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the government-wide financial statements. *Accrual basis of accounting* refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

See independent auditors' report.



CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

b. Basis of Accounting, Measurement Focus and Financial Statement Presentation (Continued):

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

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 City are 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.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund transfers, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated. Internal service fund activity has been eliminated and net balances are included in the governmental activities. Interfund services provided and used, if any, are not eliminated in the consolidation process.

See independent auditors' report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

b. Basis of Accounting, Measurement Focus and Financial Statement Presentation (Continued):

**Fund Financial Statements**

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

Fund financial statements for the primary government's governmental and fiduciary funds are presented after the government-wide financial statements. These statements display information about major funds individually and other governmental funds in the aggregate for governmental funds. Fiduciary statements include financial information for fiduciary funds. Fiduciary funds of the City primarily represent assets held by the City in a custodial capacity for other individuals or organizations.

**Governmental Funds**

In the fund financial statements, governmental funds are presented using the *modified-accrual basis of accounting*. Their revenues are recognized when they become *measurable* and *available* as net current assets. *Measurable* means that the amounts can be estimated, or otherwise determined. *Available* means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The City uses an availability period of 90 days, except for property taxes which is 60 days.

Sales taxes, property taxes, franchise fees, gas taxes, motor vehicle in lieu fees, highway user's taxes, transient occupancy taxes, grants and investment income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period to the extent normally collected within the availability period. Other revenue items are considered to be measurable and available where cash is received by the government.

See independent auditors' report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

b. Basis of Accounting, Measurement Focus and Financial Statement Presentation (Continued):

**Governmental Funds (Continued)**

In the fund financial statements, governmental funds are presented using the *current financial resources measurement focus*. This means that only current assets and current liabilities are generally included on their balance sheets. The reported fund balance (net current assets) is considered to be a measure of "available spendable resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Non-current portions of long-term receivables between governmental funds are reported on their balance sheets in spite of their spending measurement focus. Special reporting treatments are used to indicate; however, that they should not be considered "available spendable resources," since they do not represent net current assets.

Recognition of governmental fund type revenues represented by non-current receivables are deferred until they become current receivables. Non-current portions of other long-term receivables are offset by nonspendable fund balance.

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. Amounts expended to acquire capital assets are recorded as *expenditures* in the year that resources were expended, rather than as fund assets. The proceeds of long-term debt are recorded as an *other financing source* rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

When both restricted and unrestricted resources are combined in a fund, expenses are considered to be paid first from restricted resources, and then from unrestricted resources.

See independent auditors' report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

b. Basis of Accounting, Measurement Focus and Financial Statement Presentation (Continued):

**Proprietary Fund**

Proprietary fund types are accounted for using the *economic resources measurement focus* and *accrual basis of accounting*. This means that all assets and liabilities (whether current or non-current) associated with the activity are included on the balance sheet. Their reported fund equity presents total net assets. The operating statement of the proprietary fund presents increases (revenues) and decreases (expenses) in total net assets. Revenues are recognized when they are earned and expenses are recognized when the liability is incurred.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's internal service fund are charges to departments for vehicle replacement charges. The primary operating expense for the internal service fund is depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The City's internal service fund is presented in the proprietary fund financial statements. Because the principal users of the internal services are the City's governmental activities, the financial statements of the internal service fund are consolidated into the governmental activities column when presented in the government-wide financial statements. To the extent possible, the cost of these services is reported in the appropriate functional activity (general government, public safety, public works, etc.). The City uses the internal service fund to account for vehicle replacement activities.

**Fiduciary Funds**

Fiduciary Fund Financial Statements include a Statement of Net Assets. The City's Fiduciary Funds, which are custodial in nature (assets equal liabilities), use the accrual basis of accounting and do not involve measurement of results of operations. The City's Fiduciary Funds consist of agency funds that are used to account for funds collected and disbursed on behalf of entities outside of the City. Because these funds are not available for use by the City, fiduciary funds are not included in the governmental-wide statements. The City uses agency funds to account for the collection and disbursement of funds for Orange County road construction programs, the State of California Strong Motion Instrumentation Program, the State of California Building Standards Commission's green building standards program, and deposits related to the formation of Community Facilities Districts.

See independent auditors' report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

c. Fund Classifications:

The City reports the following major governmental funds:

**General Fund**

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

**Community Development Block Grant Special Revenue Fund**

This fund is used to account for receipts and expenditures made under the federal Community Development Block Grant program.

**Opportunities Study Area Capital Projects Fund**

This fund is used to account for costs to design and construct a sports park, recreation center, meeting facility, and a civic center. This fund is currently funded by developer advances and available City funds.

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

The Special Revenue Funds are used to account for proceeds of specific revenue sources that are legally restricted or otherwise assigned for specific purposes.

The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, long-term liability principal, interest and related costs.

The Capital Projects Funds are used to account for resources restricted or assigned for capital improvements.

The Internal Service Fund is used to account for the cost of replacing the City's vehicles.

The Agency Funds are used to account for special deposits for which the City acts as an agent for all special deposit activity.

See independent auditors' report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

d. Cash and Cash Equivalents:

All cash and investments are held in the City's cash management pool. Therefore, for purposes of the statement of cash flows for the proprietary fund, the City considers the entire pooled cash and investment balance to be cash and cash equivalents.

e. Investments:

Investments are reported in the accompanying statement of net assets at fair value. Changes in fair value that occur during a fiscal year are recognized as *investment income* reported for that fiscal year. *Investment income* includes interest earnings and changes in fair value. The City pools cash and investments of all funds. Each fund's share in this pool is displayed in the accompanying financial statements as *cash and investments*. Investment income earned by the pooled investments is allocated to the various funds based on each fund's average cash and investment balance, except for investment income associated with funds not legally required to receive pooled investment income which has been assigned to and recorded as revenue of the general fund, as provided by California Government Code Section 53647.

f. Prepaid Items:

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the Government-Wide and Fund Financial Statements.

g. Property Taxes:

Property tax revenue is recognized; in the fiscal year for which the taxes have been levied providing, they become available. Available means due, or past due and receivable within the current period and collected within the current period or expected to be collected within the current period or expected to be collected soon enough thereafter (not to exceed 60 days) to be used to pay liabilities in the current period.

See independent auditors' report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

g. Property Taxes (Continued):

Under California law, property taxes are assessed and collected by the counties at up to one percent of assessed value, plus other increases approved by the voters. The property taxes go into a pool and are then allocated to the cities based on complex formulas. The County of Orange collects property taxes for the City. Tax liens attach annually as of 12:01 a.m. on the first day of January, proceeding the fiscal year for which the taxes are levied. Taxes are levied on July 1 and cover the fiscal period July 1 to June 30. All secured personal property taxes and one-half of the taxes on real property are due November 1; the second installment is due February 1. All taxes are delinquent, if unpaid, on December 10 and April 10, respectively. Unsecured personal property taxes become due on January 1 each year, and are delinquent, if unpaid, on August 31.

h. Capital Assets:

Capital assets, which include land, machinery and equipment (furniture, vehicles, computers, etc.), and infrastructure assets (street systems, storm drains, traffic signals, etc.), are reported in Governmental Activities column of the Government-Wide Financial Statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$1,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated or annexed capital assets are recorded at estimated value at the date of donation or annexation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Depreciation is recorded in the Government-Wide Financial Statements on a straight-line basis over the useful life of the assets as follows:

Buildings and improvements	10 years
Computers	3 years
Machinery and equipment	5 years
Vehicles	5 years
Furniture	7 years

See independent auditors' report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

h. Capital Assets (Continued):

Depreciation is recorded in the Government-Wide Financial Statements on a straight-line basis over the useful life of the assets as follows (Continued):

Infrastructure:

Traffic signals	25 years
Median improvements	25 years
Street system - Arterial	35 years
Street system - Residential	50 years
Storm drains	50 years

i. 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, 2011, the Other Governmental Funds reported land held for resale in the amount of \$326,000.

j. Long-Term Debt:

In the Government-Wide Financial Statements, long-term debt is reported as a liability in the Statement of Net Assets. Premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Long-term debt is reported net of the applicable premiums or discount. Issuance costs are reported as deferred charges and amortized over the term of the related debt using the straight-line method.

In the Fund Financial Statements, premiums and discounts, as well as issuance costs, are recognized in the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

See independent auditors' report.



CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

k. Compensated Absences:

In accordance with GASB Codification 660.110, an employee benefits payable liability is recorded for unused vacation and similar compensatory leave balances. The employee's entitlement to these balances are attributable to services already rendered and it is probable that virtually all of these balances will be liquidated by either paid time off or payments upon termination or retirement.

l. Use of Estimates:

The preparation of basic 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 revenue and expenditures during the reporting period. Actual results could differ from those estimates.

2. CASH AND INVESTMENTS:

**Cash and Investments**

Cash and investments at June 30, 2011 consisted of the following:

	Government Wide Statement of Net Assets	Fiduciary Fund Statement of Assets and Liabilities	Total
Cash and investments	<u>\$ 93,074,776</u>	<u>\$ 15,332</u>	<u>\$ 93,090,108</u>

Cash and investments consist of cash on hand, deposits and investments, as noted below:

Cash on hand	\$ 1,350
Deposits with financial institutions	2,781,978
Investments	<u>90,306,780</u>
Total cash and investments	<u>\$ 93,090,108</u>

See independent auditors' report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

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	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.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

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.

The City monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The City has no specific limitations with respect to this metric.

Information about the sensitivity of the fair values of the City's investments to market interest rate fluctuations is provided by the following table:

<u>Investment Type</u>	<u>Total</u>	<u>Weighted Average Maturity (in Years)</u>
United States Treasury Obligations	\$ 12,047,290	.80
United States Government Sponsored Agency Securities	22,039,492	.64
State Investment Pool (LAIF)	41,857,535	N/A
California Asset Management Program (CAMP)	10,628,402	N/A
Money Market Mutual Funds	<u>3,734,061</u>	N/A
	<u>\$ 90,306,780</u>	

See independent auditors' report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

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. Presented below is the minimum rating required by (where applicable) the California Government Code, the City's investment policy, or debt agreements, and the Standard and Poor's actual rating as of year end for each investment type:

Investment Type	Total as of June 30, 2011	Minimum Legal Rating	Exempt from Disclosure	AAA	Not Rated
U.S. Treasury Notes	\$ 12,047,290	N/A	\$ 12,047,290	\$ -	\$ -
U.S. Government Sponsored Agency Securities	22,039,492	N/A	-	22,039,492	-
State Investment Pool (LAIF)	41,857,535	N/A	-	-	41,857,535
California Asset Management Program (CAMP)	10,628,402	N/A	-	10,628,402	-
Money Market Mutual Funds	<u>3,734,061</u>	A	<u>-</u>	<u>3,734,061</u>	<u>-</u>
Total	<u>\$ 90,306,780</u>		<u>\$ 12,047,290</u>	<u>\$ 36,401,955</u>	<u>\$ 41,857,535</u>

Subsequent to June 30, 2011, Standards and Poor's reduced the rating of the United States Government Sponsored Agency Securities from AAA to AA+.

See independent auditors' report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

2. CASH AND INVESTMENTS (CONTINUED):

**Concentration of Credit Risk**

The investment policy of the City contains limitations on the amount that can be invested in anyone issuer beyond that stipulated by the California Government Code as noted on page 38. Investments in anyone issuer (other than U.S. Treasury Securities, mutual funds and external investment pools) that represent 5 percent or more of total investments were as follows:

Issuer	Investment Type	Reported Amount
Federal Farm Credit Agency	United States Government Sponsored Agency Securities	\$ 14,932,042
Federal Home Loan Bank	United States Government Sponsored Agency Securities	7,107,450

**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 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits. At June 30, 2011, the City deposits (bank balances) were insured by the Federal Depository Insurance Corporation or collateralized as required under California Law.

See independent auditors' report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

2. CASH AND INVESTMENTS (CONTINUED):

**Investment in State Investment Pool**

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's prorata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

**California Asset Management Program (CAMP)**

The City invests in this investment trust, which is similar to a money market mutual fund. The fund invests primarily in certificates of deposit, commercial paper, and U.S. Government and Agency obligations. The City is a voluntary participant in the investment trust.

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

See independent auditors' report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

3. CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2011 is as follows:

	Balance at July 1, 2010 <u>As Restated*</u>	<u>Additions</u>	<u>Deletions</u>	Balance at June 30, 2011
Capital assets, not being depreciated:				
Land	\$ 48,894,763	\$ 32,796,606	\$ (8,882,460)	\$ 72,808,909
Construction in progress	<u>5,950,954</u>	<u>6,940,385</u>	<u>(2,088,425)</u>	<u>10,802,914</u>
Total capital assets, not being depreciated	<u>54,845,717</u>	<u>39,736,991</u>	<u>(10,970,885)</u>	<u>83,611,823</u>
Capital assets, being depreciated:				
Buildings and improvements	799,062	907,766	-	1,706,828
Machinery and equipment	2,751,382	57,941	(39,538)	2,769,785
Infrastructure	<u>198,439,324</u>	<u>3,501,752</u>	<u>-</u>	<u>201,941,076</u>
Total capital assets, being depreciated	<u>201,989,768</u>	<u>4,467,459</u>	<u>(39,538)</u>	<u>206,417,689</u>
Less accumulated depreciation for:				
Buildings and improvements	(195,052)	(76,832)	-	(271,884)
Machinery and equipment	(2,045,589)	(433,690)	39,538	(2,439,741)
Infrastructure	<u>(78,194,628)</u>	<u>(4,801,234)</u>	<u>-</u>	<u>(82,995,862)</u>
Total accumulated depreciation	<u>(80,435,269)</u>	<u>(5,311,756)</u>	<u>39,538</u>	<u>(85,707,487)</u>
Total capital assets, being depreciated, net	<u>121,554,499</u>	<u>(844,297)</u>	<u>-</u>	<u>120,710,202</u>
Capital assets, net	<u>\$ 176,400,216</u>	<u>\$ 38,892,694</u>	<u>\$ (10,970,885)</u>	<u>\$ 204,322,025</u>

\* - Capital assets were restated to record unrecorded park land in the amount of \$2,735,336 that should have been recorded in prior years and to correct accumulated depreciation related to infrastructure in the amount of \$5,410,830. In addition, a reclassification of \$1,425,869 from *construction in progress* to *land* was necessary to correct the land that was incorrectly reported under *construction in progress* in prior years. See Note 15.

See independent auditors' report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

3. CAPITAL ASSETS (CONTINUED):

Construction in progress consists primarily of additions to infrastructure and design costs for a sports park.

Depreciation expense was charged to functions/programs of the primary government as follows:

General government	\$ 205,260
Public safety	25,268
Public works, including depreciation of infrastructure assets	4,804,429
Development services	96,691
Management services	117,175
Community services	3,949
Depreciation on capital assets held by the City's internal service fund are charged to the various functions based on their usage of the assets	<u>58,984</u>
Total depreciation expense - governmental activities	<u>\$ 5,311,756</u>

**Construction Commitments**

As of June 30, 2011, budgeted funds committed for major capital projects included the following projects:

	<u>Project Budget</u>	<u>Expenditures to Date</u>	<u>Unexpended Balance</u>
Sports park	\$ 37,722,700	\$ 15,438,163	\$ 22,284,537
Trabuco Road streetscape	2,442,000	467,248	1,974,752
Lake Forest traffic transportation mitigation	7,165,900	157,477	7,008,423
Rockfield Boulevard streetscape	1,435,000	462,861	972,139
El Toro Road streetscape	1,397,000	141,745	1,255,255
Jeronimo Road streetscape	1,350,000	363,768	986,232
Recreation center	1,832,600	550,932	1,281,668
Alton Parkway gap closure	7,450,000	3,557,388	3,892,612
Rancho Parkway improvements	2,373,000	132,834	2,240,166

See independent auditors' report.



CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

4. INTERFUND ACTIVITIES:

**Due From/Due To Other Funds**

Amounts due from and due to other funds at June 30, 2011 consisted of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Community Development Block Grant Special Revenue Fund	\$ 39,120
	Other Governmental Funds	<u>167,490</u>
		<u>\$ 206,610</u>

The interfund balances reflected above represent short-term borrowings of cash pending receipt of reimbursements from granting agencies and others.

**Interfund Transfers**

Interfund transfers during the year ended June 30, 2011 consisted of the following:

<u>Governmental Activities</u>	<u>Purpose</u>	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net Transfers</u>
General Fund	Capital projects	\$ 3,378,320	\$ (19,139,000)	\$ (15,760,680)
General Fund	Program support	19,031	-	19,031
Opportunities Study Area Capital Projects Fund	Capital projects	19,139,000	-	19,139,000
Other Governmental Funds	Debt service	546,791	(546,791)	-
Other Governmental Funds	Transfer of land held for resale	326,000	(326,000)	-
Other Governmental Funds	Program support	980,057	(1,090,908)	(110,851)
Other Governmental Funds	Capital projects	<u>-</u>	<u>(3,286,500)</u>	<u>(3,286,500)</u>
		<u>\$ 24,389,199</u>	<u>\$ (24,389,199)</u>	<u>\$ -</u>

See independent auditors' report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

5. LONG-TERM LIABILITIES:

The change in the City's long-term liabilities during the year ended June 30, 2011 consisted of the following:

	Balance at July 1, 2010	Additions	Deletions	Balance at June 30, 2011	Due Within One Year
2004 Certificates of					
Participation	\$ 8,325,000	\$ -	\$ (225,000)	\$ 8,100,000	\$ 235,000
Unamortized bond premium	43,653	-	(1,844)	41,809	-
Compensated absences	511,717	466,746	(420,040)	558,423	420,040
Other post-employment benefits (OPEB) (see Note 6)	-	63,207	-	63,207	-
 Total long-term liabilities	 <u>\$ 8,880,370</u>	 <u>\$ 529,953</u>	 <u>\$ (646,884)</u>	 <u>\$ 8,763,439</u>	 <u>\$ 645,040</u>

**2004 Certificates of Participation**

On March 1, 2004, the Rancho Cañada Financing Authority issued \$9,505,000 in Certificates of Participation to partially finance the El Toro Road Traffic and Landscape Improvement Project. Interest is payable beginning June 1, 2004, and semiannually on each June 1 and December 1. The interest rate of this debt at the date of issue ranges from 2.80% to 4.25%. The certificates mature serially beginning December 1, 2004 through December 1, 2033. A reserve surety bond funded the legal reserve requirement of \$552,218. The outstanding balance at June 30, 2011 was \$8,100,000.

The Certificates utilize an asset transfer structure whereby, concurrent with the above debt issuance, the City entered into a lease agreement with the Rancho Cañada Financing Authority with respect to Concourse Park, Pittsford Park, Rimgate Park and Lake Forest Golf and Practice Center (collectively, the "Leased Property"). The City will sublease the Leased Property to the Authority, and the Authority will sublease the Leased Property to the City. The City is obligated to pay lease payments under the lease agreement from any legally available monies, including transfers from the Redevelopment Agency. The lease payments are calculated to be an amount sufficient to pay all principal and interest represented by the Certificates when due.

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CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

5. LONG-TERM LIABILITIES (CONTINUED):

**2004 Certificates of Participation (Continued)**

Annual debt service requirements to maturity for these Certificates of Participation are as follows:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 235,000	\$ 313,828	\$ 548,828
2013	240,000	307,178	547,178
2014	245,000	300,143	545,143
2015	255,000	292,388	547,388
2016	260,000	284,018	544,018
2017-2021	1,450,000	1,273,645	2,723,645
2022-2026	1,755,000	962,410	2,717,410
2027-2031	2,145,000	556,875	2,701,875
2032-2034	<u>1,515,000</u>	<u>98,281</u>	<u>1,613,281</u>
	<u>\$ 8,100,000</u>	<u>\$ 4,388,766</u>	<u>\$ 12,488,766</u>

**Compensated Absences**

The City's policies relating to employee leave benefits are described in Note 1k. This liability will be paid in future years from future resources primarily from the General Fund. As of June 30, 2011, the outstanding balance was \$558,423.

6. OTHER POST-EMPLOYMENT BENEFITS (OPEB):

**Plan Description**

In connection with the retirement benefits for employees described in Note 13, the City provides post-retirement medical benefits to retirees. The Plan is a single employer plan. These benefits are available to employees who retire with the City with at least 5 years of service with a minimum retirement age of 50 years. The retiree is entitled to participate in the City sponsored medical plan and the City contributes up to \$65 per month toward the premium for employee only coverage under the City sponsored medical plans. The Plan does not issue a publicly available financial report.

See independent auditors' report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

6. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONTINUED):

**Funding Policy**

The contribution requirements of plan members and the City are established and may be amended by the City, the City's City Council, and/or the employee associations. The City is currently funding this OPEB obligation on a pay-as-you-go basis. For the year ended June 30, 2011, the City paid \$4,839 in health care costs for its retirees and their covered dependents. The plan does not require employee contributions.

**Annual OPEB Cost and Net OPEB Obligation**

The City's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded liabilities of the plan over a period not to exceed thirty years.

The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation to the Retiree Health Plan:

Annual required contribution	\$ 68,046
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	<u>68,046</u>
Actual contributions made	<u>(4,839)</u>
Increase in net OPEB obligation	63,207
Net OPEB Obligation - beginning of year	-
Net OPEB Obligation - end of year	<u>\$ 63,207</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2011, which was the first year of implementation of GASB 45.

Fiscal Year Ended	Annual OPEB Cost	Actual Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
06/30/11	\$ 68,046	\$ 4,839	11.5 %	\$ 63,207

See independent auditors' report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

6. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONTINUED):

**Funded Status and Funding Progress**

As of November 1, 2011, the first actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$442,859, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$442,859. The funded ratio (actuarial value of assets as a percentage of actuarial accrued liability) was 0%. The covered payroll (annual payroll of active employees covered by the plan) was \$5,115,936 and the ratio of the UAAL to the covered payroll was 8.7%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about rates of employee turnover, retirement, mortality, as well as economic assumptions regarding claim costs per retiree, healthcare inflation and interest rates. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the November 1, 2011 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included an investment interest rate of 5% per annum (net of administrative expenses), and a general inflation rate of 3% per annum. Medical premiums were assumed to increase annually at a rate of 4%. The UAAL is being amortized as a level percentage of projected payroll over 30 years on a closed basis commencing in fiscal year 2011.

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CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

7. RISK MANAGEMENT:

**Description of Self-insurance Pool Pursuant to Joint Powers Agreement**

The City is a member of the California Joint Powers Insurance Authority (Authority). The Authority is composed of 121 California public entities and is organized under a joint powers agreement pursuant to California Government Code §6500 et seq. The purpose of the Authority is to arrange and administer programs for the pooling of self-insured losses, to purchase excess insurance or reinsurance, and to arrange for group purchased insurance for property and other coverages. The Authority's pool began covering claims of its members in 1978. Each member government has an elected official as its representative on the Board of Directors. The Board operates through a 9-member Executive Committee.

**Self-insurance Programs of the Authority**

A revised cost allocation methodology was introduced in 2010-11, however it retains many elements of the previous cost allocation methodology. Each member pays an annual contribution (formerly called the primary deposit) to cover estimated losses for the coverage period. This initial funding is paid at the beginning of the coverage period. After the close of the coverage period, outstanding claims are valued. A retrospective deposit computation is then conducted annually thereafter until all claims incurred during the coverage period are closed on a pool-wide basis. This subsequent cost re-allocation among members based on actual claim development can result in adjustments of either refunds or additional deposits required.

The total funding requirement for self-insurance programs is estimated using actuarial models and pre-funded through the annual contribution. Costs are allocated to individual agencies based on exposure (payroll) and experience (claims) relative to other members of the risk-sharing pool. Additional information regarding the cost allocation methodology is provided below.

General Liability Insurance - In the liability program claims are pooled separately between police and non-police exposures. (1) The payroll of each member is evaluated relative to the payroll of other members. A variable credibility factor is determined for each member, which establishes the weight applied to payroll and the weight applied to losses within the formula. (2) The first layer of losses includes incurred costs up to \$30,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the first layer. (3) The second layer of losses includes incurred costs from \$30,000 to \$750,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the second layer. (4) Incurred costs in excess of \$750,000 up to the reinsurance attachment point of \$5 million are distributed based on the outcome of cost allocation within the first and second loss layers.

See independent auditors' report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

7. RISK MANAGEMENT (CONTINUED):

**Self-insurance Programs of the Authority (Continued)**

General Liability Insurance (Continued) - (5) Costs of covered claims from \$5 million to \$10 million are paid under a reinsurance contract subject to a \$2.5 million annual aggregate deductible. Costs of covered claims from \$10 million to \$15 million are paid under two reinsurance contracts subject to a combined \$3 million annual aggregate deductible. On a cumulative basis for all 2010-11 reinsurance contracts the annual aggregate deductible is \$5.5 million. (6) Costs of covered claims from \$15 million up to \$50 million are covered through excess insurance policies.

The overall coverage limit for each member including all layers of coverage is \$50 million per occurrence.

Costs of covered claims for subsidence losses are paid by reinsurance and excess insurance with a pooled sub-limit of \$35 million per occurrence. This \$35 million subsidence sub-limit is composed of (a) \$5 million retained within the pool's SIR, (b) \$10 million in reinsurance and (c) \$20 million in excess insurance. The excess insurance layer has a \$20 million annual aggregate.

Workers' Compensation - In the workers' compensation program claims are pooled separately between public safety (police and fire) and non-public safety exposures. (1) The payroll of each member is evaluated relative to the payroll of other members. A variable credibility factor is determined for each member, which establishes the weight applied to payroll and the weight applied to losses within the formula. (2) The first layer of losses includes incurred costs up to \$50,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the first layer. (3) The second layer of losses includes incurred costs from \$50,000 to \$100,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the second layer. (4) Incurred costs in excess of \$100,000 up to the reinsurance attachment point of \$2 million are distributed based on the outcome of cost allocation within the first and second loss layers. (5) Costs of covered claims from \$2 million up to statutory limits are paid under a reinsurance policy. Protection is provided per statutory liability under California Workers' Compensation Law.

Employer's Liability losses are pooled among members to \$2 million. Coverage from \$2 million to \$4 million is purchased as part of a reinsurance policy, and Employer's Liability losses from \$4 million to \$10 million are pooled among members.

See independent auditors' report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

7. RISK MANAGEMENT (CONTINUED):

**Purchased Insurance**

Property Insurance - The City participates in the all-risk property protection program of the Authority. This insurance protection is underwritten by several insurance companies. The City's property is currently insured according to a schedule of covered property submitted by the City to the Authority. The City's property currently has all-risk property insurance protection in the amount of \$8,738,598. There is a \$5,000 deductible per occurrence except for non-emergency vehicle insurance, which has a \$1,000 deductible. Premiums for the coverage are paid annually and are not subject to retroactive adjustments.

Earthquake and Flood Insurance - The City purchases earthquake and flood insurance on a portion of its property. The earthquake insurance is part of the property protection insurance program of the Authority. The City's property currently has earthquake protection in the amount of \$2,818,472. There is a deductible of 5% per unit of value with a minimum deductible of \$100,000. Premiums for the coverage are paid annually and are not subject to retroactive adjustments.

Crime Insurance - The City purchases crime insurance coverage in the amount of \$3,000,000 with a \$25,000 deductible. The fidelity coverage is provided through the Authority. Premiums are paid annually and are not subject to retroactive adjustments.

**Adequacy of Protection**

During the past three fiscal (claims) years, none of the above programs of protection have experienced settlements or judgments that exceeded pooled or insured coverage. There were also no significant reductions in pooled or insured liability coverage in 2010-2011.

The aforementioned information is not included in the accompanying financial statements. Complete financial statements for the California Joint Powers Insurance Authority may be obtained from their administrative office located at 8081 Moody Street, La Palma, California 90623.

8. OTHER REQUIRED INDIVIDUAL FUND DISCLOSURES:

**Deficit Fund Balances**

The following Other Governmental Funds had deficit fund balances at June 30, 2011.

Justice Assistance Grant Special Revenue Fund	\$	18,520
Redevelopment Agency Capital Projects Fund		32,066

These deficit fund balances will be eliminated by future revenue and transfers.

See independent auditors' report.



CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

8. OTHER REQUIRED INDIVIDUAL FUND DISCLOSURES (CONTINUED):

**Excess of Expenditures over Appropriations**

Expenditures for the year ended June 30, 2011 exceeded appropriations in the following funds:

	<u>Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Other Governmental Funds:			
Gas Tax Special Revenue Fund:			
Public works	\$ 2,044,731	\$ 2,139,926	\$ (95,195)
Redevelopment Agency Capital Projects Fund:			
Development services	116,900	123,228	(6,328)

9. CLASSIFICATION OF NET ASSETS AND GOVERNMENTAL FUND BALANCES:

**Classification of Net Assets**

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

Invested in Capital Assets, Net of Related Debt - This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation on these assets and related long-term debt used to acquire the 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 City that are not restricted for any project or other purpose.

See independent auditors' report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

9. CLASSIFICATION OF NET ASSETS AND GOVERNMENTAL FUND BALANCES  
(CONTINUED):

**Governmental Fund Balance Classifications**

The City has implemented Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", for the year ended June 30, 2011. The fund balances reported on the fund statements now 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.

Committed Fund Balance - This classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority.

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

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

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

See independent auditors' report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

9. CLASSIFICATION OF NET ASSETS AND GOVERNMENTAL FUND BALANCES  
(CONTINUED):

	General Fund	Community Development Block Grant Special Revenue Fund	Opportunities Study Area Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Nonspendable:					
Prepaid items	\$ 166,614	\$ 938	\$ -	\$ 3,876	\$ 171,428
Restricted for:					
Low and moderate income housing	-	-	-	326,000	326,000
Street maintenance	-	-	-	1,869,013	1,869,013
Air quality	-	-	-	671,155	671,155
Grant programs	-	30,154	-	17,547	47,701
Housing programs	-	-	-	3,285,348	3,285,348
Debt service	-	-	-	854,322	854,322
Capital projects	-	-	-	2,667,449	2,667,449
Assigned to:					
Capital projects	-	-	24,498,506	-	24,498,506
Unassigned	<u>55,302,963</u>	<u>-</u>	<u>-</u>	<u>(52,959)</u>	<u>55,250,004</u>
	<u>\$ 55,469,577</u>	<u>\$ 31,092</u>	<u>\$ 24,498,506</u>	<u>\$ 9,641,751</u>	<u>\$ 89,640,926</u>

10. OPERATING LEASES:

The City leases the City Hall facility and other equipment under noncancelable operating leases. The City Hall lease expires June 30, 2014 with monthly lease payments of \$59,046. The various equipment leases expire April 30, 2012 through May 30, 2014 with monthly lease payments of \$3,171. Facility and equipment lease expense for the year ended June 30, 2011 was \$753,081. The future minimum lease payments for these leases for the next three years are as follows:

Year Ending June 30,	Amount
2012	\$ 755,020
2013	726,579
2014	<u>726,226</u>
	<u>\$ 2,207,825</u>

See independent auditors' report.

