



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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April 2, 2009

TO: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe *Wendy L. Watanabe*
Auditor-Controller

SUBJECT: **2007-2008 COUNTY'S SINGLE AUDIT REPORT**

Attached is the County's Single Audit Report (Report) for fiscal year 2007-2008. The audit was performed by the independent accounting firm Macias Gini & O'Connell LLP. Federal law requires the County to have an annual audit of all expenditures that were funded by federal assistance received by the County. This year, the audit covered expenditures of approximately \$3.458 billion.

The Report identifies a number of areas with internal control weaknesses and where County departments are not in compliance with federal assistance requirements. County departments are in general agreement with the auditors' findings and have taken, or will take, corrective action. The statuses of prior year audit findings are also included in the Report. In most cases the prior year recommendations have been implemented or are in-progress.

To comply with federal reporting requirements, we submit this Report to the State Controller and federal clearinghouse agency. It is subject to further review and follow-up action by the State Controller and/or federal agencies that provided the funding to the County.

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If you have any questions, please contact me, or your staff may contact Connie Yee at (213) 974-8321.

WLW:JN:CY:RA:jm

H:\Financial Reporting\GRANTS\2007-2008\FINALS\Correspondence\Transmittal to Brd 07-08.doc

Attachment

c: William T Fujioka, Chief Executive Officer
Sachi A. Hamai, Executive Officer of the Board of Supervisors
Audit Committee
Public Information Office
Affected Department Heads
Departmental Grant Coordinators

COUNTY OF LOS ANGELES

INDEPENDENT AUDITOR'S REPORT,
MANAGEMENT'S DISCUSSION AND ANALYSIS,
BASIC FINANCIAL STATEMENTS, REQUIRED
SUPPLEMENTARY INFORMATION, SCHEDULE
OF EXPENDITURES OF FEDERAL
AWARDS AND SINGLE AUDIT REPORTS

FOR THE YEAR ENDED JUNE 30, 2008

**COUNTY OF LOS ANGELES
BASIC FINANCIAL STATEMENTS AND SINGLE AUDIT REPORTS
FOR THE YEAR ENDED JUNE 30, 2008**

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SACRAMENTO

OAKLAND

WALNUT CREEK

NEWPORT BEACH

SAN MARCOS

SAN DIEGO

INDEPENDENT AUDITOR'S REPORT

The Honorable Board of Supervisors
County of Los Angeles, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County of Los Angeles, California (County), as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Community Development Commission (CDC) and the Los Angeles County Employees Retirement Association (LACERA), which represent the following percentages of the assets, net assets or fund balances, and revenues/additions of the following opinion units:

| Opinion Unit | Assets | Net assets or fund balance | Revenues/ Additions |
|--------------------------------------|--------|-------------------------------|------------------------|
| Governmental Activities | 1% | 2% | 1% |
| Business-type Activities | 4% | 7% | 11% |
| Aggregate Remaining Fund Information | 70% | 71% | 1% |

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for CDC and LACERA, are based solely on the reports of other auditors.

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 County's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County, as of June 30, 2008, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for

the General Fund, the Fire Protection District, the Flood Control District, the Public Library, and the Regional Park and Open Space District, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the basic financial statements, the County implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and GASB Statement No. 50, *Pension Disclosures – An Amendment of GASB Statements No. 25 and 27*, for the year ended June 30, 2008. The provisions of GASB Statement No. 45 required the County to restate beginning fund balances/net assets as of July 1, 2007, and is discussed in detail in Note 2 to the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2008, on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provision 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 on pages 3 through 21 and the schedules of funding progress on pages 102 and 103 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we and the other auditors did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Macias Jini & O'Connell LLP

Certified Public Accountants

Los Angeles, California
December 15, 2008

COUNTY OF LOS ANGELES MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the County's Comprehensive Annual Financial Report (CAFR) presents a narrative overview and analysis of financial activities for the fiscal year ended June 30, 2008. We recommend that this information be used in conjunction with additional information contained in the letter of transmittal.

Financial Highlights

At the end of the current year, the net assets (total assets less total liabilities) of the County were positive \$17.313 billion. However, net assets are classified into three categories and the unrestricted component is negative \$773 million. See further discussion on page 7.

During the current year, the County's net assets decreased by a total of \$462 million. Net assets related to governmental activities decreased by \$314 million, while net assets related to business-type activities decreased by \$148 million. The County implemented Governmental Accounting Standards Board Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" (GASB 45). GASB 45 had a material effect on the County's changes in net assets during the current year. See further discussion on page 7.

At the end of the current year, the County's General Fund reported a total fund balance of \$3.374 billion. The amount of unreserved fund balance was \$2.777 billion. Of the unreserved total, \$1.153 billion was designated.

The County's capital asset balances were \$17.525 billion at year-end and increased by \$267 million during the year.

During the current year, the County's total long-term debt decreased by \$191 million. Bond maturities of \$566 million exceeded the \$375 million of newly issued and accreted long-term debt.

Overview of the Basic Financial Statements

This discussion and analysis are intended to serve as an introduction to the County's basic financial statements, which are comprised of the following three components:

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

This report also includes other supplementary information in addition to the basic financial statements.

COUNTY OF LOS ANGELES MANAGEMENT'S DISCUSSION AND ANALYSIS-Continued

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

The Statement of Net Assets presents information on all County assets and liabilities, with the difference representing net assets. Over time, increases and decreases in net assets may serve as an indicator of whether the financial position of the County is improving or deteriorating.

The Statement of Activities presents information that indicates how the County's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that affect cash flows in future periods. For example, property tax revenues have been recorded that have been earned but not yet collected and workers' compensation expenses have been accrued but not yet paid.

The government-wide financial statements report the following different types of programs or activities:

- **Governmental Activities** - The majority of County services are reported under this category. Taxes and intergovernmental revenues are the major revenue sources that fund these activities which include general government, public protection, public ways and facilities, health and sanitation, public assistance, recreation, and cultural services.
- **Business-type Activities** - County services that are intended to recover costs through user charges and fees are reported under this category. The County Hospitals, the Waterworks Districts, the Aviation Fund, and housing programs operated by the Community Development Commission, a blended component unit, are regarded as business-type activities.
- **Discretely Presented Component Unit** - Component units are separate entities for which the County is financially accountable. First 5 LA is the only component unit that is discretely presented.

FUND FINANCIAL STATEMENTS

The fund financial statements contain information regarding major individual funds. A fund is a fiscal and accounting entity with a balanced set of accounts. The County uses separate funds to ensure compliance with fiscal and legal requirements.