## CITY OF LAKE FOREST

### NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2011

#### 11. JOINT VENTURE:

In January 1995, the City of Lake Forest entered into a joint powers agreement with Cities of Buena Park, Cypress, Dana Point, Irvine, Laguna Hills, Laguna Niguel, La Palma, Los Alamitos, Mission Viejo, Placentia, San Clemente, San Juan Capistrano, Seal Beach, Stanton, Tustin, Villa Park, and Yorba Linda, and the County of Orange to create the Orange County Fire Authority (Authority). Since the creation of the Authority, the cities of Aliso Viejo, Laguna Woods, Rancho Santa Margarita, and Westminster joined the Authority as members eligible for fire protection services. The purpose of the Authority is to provide for mutual fire protection, prevention and suppression services, and related and incidental services, including, but not limited to, emergency medical and transport services, as well as providing facilities and personnel for such services. The effective date of formation was March 1, 1995. The Authority's governing board consists of one representative from each city and two from the County. The operations of the Authority are funded with structural fire fees collected by the County through the property tax roll for the unincorporated area and on behalf of all member cities except for the Cities of Stanton, Tustin, San Clemente, Buena Park, Placentia, and Seal Beach. The County pays all structural fire fees it collects to the Authority. The Cities of Stanton, Tustin, San Clemente, Buena Park, Placentia, and Seal Beach are considered "cash contract cities" and, accordingly, make cash contributions based on the Authority's annual budget. No determination has been made as to each participant's proportionate share of fund equity as of June 30, 2011. Upon dissolution of the Authority, all surplus money and property of the Authority will be conveyed or distributed to each member in proportion to all funds provided to the Authority by that member or by the County on behalf of that member during its membership.

Complete financial statements may be obtained from the Orange County Fire Authority, 180 South Water Street, Orange, California 92866.

#### 12. DEFERRED COMPENSATION PLAN:

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary until future years. The plan is available to all employees until termination, retirement, death or unforeseeable emergency. The assets of the plan are held for the exclusive benefit of the plan participants and their beneficiaries and the assets shall not be diverted for any other purpose. Each participant directs the investments in their respective accounts and the City has no liability for any losses that may be incurred. Pursuant to federal legislation, the Section 457 plan assets were placed in trust for the exclusive benefit of all employees and their beneficiaries and are not available to the creditors of the City. For this reason, the assets and related liabilities of the plan have been removed from the financial records of the City and are not included in the accompanying financial statements.

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CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

12. DEFERRED COMPENSATION PLAN (CONTINUED):

Effective July 1, 2005, the City established the PARS Retirement Enhancement Plan, a 401(a) defined contribution for the City manager. The plan provides a supplemental retirement benefit in addition to CalPERS retirement benefit. An employee shall participate in this plan if he is employed as City Manager of the City as of July 1, 2005. The participant contributes a percentage of his compensation pursuant to the tier prescribed in the plan. The amount of contribution ranges from 0% to 20% of compensation and will be determined by the City. The participant set at a contribution level other than 0% may not change his contribution percentage at any time. The participant initially set at 0% will be reviewed annually by the City for changes in contribution percentage. The City makes monthly contributions to the plan in an amount determined annually by the City subject to IRC 415 limits. The assets of the plan are held for the exclusive benefit of the plan participant and his beneficiaries and the assets shall not be diverted for any other purpose. The participant directs the investments in their respective accounts and the City has no liability for any losses that may be incurred. Pursuant to federal legislation, the Section 401(a) plan assets were placed in trust for the exclusive benefit of the employee and his beneficiaries and are not available to the creditors of the City. For this reason, the assets and related liabilities of the plan have been removed from the financial records of the City and are not included in the accompanying financial statements.

13. PENSION PLANS:

**Defined Benefit Plan**

Plan Description

The City participates in the Miscellaneous 2% at 55 Risk Pool of the California Public Employees Retirement System (CalPERS), a cost sharing multiple-employer defined benefit pension plan. CalPERS provides retirement, disability benefits, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. CalPERS issues a publicly available financial report that includes financial statements and required supplementary information for the cost-sharing plans that are administered by CalPERS. Copies of the CalPERS' annual financial report may be obtained from its executive office at 400 "P" Street, Sacramento, California 95814.

See independent auditors' report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

13. PENSION PLANS (CONTINUED):

**Defined Benefit Plan (Continued)**

Contributions and Funding Policy

Participants are required to contribute 7% of their annual covered salary. The City made the contributions required of City employees on their behalf and for their accounts through December 2010. In January 2011, a cost sharing arrangement became effective where participants began contributing 3.5% of the required 7% contribution while the City paid the other 3.5% of the participant's required 7% contribution. In January 2012, the participants will be required to pay the entire required contribution of 7%. Benefit provisions and all other requirements are established by State statute and by benefit provided by the City through local ordinance or resolution. The contribution requirements of plan members and the City are established and may be amended by City Council. The City's contributions to the plan for the years ending June 30, 2009, 2010, and 2011 were \$571,832, \$595,017 and \$581,791, respectively, and were equal to the required contributions for each year.

**Defined Contribution Plan**

Omnibus Budget Reconciliation Act of 1990 (OBRA 90) mandates that public sector employees who are not members of their employer's existing retirement system as of January 1, 1992 be covered by Social Security or an alternate plan. In accordance with this federal law, the City provides pension benefits for all part-time, seasonal and temporary employees through the City of Lake Forest Alternate Retirement System Plan administered by the Public Agency Retirement System (PARS-ARS). PARS-ARS is a defined contribution pension plan and benefits depend solely on amounts contributed to the plan plus investment earnings. Federal legislation requires defined contributions to the retirement plan of at least 7.5% of the employee's salary. Accordingly, contributions to the plan consist of 6.2% by the employee and 1.3% by the City. All part-time, seasonal or temporary employees are immediately eligible to participate in the plan from the date of employment and all contributions are fully vested. The contribution requirements are established by Federal statutes and may be amended by the Federal government.

For the year ended June 30, 2011, the City's payroll covered by the plan was \$404,781. Contributions to the plan totaled \$30,359 with employee contributions in the amount of \$25,097 (6.2% of current covered payroll) and City contributions in the amount of \$5,262 (1.3% of current covered payroll).

See independent auditors' report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

14. COMMITMENTS AND CONTINGENCIES:

**Litigation**

The City is involved as a defendant in various legal proceedings. While it is not feasible to predict or determine the outcome in these cases, it is the opinion of the City that the outcome will have no material adverse effect on the financial position of the City.

**Federal and State Grants**

The City has received State and Federal funds for specific purposes that are subject to review by the grantor agencies. Although, such audits could generate expenditure disallowances under the terms of the grants, it is believed that required reimbursements, if any, will not be material.

**Recent Changes in Legislation Affecting California Redevelopment Agencies**

On June 29, 2011, the Governor of the State of California signed Assembly Bills 1x 26 and 27 as part of the State's budget package. Assembly Bill 1x 26 requires each California redevelopment agency to suspend nearly all activities except to implement existing contracts, meet already-incurred obligations, preserve its assets and prepare for the impending dissolution of the agency. Assembly Bill 1x 27 provides a means for redevelopment agencies to continue to exist and operate by means of a Voluntary Alternative Redevelopment Program. Under this program each City would adopt an ordinance agreeing to make certain payments to the County Auditor Controller in fiscal year 2011-12 and annual payments each fiscal year thereafter. Assembly Bill 1x 26 indicates that the City "may use any available funds not otherwise obligated for other uses" to make this payment. The City of Lake Forest intends to use available monies of its redevelopment agency for this purpose and the City and Agency have approved a reimbursement agreement to accomplish that objective. The amounts to be paid after fiscal year 2012-13 have yet to be determined by the state legislature.

Assembly Bill 1x 26 directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies 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 by Assembly Bill 1x 26.

See independent auditors' report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

14. COMMITMENTS AND CONTINGENCIES (CONTINUED):

**Recent Changes in Legislation Affecting California Redevelopment Agencies (Continued)**

In the event that Assembly Bill 1x 26 is upheld, the interagency receivable recognized by funds of the City that had previously loaned or advanced funds to the redevelopment agency may become uncollectible resulting in a loss recognized by such funds. The City might additionally be impacted if reimbursements previously paid by the redevelopment agency to the City for shared administrative services are reduced or eliminated.

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 Assembly Bills 1x 26 and 27 on the grounds that these bills violate the California Constitution. On August 11, 2011, the California Supreme Court issued a stay of all of Assembly Bill 1x 27 and most of Assembly Bill 1x 26. The California Supreme Court stated in its order that “the briefing schedule is designed to facilitate oral argument as early as possible in 2011, and a decision before January 15, 2012”. A second order issued by the California Supreme Court on August 17, 2011 indicated that certain provisions of Assembly Bills 1x 26 and 27 were still in effect and not affected by its previous stay, including requirements to file an appeal of the determination of the community remittance payment by August 15, the requirement to adopt an Enforceable Obligations Payment Schedule (EOPS) by August 29, 2011, and the requirement to prepare a preliminary draft of the initial Recognized Obligation Payment Schedule (ROPS) by September 30, 2011.

Because the stay provide by Assembly Bill 1x 26 only affects enforcement, each agency must adopt an EOPS and draft ROPS prior to September 30, as required by the statute. Enforceable obligations include bonds, loans and payments required by the federal or State government; legally enforceable payments required in connection with agency employees such as pension payments and unemployment payments, judgments or settlement; legally binding and enforceable agreements or contracts; and contracts or agreements necessary for the continued administration or operation of the agency that are permitted for purposes set forth in Assembly Bill 1x 26.

See independent auditors' report.



CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

14. COMMITMENTS AND CONTINGENCIES (CONTINUED):

**Recent Changes in Legislation Affecting California Redevelopment Agencies (Continued)**

On August 2, 2011, City Ordinance No. 233 was adopted, indicating that the City will comply with the Voluntary Alternative Redevelopment Program in order to permit the continued existence and operation of the Agency, in the event Assembly Bills 1x 26 and/or 27 are upheld as constitutional. The initial payment by the City is \$1,870,837 with on half due on January 15, 2012 and the other half due May 15, 2012. Thereafter, an estimated payment will be due annually. The amounts to be paid after fiscal year 2012-13 have yet to be determined by the State Legislature. The semi-annual payments will be due on January 15 and May 15 of each year and would increase or decrease with changes in tax increment. Additionally, an increased amount would be due to schools if any “new debt” is incurred. Assembly Bill 1x 27 allows a one-year reprieve on the agency’s obligation to contribute 20% of tax increment to the low and moderate income housing fund so as to permit the Agency to assemble sufficient funds to make its initial payments. Failure to make these payments would require agencies to be terminated under the provisions of Assembly Bill 1x 26.

Management believes that the Agency will have sufficient funds to pay its obligations as they become due during the fiscal year ending June 30, 2012. The nature and extent of the operation of redevelopment agencies in the State of California beyond that time frame are dependent upon the outcome of litigation surrounding the actions of the state. In the event that Assembly Bill 1x 26 and/or 27 are specifically found by the courts to be unconstitutional, there is a possibility that future legislative acts may create new challenges to the ability of redevelopment agencies in the State of California to continue in view of the California State Legislature’s stated intent to eliminate California redevelopment agencies and to reduce their funding.

**Transfers of Assets**

On February 1, 2011, the City of Lake Forest established the Lake Forest Housing Authority to provide the City with the ability to provide affordable housing programs. The Redevelopment Agency’s Low and Moderate Income housing fund transferred land in the amount of \$326,000 to the Housing Authority during the fiscal year.

See independent auditors’ report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

15. RESTATEMENT OF BEGINNING NET ASSETS AND FUND BALANCE:

**Net Assets**

The net assets balances at July 1, 2010 were restated as follows:

Net assets as previously reported - July 1, 2010 \$ 277,195,195

To adjust for:

Land for parks previously not included in capital assets. 2,735,336

Prior years depreciation was recorded using a salvage value for infrastructure assets resulting in an understatement of depreciation. Accumulated depreciation through July 1, 2010 was recomputed for infrastructure assets without consideration of salvage value. (5,410,830)

Developer fees received in prior years were recorded as deposits payable. Net assets were restated to record deposits payable as revenue for prior years. 1,274,266

Net assets, as restated - July 1, 2010 \$ 275,793,967

**Fund Balance**

The Opportunities Study Area Capital Projects Fund's fund balance at July 1, 2010 was increased by \$1,274,266 from \$16,542,792 to \$17,817,058 to reclassify developer fees received in prior years from deposits payable to revenue.

See independent auditors' report.

CITY OF LAKE FOREST

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

16. SUBSEQUENT EVENTS:

**\$10,965,000 Rancho Cañada Financing Authority Certificates of Participation**

On August 1, 2011, the Rancho Cañada Financing Authority issued \$10,965,000 in Certificates of Participation for the Alton Parkway Improvement Project. The Certificates utilize an asset transfer structure, whereby, concurrent with the debt issuance, the City entered into a lease agreement with the Rancho Cañada Financing Authority with respect to Foothill Ranch Community Park and Tamarisk Park, (collectively, the "Leased Property"). The City will sublease the Leased Property to the Authority, and the Authority will sublease the property to the City. The City is obligated to pay lease payments under the lease agreement from any legally available monies. The lease payments are calculated to be an amount sufficient to pay all principal and interest represented by the Certificates when due.

**California State Treasurer Condemnation Deposits Fund**

On September 15, 2011, the City deposited \$7,413,700 in the California State Treasurer Condemnation Deposits Fund based on an appraised value and pursuant to California Government Code as probable compensation for the acquisition of certain real property through eminent domain considered necessary for public purposes.

See independent auditors' report.

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CITY OF LAKE FOREST  
 SCHEDULE OF FUNDING PROGRESS

For the year ended June 30, 2011

**OTHER POST-EMPLOYMENT BENEFITS PLAN**

Actuarial Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a % of Payroll [(b)-(a)]/(c)
11/01/11	\$ -	\$ 442,859	\$ 442,859	0.00%	\$ 5,115,936	8.66%

See independent auditors' report.

CITY OF LAKE FOREST  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND

For the year ended June 30, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
<b>REVENUES:</b>				
Taxes	\$ 27,618,200	\$ 28,673,200	\$ 30,146,882	\$ 1,473,682
Licenses and permits	370,000	480,000	513,965	33,965
Intergovernmental	8,328,200	3,200,951	1,140,624	(2,060,327)
Charges for services	778,300	880,300	1,076,174	195,874
Fines and forfeitures	425,000	515,000	557,083	42,083
Investment income	480,000	545,000	257,662	(287,338)
Other	174,600	2,094,900	545,667	(1,549,233)
TOTAL REVENUES	<u>38,174,300</u>	<u>36,389,351</u>	<u>34,238,057</u>	<u>(2,151,294)</u>
<b>EXPENDITURES:</b>				
Current:				
General government:				
City council	217,900	217,900	201,768	16,132
City manager	826,600	826,600	813,051	13,549
City attorney	1,124,900	1,274,900	1,427,088	(152,188)
City clerk	655,200	635,200	624,724	10,476
Finance	998,900	1,001,300	766,083	235,217
Public safety:				
Police services	13,069,300	13,069,300	12,729,389	339,911
Public works	6,462,200	6,819,316	6,761,185	58,131
Development services	2,476,600	2,689,000	2,440,911	248,089
Management services	1,726,400	1,769,925	1,484,102	285,823
Community services	3,164,800	3,146,720	3,054,343	92,377
Redevelopment/economic development	325,600	309,600	280,302	29,298
Capital outlay	9,280,500	28,930,898	7,748,721	21,182,177
TOTAL EXPENDITURES	<u>40,328,900</u>	<u>60,690,659</u>	<u>38,331,667</u>	<u>22,358,992</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(2,154,600)</u>	<u>(24,301,308)</u>	<u>(4,093,610)</u>	<u>20,207,698</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	143,000	5,078,143	3,397,351	(1,680,792)
Transfers out	<u>(19,139,000)</u>	<u>(19,139,000)</u>	<u>(19,139,000)</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(18,996,000)</u>	<u>(14,060,857)</u>	<u>(15,741,649)</u>	<u>(1,680,792)</u>
NET CHANGE IN FUND BALANCE	(21,150,600)	(38,362,165)	(19,835,259)	18,526,906
FUND BALANCE - BEGINNING OF YEAR	<u>75,304,836</u>	<u>75,304,836</u>	<u>75,304,836</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 54,154,236</u>	<u>\$ 36,942,671</u>	<u>\$ 55,469,577</u>	<u>\$ 18,526,906</u>

See independent auditors' report.