COUNTY OF LOS ANGELES MANAGEMENT'S DISCUSSION AND ANALYSIS-Continued

FUND FINANCIAL STATEMENTS-Continued

The County's funds are classified into the following three categories:

- **Governmental Funds** - These funds are used to account for essentially the same services that were previously described as governmental activities above. However, the 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 the County'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 government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. Governmental funds include the General Fund, as well as Special Revenue Funds, Debt Service Funds, Capital Project Funds, and Permanent Funds.
- **Proprietary Funds** - These funds are used to account for functions that were classified as "business type activities" in the government-wide financial statements. The County's Internal Service Funds are also reported within the proprietary fund section. The County's five Hospital Funds and Waterworks Funds are all considered major funds for presentation purposes. The remaining proprietary funds are combined in a single column, with individual fund details presented elsewhere in this report.
- **Fiduciary Funds** - These funds are used to report assets held in a trustee or agency capacity for others and cannot be used to support the County's programs. The Pension Trust Fund, the Investment Trust Funds, and Agency funds are reported in this fund category, using the accrual basis of accounting.

NOTES TO THE BASIC FINANCIAL STATEMENTS

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

REQUIRED SUPPLEMENTARY INFORMATION

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the County's progress in funding its obligation to provide pension benefits and other postemployment benefits to employees.

**COUNTY OF LOS ANGELES
MANAGEMENT'S DISCUSSION AND ANALYSIS-Continued**

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 County, assets exceeded liabilities by \$17.313 billion at the close of the most recent fiscal year.

Summary of Net Assets
As of June 30, 2008 and 2007
(in thousands)

| | Governmental Activities | | Business-type Activities | | Total | |
|---|----------------------------|----------------------|-----------------------------|---------------------|----------------------|----------------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Current and other assets | \$ 8,052,812 | \$ 7,517,376 | \$ 994,087 | \$ 854,182 | \$ 9,046,899 | \$ 8,371,558 |
| Capital assets | <u>15,074,565</u> | <u>14,929,975</u> | <u>2,450,785</u> | <u>2,328,116</u> | <u>17,525,350</u> | <u>17,258,091</u> |
| Total assets | <u>23,127,377</u> | <u>22,447,351</u> | <u>3,444,872</u> | <u>3,182,298</u> | <u>26,572,249</u> | <u>25,629,649</u> |
| Current and other liabilities | 1,377,389 | 1,321,963 | 218,966 | 198,490 | 1,596,355 | 1,520,453 |
| Long-term liabilities | <u>6,179,573</u> | <u>5,684,764</u> | <u>1,483,193</u> | <u>1,247,234</u> | <u>7,662,766</u> | <u>6,931,998</u> |
| Total liabilities | <u>7,556,962</u> | <u>7,006,727</u> | <u>1,702,159</u> | <u>1,445,724</u> | <u>9,259,121</u> | <u>8,452,451</u> |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | 13,913,070 | 14,192,494 | 2,259,617 | 2,190,999 | 16,172,687 | 16,383,493 |
| Restricted net assets | 1,605,763 | 1,443,083 | 307,985 | 186,266 | 1,913,748 | 1,629,349 |
| Unrestricted net assets (deficit) | <u>51,582</u> | <u>(194,953)</u> | <u>(824,889)</u> | <u>(640,691)</u> | <u>(773,307)</u> | <u>(835,644)</u> |
| Total net assets | <u>15,570,415</u> | <u>15,440,624</u> | <u>1,742,713</u> | <u>1,736,574</u> | <u>17,313,128</u> | <u>17,177,198</u> |
| Total liabilities and net assets | <u>\$ 23,127,377</u> | <u>\$ 22,447,351</u> | <u>\$ 3,444,872</u> | <u>\$ 3,182,298</u> | <u>\$ 26,572,249</u> | <u>\$ 25,629,649</u> |

Significant changes in assets and liabilities included the following:

Current and Other Assets

Current and other assets increased for governmental activities by \$535 million. The major changes were associated with health and mental health services program receivables (\$323 million) and other postemployment benefits (OPEB) related receivables (\$120 million). Various other changes comprised the remaining increase of \$92 million. The County's newly established managed care rate supplement provided increased receivables of \$129 million. Mental health program receivables (primarily from federal and State sources) grew by \$106 and Mental Health Services Act (Proposition 63) receivables increased by \$88 million as certain collections were received shortly after year-end in the current year. OPEB related receivables were recognized in the current year for the first time in conjunction with implementing GASB 45, as discussed in Note 2 to the basic financial statements.

**COUNTY OF LOS ANGELES
MANAGEMENT'S DISCUSSION AND ANALYSIS-Continued**

Long-Term Liabilities

Long-term liabilities increased by \$495 million for governmental activities and by \$236 million for business-type activities. Newly established liabilities for OPEB, net of reductions to previously recorded liabilities as discussed in Note 2 to the basic financial statements, significantly increased the County's long-term liabilities. Specific adjustments related to OPEB and other changes in long-term liabilities are discussed and referenced in Notes 2 and 10 to the basic financial statements.

The County's total net assets consist of the following three components:

Capital Assets, Net of Related Debt

The largest portion of the County's net assets (\$16.173 billion) represents its investment in capital assets (i.e., land, structures and improvements, infrastructure, and equipment, net of related depreciation), less any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted Net Assets

The County's restricted net assets at year-end were \$1.914 billion. Asset restrictions are primarily due to external restrictions imposed by State legislation and bond covenants. Net assets that pertain to the various separate legal entities included in the basic financial statements are also generally restricted because their funding sources require that funds be used for specific purposes.

Unrestricted Net Assets (Deficit)

The County's total unrestricted net assets are negative \$773 million. This amount consisted of a positive balance for governmental activities (\$52 million) and a negative balance for business-type activities (\$825 million). The deficits related to business-type activities are primarily due to unfunded liabilities related to workers' compensation, accrued vacation and sick leave, litigation and self-insurance claims, medical malpractice, and third party payors. As discussed in Notes 2 and 8 to the basic financial statements, the County implemented provisions of GASB 45 and unfunded other postemployment benefit (OPEB) liabilities of \$1.234 billion arose during the current year, of which \$214 million pertained to business-type activities. The ongoing financial losses incurred by the County's healthcare business activities have limited the opportunities to accumulate reserves or incremental funding to address long-term accounting liabilities.