CITY OF LAKE FOREST

BUDGETARY COMPARISON SCHEDULE

COMMUNITY DEVELOPMENT BLOCK GRANT SPECIAL REVENUE FUND

For the year ended June 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental	\$ 481,400	\$ 1,148,747	\$ 925,059	\$ (223,688)
Investment income	500	500	787	287
Other	20,000	25,000	41,945	16,945
TOTAL REVENUES	<u>501,900</u>	<u>1,174,247</u>	<u>967,791</u>	<u>(206,456)</u>
EXPENDITURES:				
Current:				
Redevelopment/economic development	278,600	278,600	370,918	(92,318)
Capital outlay	329,400	1,020,393	693,315	327,078
TOTAL EXPENDITURES	<u>608,000</u>	<u>1,298,993</u>	<u>1,064,233</u>	<u>234,760</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(106,100)	(124,746)	(96,442)	28,304
FUND BALANCE - BEGINNING OF YEAR	<u>127,534</u>	<u>127,534</u>	<u>127,534</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 21,434</u>	<u>\$ 2,788</u>	<u>\$ 31,092</u>	<u>\$ 28,304</u>

See independent auditors' report.

CITY OF LAKE FOREST

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2011

1. BUDGETARY POLICY AND CONTROL:

**Budgetary Basis of Accounting**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and are used as a management control device. Annual budgets are adopted for the General, Special Revenue, Debt Service, Capital Projects and Internal Service Funds.

The City maintains budgetary controls to ensure compliance with legal provisions embodied in the appropriated budget approved by the City Council. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) for the operating budget is within a department. The City Manager is authorized to transfer appropriations within and between departments/projects provided there is no net increase in total appropriations at the department level.

Budgeted amounts presented are as originally adopted and as further amended by the City Council.

**Continuing Appropriations**

The unexpended and unencumbered appropriations, which are available and recommended for continuation to the following fiscal year, are approved by the City Council for carryover. Encumbered appropriations lapse at year-end but are recommended to the City Council for carryover.

**Excess of Expenditures over Appropriations**

Expenditures for the year ended June 30, 2011 exceeded appropriations in the following funds:

	<u>Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Major Funds:			
General Fund:			
General government - City attorney	\$ 1,274,900	\$ 1,427,088	\$ (152,188)
Community Development Block Grant			
Special Revenue Fund:			
Redevelopment/economic development	278,600	370,918	(92,318)

See independent auditors' report.



CITY OF LAKE FOREST

BUDGETARY COMPARISON SCHEDULE

OPPORTUNITIES STUDY AREA CAPITAL PROJECTS FUND - MAJOR FUND

For the year ended June 30, 2011

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:			
Developer contributions	\$ -	\$ 750,000	\$ 750,000
Other	858,000	37,504	(820,496)
TOTAL REVENUES	<u>858,000</u>	<u>787,504</u>	<u>(70,496)</u>
EXPENDITURES:			
Current:			
General government	60,000	37,504	22,496
Capital outlay	36,956,091	13,207,552	23,748,539
TOTAL EXPENDITURES	<u>37,016,091</u>	<u>13,245,056</u>	<u>23,771,035</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(36,158,091)	(12,457,552)	23,700,539
OTHER FINANCING SOURCES:			
Transfers in	19,139,000	19,139,000	-
NET CHANGE IN FUND BALANCE	(17,019,091)	6,681,448	23,700,539
FUND BALANCE - BEGINNING OF YEAR, AS RESTATED	<u>17,817,058</u>	<u>17,817,058</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 797,967</u>	<u>\$ 24,498,506</u>	<u>\$ 23,700,539</u>

See independent auditors' report.

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CITY OF LAKE FOREST  
OTHER GOVERNMENTAL FUNDS

June 30, 2011

**SPECIAL REVENUE FUNDS**

Measure M Fund - The fund is used to account for the City's share of the sales tax increase authorized by Orange County's Measure "M". The monies are legally restricted for the acquisition, construction and improvement of public streets.

Air Quality Improvement Fund - This fund is used to account for the City's share of vehicle registration fees collected under AB2766 that the State of California has allocated to address air quality concerns in Southern California. These monies are to be used to fund programs to reduce air pollution from mobile sources such as cars, trucks, and buses.

Supplemental Law Enforcement Grant Fund - This fund is used to account for receipts and expenditures of the State funded Supplemental Law Enforcement Program.

Asset Forfeiture Fund - This fund is used to account for receipts and expenditures associated with asset forfeitures.

Gas Tax Fund - This fund is used to account for receipts and expenditures of money appropriated under Streets and Highways Code Sections 2105, 2106, 2107, 2107.5 and Proposition 1B of the State of California. These funds are earmarked for maintenance, rehabilitation, or improvement of public streets.

Low and Moderate Income Housing Fund - This fund is used to account for the housing set-aside requirement for the tax increment received within the Redevelopment Agency.

Housing Authority Fund - This fund is used to account for receipts and expenditures of a portion of the affordable housing administration in the City.

Disaster Grants Fund - This fund is used to account for funds received from the Federal Emergency Management Agency and the State of California Office of Emergency for events that are declared disasters.

Justice Assistance Grant Fund - This fund is used to account for receipts and expenditures made under the federal Justice Assistance Grant program.

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CITY OF LAKE FOREST  
OTHER GOVERNMENTAL FUNDS  
(CONTINUED)

June 30, 2011

**DEBT SERVICE FUNDS**

Redevelopment Agency Fund - This fund is used to account for the accumulation of resources to repay debt for the Lake Forest Redevelopment Agency.

Financing Authority Fund - This fund is used to account for debt service activity for the 2004 Certificates of Participation.

**CAPITAL PROJECTS FUNDS**

Redevelopment Agency Fund - This fund is used to account for the capital projects activities of the Lake Forest Redevelopment Agency.

Lake Forest Transportation Mitigation Fund - This fund is used to account for a development impact fee program to improve specific intersections City-wide.

Park Development Fund - This fund is used to account for developer impact fees and other funds received by the City for the specific purpose of constructing new parks or renovating existing parks.

Affordable Housing Fund - This fund is used to account for development impact fees for affordable housing purposes and related capital projects.

CITY OF LAKE FOREST  
 COMBINING BALANCE SHEET  
 OTHER GOVERNMENTAL FUNDS

June 30, 2011

	Special Revenue Funds			
	Measure M	Air Quality Improvement	Supplemental Law Enforcement Grant	Asset Forfeiture
<b>ASSETS</b>				
Cash and investments	\$ 1,097,074	\$ 650,522	\$ 8	\$ 11,341
Receivables:				
Accounts	-	-	-	-
Interest	3,130	1,988	28	33
Grants	20,000	-	11,316	-
Loans	-	-	-	-
Due from other governments	313,412	18,951	-	-
Prepaid items	-	-	-	-
Land held for resale	-	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 1,433,616</b>	<b>\$ 671,461</b>	<b>\$ 11,352</b>	<b>\$ 11,374</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Accounts payable	\$ 193,812	\$ -	\$ 8,333	\$ -
Retentions payable	-	-	-	-
Due to other funds	-	-	2,964	-
Deferred revenue	483	306	55	5
<b>TOTAL LIABILITIES</b>	<b>194,295</b>	<b>306</b>	<b>11,352</b>	<b>5</b>
<b>FUND BALANCES (DEFICITS):</b>				
Nonspendable	-	-	-	-
Restricted	1,239,321	671,155	-	11,369
Unassigned	-	-	-	-
<b>TOTAL FUND BALANCES (DEFICITS)</b>	<b>1,239,321</b>	<b>671,155</b>	<b>-</b>	<b>11,369</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,433,616</b>	<b>\$ 671,461</b>	<b>\$ 11,352</b>	<b>\$ 11,374</b>

See independent auditors' report.

Special Revenue Funds (Continued)

Gas Tax	Low and Moderate Income Housing	Housing Authority	Disaster Grants	Justice Assistance Grant
\$ 1,053,381	\$ 3,320,637	\$ -	\$ -	\$ -
-	2,013	1,202	-	-
2,820	11,741	-	-	-
-	-	-	170,154	18,520
-	487,559	-	-	-
-	-	-	-	-
-	1,503	-	-	-
-	-	326,000	-	-
<u>\$ 1,056,201</u>	<u>\$ 3,823,453</u>	<u>\$ 327,202</u>	<u>\$ 170,154</u>	<u>\$ 18,520</u>
\$ 426,074	\$ 47,782	\$ 102	\$ -	\$ 18,520
-	-	-	-	-
-	-	550	163,976	-
435	489,370	-	-	18,520
<u>426,509</u>	<u>537,152</u>	<u>652</u>	<u>163,976</u>	<u>37,040</u>
-	1,503	-	-	-
629,692	3,284,798	326,550	6,178	-
-	-	-	-	(18,520)
<u>629,692</u>	<u>3,286,301</u>	<u>326,550</u>	<u>6,178</u>	<u>(18,520)</u>
<u>\$ 1,056,201</u>	<u>\$ 3,823,453</u>	<u>\$ 327,202</u>	<u>\$ 170,154</u>	<u>\$ 18,520</u>

(Continued)

CITY OF LAKE FOREST  
 COMBINING BALANCE SHEET  
 OTHER GOVERNMENTAL FUNDS  
 (CONTINUED)

June 30, 2011

	Debt Service Funds		Capital Projects Funds	
	Redevelopment Agency	Financing Authority	Redevelopment Agency	Lake Forest Transportation Mitigation
<b>ASSETS</b>				
Cash and investments	\$ 823,847	\$ 1,870	\$ -	\$ 2,133,684
Receivables:				
Accounts	-	-	-	-
Interest	3,498	-	-	-
Grants	-	-	-	-
Loans	-	-	-	-
Due from other governments	27,516	-	-	-
Prepaid items	-	-	2,373	-
Land held for resale	-	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 854,861</b>	<b>\$ 1,870</b>	<b>\$ 2,373</b>	<b>\$ 2,133,684</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Accounts payable	\$ -	\$ 1,870	\$ 27,632	\$ 61
Retentions payable	-	-	6,807	-
Due to other funds	-	-	-	-
Deferred revenue	539	-	-	-
<b>TOTAL LIABILITIES</b>	<b>539</b>	<b>1,870</b>	<b>34,439</b>	<b>61</b>
<b>FUND BALANCES (DEFICITS):</b>				
Nonspendable	-	-	2,373	-
Restricted	854,322	-	-	2,133,623
Unassigned	-	-	(34,439)	-
<b>TOTAL FUND BALANCES (DEFICITS)</b>	<b>854,322</b>	<b>-</b>	<b>(32,066)</b>	<b>2,133,623</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 854,861</b>	<b>\$ 1,870</b>	<b>\$ 2,373</b>	<b>\$ 2,133,684</b>

See independent auditors' report.



<u>Capital Projects Funds (Continued)</u>		
<u>Park Development</u>	<u>Affordable Housing</u>	<u>Total Other Governmental Funds</u>
\$ 232,342	\$ 300,161	\$ 9,624,867
-	882	4,097
682	-	23,920
-	-	219,990
-	-	487,559
-	-	359,879
-	-	3,876
-	-	326,000
<u>\$ 233,024</u>	<u>\$ 301,043</u>	<u>\$ 11,050,188</u>
\$ -	\$ 136	\$ 724,322
-	-	6,807
-	-	167,490
105	-	509,818
<u>105</u>	<u>136</u>	<u>1,408,437</u>
-	-	3,876
232,919	300,907	9,690,834
-	-	(52,959)
<u>232,919</u>	<u>300,907</u>	<u>9,641,751</u>
<u>\$ 233,024</u>	<u>\$ 301,043</u>	<u>\$ 11,050,188</u>

CITY OF LAKE FOREST

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

For the year ended June 30, 2011

	Special Revenue Funds			
	Measure M	Air Quality Improvement	Supplemental Law Enforcement Grant	Asset Forfeiture
<b>REVENUES:</b>				
Taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental	1,138,083	86,498	99,965	-
Charges for services	-	-	-	-
Investment income	5,412	2,775	35	49
Other	27,015	-	-	-
<b>TOTAL REVENUES</b>	<b>1,170,510</b>	<b>89,273</b>	<b>100,000</b>	<b>49</b>
<b>EXPENDITURES:</b>				
Current:				
General government	-	1,270	-	-
Public safety	-	-	100,000	-
Public works	-	-	-	-
Development services	-	-	-	-
Management services	-	-	-	-
Redevelopment/economic development	-	-	-	-
SERAF payment to State	-	-	-	-
Capital outlay	1,523,990	-	-	-
Debt service:				
Principal payments	-	-	-	-
Interest and fiscal charges	-	-	-	-
Pass-through payments	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>1,523,990</b>	<b>1,270</b>	<b>100,000</b>	<b>-</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(353,480)</b>	<b>88,003</b>	<b>-</b>	<b>49</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	-	-	-	-
Transfers out	-	(62,500)	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>(62,500)</b>	<b>-</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(353,480)</b>	<b>25,503</b>	<b>-</b>	<b>49</b>
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<b>1,592,801</b>	<b>645,652</b>	<b>-</b>	<b>11,320</b>
<b>FUND BALANCES (DEFICITS) - END OF YEAR</b>	<b>\$ 1,239,321</b>	<b>\$ 671,155</b>	<b>\$ -</b>	<b>\$ 11,369</b>

See independent auditors' report.

Special Revenue Funds (Continued)

Gas Tax	Low and Moderate Income Housing	Housing Authority	Disaster Grants	Justice Assistance Grant
\$ -	\$ 810,798	\$ -	\$ -	\$ -
2,186,285	-	-	170,154	-
-	-	-	-	-
4,960	12,387	-	-	-
40	7,526	1,202	-	-
<u>2,191,285</u>	<u>830,711</u>	<u>1,202</u>	<u>170,154</u>	<u>-</u>
-	42,126	-	-	-
-	-	-	-	18,520
1,792,795	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	453,389	652	-	-
-	-	-	-	-
347,131	907,766	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>2,139,926</u>	<u>1,403,281</u>	<u>652</u>	<u>-</u>	<u>18,520</u>
<u>51,359</u>	<u>(572,570)</u>	<u>550</u>	<u>170,154</u>	<u>(18,520)</u>
59,303	-	326,000	-	-
-	(326,000)	-	(170,154)	-
<u>59,303</u>	<u>(326,000)</u>	<u>326,000</u>	<u>(170,154)</u>	<u>-</u>
110,662	(898,570)	326,550	-	(18,520)
<u>519,030</u>	<u>4,184,871</u>	<u>-</u>	<u>6,178</u>	<u>-</u>
<u>\$ 629,692</u>	<u>\$ 3,286,301</u>	<u>\$ 326,550</u>	<u>\$ 6,178</u>	<u>\$ (18,520)</u>

(Continued)

CITY OF LAKE FOREST

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - OTHER GOVERNMENTAL FUNDS  
(CONTINUED)

For the year ended June 30, 2011

	Debt Service Funds		Capital Projects Funds	
	Redevelopment Agency	Financing Authority	Redevelopment Agency	Lake Forest Transportation Mitigation
REVENUES:				
Taxes	\$ 3,695,214	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	-
Charges for services	-	-	-	-
Investment income	41,892	-	-	-
Other	6,053	-	-	-
TOTAL REVENUES	<u>3,743,159</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXPENDITURES:				
Current:				
General government	-	-	166,866	-
Public safety	-	-	-	-
Public works	-	-	31,180	-
Development services	-	-	123,228	-
Management services	-	-	5,502	-
Redevelopment/economic development	-	-	412,494	-
SERAF payment to State	249,002	-	-	-
Capital outlay	-	-	213,550	30,926
Debt service:				
Principal payments	-	225,000	-	-
Interest and fiscal charges	-	322,138	-	-
Pass-through payments	1,532,740	-	-	-
TOTAL EXPENDITURES	<u>1,781,742</u>	<u>547,138</u>	<u>952,820</u>	<u>30,926</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>1,961,417</u>	<u>(547,138)</u>	<u>(952,820)</u>	<u>(30,926)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	546,791	920,754	-
Transfers out	(4,691,545)	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(4,691,545)</u>	<u>546,791</u>	<u>920,754</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(2,730,128)	(347)	(32,066)	(30,926)
FUND BALANCES - BEGINNING OF YEAR	<u>3,584,450</u>	<u>347</u>	<u>-</u>	<u>2,164,549</u>
FUND BALANCES (DEFICITS) - END OF YEAR	<u>\$ 854,322</u>	<u>\$ -</u>	<u>\$ (32,066)</u>	<u>\$ 2,133,623</u>

See independent auditors' report.

<u>Capital Projects Funds (Continued)</u>		
<u>Park Development</u>	<u>Affordable Housing</u>	<u>Total Other Governmental Funds</u>
\$ -	\$ -	\$ 4,506,012
-	-	3,680,985
16,654	248,181	264,835
955	954	69,419
-	-	41,836
<u>17,609</u>	<u>249,135</u>	<u>8,563,087</u>
-	-	210,262
-	-	118,520
-	-	1,823,975
-	-	123,228
-	-	5,502
-	-	866,535
-	-	249,002
-	-	3,023,363
-	-	225,000
-	-	322,138
-	-	1,532,740
<u>-</u>	<u>-</u>	<u>8,500,265</u>
<u>17,609</u>	<u>249,135</u>	<u>62,822</u>
-	-	1,852,848
<u>-</u>	<u>-</u>	<u>(5,250,199)</u>
<u>-</u>	<u>-</u>	<u>(3,397,351)</u>
17,609	249,135	(3,334,529)
<u>215,310</u>	<u>51,772</u>	<u>12,976,280</u>
<u>\$ 232,919</u>	<u>\$ 300,907</u>	<u>\$ 9,641,751</u>

CITY OF LAKE FOREST  
 BUDGETARY COMPARISON SCHEDULE  
 MEASURE M SPECIAL REVENUE FUND

For the year ended June 30, 2011

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:			
Intergovernmental	\$ 820,000	\$ 1,138,083	\$ 318,083
Investment income	10,000	5,412	(4,588)
Other	-	27,015	27,015
	830,000	1,170,510	340,510
TOTAL REVENUES			
EXPENDITURES:			
Capital outlay	2,524,811	1,523,990	1,000,821
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,694,811)	(353,480)	1,341,331
OTHER FINANCING SOURCES:			
Transfers in	102,500	-	(102,500)
NET CHANGE IN FUND BALANCE	(1,592,311)	(353,480)	1,238,831
FUND BALANCE - BEGINNING OF YEAR	1,592,801	1,592,801	-
FUND BALANCE - END OF YEAR	\$ 490	\$ 1,239,321	\$ 1,238,831

See independent auditors' report.

CITY OF LAKE FOREST

BUDGETARY COMPARISON SCHEDULE

AIR QUALITY IMPROVEMENT SPECIAL REVENUE FUND

For the year ended June 30, 2011

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:			
Intergovernmental	\$ 93,000	\$ 86,498	\$ (6,502)
Investment income	9,000	2,775	(6,225)
TOTAL REVENUES	102,000	89,273	(12,727)
EXPENDITURES:			
Current:			
General government	9,474	1,270	8,204
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	92,526	88,003	(4,523)
OTHER FINANCING USES:			
Transfers out	(716,000)	(62,500)	653,500
NET CHANGE IN FUND BALANCE	(623,474)	25,503	648,977
FUND BALANCE - BEGINNING OF YEAR	645,652	645,652	-
FUND BALANCE - END OF YEAR	\$ 22,178	\$ 671,155	\$ 648,977

See independent auditors' report.

CITY OF LAKE FOREST

BUDGETARY COMPARISON SCHEDULE

SUPPLEMENTAL LAW ENFORCEMENT GRANT SPECIAL REVENUE FUND

For the year ended June 30, 2011

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:			
Intergovernmental	\$ 100,000	\$ 99,965	\$ (35)
Investment income	-	35	35
	<hr/>	<hr/>	<hr/>
TOTAL REVENUES	100,000	100,000	-
EXPENDITURES:			
Current:			
Public safety	100,000	100,000	-
	<hr/>	<hr/>	<hr/>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	-	-
FUND BALANCE - BEGINNING OF YEAR	<hr/>	<hr/>	<hr/>
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See independent auditors' report.



CITY OF LAKE FOREST

BUDGETARY COMPARISON SCHEDULE

ASSET FORFEITURE SPECIAL REVENUE FUND

For the year ended June 30, 2011

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:			
Investment income	\$ 200	\$ 49	\$ (151)
EXPENDITURES	-	-	-
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	200	49	(151)
FUND BALANCE - BEGINNING OF YEAR	11,320	11,320	-
FUND BALANCE - END OF YEAR	<u>\$ 11,520</u>	<u>\$ 11,369</u>	<u>\$ (151)</u>

See independent auditors' report.

CITY OF LAKE FOREST  
 BUDGETARY COMPARISON SCHEDULE  
 GAS TAX SPECIAL REVENUE FUND

For the year ended June 30, 2011

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:			
Intergovernmental	\$ 2,336,631	\$ 2,186,285	\$ (150,346)
Investment income	8,000	4,960	(3,040)
Other	-	40	40
	<u>2,344,631</u>	<u>2,191,285</u>	<u>(153,346)</u>
TOTAL REVENUES			
EXPENDITURES:			
Current:			
Public works	1,697,600	1,792,795	(95,195)
Capital outlay	347,131	347,131	-
	<u>2,044,731</u>	<u>2,139,926</u>	<u>(95,195)</u>
TOTAL EXPENDITURES			
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>299,900</u>	<u>51,359</u>	<u>(248,541)</u>
OTHER FINANCING SOURCES (USES):			
Transfers in	-	59,303	59,303
Transfers out	(102,500)	-	102,500
TOTAL OTHER FINANCING SOURCES (USES)	<u>(102,500)</u>	<u>59,303</u>	<u>161,803</u>
NET CHANGE IN FUND BALANCE	197,400	110,662	(86,738)
FUND BALANCE - BEGINNING OF YEAR	<u>519,030</u>	<u>519,030</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 716,430</u>	<u>\$ 629,692</u>	<u>\$ (86,738)</u>

See independent auditors' report.

CITY OF LAKE FOREST

BUDGETARY COMPARISON SCHEDULE

LOW AND MODERATE INCOME HOUSING SPECIAL REVENUE FUND

For the year ended June 30, 2011

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:			
Taxes	\$ 811,000	\$ 810,798	\$ (202)
Investment income	20,000	12,387	(7,613)
Other	6,500	7,526	1,026
TOTAL REVENUES	<u>837,500</u>	<u>830,711</u>	<u>(6,789)</u>
EXPENDITURES:			
Current:			
General government	45,000	42,126	2,874
Redevelopment/economic development	454,900	453,389	1,511
Capital outlay	1,386,000	907,766	478,234
TOTAL EXPENDITURES	<u>1,885,900</u>	<u>1,403,281</u>	<u>482,619</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,048,400)	(572,570)	475,830
OTHER FINANCING USES:			
Transfers out	(326,000)	(326,000)	-
NET CHANGE IN FUND BALANCE	(1,374,400)	(898,570)	475,830
FUND BALANCE - BEGINNING OF YEAR	4,184,871	4,184,871	-
FUND BALANCE - END OF YEAR	<u>\$ 2,810,471</u>	<u>\$ 3,286,301</u>	<u>\$ 475,830</u>

See independent auditors' report.

CITY OF LAKE FOREST  
 BUDGETARY COMPARISON SCHEDULE  
 HOUSING AUTHORITY SPECIAL REVENUE FUND

For the year ended June 30, 2011

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:			
Other	\$ -	\$ 1,202	\$ 1,202
EXPENDITURES:			
Current:			
Redevelopment/economic development	-	652	(652)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	550	550
OTHER FINANCING SOURCES:			
Transfers in	326,000	326,000	-
NET CHANGE IN FUND BALANCE	326,000	326,550	550
FUND BALANCE - BEGINNING OF YEAR	-	-	-
FUND BALANCE - END OF YEAR	\$ 326,000	\$ 326,550	\$ 550

See independent auditors' report.

CITY OF LAKE FOREST  
 BUDGETARY COMPARISON SCHEDULE  
 DISASTER GRANTS SPECIAL REVENUE FUND

For the year ended June 30, 2011

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:			
Intergovernmental	\$ -	\$ 170,154	\$ 170,154
EXPENDITURES	-	-	-
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	170,154	170,154
OTHER FINANCING USES:			
Transfers out	-	(170,154)	(170,154)
NET CHANGE IN FUND BALANCE	-	-	-
FUND BALANCE - BEGINNING OF YEAR	6,178	6,178	-
FUND BALANCE - END OF YEAR	\$ 6,178	\$ 6,178	\$ -

See independent auditors' report.

CITY OF LAKE FOREST

BUDGETARY COMPARISON SCHEDULE

JUSTICE ASSISTANCE GRANT SPECIAL REVENUE FUND

For the year ended June 30, 2011

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:			
Intergovernmental	\$ 49,300	\$ -	\$ (49,300)
EXPENDITURES:			
Current:			
Public safety	44,300	18,520	25,780
Capital outlay	5,000	-	5,000
TOTAL EXPENDITURES	49,300	18,520	30,780
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	(18,520)	(18,520)
FUND BALANCE - BEGINNING OF YEAR	-	-	-
FUND BALANCE (DEFICIT) - END OF YEAR	\$ -	\$ (18,520)	\$ (18,520)

See independent auditors' report.

CITY OF LAKE FOREST

BUDGETARY COMPARISON SCHEDULE

REDEVELOPMENT AGENCY DEBT SERVICE FUND

For the year ended June 30, 2011

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:			
Taxes	\$ 3,695,000	\$ 3,695,214	\$ 214
Investment income	35,000	41,892	6,892
Other	-	6,053	6,053
TOTAL REVENUES	<u>3,730,000</u>	<u>3,743,159</u>	<u>13,159</u>
EXPENDITURES:			
Current:			
SERAF payment to State	249,002	249,002	-
Debt service:			
Pass-through payments	1,532,698	1,532,740	(42)
Interest and fiscal charges	3,400	-	3,400
TOTAL EXPENDITURES	<u>1,785,100</u>	<u>1,781,742</u>	<u>3,358</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	1,944,900	1,961,417	16,517
OTHER FINANCING USES:			
Transfers out	<u>(4,837,300)</u>	<u>(4,691,545)</u>	<u>145,755</u>
NET CHANGE IN FUND BALANCE	(2,892,400)	(2,730,128)	162,272
FUND BALANCE - BEGINNING OF YEAR	<u>3,584,450</u>	<u>3,584,450</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 692,050</u>	<u>\$ 854,322</u>	<u>\$ 162,272</u>

See independent auditors' report.

CITY OF LAKE FOREST  
 BUDGETARY COMPARISON SCHEDULE  
 FINANCING AUTHORITY DEBT SERVICE FUND

For the year ended June 30, 2011

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES	\$ -	\$ -	\$ -
EXPENDITURES:			
Debt service:			
Principal payments	225,000	225,000	-
Interest and fiscal charges	<u>322,100</u>	<u>322,138</u>	<u>(38)</u>
TOTAL EXPENDITURES	<u>547,100</u>	<u>547,138</u>	<u>(38)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(547,100)	(547,138)	(38)
OTHER FINANCING SOURCES:			
Transfers in	<u>547,100</u>	<u>546,791</u>	<u>(309)</u>
NET CHANGE IN FUND BALANCE	-	(347)	(347)
FUND BALANCE - BEGINNING OF YEAR	<u>347</u>	<u>347</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 347</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (347)</u></u>

See independent auditors' report.



CITY OF LAKE FOREST

BUDGETARY COMPARISON SCHEDULE

REDEVELOPMENT AGENCY CAPITAL PROJECTS FUND

For the year ended June 30, 2011

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES	\$ -	\$ -	\$ -
EXPENDITURES:			
Current:			
General government	234,000	166,866	67,134
Public works	32,900	31,180	1,720
Development services	116,900	123,228	(6,328)
Management services	5,200	5,502	(302)
Redevelopment/economic development	852,200	412,494	439,706
Capital outlay	259,818	213,550	46,268
TOTAL EXPENDITURES	1,501,018	952,820	548,198
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,501,018)	(952,820)	548,198
OTHER FINANCING SOURCES:			
Transfers in	1,066,200	920,754	(145,446)
NET CHANGE IN FUND BALANCE	(434,818)	(32,066)	402,752
FUND BALANCE - BEGINNING OF YEAR	-	-	-
FUND BALANCE (DEFICIT) - END OF YEAR	\$ (434,818)	\$ (32,066)	\$ 402,752

See independent auditors' report.

CITY OF LAKE FOREST

BUDGETARY COMPARISON SCHEDULE

LAKE FOREST TRANSPORTATION MITIGATION CAPITAL PROJECTS FUND

For the year ended June 30, 2011

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES	\$ -	\$ -	\$ -
EXPENDITURES:			
Capital outlay	<u>2,164,549</u>	<u>30,926</u>	<u>2,133,623</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(2,164,549)	(30,926)	2,133,623
FUND BALANCE - BEGINNING OF YEAR	<u>2,164,549</u>	<u>2,164,549</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u><u>\$ -</u></u>	<u><u>\$ 2,133,623</u></u>	<u><u>\$ 2,133,623</u></u>

See independent auditors' report.

CITY OF LAKE FOREST

BUDGETARY COMPARISON SCHEDULE

PARK DEVELOPMENT CAPITAL PROJECTS FUND

For the year ended June 30, 2011

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:			
Charges for services	\$ 10,000	\$ 16,654	\$ 6,654
Investment income	7,000	955	(6,045)
	<u>17,000</u>	<u>17,609</u>	<u>609</u>
TOTAL REVENUES	17,000	17,609	609
EXPENDITURES	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	17,000	17,609	609
FUND BALANCE - BEGINNING OF YEAR	<u>215,310</u>	<u>215,310</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 232,310</u></u>	<u><u>\$ 232,919</u></u>	<u><u>\$ 609</u></u>

See independent auditors' report.