**COUNTY OF LOS ANGELES
MANAGEMENT'S DISCUSSION AND ANALYSIS-Continued**

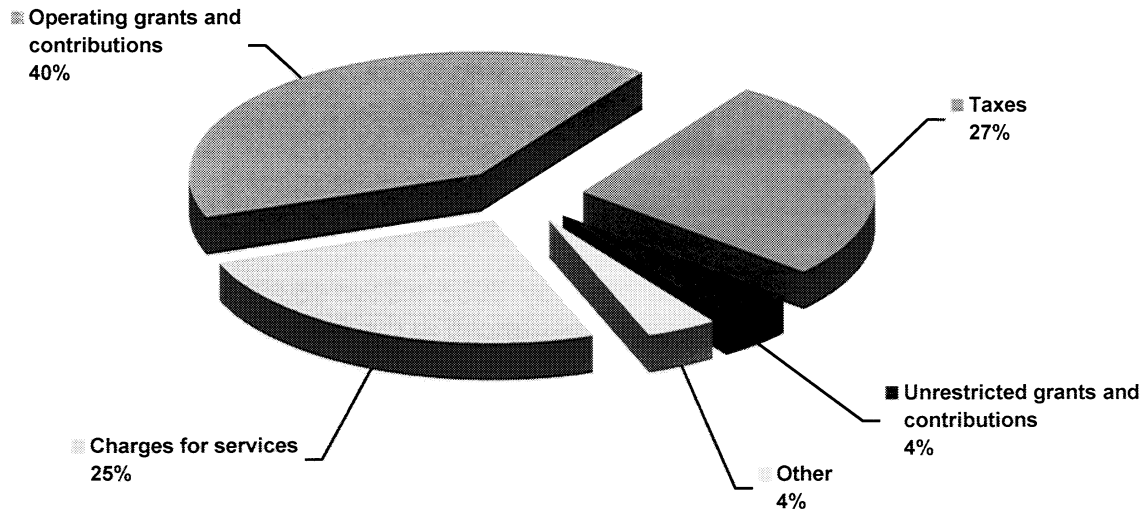
The following table indicates the changes in net assets for governmental and business-type activities:

**Summary of Changes in Net Assets
For the Years Ended June 30, 2008 and 2007
(in thousands)**

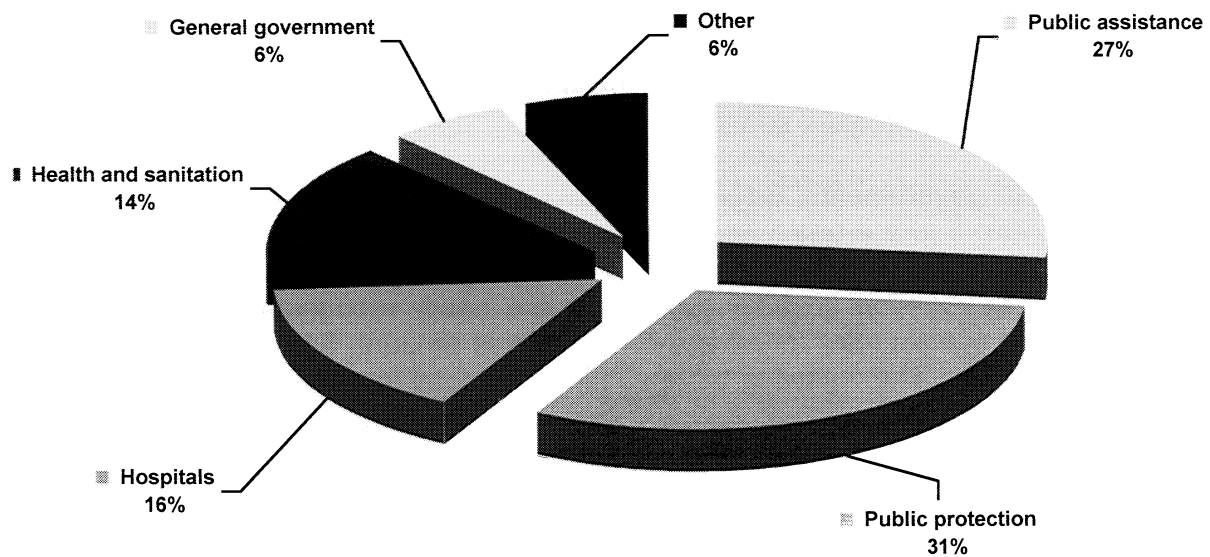
| | Governmental Activities | | Business-type Activities | | Total | |
|--|------------------------------------|----------------------|-------------------------------------|---------------------|----------------------|----------------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 2,738,552 | \$ 2,396,868 | \$ 1,806,747 | \$ 1,957,979 | \$ 4,545,299 | \$ 4,354,847 |
| Operating grants and contributions | 7,113,135 | 6,980,549 | 263,471 | 304,720 | 7,376,606 | 7,285,269 |
| Capital grants and contributions | 184,502 | 25,135 | 2,897 | 12,992 | 187,399 | 38,127 |
| General revenues: | | | | | | |
| Taxes | 5,034,399 | 4,688,595 | 4,405 | 3,782 | 5,038,804 | 4,692,377 |
| Unrestricted grants and contributions | 778,936 | 761,705 | 37 | 35 | 778,973 | 761,740 |
| Investment earnings | 324,132 | 335,851 | 14,073 | 18,043 | 338,205 | 353,894 |
| Miscellaneous | 229,810 | 259,357 | 24,950 | 50,443 | 254,760 | 309,800 |
| Total revenues | 16,403,466 | 15,448,060 | 2,116,580 | 2,347,994 | 18,520,046 | 17,796,054 |
| Expenses: | | | | | | |
| General government | 1,171,448 | 807,155 | | | 1,171,448 | 807,155 |
| Public protection | 5,799,593 | 4,872,413 | | | 5,799,593 | 4,872,413 |
| Public ways and facilities | 299,304 | 282,827 | | | 299,304 | 282,827 |
| Health and sanitation | 2,638,135 | 2,223,695 | | | 2,638,135 | 2,223,695 |
| Public assistance | 5,061,367 | 4,539,458 | | | 5,061,367 | 4,539,458 |
| Education | 112,035 | 99,136 | | | 112,035 | 99,136 |
| Recreation and cultural services | 290,669 | 266,967 | | | 290,669 | 266,967 |
| Interest on long-term debt | 191,551 | 239,608 | | | 191,551 | 239,608 |
| Hospitals | | | 3,092,682 | 2,894,493 | 3,092,682 | 2,894,493 |
| Aviation | | | 4,182 | 5,761 | 4,182 | 5,761 |
| Waterworks | | | 74,810 | 97,504 | 74,810 | 97,504 |
| Community Development Commission | | | 246,195 | 211,077 | 246,195 | 211,077 |
| Total expenses | 15,564,102 | 13,331,259 | 3,417,869 | 3,208,835 | 18,981,971 | 16,540,094 |
| Excess (deficiency) before transfers and special item | 839,364 | 2,116,801 | (1,301,289) | (860,841) | (461,925) | 1,255,960 |
| Transfers | (1,152,946) | (1,049,213) | 1,152,946 | 1,049,213 | | |
| Special item | | 267,473 | | | | 267,473 |
| Changes in net assets | (313,582) | 1,335,061 | (148,343) | 188,372 | (461,925) | 1,523,433 |
| Net assets – beginning, as restated | 15,883,997 | 14,105,563 | 1,891,056 | 1,548,202 | 17,775,053 | 15,653,765 |
| Net assets – ending | \$ 15,570,415 | \$ 15,440,624 | \$ 1,742,713 | \$ 1,736,574 | \$ 17,313,128 | \$ 17,177,198 |

**COUNTY OF LOS ANGELES
MANAGEMENT'S DISCUSSION AND ANALYSIS-Continued**

**REVENUES BY SOURCE – ALL ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008**



**EXPENSES BY TYPE – ALL ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008**



COUNTY OF LOS ANGELES MANAGEMENT'S DISCUSSION AND ANALYSIS-Continued

As discussed in Note 2 to the basic financial statements, the County restated beginning net asset balances in conjunction with implementing GASB 45. The beginning net assets were increased from the amounts previously reported for governmental and business-type activities by \$443 million and \$154 million, respectively. During the current year, net assets decreased for both governmental activities (\$314 million) and business-type activities (\$148 million). Following are specific major factors that resulted in the net asset changes.

Governmental Activities

Revenues from governmental activities grew by \$955 million (6.2%) over the prior year. The most significant changes in revenue were experienced in the following areas:

- Taxes, the County's largest general revenue source, were \$346 million higher than the previous year. The additional growth in tax revenues was concentrated in property taxes (\$372 million). However, documentary transfer taxes decreased by \$31 million as real estate transfer activity declined during the current year. The continued property tax growth was attributable to the early lien date (January 1, 2007), which preceded the start of the fiscal year by six months. This gap, combined with the stabilizing effect of Proposition 13, enabled the County to continue to experience growth in this area. The net increase in other taxes was \$5 million in comparison to the prior year.
- Program revenues recognized from charges for services increased by \$342 million. The largest source of this increase (\$189 million) was associated with health and sanitation programs. The County successfully concluded a multi-year effort to secure an agreement with the State to provide supplemental funding to Medi-Cal managed care capitation rates. The supplemental funding resulted in a \$140 million increase in current year revenues, of which \$56 million was attributable to FY 2006-2007 services. In addition, charges for public protection services (primarily law enforcement) were \$84 million higher than the previous year as charges were adjusted due to cost increases. Charges for various other governmental services increased by \$69 million compared to the prior year.

Expenses related to governmental activities increased by \$2.233 billion during the current year. As discussed in Note 8 to the basic financial statements, the County began to measure OPEB costs in accordance with GASB 45 during the current year. The County continued to fund OPEB costs on a pay-as-you go basis and there are newly recognized OPEB obligations of \$1.234 billion in the current year for all activities. Of this amount, \$1.020 billion was related to governmental activities. The following table summarizes total increased expenses by category, the amount related to other postemployment benefit costs, and changes related to all other expenses (in thousands):

**COUNTY OF LOS ANGELES
MANAGEMENT'S DISCUSSION AND ANALYSIS-Continued**

Governmental Activities-Continued

| <u>Expense Category</u> | <u>Increase in Total Expenses</u> | <u>Expense Increase Related to OPEB Accruals</u> | <u>Increase (Decrease) in All Other Expenses</u> |
|-------------------------|---|--|--|
| General Government | \$ 364,293 | \$ 141,422 | \$ 222,871 |
| Public Protection | 927,180 | 446,845 | 480,335 |
| Health and Sanitation | 414,440 | 117,491 | 296,949 |
| Public Assistance | 521,909 | 286,448 | 235,461 |
| All other areas | 5,021 | 27,774 | (22,753) |
| Total | <u>\$ 2,232,843</u> | <u>\$ 1,019,980</u> | <u>\$ 1,212,863</u> |

Excluding accrued OPEB obligations, expenses increased by \$1.213 billion. The largest increase was related to the public protection category, which grew by \$480 million. Of this amount, salaries and employee benefits increased by \$402 million, primarily due to previously negotiated increases that became effective in the current year. Other factors that contributed to the increase were expanded medical services for inmates, additional staffing for jails and patrol of unincorporated areas, and additional positions to improve various operational areas of the Probation Department.

Health and sanitation expenses (excluding accrued OPEB costs) increased by nearly \$300 million. Major factors contributing to this variance included higher salary and benefit costs (\$71 million), a newly established managed care intergovernmental transfer expense (\$65 million), and increases in contracted mental health services (\$62 million).

Business-type Activities

Revenues from business-type activities decreased in comparison to the prior year by \$231 million (9.9%). The most significant change was in the area of charges for services, which decreased by \$151 million. The County's business-type healthcare activities experienced a \$134 million reduction in charges for services. This decrease was consistent with the downturn in average daily hospital census, from 1,415 in the prior year to 1,317 in the current year. The reduced revenues and census figures were concentrated at the Martin L. King facility. This facility was converted from a full service hospital to a multi-service ambulatory care center, thereby eliminating inpatient services in August 2007. This change coincided with the net decrease in average daily census as noted above.

Expenses related to business-type activities increased from the previous year by \$209 million. The increased expenses were principally related to the Hospitals, where expenses were higher by \$198 million. The recognition of accrued OPEB costs (as previously discussed for governmental activities) increased Hospital expenses by \$214 million. Therefore, despite negotiated salary and employee benefit increases, expenses were very comparable to the prior year as cost increases were offset by the downsizing of the Martin Luther King Jr. facility.

**COUNTY OF LOS ANGELES
MANAGEMENT'S DISCUSSION AND ANALYSIS-Continued**

Financial Analysis of the County's Funds

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

Governmental Funds

The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the County'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. Types of governmental funds reported by the County include the General Fund, Special Revenue Funds, Debt Service Funds, Capital Project Funds, and the Permanent Funds.

As of the end of the current fiscal year, the County's governmental funds reported combined total fund balances of \$6.003 billion, an increase of \$348 million in comparison with the prior year. Of the total fund balance, \$1.532 billion is reserved to indicate the extent that funds have been committed or are otherwise unavailable for spending. An additional \$1.725 billion has been designated and set aside for intended spending purposes as indicated in the financial statements. The remaining \$2.746 billion of the balances are unreserved and undesignated.