CITY OF LAKE FOREST  
 BUDGETARY COMPARISON SCHEDULE  
 AFFORDABLE HOUSING CAPITAL PROJECTS FUND

For the year ended June 30, 2011

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:			
Charges for services	\$ 248,000	\$ 248,181	\$ 181
Investment income	-	954	954
TOTAL REVENUES	248,000	249,135	1,135
EXPENDITURES	-	-	-
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	248,000	249,135	1,135
FUND BALANCE - BEGINNING OF YEAR	51,772	51,772	-
FUND BALANCE - END OF YEAR	\$ 299,772	\$ 300,907	\$ 1,135

See independent auditors' report.

CITY OF LAKE FOREST

AGENCY FUNDS

June 30, 2011

Road Construction Programs Fund - This fund is used to account for monies collected on behalf of the County of Orange and held in an agency capacity by the City.

Strong Motion Instrumentation Program Fund - This fund is used to account for monies collected in conjunction with building permits for the Strong Motion Instrumentation Program. These fees are collected pursuant to State law and are remitted to the State of California quarterly.

Building Standards Administration Fund - This fund is used to account for monies collected in conjunction with building permits for development and education efforts associated with green building standards. Fees are collected pursuant to State law and are remitted to the California Building Standards Commission quarterly.

Community Facilities District Formation Fund - This fund is used to account for costs related to formation of the District and funds advanced to the City to pay for these costs.

CITY OF LAKE FOREST

COMBINING STATEMENT OF ASSETS AND LIABILITIES  
ALL AGENCY FUNDS

June 30, 2011

	<u>Road Construction Programs</u>	<u>Strong Motion Instrumentation Program</u>	<u>Building Standards Administration</u>	<u>Community Facilities District Formation</u>	<u>Totals</u>
<b>ASSETS</b>					
Cash and investments	\$ -	\$ 14,451	\$ 881	\$ -	\$ 15,332
<b>TOTAL ASSETS</b>	<u>\$ -</u>	<u>\$ 14,451</u>	<u>\$ 881</u>	<u>\$ -</u>	<u>\$ 15,332</u>
<b>LIABILITIES</b>					
Deposits payable	\$ -	\$ 14,451	\$ 881	\$ -	\$ 15,332
<b>TOTAL LIABILITIES</b>	<u>\$ -</u>	<u>\$ 14,451</u>	<u>\$ 881</u>	<u>\$ -</u>	<u>\$ 15,332</u>

See independent auditors' report.

CITY OF LAKE FOREST

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS

For the year ended June 30, 2011

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
<b>ROAD CONSTRUCTION PROGRAMS</b>				
ASSETS:				
Cash and investments	\$ 162,556	\$ -	\$ 162,556	\$ -
<b>TOTAL ASSETS</b>	<b>\$ 162,556</b>	<b>\$ -</b>	<b>\$ 162,556</b>	<b>\$ -</b>
LIABILITIES:				
Deposits payable	\$ 162,556	\$ -	\$ 162,556	\$ -
<b>TOTAL LIABILITIES</b>	<b>\$ 162,556</b>	<b>\$ -</b>	<b>\$ 162,556</b>	<b>\$ -</b>
<b>STRONG MOTION INSTRUMENTATION PROGRAM</b>				
ASSETS:				
Cash and investments	\$ 14,040	\$ 1,620	\$ 1,209	\$ 14,451
<b>TOTAL ASSETS</b>	<b>\$ 14,040</b>	<b>\$ 1,620</b>	<b>\$ 1,209</b>	<b>\$ 14,451</b>
LIABILITIES:				
Deposits payable	\$ 14,040	\$ 4,225	\$ 3,814	\$ 14,451
<b>TOTAL LIABILITIES</b>	<b>\$ 14,040</b>	<b>\$ 4,225</b>	<b>\$ 3,814</b>	<b>\$ 14,451</b>
<b>BUILDING STANDARDS ADMINISTRATION</b>				
ASSETS:				
Cash and investments	\$ 742	\$ 631	\$ 492	\$ 881
<b>TOTAL ASSETS</b>	<b>\$ 742</b>	<b>\$ 631</b>	<b>\$ 492</b>	<b>\$ 881</b>
LIABILITIES:				
Deposits payable	\$ 742	\$ 631	\$ 492	\$ 881
<b>TOTAL LIABILITIES</b>	<b>\$ 742</b>	<b>\$ 631</b>	<b>\$ 492</b>	<b>\$ 881</b>

See independent auditors' report.

(Continued)

CITY OF LAKE FOREST

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
(CONTINUED)

For the year ended June 30, 2011

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
<b>COMMUNITY FACILITIES DISTRICT FORMATION</b>				
ASSETS:				
Cash and investments	\$ 9,025	\$ -	\$ 9,025	\$ -
<b>TOTAL ASSETS</b>	<b>\$ 9,025</b>	<b>\$ -</b>	<b>\$ 9,025</b>	<b>\$ -</b>
LIABILITIES:				
Deposits payable	\$ 9,025	\$ -	\$ 9,025	\$ -
<b>TOTAL LIABILITIES</b>	<b>\$ 9,025</b>	<b>\$ -</b>	<b>\$ 9,025</b>	<b>\$ -</b>
 <b>TOTAL - ALL AGENCY FUNDS</b>				
ASSETS:				
Cash and investments	\$ 186,363	\$ 2,251	\$ 173,282	\$ 15,332
<b>TOTAL ASSETS</b>	<b>\$ 186,363</b>	<b>\$ 2,251</b>	<b>\$ 173,282</b>	<b>\$ 15,332</b>
LIABILITIES:				
Deposits payable	\$ 14,782	\$ 4,856	\$ 4,306	\$ 15,332
<b>TOTAL LIABILITIES</b>	<b>\$ 14,782</b>	<b>\$ 4,856</b>	<b>\$ 4,306</b>	<b>\$ 15,332</b>

See independent auditors' report.



## DESCRIPTION OF STATISTICAL SECTION CONTENTS

June 30, 2011

This section of the City of Lake Forest's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information say about the City's overall financial health. This information has not been audited by the independent auditor.

<b><u>Contents</u></b>	<b><u>Pages</u></b>
<b>Financial Trends</b>	102-110
These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	
<b>Revenue Capacity</b>	111-115
These schedules contain information to help the reader assess the City's most significant local revenue source, property tax.	
<b>Debt Capacity</b>	116-119
These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt.	
<b>Demographic and Economic Information</b>	120-121
These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.	
<b>Operating Information</b>	122-124
These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.	

### Sources:

Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year. The City implemented GASB 34 in the year ended June 30, 2001; schedules presenting government-wide information include information beginning in that year.

CITY OF LAKE FOREST  
NET ASSETS BY COMPONENT

Last Ten Fiscal Years  
(accrual basis of accounting)

	Fiscal Year			
	2011	2010	2009	2008
Governmental activities:				
Invested in capital assets, net of related debt	\$ 196,180,216	\$ 170,707,057	\$ 170,898,743	\$ 151,991,756
Restricted	10,548,032	10,901,503	6,965,580	7,917,936
Unrestricted	81,447,176	95,586,635	101,720,693	100,096,806
Total governmental activities net assets	<u>\$ 288,175,424</u>	<u>\$ 277,195,195</u>	<u>\$ 279,585,016</u>	<u>\$ 260,006,498</u>
Primary government:				
Invested in capital assets, net of related debt	\$ 196,180,216	\$ 170,707,057	\$ 170,898,743	\$ 151,991,756
Restricted	10,548,032	10,901,503	6,965,580	7,917,936
Unrestricted	81,447,176	95,586,635	101,720,693	100,096,806
Total primary government net assets	<u>\$ 288,175,424</u>	<u>\$ 277,195,195</u>	<u>\$ 279,585,016</u>	<u>\$ 260,006,498</u>

Fiscal Year					
2007	2006	2005	2004	2003	2002
\$ 152,736,236	\$ 153,261,503	\$ 147,415,149	\$ 135,849,398	\$ 136,395,069	\$ 115,819,357
6,756,713	6,145,459	5,478,503	4,899,620	3,824,691	3,169,142
94,134,305	81,927,739	77,610,246	71,876,493	58,116,908	51,848,772
<u>\$ 253,627,254</u>	<u>\$ 241,334,701</u>	<u>\$ 230,503,898</u>	<u>\$ 212,625,511</u>	<u>\$ 198,336,668</u>	<u>\$ 170,837,271</u>
\$ 152,736,236	\$ 153,261,503	\$ 147,415,149	\$ 135,849,398	\$ 136,395,069	\$ 115,819,357
6,756,713	6,145,459	5,478,503	4,899,620	3,824,691	3,169,142
94,134,305	81,927,739	77,610,246	71,876,493	58,116,908	51,848,772
<u>\$ 253,627,254</u>	<u>\$ 241,334,701</u>	<u>\$ 230,503,898</u>	<u>\$ 212,625,511</u>	<u>\$ 198,336,668</u>	<u>\$ 170,837,271</u>

CITY OF LAKE FOREST  
CHANGES IN NET ASSETS

Last Ten Fiscal Years  
(accrual basis of accounting)

	Fiscal Year			
	2011	2010	2009	2008
Expenses:				
Governmental activities:				
General government	\$ 4,377,337	\$ 4,621,487	\$ 4,785,915	\$ 4,203,569
Public safety	12,873,177	12,999,563	12,732,649	12,452,930
Public works	16,115,328	16,921,113	17,401,277	17,924,671
Development services	2,660,830	2,838,603	2,735,908	3,040,972
Management services	1,606,779	1,756,235	1,837,806	1,450,824
Community services	3,058,292	3,102,590	2,963,331	2,673,227
Redevelopment/economic development	2,958,997	1,477,888	1,455,462	1,006,979
Interest on long-term debt	332,045	349,056	387,717	384,850
Total governmental activities expenses	<u>43,982,785</u>	<u>44,066,535</u>	<u>44,300,065</u>	<u>43,138,022</u>
Program revenues:				
Governmental activities:				
Charges for services:				
General government	29,311	20,888	20,192	8,759
Public safety	560,819	490,693	560,612	570,473
Public works	936,195	121,098	120,296	116,808
Development services	1,388,941	1,358,687	1,031,280	1,666,111
Management services	-	-	-	-
Community services	272,446	446,320	177,438	150,790
Operating grants and contributions	4,830,388	5,444,395	4,900,050	4,755,995
Capital grants and contributions	12,396,561	1,298,378	13,730	1,051,710
Total governmental activities program revenues	<u>20,414,661</u>	<u>9,180,459</u>	<u>6,823,598</u>	<u>8,320,646</u>
Total primary government program revenues	<u>20,414,661</u>	<u>9,180,459</u>	<u>6,823,598</u>	<u>8,320,646</u>
Net revenues (expenses):				
Governmental activities	<u>(23,568,124)</u>	<u>(34,886,076)</u>	<u>(37,476,467)</u>	<u>(34,817,376)</u>
Total net revenues (expenses)	<u>(23,568,124)</u>	<u>(34,886,076)</u>	<u>(37,476,467)</u>	<u>(34,817,376)</u>
General revenues and other changes in net assets:				
Governmental activities:				
Taxes:				
Property taxes	17,314,284	15,701,434	17,045,323	16,150,989
Sales taxes	12,630,144	10,912,353	12,482,010	13,676,717
Transient occupancy taxes	2,439,443	1,939,344	2,227,264	2,813,764
Other taxes	2,269,023	2,237,285	2,354,422	2,287,907
Motor vehicle in lieu, unrestricted	398,659	230,061	266,153	346,806
Investment income	479,877	1,179,089	2,544,784	5,090,792
Other general revenues	418,151	304,932	131,494	829,645
Total governmental activities	<u>35,949,581</u>	<u>32,504,498</u>	<u>37,051,450</u>	<u>41,196,620</u>
Total primary government	<u>35,949,581</u>	<u>32,504,498</u>	<u>37,051,450</u>	<u>41,196,620</u>
Changes in net assets				
Governmental activities	<u>12,381,457</u>	<u>(2,381,578)</u>	<u>(425,017)</u>	<u>6,379,244</u>
Total primary government	<u>\$ 12,381,457</u>	<u>\$ (2,381,578)</u>	<u>\$ (425,017)</u>	<u>\$ 6,379,244</u>

		Fiscal Year									
		2007	2006	2005	2004	2003	2002				
\$	3,411,235	\$	3,381,872	\$	2,932,872	\$	2,697,390	\$	2,914,185	\$	2,180,024
	10,348,994		10,546,371		9,331,034		9,305,072		8,375,632		6,768,428
	13,234,911		13,033,025		11,874,966		9,863,496		11,197,224		10,165,153
	3,754,817		5,095,288		4,914,100		4,504,509		3,767,834		3,500,648
	1,385,050		2,670,342		2,608,288		2,224,495		2,225,941		2,259,398
	2,473,802		-		-		-		-		-
	1,283,418		-		-		-		-		-
	342,025		348,105		351,954		96,421		-		-
	<u>36,234,252</u>		<u>35,075,003</u>		<u>32,013,214</u>		<u>28,691,383</u>		<u>28,480,816</u>		<u>24,873,651</u>
	4,933		1,583		4,098		4,370		13,899		3,524
	512,079		485,246		542,722		535,374		472,434		479,734
	87,701		177,002		153,298		213,584		156,553		129,811
	1,654,938		2,026,050		2,101,270		1,740,111		1,182,534		1,183,750
	-		128,949		63,502		58,639		64,563		32,400
	109,908		-		-		-		-		-
	4,475,783		3,642,056		4,509,756		3,504,114		3,968,311		3,892,099
	29,406		2,275,705		8,071,746		8,542,590		869,050		3,325,021
	<u>6,874,748</u>		<u>8,736,591</u>		<u>15,446,392</u>		<u>14,598,782</u>		<u>6,727,344</u>		<u>9,046,339</u>
	6,874,748		8,736,591		15,446,392		14,598,782		6,727,344		9,046,339
	<u>(29,359,504)</u>		<u>(26,338,412)</u>		<u>(16,566,822)</u>		<u>(14,092,601)</u>		<u>(21,753,472)</u>		<u>(15,827,312)</u>
	(29,359,504)		(26,338,412)		(16,566,822)		(14,092,601)		(21,753,472)		(15,827,312)
	15,955,895		14,260,592		12,200,460		7,825,583		7,126,612		6,656,629
	15,278,307		15,182,510		13,888,086		12,432,181		10,874,978		10,514,492
	2,657,295		2,168,862		1,789,195		1,305,742		1,051,400		960,218
	2,815,753		2,660,320		2,491,189		2,471,229		2,248,710		2,182,489
	494,643		202,814		2,081,262		3,548,946		4,442,316		5,457,486
	4,335,205		2,671,639		1,748,082		602,708		1,583,364		2,138,675
	114,959		22,478		246,935		195,055		470,836		451,859
	<u>41,652,057</u>		<u>37,169,215</u>		<u>34,445,209</u>		<u>28,381,444</u>		<u>27,798,216</u>		<u>28,361,848</u>
	41,652,057		37,169,215		34,445,209		28,381,444		27,798,216		28,361,848
	12,292,553		10,830,803		17,878,387		14,288,843		6,044,744		12,534,536
\$	<u>12,292,553</u>	\$	<u>10,830,803</u>	\$	<u>17,878,387</u>	\$	<u>14,288,843</u>	\$	<u>6,044,744</u>	\$	<u>12,534,536</u>

CITY OF LAKE FOREST

FUND BALANCES OF GOVERNMENTAL FUNDS

Last Ten Fiscal Years  
(modified accrual basis of accounting)

	Fiscal Year			
	2011	2010	2009	2008
General fund:				
Reserved	\$ -	\$ 2,182,459	\$ 2,214,135	\$ 2,168,178
Unreserved	-	73,122,377	96,323,995	96,126,716
Total general fund	<u>\$ -</u>	<u>\$ 75,304,836</u>	<u>\$ 98,538,130</u>	<u>\$ 98,294,894</u>
All other governmental funds:				
Reserved	\$ -	\$ 1,462,562	\$ 153,024	\$ 518,773
Unreserved, reported in:				
Special revenue funds	-	5,758,225	6,457,552	6,525,839
Capital projects funds	-	18,862,833	(719,171)	(50,336)
Debt service funds	-	3,562,986	3,189,786	1,673,051
Total all other governmental funds	<u>\$ -</u>	<u>\$ 29,646,606</u>	<u>\$ 9,081,191</u>	<u>\$ 8,667,327</u>

The presentation of fiscal years in this schedule is intended to be consistent with the implementation of GASB 34.