Revenues from all governmental funds for the current year were \$16.273 billion, an increase of \$1.035 billion (6.8%) from the previous year. Expenditures for all governmental funds in the current year were \$14.880 billion, an increase of \$1.031 billion (7.4%) from the previous year. In addition, other financing uses exceeded other financing sources by \$1.045 billion as compared to \$1.028 billion in the prior year.

The General Fund is the County's principal operating fund. During the current year, the fund balance in the General Fund increased by \$201 million (6.3%). At the end of the current fiscal year, the General Fund's total fund balance was \$3.374 billion. Of this amount, \$597 million was reserved and therefore unavailable for spending. Of the unreserved total of \$2.777 billion, \$1.153 billion has been designated (earmarked) and the remaining \$1.624 billion is considered both unreserved and undesignated.

General Fund revenues during the current year were \$13.627 billion, an increase of \$757 million (5.9%) from the previous year. General Fund expenditures during the current year were \$12.744 billion, an increase of \$985 million (8.4%) from the previous year. Other financing sources/uses-net was negative \$683 million in the current year as compared to negative \$770 million in the prior year.

**COUNTY OF LOS ANGELES
MANAGEMENT'S DISCUSSION AND ANALYSIS-Continued**

Governmental Funds-Continued

Following are significant changes in General Fund revenues and expenditures:

- Revenues from taxes increased by \$223 million (6.3%). Of this net increase, property taxes increased by \$254 million. However, documentary transfer taxes decreased by \$31 million as real estate activity declined during the current year. As previously mentioned, property tax revenues were not immediately impacted by the downturn in the housing market and provisions of Proposition 13 are also a stabilizing factor when housing prices decrease.
- Intergovernmental revenues from federal sources increased by \$249 million. Of this amount, \$209 million was related to public assistance programs operated by the Departments of Public Social Service and Children and Family Services. The increased revenues were driven by higher levels of reimbursable expenditures. There was also a shift in funding sources for certain programs, whereby federal revenues provided funding for costs that were previously reimbursed from State revenues.
- Revenues from charges for services increased by \$227 million. The largest source of this increase (\$140 million) was associated with the County's managed care program. An additional increase (\$35 million) was recognized in the Sheriff's Department and was related to recoveries of increased salaries and benefits from contracting agencies. The remaining increase in this revenue category (\$52 million) was recognized from a variety of programs that charge for services.
- Current expenditures increased by \$875 million (7.6%), and there were increases in all functional areas. The most significant increase was in the area of public protection, where expenditures were higher by \$367 million. Of this amount, salaries and employee benefits increased by \$331 million. These costs were notably higher in the Sheriff's Department (\$222 million) and Probation Department (\$48 million), and were largely due to negotiated salary and benefit increases, as there was limited program expansion in these areas. Expenditures also increased in the areas of health and sanitation (\$219 million) and public assistance (\$209 million).

The Fire Protection District reported a year-end fund balance of \$170 million, which represented an increase of \$23 million from the previous year. Revenues increased by \$40 million, of which \$31 million was attributable to property taxes and the remaining increase was associated with a variety of other revenues. Expenditures were higher by \$22 million, of which \$19 million was related to salaries and benefits. Transfers out were \$15 million lower than the previous year as there were reduced transfers made to capital projects funds for future facilities' needs.

The Flood Control District reported a year-end fund balance of \$162 million, which was \$14 million higher than the previous year. Revenues and expenditures were mostly unchanged from the prior year, with each decreasing approximately \$3 million or 1.1% and 1.5%, respectively.

COUNTY OF LOS ANGELES MANAGEMENT'S DISCUSSION AND ANALYSIS-Continued

Governmental Funds-Continued

The Public Library Fund reported a year-end fund balance of \$29 million, which was \$8 million higher than the previous year. The principal factors associated with the fund balance growth were higher property tax revenues and "transfers in," which increased by \$4 million and \$6 million, respectively.

The Regional Park and Open Space District reported a year-end fund balance of \$286 million, which was \$25 million higher than the previous year. Current year revenues (\$93 million) were similar to the previous year (\$91 million) while expenditures declined by \$9 million.

Proprietary Funds

The County's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

The County's principal proprietary funds consist of four hospital enterprise funds and an additional fund (Martin L. King Jr. Ambulatory Care Center) which was converted from a full-service hospital in the current year to a multi-service ambulatory care center. Each of these funds incurred a net loss prior to contributions and transfers.

The County is legally required to provide local matching funds to the health care system in order to remain eligible for federal and State assistance. Such funds were provided to the hospitals as operating subsidies from the County General Fund during the year. The amount of subsidy, per facility, ranged from \$76 million for M. L. King Ambulatory Care Center to \$501 million for the LAC+USC Medical Center. The total subsidy amount was \$1.001 billion and is reflected in the Statement of Revenues, Expenses and Changes in Fund Net Assets as "transfers in." By comparison, the total General Fund subsidy in the prior year was \$883 million.

An additional source of local funding for the Hospitals is the Health Services Measure B Special Revenue Fund ("Measure B Fund"). The Measure B Fund receives voter approved property taxes for trauma and emergency services. In each of the current and prior years, the Measure B Fund provided \$147 million of transfers to the Hospitals.

The Waterworks Funds reported year-end net assets of \$895 million, a \$2 million reduction from the previous year. However, the District's cash and investment position improved in the current year by \$7 million.

General Fund Budgetary Highlights

The accompanying basic financial statements include a Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual on Budgetary Basis for the County's General Fund. The County's budgetary basis of accounting is discussed in Notes 1 and 15 to the basic financial statements. There are approximately 100 separate budget units within the General Fund, excluding capital improvement projects, which are individually budgeted.

**COUNTY OF LOS ANGELES
MANAGEMENT'S DISCUSSION AND ANALYSIS-Continued**

The data presented below represents the net budgetary changes for the General Fund in a highly summarized format. Accordingly, in certain instances, budgets have been increased for programs within a category even though actual amounts have not been realized for the category in its entirety. Under the budgetary basis, there was a net increase of \$102 million in the General Fund's available (unreserved and undesignated) fund balance from the previous year.