General fund:				
Nonspendable	\$ 166,614	\$ -	\$ -	\$ -
Unassigned	55,302,963	-	-	-
Total general fund	<u>\$ 55,469,577</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
All other governmental funds:				
Nonspendable	\$ 4,814	\$ -	\$ -	\$ -
Restricted	9,720,988	-	-	-
Assigned	24,498,506	-	-	-
Unassigned	(52,959)	-	-	-
Total all other governmental funds	<u>\$ 34,171,349</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Note: GASB 54 was implemented in year ended June 30, 2011, prior year's have no comparable data.

Fiscal Year

2007	2006	2005	2004	2003	2002
\$ 2,606,143	\$ 3,407,725	\$ 13,747,897	\$ 2,522,296	\$ 4,580,937	\$ 2,867,081
86,956,185	70,364,793	61,820,588	72,148,399	53,939,450	50,043,819
<u>\$ 89,562,328</u>	<u>\$ 73,772,518</u>	<u>\$ 75,568,485</u>	<u>\$ 74,670,695</u>	<u>\$ 58,520,387</u>	<u>\$ 52,910,900</u>
\$ 264,980	\$ 137,917	\$ 1,769,773	\$ 163,912	\$ -	\$ 134,518
5,669,706	5,265,055	2,946,408	3,993,337	3,172,913	2,409,478
-	285,316	870,168	1,060,698	734,664	318,851
471,026	(116,880)	(1,138,143)	(1,138,143)	(1,138,143)	(1,380,979)
<u>\$ 6,405,712</u>	<u>\$ 5,571,408</u>	<u>\$ 4,448,206</u>	<u>\$ 4,079,804</u>	<u>\$ 2,769,434</u>	<u>\$ 1,481,868</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF LAKE FOREST

CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS

Last Ten Fiscal Years  
(modified accrual basis of accounting)

	Fiscal Year			
	2011	2010	2009	2008
Revenues:				
Taxes	\$ 34,652,894	\$ 33,602,398	\$ 35,595,068	\$ 37,844,313
Licenses and permits	513,965	513,001	483,310	505,260
Intergovernmental	5,746,688	6,554,126	4,798,406	7,922,679
Charges for services	1,341,009	1,437,291	863,867	1,441,696
Developer contributions	750,000	-	-	-
Fines and forfeitures	557,083	487,085	556,560	565,983
Investment income	327,868	1,226,620	2,654,323	5,317,333
Other	666,952	370,634	221,942	553,073
Total revenues	<u>44,556,459</u>	<u>44,191,155</u>	<u>45,173,476</u>	<u>54,150,337</u>
Expenditures:				
Current:				
General government	4,080,480	4,411,123	4,588,334	3,927,372
Public safety	12,847,909	12,953,360	12,709,337	12,418,604
Public works	8,585,160	8,760,691	8,628,070	8,456,483
Development services	2,564,139	2,762,563	2,677,232	3,009,043
Management services	1,489,604	1,606,047	1,746,164	1,415,093
Community services	3,054,343	3,084,891	2,947,541	2,673,017
Redevelopment/economic development	1,517,755	1,477,888	1,455,462	1,159,575
SERAF payment to State	249,002	1,209,535	-	-
Capital outlay	24,672,951	8,756,989	7,698,639	8,442,215
Debt service:				
Principal retirement	225,000	220,000	215,000	210,000
Interest and fiscal charges	322,138	339,500	364,548	389,260
Pass-through payments	1,532,740	1,602,447	1,486,049	1,381,494
Total expenditures	<u>61,141,221</u>	<u>47,185,034</u>	<u>44,516,376</u>	<u>43,482,156</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(16,584,762)</u>	<u>(2,993,879)</u>	<u>657,100</u>	<u>10,668,181</u>
Other financing sources (uses):				
Transfers in	24,389,199	23,531,247	1,630,931	1,442,832
Transfers out	(24,389,199)	(23,531,247)	(1,630,931)	(1,442,832)
Proceeds on exchange of land	-	-	-	326,000
Proceeds from long-term debt	-	-	-	-
Premium on debt issue	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>326,000</u>
Net change in fund balances	<u>\$ (16,584,762)</u>	<u>\$ (2,993,879)</u>	<u>\$ 657,100</u>	<u>\$ 10,994,181</u>
Debt service as a percentage of non-capital expenditures	3.4%	5.2%	5.4%	5.2%



Fiscal Year						
2007	2006	2005	2004	2003	2002	
\$ 32,814,833	\$ 30,150,758	\$ 27,437,895	\$ 21,786,662	\$ 19,350,112	\$ 18,522,329	
643,158	616,067	754,057	690,862	749,101	826,029	
12,392,899	10,227,492	11,098,720	14,750,063	11,093,550	11,059,090	
1,209,977	1,713,575	1,568,477	1,322,332	674,855	525,338	
-	-	-	-	-	-	
505,457	476,953	535,357	529,540	466,027	477,852	
4,669,655	2,871,568	1,886,535	652,088	1,692,728	2,291,318	
319,464	210,956	1,766,610	473,437	534,334	583,564	
<u>52,555,443</u>	<u>46,267,369</u>	<u>45,047,651</u>	<u>40,204,984</u>	<u>34,560,707</u>	<u>34,285,520</u>	
3,331,061	3,315,329	2,871,880	2,657,972	2,866,399	2,155,383	
10,315,572	10,515,607	9,297,707	9,244,764	8,294,753	6,774,052	
7,156,432	6,662,359	6,676,955	6,007,637	5,628,684	5,068,330	
2,662,422	4,030,326	3,865,405	3,456,771	3,003,953	3,060,977	
1,347,789	2,646,902	2,592,550	2,211,439	2,212,341	2,186,548	
2,476,122	-	-	-	-	-	
1,276,767	-	-	-	-	-	
-	-	-	-	-	-	
5,503,543	18,012,248	16,697,787	7,249,400	4,852,329	6,115,462	
205,000	195,000	135,000	88,800	-	-	
407,236	390,787	380,364	357,213	31,521	56,346	
1,249,385	1,171,576	1,133,081	1,030,642	773,674	669,656	
<u>35,931,329</u>	<u>46,940,134</u>	<u>43,650,729</u>	<u>32,304,638</u>	<u>27,663,654</u>	<u>25,417,098</u>	
16,624,114	(672,765)	1,396,922	7,900,346	6,897,053	8,868,422	
1,980,525	701,053	620,499	108,370	245,498	1,341,039	
(1,980,525)	(701,053)	(751,229)	(108,370)	(245,498)	(1,341,039)	
-	-	-	-	-	-	
-	-	-	9,505,000	-	-	
-	-	-	55,332	-	-	
-	-	(130,730)	9,560,332	-	-	
<u>\$ 16,624,114</u>	<u>\$ (672,765)</u>	<u>\$ 1,266,192</u>	<u>\$ 17,460,678</u>	<u>\$ 6,897,053</u>	<u>\$ 8,868,422</u>	
5.8%	5.7%	5.9%	5.9%	3.3%	3.3%	

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CITY OF LAKE FOREST  
 ASSESSED VALUE AND ESTIMATED ACTUAL VALUE  
 OF TAXABLE PROPERTY

Last Ten Fiscal Years  
 (in thousands of dollars)

Fiscal Year Ended June 30	Residential	Commercial	Industrial	Misc.	Total Secured	Unsecured	Taxable Assessed Value	Total Direct Tax Rate
2011	\$ 7,167,735	\$ 1,597,821	\$ 1,162,907	\$ 61,362	\$ 9,989,825	\$ 676,167	\$ 10,665,992	0.094%
2010	7,159,114	1,683,444	1,234,199	63,548	10,140,305	668,440	10,808,745	0.094%
2009	7,690,343	1,463,499	1,117,041	291,831	10,562,714	619,832	11,182,546	0.108%
2008	7,697,469	1,364,379	978,603	284,144	10,324,595	570,109	10,894,704	0.108%
2007	7,222,303	1,195,917	925,811	277,545	9,621,576	534,380	10,155,956	0.107%
2006	6,547,321	1,118,675	860,690	259,975	8,786,661	472,230	9,258,891	0.103%
2005	5,983,586	1,056,353	786,114	234,818	8,060,871	492,521	8,553,392	0.107%
2004	5,554,373	1,005,560	752,309	175,792	7,488,034	497,987	7,986,021	0.104%
2003	5,202,392	881,456	701,438	204,802	6,990,088	444,851	7,434,939	0.103%
2002	4,934,929	691,288	663,642	228,877	6,518,736	395,385	6,914,121	0.106%

Note: Total Direct Tax Rate is the weighted average City General Fund share of the 1% Proposition 13 rate for all Tax Rate Areas; exempt values are not included in Taxable Assessed Value.

Source: Orange County Assessor data, MuniServices, LLC; 2008-09 and prior: prior year Comprehensive Annual Financial Reports

CITY OF LAKE FOREST

DIRECT AND OVERLAPPING PROPERTY TAX RATES

Last Ten Fiscal Years  
(Rate per \$100 of Taxable Value)

	Fiscal Year			
	2011	2010	2009	2008
<b>Basic Levy:</b>				
City of Lake Forest	0.04186	0.04186	0.04186	0.04186
City of Lake Forest Community Service Area Reorganization	0.07075	0.07075	0.07075	0.07075
City of Lake Forest Lighting Fund	0.01692	0.01692	0.01692	0.01692
City of Lake Forest AB1406	0.01167	0.01167	0.01167	0.01167
<b>Total City Direct Rate</b>	<b>0.14120</b>	<b>0.1412</b>	<b>0.1412</b>	<b>0.1412</b>
<b>Overlapping Rates</b>				
Saddleback Valley Unified General Fund	0.43637	0.43637	0.43637	0.43637
Educational Revenue Augmentation Fund	0.11103	0.11103	0.11103	0.11103
Orange County Fire Authority	0.10821	0.10821	0.10821	0.10821
South Orange County Community College District	0.08522	0.08522	0.08522	0.08522
Orange County General Fund	0.03102	0.03102	0.03102	0.03102
Orange County Flood Control General Fund	0.01904	0.01904	0.01904	0.01904
Los Alisos Water District General Fund	0.01719	0.01719	0.01719	0.01719
Orange County Library District General Fund	0.01605	0.01605	0.01605	0.01605
Orange County Department of Education	0.01571	0.01571	0.01571	0.01571
Orange County Harbors, Beaches and Parks	0.01472	0.01472	0.01472	0.01472
Orange County Transportation Authority	0.00270	0.00270	0.00270	0.00270
Orange County Vector Control District	0.00107	0.00107	0.00107	0.00107
Orange County Cemetery District	0.00047	0.00047	0.00047	0.00047
<b>Total Basic Levy</b>	<b>1.00000</b>	<b>1.00000</b>	<b>1.00000</b>	<b>1.00000</b>
<b>Additional Levies (Voter-Approved Rates)</b>				
Irvine Ranch Water District	0.01374	0.01374	0.14674	0.38974
Los Alisos Water District (land value only)	0.00000	-	-	-
Metropolitan Water District	0.00370	0.00430	0.00430	0.00430
Orange County Improvement Bonds	0.00000	-	-	-
Orange County Flood Control District	0.00000	-	-	-
Saddleback Valley Unified School District Bond	0.03194	0.03043	0.02834	0.02668
Tustin Union High School District	0.00000	-	-	-
San Joaquin School District	0.00000	-	-	-
<b>Total Voter-Approved Levies</b>	<b>0.04938</b>	<b>0.04847</b>	<b>0.17938</b>	<b>0.42072</b>
<b>Total Tax Rate</b>	<b>1.04938</b>	<b>1.04847</b>	<b>1.17938</b>	<b>1.42072</b>

Notes: There are 126 Tax Rate Areas (TRA) in Lake Forest. The above is for Tax Rate Area 30-015. City tax rates vary significantly by TRA. In 1978, California voters passed Proposition 13 which set the property tax rate at a 1.00% fixed amount. The 1.00% is shared by all taxing agencies for which the subject property resides within. In addition to the 1.00% fixed amount, property owners are charged taxes as a percentage of assessed property values for the payment of any voter approved bonds. The table has been restated from previously published CAFR and annual reports to reflect a consistent reporting methodology in compliance with GASB 44.

Source: Orange County Auditor/Controller data, MuniServices, 2008-09 and prior: prior year CAFR reports.

Fiscal Year					
2007	2006	2005	2004	2003	2002
0.04186	0.04186	0.0420	0.0420	0.0420	0.0420
0.07075	0.07075	0.0710	0.0710	0.0710	0.0710
0.01692	0.01692	0.0170	0.0170	0.0170	0.0170
0.01167	0.01167	0.0118	0.0118	0.0118	0.0118
0.1412	0.1412	0.1418	0.1418	0.1418	0.1418
0.43637	0.43637	0.4360	0.4360	0.4360	0.4360
0.11103	0.11103	0.1110	0.1110	0.1110	0.1110
0.10821	0.10821	0.1080	0.1080	0.1080	0.1080
0.08522	0.08522	0.0850	0.0850	0.0850	0.0850
0.03102	0.03102	0.0310	0.0310	0.0310	0.0310
0.01904	0.01904	0.0190	0.0190	0.0190	0.0190
0.01719	0.01719	0.0170	0.0170	0.0170	0.0170
0.01605	0.01605	0.0162	0.0162	0.0162	0.0162
0.01571	0.01571	0.0158	0.0158	0.0158	0.0158
0.01472	0.01472	0.0148	0.0148	0.0148	0.0148
0.00270	0.00270	0.0028	0.0028	0.0028	0.0028
0.00107	0.00107	0.0011	0.0011	0.0011	0.0011
0.00047	0.00047	0.0005	0.0005	0.0005	0.0005
1.00000	1.00000	1.0000	1.0000	1.0000	1.0000
0.01374	0.00002	0.00002	0.01501	0.05200	0.10851
-	-	-	0.01501	0.05200	0.05200
0.00470	0.00520	0.00580	0.00610	0.00670	0.00670
-	-	-	-	-	-
-	-	-	-	-	-
0.03694	0.03079	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
0.05538	0.03601	0.00582	0.03612	0.11070	0.16721
1.05538	1.03601	1.00582	1.03612	1.11070	1.16721

CITY OF LAKE FOREST  
PRINCIPAL PROPERTY TAXPAYERS

Current Year and Nine Years Ago

Taxpayer	2011		2002	
	Property Tax Revenue	Percent of Total Prop. Tax Revenue	Property Tax Revenue <sup>1</sup>	Percent of Total Prop. Tax Revenue <sup>1</sup>
Oakley Inc.	\$ 131,497	1.15%	\$ -	0.00%
Walton CWCA	82,349	0.72%	-	0.00%
EQR Sombra	62,542	0.55%	-	0.00%
Prologis California I LLC	58,469	0.51%	-	0.00%
Panasonic Avionics Corporation	56,323	0.49%	-	0.00%
WALF LLC	51,349	0.45%	-	0.00%
Buchheim Properties	50,742	0.44%	-	0.00%
Western Digital Technology	48,902	0.43%	-	0.00%
Hillsboro Properties	47,236	0.41%	-	0.00%
MEPT Pacific Vista Business CE	46,537	0.41%	-	0.00%
Bixby Land Company	44,968	0.39%	-	0.00%
Metropolitan Life Insurance Co	44,523	0.39%	-	0.00%
Foothill Pacific Towne Centre	41,976	0.37%	-	0.00%
Arden Reality LTD Partnership	39,714	0.35%	-	0.00%
Acquiport Three Corporation	39,512	0.34%	-	0.00%
WLCO LF Partners	38,058	0.33%	-	0.00%
Shea Baker Ranch Associates LLC	36,000	0.31%	-	0.00%
US Reif Lake Forest Village	34,817	0.30%	-	0.00%
FPOC LLC	32,815	0.29%	-	0.00%
L M Lake Forest II	32,490	0.28%	-	0.00%
Top Twenty Totals	<u>\$ 1,020,819</u>	<u>8.90%</u>	<u>\$ -</u>	<u>0.00%</u>
City Totals	<u>\$ 11,472,479</u>		<u>\$ -</u>	

<sup>1</sup> Information for taxpayers was not available for 2002.