Budgetary Summary - Revenues/Financing Sources

Following is a summary of current year budgetary changes and actual results (on the County's budgetary basis) for General Fund revenues and other financing sources (in thousands):

| <u>Category</u> | <u>Increase (Decrease) From Original Budget</u> | <u>Final Budget Amount</u> | <u>Actual Amount</u> | <u>Variance- Positive (Negative)</u> |
|--------------------------------|---|--------------------------------|--------------------------|--|
| Taxes | \$ 14,877 | \$ 3,842,971 | \$ 3,826,908 | \$ (16,063) |
| Intergovernmental revenues | 65,800 | 7,855,542 | 7,243,478 | (612,064) |
| Charges for services | 13,820 | 1,758,279 | 1,695,004 | (63,275) |
| All other revenues | 124,586 | 654,505 | 899,843 | 245,338 |
| Other sources and transfers | 13,630 | 493,733 | 307,274 | (186,459) |
| Total | <u>\$ 232,713</u> | <u>\$14,605,030</u> | <u>\$13,972,507</u> | <u>\$(632,523)</u> |

Changes from Amounts Originally Budgeted

During the year, net increases in budgeted revenues and other financing sources approximated \$233 million. The most significant changes occurred in the following areas:

- Estimated revenues from intergovernmental sources were increased by \$66 million. The increase was primarily associated with additional revenues from Homeland Security grant funds (\$43 million). The remaining \$23 million was related to additional funding that was targeted to the Sheriff's Department, social service programs and services for children and families.
- The increase of \$125 million related to "all other revenues" was mostly attributable to tobacco settlement revenues of \$105 million. The County's policy is to budget tobacco settlement revenues after they have been received. Estimated revenues from investment income were increased by \$14 million as a result of higher than anticipated investment yield and miscellaneous revenue increases accounted for the remaining \$6 million.

Actual Revenues/Financing Sources Compared with Final Budget Amounts

Actual revenues and other financing sources recognized by the General Fund were approximately \$633 million, or 4.3%, lower than budget. As discussed below, most of this variance was concentrated in the areas of intergovernmental revenues and "other sources and transfers" and was partially offset by "all other revenues" which exceeded the amount budgeted.

**COUNTY OF LOS ANGELES
MANAGEMENT'S DISCUSSION AND ANALYSIS-Continued**

Actual Revenues/Financing Sources Compared with Final Budget Amounts-Continued

- Actual intergovernmental revenues were \$612 million lower than the amount budgeted. Social service programs, including children and family services, accounted for approximately \$188 million of this variance, which was mostly attributable to lower than anticipated caseloads and reimbursable social service related expenditures. Approximately \$187 million (mostly federal assistance) was associated with mental health services, due to lower than expected reimbursable costs. An additional \$164 million pertained to anticipated reimbursement of capital improvement, disaster recovery and homeland security projects and programs that were not completed prior to year-end. The remaining variance of \$73 million was related to a variety of other programs that received intergovernmental revenues.
- The actual amount of "other sources and transfers" was \$186 million lower than the amount budgeted. Of this amount, "transfers in" totaling \$117 million were assumed in the budget for capital improvements and extraordinary building maintenance projects which did not incur expected costs. Mental health programs funded by the Mental Health Services Act Fund (Proposition 63) did not fully materialize at the budgeted level and "transfers in" were \$52 million lower than budgeted. There were various other sources and transfers that comprised the remaining variance of \$17 million.
- The amount budgeted for "all other revenues" was exceeded by \$245 million. Investment income exceeded the amount budgeted by \$103 million as the yield on investments was higher than anticipated. Miscellaneous revenues were \$94 million higher than budget, half of which was related to health and mental health services and the remainder from various sources. Revenues from property tax penalties exceeded the budgeted amount by approximately \$46 million and the remaining variance of \$2 million was generated by diverse revenue sources.

Budgetary Summary - Expenditures/Other Financing Uses

Following is a summary of current year budgetary changes and actual results (on the County's budgetary basis) for General Fund expenditures, transfers out, contingencies, reserves, and designations (in thousands):

| <u>Category</u> | <u>Increase (Decrease) From Original Budget</u> | <u>Final Budget Amount</u> | <u>Actual Amount</u> | <u>Variance- Positive</u> |
|---------------------------|---|--------------------------------|--------------------------|-------------------------------|
| General government | \$ 62,645 | \$ 1,363,585 | \$ 912,999 | \$ 450,586 |
| Public protection | 94,808 | 4,575,551 | 4,414,810 | 160,741 |
| Health and sanitation | (19,114) | 2,693,857 | 2,469,110 | 224,747 |
| Public assistance | 31,598 | 5,016,098 | 4,739,945 | 276,153 |
| All other expenditures | (56,059) | 1,624,864 | 436,851 | 1,188,013 |
| Transfers out | 63,653 | 1,088,103 | 1,064,589 | 23,514 |
| Contingencies | 302 | 302 | | 302 |
| Reserves/designations-net | 54,880 | (50,973) | (168,244) | 117,271 |
| Total | <u>\$ 232,713</u> | <u>\$ 16,311,387</u> | <u>\$ 13,870,060</u> | <u>\$2,441,327</u> |

COUNTY OF LOS ANGELES MANAGEMENT'S DISCUSSION AND ANALYSIS-Continued

Changes from Amounts Originally Budgeted

During the year, net increases in General Fund appropriations, reserves and designations were approximately \$233 million. As discussed below, the most significant changes occurred in the following areas:

- Appropriations were increased for the public protection category by approximately \$95 million. Funding was added to the Emergency Preparedness and Response budget (\$44 million) and the Sheriff's Department (\$33 million). The source of the additional funding was primarily grant revenues that were added to the original budget. The remaining \$18 million consisted of a variety of supplemental allocations.
- Appropriations for "transfers out" were increased by \$64 million. Of this amount, General Fund operating subsidies to the Hospital Funds were increased by \$46 million (from \$946 million originally budgeted to \$992 million). The remaining \$18 million increase was related to various transfers to Special Revenue Funds.
- Overall appropriations were increased for the general government category by \$63 million. The most significant factor associated with this net change was an increase of \$65 million to the Judgment and Damages budget unit for estimated settlement payments.

Actual Expenditures/Other Financing Uses Compared with Final Budget Amount

Actual expenditures/other financing uses for the current year were \$2.441 billion lower (approximately 15%) than the final total budget of \$16.311 billion. Although there were budgetary savings in all categories, following are the functional areas that recognized the largest variations from the final budget:

- The category referred to as "all other expenditures" reflected actual spending of \$1.188 billion less than the budgeted amount. Nearly all (\$1.177 billion) of this variance was related to the capital outlay category. There were many capital improvements anticipated in the budget that remained in the planning stages and did not incur expenditures during the year. Most of the unused balance has been reestablished in the following year's budget to ensure the continuity of the projects, many of which are multi-year in nature.
- The general government function reported actual expenditures that were \$451 million less than the amount budgeted. Of this amount, \$265 million represented budgetary savings for items that are not associated with specific County departments, such as provisional appropriations, central non-departmental appropriations, and extraordinary maintenance and repairs. The remaining \$186 million was spread across virtually every department comprising general government and was mostly related to savings in the areas of salaries and services and supplies.