Note: Total Property Tax Revenue includes all City property tax and Redevelopment Agency tax increment but excludes Vehicle License Fee Backfill amounts.

Source: MuniServices, LLC, City Finance Department

CITY OF LAKE FOREST  
PROPERTY TAX LEVIES AND COLLECTIONS  
Last Ten Fiscal Years

Fiscal Year Ended June 30	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of Levy		Collections in Subsequent Years **	Total Collections to Date	
		Amount *	Percent of Levy		Amount	Percent of Levy
2011	\$ 7,123,477	\$ 6,759,262	94.89%	\$ -	\$ 6,759,262	94.89%
2010	7,150,970	6,906,250	96.58%	160,597	7,066,847	98.82%
2009	7,423,259	7,084,651	95.44%	270,660	7,355,311	99.08%
2008	7,536,302	7,220,535	95.81%	281,539	7,502,074	99.55%
2007	6,972,404	6,671,669	95.69%	138,162	6,809,831	97.67%
2006	5,742,610	5,553,404	96.71%	80,273	5,633,677	98.10%
2005	5,324,170	5,181,672	97.32%	65,349	5,247,021	98.55%
2004	5,615,478	5,577,511	99.32%	37,967	5,615,478	100.00%
2003	5,187,059	5,175,024	99.77%	12,035	5,187,059	100.00%
2002	4,901,187	4,865,130	99.26%	36,057	4,901,187	100.00%

\* City property tax only, excluding prior year, penalties and interest.

\*\* These amounts consist of "prior year" taxes (excluding penalties and interest) remitted in the subsequent fiscal year from Fiscal Year 2004-05 forward; the Orange County Auditor Controller's Office aggregates these payments and does not provide detail on allocations to particular years. Penalties and interest were not recorded separately prior to Fiscal Year 2004-05.

Source: Orange County Auditor Controller's Office

CITY OF LAKE FOREST

RATIOS OF OUTSTANDING DEBT BY TYPE

Last Ten Fiscal Years

Fiscal Year Ended June 30	Certificates of Participation	Total Governmental Activities	Total Primary Government	Percentage of Total Assessed Valuation	Percentage of Personal Income	Debt Per Capita
2011	\$ 8,100,000	\$ 8,100,000	\$ 8,100,000	0.11%	*	\$ 105
2010	8,325,000	8,325,000	8,325,000	0.12%	*	107
2009	8,545,000	8,545,000	8,545,000	0.11%	6.98%	110
2008	8,760,000	8,760,000	8,760,000	0.11%	6.72%	113
2007	8,970,000	8,970,000	8,970,000	0.10%	6.43%	116
2006	9,175,000	9,175,000	9,175,000	0.10%	6.09%	118
2005	9,370,000	9,370,000	9,370,000	0.09%	6.11%	121
2004	9,505,000	9,505,000	9,505,000	0.09%	6.13%	123
2003	-	-	-	0.00%	0.00%	-
2002	-	-	-	0.00%	0.00%	-

\* Data is unavailable

Notes: Details regarding the City's outstanding debt can be found in the notes to the financial statements.



CITY OF LAKE FOREST  
DIRECT AND OVERLAPPING DEBT  
June 30, 2011

<u>Direct and Overlapping Tax and Assessment Debt:</u>	Total Debt 6/30/2011	% Applicable	City's Share of Debt
Metropolitan Water District	\$ 227,670,000	0.572%	\$ 1,302,272
Saddleback Valley Unified School District	134,935,000	35.161%	47,444,495
<b>City of Lake Forest</b>	<b>0</b>	<b>100%</b>	<b>-</b>
Irvine Ranch Water District I.D. No. 135	4,868,640	100%	4,868,640
Irvine Ranch Water District I.D. No. 182	6,840,300	100%	6,840,300
Irvine Ranch Water District I.D. No. 186	2,674,570	100%	2,674,570
Irvine Ranch Water District I.D. No. 188	2,391,850	100%	2,391,850
Irvine Ranch Water District I.D. No. 235	2,928,240	100%	2,928,240
Irvine Ranch Water District I.D. No. 282	5,775,000	100%	5,775,000
Irvine Ranch Water District I.D. No. 284	10,742,500	100%	10,742,500
Santa Margarita Water District I.D. No. 1	25,000	0.004%	1
Trabuco Canyon Community Facilities Water District No. 2	3,165,000	100%	3,165,000
Orange County Community Facilities 87-1	2,335,610	100%	2,335,610
Orange County Community Facilities 87-2	8,456,204	100%	8,456,204
Orange County Community Facilities 87-4	46,656,787	100%	46,656,787
Orange County Community Facilities 87-6	3,485,000	100%	3,485,000
Orange County Community Facilities 87-7	6,505,000	100%	6,505,000
Orange County Community Facilities 87-9	2,395,000	100%	2,395,000
Saddleback Valley Unified School District Facilities District No. 86-1	755,000	100%	755,000
<b>TOTAL DIRECT &amp; OVERLAPPING TAX &amp; ASSESSMENT DEBT</b>			<b>158,721,470</b>
 <u>Overlapping General Fund Obligation Debt:</u>			
Orange County General Fund Obligations	316,898,000	2.734%	8,663,991
Orange County Pension Obligation	54,682,497	2.734%	1,495,019
Orange County Board of Education			
Certificates of Participation (COPS)	19,000,000	2.734%	519,460
Municipal Water District of Orange County Water Facilities Corporation	14,120,000	3.229%	455,935
<b>City of Lake Forest Certificates of Participation</b>	<b>8,100,000</b>	<b>100%</b>	<b>8,100,000</b>
South O. C. Saddleback Community College District (COPS)	17,375,000	6.362%	1,105,398
Irvine Ranch Water District (COPS)	81,400,000	12.897%	10,498,158
<b>TOTAL GROSS OVERLAPPING GENERAL FUND OBLIGATION DEBT</b>			<b>30,837,961</b>
Less: MWDOC Water Facilities Corporation (100% self-supporting)			455,935
<b>City of Lake Forest Certificates of Participation (100% self-supporting)</b>			<b>8,100,000</b>
<b>TOTAL NET OVERLAPPING GENERAL FUND OBLIGATION DEBT</b>			<b>\$ 22,282,026</b>
 GROSS COMBINED TOTAL DEBT (1)			 \$ 189,559,432
NET COMBINED TOTAL DEBT			\$ 181,003,496

(1) Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

CITY OF LAKE FOREST  
 DIRECT AND OVERLAPPING DEBT  
 June 30, 2011

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<u>Ratios to 2010-11 Assessed Valuation:</u>		
2010-11 Assessed Valuation	\$10,744,518,458	
Redevelopment Incremental Valuation	547,890,741	
Adjusted Assessed Valuation	\$10,196,627,717	
Total Overlapping Tax and Assessment Debt		1.48%
<u>Ratios to Adjusted Assessed Valuation:</u>		
<b>Gross Combined Direct Debt (\$8,325,000)</b>		<b>0.08%</b>
<b>Net Combined Total Debt (\$0)</b>		<b>0.00%</b>
Gross Combined Total Debt		1.86%
Net Combined Total Debt		1.78%
<u>State School Building Aid Repayable as of 6/30/11:</u>		\$0

Notes:

For debt repaid with property taxes, the percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of another governmental unit's taxable assessed value that is within the city's boundaries and dividing it by each unit's total taxable assessed value.

Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

CITY OF LAKE FOREST

LEGAL DEBT MARGIN INFORMATION

Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Total Assessed Value of all Real and Personal Property</u>	<u>Debt Limit Percentage</u>	<u>Debt Limit</u>	<u>Amount of Debt Applicable to Debt Limit</u>	<u>Legal Debt Margin</u>
2011	\$ 10,744,518,458	15%	\$ 1,611,677,769	\$ -	\$ 1,611,677,769
2010	10,915,562,030	15%	1,637,334,305	-	1,637,334,305
2009	11,189,196,810	15%	1,678,379,522	-	1,678,379,522
2008	10,896,487,851	15%	1,634,473,178	-	1,634,473,178
2007	10,155,956,671	15%	1,523,393,501	-	1,523,393,501
2006	9,258,891,763	15%	1,388,833,764	-	1,388,833,764
2005	8,553,392,946	15%	1,283,008,942	-	1,283,008,942
2004	7,986,021,059	15%	1,197,903,159	-	1,197,903,159
2003	7,434,939,657	15%	1,115,240,949	-	1,115,240,949
2002	6,914,121,486	15%	1,037,118,223	-	1,037,118,223
2001	4,916,215,984	15%	737,432,398	-	737,432,398
2000	4,384,494,898	15%	657,674,235	-	657,674,235

Source: City Finance Department

CITY OF LAKE FOREST

DEMOGRAPHIC AND ECONOMIC STATISTICS

Last Ten Calendar Years

Calendar Year	Population (1)	Personal Income (in thousands) (2)	Per Capita Personal Income (2)	Unemployment Rate (3)
2000	77,182	\$ 106,003,904	\$ 37,095	2.4%
2011	77,490	*	*	5.3%
2010	78,720	*	*	6.6%
2009	78,344	148,372,628	49,020	6.2%
2008	78,317	155,068,367	51,877	3.6%
2007	78,243	153,446,641	51,877	2.6%
2006	77,859	150,598,354	50,997	2.3%
2005	78,020	139,408,948	47,141	2.6%
2004	77,740	130,321,396	44,086	2.9%
2003	77,442	122,427,855	41,641	3.3%
2002	76,703	116,004,953	39,767	3.4%

\* Data is unavailable.

- Sources:
- (1) State Department of Finance
  - (2) Bureau of Economic Analysis (Orange County data)
  - (3) California Employment Development Department (Lake Forest data)

CITY OF LAKE FOREST  
 PRINCIPAL EMPLOYERS  
 Current Year and Nine Years Ago

Employer	2011		2002 <sup>2</sup>	
	Number of Employees <sup>1</sup>	Percent of Total Employment	Number of Employees	Percent of Total Employment
Oakley Inc.	1,908	4.28%	-	0.00%
Panasonic Avionics	1,285	2.88%	-	0.00%
Loan Depot	450	1.01%	-	0.00%
Stanley Black & Decker	450	1.01%	-	0.00%
Apria Healthcare Group Inc.	350	0.78%	-	0.00%
Home Depot USA Inc.	350	0.78%	-	0.00%
Wonderware Corporation	322	0.72%	-	0.00%
Sole Technology	277	0.62%	-	0.00%
Wet Seal	274	0.61%	-	0.00%
Wal-Mart	245	0.55%	-	0.00%
U.S. Real Estate Services Inc	230	0.52%	-	0.00%
Sole Technology Inc.	205	0.46%	-	0.00%
Dynacast	200	0.45%	-	0.00%
Saddleback Valley School District	200	0.45%	-	0.00%
Varian, Inc.	165	0.37%	-	0.00%
<b>Top Fifteen Employers Total</b>	<b>6,911</b>	<b>15.50%</b>	<b>-</b>	<b>0.00%</b>
<b>Total Employment<sup>3</sup></b>	<b>44,600</b>			

Source: <sup>1</sup> Dun & Bradstreet; Nielson Caritas

<sup>2</sup> Data is not available

<sup>3</sup> California Employment Development Department

CITY OF LAKE FOREST  
 FULL-TIME AND PART-TIME CITY EMPLOYEES  
 BY FUNCTION

Last Ten Fiscal Years

Full-Time and Part-time Employees as of June 30

<u>Function</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u> <sup>1</sup>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
General government	28	28	31	28	26	43	59	57	28	25
Public works	13	12	14	14	14	14	14	14	13	11
Development services	15	16	17	17	14	14	17	15	14	14
Community services <sup>2</sup>	53 <sup>3</sup>	25	26	21	20					
Police services	1	1	2	1						
Total	<u>57</u>	<u>82</u>	<u>90</u>	<u>81</u>	<u>74</u>	<u>71</u>	<u>90</u>	<u>86</u>	<u>55</u>	<u>50</u>

<sup>1</sup> Part-time positions were converted to hours beginning in Fiscal Year 2005-06, thus, hours were converted to full-time equivalents after the conversion.

<sup>2</sup> Newly created department in Fiscal Year 2006-07, previously reflected in General Government.

<sup>3</sup> Hours for part-time positions were previously summed to equal a full-time position. Beginning in 2011, each part-time position is counted individually.

CITY OF LAKE FOREST  
OPERATING INDICATORS  
BY FUNCTION

Last Six Fiscal Years <sup>1</sup>

	Fiscal Year					
	2011	2010	2009	2008	2007	2006
Police: <sup>2</sup>						
Arrests	886	1,080	723	954	1,050	858
Number of calls responded to	25,006	24,505	25,452	26,371	27,531	27,000
Public works:						
Street resurfacing (miles)	25	25	8	20	12	21
Parks and recreation:						
Number of recreation classes <sup>3</sup>	775	590	522	225	104	75
Number of facility rentals	226	1,487	63	11	4 <sup>4</sup>	10

<sup>1</sup> Data prior to Fiscal Year 2006 is not available.

<sup>2</sup> Police services are contracted through the County of Orange.

<sup>3</sup> The City contracts with the Saddleback Valley Unified School District for various recreation services; the number of classes shown above represents classes offered directly by the City.

<sup>4</sup> This increase is primarily related to park rentals which were recently approved and an increase in rentals at City Hall.

CITY OF LAKE FOREST  
 CAPITAL ASSET STATISTICS  
 BY FUNCTION

Last Six Fiscal Years<sup>1</sup>

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Police:						
Stations	1	1	1	1	1	1
Public works:						
Streets (miles)	188	188	188	188	188	155
Traffic signals	95	95	94	93	92	86
Parks and recreation:						
Parks	27	27	27	27	21	21
Community centers	1	1	1	1	1	1

<sup>1</sup> Data prior to Fiscal Year 2006 is unavailable.