**COUNTY OF LOS ANGELES
MANAGEMENT'S DISCUSSION AND ANALYSIS-Continued**

Actual Expenditures/Other Financing Uses Compared with Final Budget Amount-Continued

- Actual public assistance expenditures were \$276 million lower than the final budget. Of this amount, \$236 million was concentrated in social service, children, and family programs. Administrative costs were lower than anticipated due to vacant positions, hiring delays, and delays in implementing certain programs. As information became available during the year regarding potential cuts in State funded programs, there was a corresponding slowdown in hiring. The remaining variance amount of \$40 million was related to other public assistance programs.
- Overall expenditures for the health and sanitation category were \$225 million less than the budgeted amount. Appropriations related to mental health services exceeded actual expenditures by \$167 million, primarily due to less than anticipated costs for services and supplies and to a lesser extent, salary savings. The remaining variance of \$58 million was associated with a variety of health care programs administered by the Departments of Health Services and Public Health Services.

Capital Assets

The County's capital assets for its governmental and business type activities as of June 30, 2008 were \$17.525 billion (net of depreciation). Capital assets include land, easements, buildings and improvements, equipment, and infrastructure. The major infrastructure network elements are roads, sewers, water, flood control, and aviation.

The total increase in the County's capital assets (net of depreciation) for the current fiscal year was \$267 million, as shown in the following table.

**Changes in Capital Assets, Net of Depreciation
Primary Government - All Activities
(in thousands)**

| | <u>Current Year</u> | <u>Prior Year</u> | <u>Increase (Decrease)</u> |
|----------------------------|-------------------------|-----------------------|--------------------------------|
| Land and easements | \$ 7,262,068 | \$ 7,240,287 | 21,781 |
| Buildings and improvements | 3,059,365 | 3,044,116 | 15,249 |
| Infrastructure | 5,197,564 | 5,291,789 | (94,225) |
| Equipment | 437,770 | 370,197 | 67,573 |
| Construction-in-progress | <u>1,568,583</u> | <u>1,311,702</u> | <u>256,881</u> |
| Total | <u>\$17,525,350</u> | <u>\$17,258,091</u> | <u>\$ 267,259</u> |

**COUNTY OF LOS ANGELES
MANAGEMENT'S DISCUSSION AND ANALYSIS-Continued**

The County's most significant capital asset activity during the current year was concentrated in the area of construction-in-progress. For governmental activities, there were additions of approximately \$78 million to flood and road infrastructure projects that remained in progress. For business-type activities, the new LAC+USC Medical Center neared completion and its capitalized costs during the current year approximated \$70 million and its outstanding contractual commitments as of June 30, 2008 approximated \$21 million. The Harbor/UCLA Medical Center Surgery/Emergency Replacement Project continued to progress and its capitalized costs during the current year were \$30 million.

Debt Administration

The following table indicates the changes in the County's long-term debt during the year:

Changes in Long-Term Debt
Primary Government - All activities
(in thousands)

| | <u>Current Year</u> | <u>Prior Year</u> | <u>Increase (Decrease)</u> |
|-------------------------|-------------------------|-----------------------|--------------------------------|
| Bonds and Notes Payable | \$ 1,942,453 | \$ 1,848,630 | \$ 93,823 |
| Pension Bonds Payable | <u>900,824</u> | <u>1,185,197</u> | <u>(284,373)</u> |
| Total | <u>\$ 2,843,277</u> | <u>\$ 3,033,827</u> | <u>\$(190,550)</u> |

During the current year, the County's liabilities for long-term debt decreased by \$191 million, or 6.3%. Specific changes related to governmental and business-type activities are presented in Note 10 to the basic financial statements. During the current year, significant long-term debt transactions were as follows:

- Refunding bonds totaling \$94 million, along with other funding sources, were used to advance refund outstanding bond principal of \$127 million.
- New debt of \$50 million was issued to finance the acquisition of equipment. Equipment debt totaling \$53 million was redeemed during the year in accordance with maturity schedules.
- New debt of \$203 million was issued to finance the construction of various hospital improvements.
- Pension bonds totaling \$284 million were redeemed during the year.

In addition to the above borrowing, the County continued to finance General Fund cash flow shortages occurring periodically during the fiscal year by selling \$500 million in tax and revenue anticipation notes which reached maturity on June 30, 2008, and by periodic borrowing from available trust funds.

**COUNTY OF LOS ANGELES
MANAGEMENT'S DISCUSSION AND ANALYSIS-Continued**

Bond Ratings

The County's debt is rated by Moody's, Standard and Poor's, and Fitch. The following is a schedule of ratings:

| | <u>Moody's</u> | <u>Standard and Poor's</u> | <u>Fitch</u> |
|--|----------------|----------------------------|--------------|
| General Obligation Bonds | Aa3 | AA- | |
| Pension Bonds | A1 | A+ | |
| Facilities | A2 | A+ | A |
| Equipment/Non-Essential Leases | A2 | A+ | A |
| Short-Term | MIG1 | SP-1+ | F-1+ |
| Commercial Paper | P-1 | A-1+ | |
| Flood Control District General Obligation Bonds | Aa1 | AA | AA |
| Flood Control District Revenue Bonds | Aa1 | AA- | AA |
| Regional Park and Open Space District Bonds | Aa2 | AA | AA+ |

During the current year, the County's Equipment/Non-Essential Leases were upgraded by Moody's from A3 to A2. All other bond ratings were maintained at the same level as the previous year.

Economic Conditions and Outlook

The Board of Supervisors adopted the County's 2008-2009 Budget on June 17, 2008. The Budget was adopted based on estimated fund balances that would be available at the end of 2007-2008. The Board updated the Budget on October 7, 2008 to reflect final 2007-2008 fund balances and other pertinent financial information. For the County's General Fund, the 2008-2009 Budget, as updated in October 2008, utilized \$1.809 billion of available fund balance, which exceeded the previously estimated fund balance of \$1.419 billion. Of the additional fund balance of \$390 million, \$155 million was used to carryover lapsed appropriations and \$48 million was appropriated for one-time purchases of a critical nature. The remaining surplus of \$187 million was set aside to manage potential State funding reductions and the impact of the ongoing economic downturn.

The County's economic outlook mirrors the rest of the nation as it faces the challenges of a recessionary environment. The County's new homebuilding and resale housing market has been, and continues to be, in decline. The resale housing market presents the biggest risk to the County, which could have a negative impact on property tax revenues. For the year ended June 30, 2008, property tax revenues represented 27.5% of total revenues recognized from governmental activities. These revenues are the County's single most important source of funding and are vital to programs which rely on discretionary funding sources. County management is closely monitoring changes in assessed property values and adjusting revenue estimates as new information becomes available. For 2008-2009, a five-percent (5%) growth assumption was used for property tax revenues, down from the nine-percent (9%) growth factor that was used in 2007-2008.

**COUNTY OF LOS ANGELES
MANAGEMENT'S DISCUSSION AND ANALYSIS-Continued**

As a result of growth limits on assessed values imposed by Proposition 13, there is a significant amount of home value appreciation that occurred over the last five years that has not been reflected on the property tax rolls. This increase will likely help offset any future valuation reductions. Unless the housing decline extends for several years or becomes more severe, the County's property tax base is not likely to be materially affected.

The County's financial outlook is also affected by ongoing and severe budget problems at the State level. The State Legislative Analyst's Office (LAO) has estimated that the State's budget deficit will be approximately \$8.4 billion by the end of 2008-2009. The deficit is attributable to the deteriorating economy which has affected the State's three major revenue sources, the personal income tax, sales and use taxes, and the corporate income tax. For 2009-2010, the LAO forecasts a worsening situation, with an additional annual deficit estimated at \$19.4 billion. Many County programs receive substantial State funding and the County is likely to be confronted with program curtailments and increased local funding requirements. The County is highly dependent upon cash receipts from the State and is closely monitoring the State's liquidity and ability to make timely cash remittances to the County.

As indicated in the Statement of Changes in Fiduciary Net Assets, the Pension Trust Fund incurred a net investment loss of \$1.426 billion in the current year. The Required Supplementary Information (unaudited) section of this report indicates a funded ratio of 93.8% as of June 30, 2007, which is the most recently completed actuarial valuation. It is estimated that the June 30, 2008 actuarial valuation will indicate a funded ratio of approximately 95%. The Pension Trust Fund has significant ongoing exposure to the equity markets, has incurred additional investment losses since June 30, 2008, and the financial markets remain highly volatile. Such losses, combined with investment performance for the remainder of the 2008-2009 fiscal year, will be actuarially measured as of June 30, 2009 and their impact on future County contribution rates will be determined at that time, in conjunction with the three year smoothed method.

Obtaining Additional Information

This financial report is designed to provide a general overview of the County's finances for all interested parties. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Los Angeles County Auditor-Controller, 500 West Temple Street, Room 525, Los Angeles, CA 90012-2766.



BASIC FINANCIAL STATEMENTS

COUNTY OF LOS ANGELES
STATEMENT OF NET ASSETS
JUNE 30, 2008 (in thousands)

| | PRIMARY GOVERNMENT | | | COMPONENT UNIT |
|---|----------------------------|-----------------------------|----------------------|-------------------|
| | GOVERNMENTAL ACTIVITIES | BUSINESS-TYPE ACTIVITIES | TOTAL | FIRST 5 LA |
| ASSETS | | | | |
| Pooled cash and investments: (Notes 1 and 5) | | | | |
| Operating (Note 1) | \$ 3,552,235 | \$ 189,627 | \$ 3,741,862 | \$ 875,166 |
| Other (Note 1) | 975,706 | 91,001 | 1,066,707 | |
| Total pooled cash and investments | 4,527,941 | 280,628 | 4,808,569 | 875,166 |
| Other investments (Note 5) | 330,038 | 55,495 | 385,533 | |
| Taxes receivable | 443,224 | 915 | 444,139 | |
| Accounts receivable - net | | 773,485 | 773,485 | |
| Interest receivable | 29,739 | 980 | 30,719 | 3,272 |
| Other receivables | 2,120,735 | 53,944 | 2,174,679 | 41,391 |
| Internal balances (Note 14) | 389,818 | (389,818) | | |
| Inventories | 97,008 | 23,248 | 120,256 | |
| Restricted assets (Note 5) | 5,420 | 157,376 | 162,796 | |
| Net pension obligation (Note 7) | 108,889 | 37,834 | 146,723 | |
| Capital assets: (Notes 6 and 9) | | | | |
| Capital assets, not being depreciated | 7,594,368 | 1,236,283 | 8,830,651 | 2,039 |
| Capital assets, net of accumulated depreciation | 7,480,197 | 1,214,502 | 8,694,699 | 11,809 |
| Total capital assets | 15,074,565 | 2,450,785 | 17,525,350 | 13,848 |
| TOTAL ASSETS | 23,127,377 | 3,444,872 | 26,572,249 | 933,677 |
| LIABILITIES | | | | |
| Accounts payable | 329,879 | 80,176 | 410,055 | 32,440 |
| Accrued payroll | 550,630 | 114,754 | 665,384 | |
| Other payables | 158,263 | 11,561 | 169,824 | |
| Accrued interest payable | 15,388 | 659 | 16,047 | |
| Unearned revenue (Note 7) | 50,947 | 3,972 | 54,919 | 1,174 |
| Advances payable | 272,282 | 7,844 | 280,126 | |
| Noncurrent liabilities: (Note 10) | | | | |
| Due within one year | 895,435 | 430,705 | 1,326,140 | 63 |
| Due in more than one year | 5,284,138 | 1,052,488 | 6,336,626 | 208 |
| TOTAL LIABILITIES | 7,556,962 | 1,702,159 | 9,259,121 | 33,885 |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt (Notes 6 and 10) | 13,913,070 | 2,259,617 | 16,172,687 | 13,848 |
| Restricted for: | | | | |
| Capital projects | 121,251 | | 121,251 | |
| Debt service | 587 | 255,295 | 255,882 | |
| Permanent trust | 3,455 | | 3,455 | |
| Special purpose | 1,480,470 | 52,690 | 1,533,160 | 885,944 |
| Unrestricted (deficit) | 51,582 | (824,889) | (773,307) | |
| TOTAL NET ASSETS | \$ 15,570,415 | \$ 1,742,713 | \$ 17,313,128 | \$ 899,792 |

The notes to the basic financial statements are an integral part of this statement.

COUNTY OF LOS ANGELES
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008 (in thousands)

| FUNCTIONS | | PROGRAM REVENUE | | |
|----------------------------------|----------------------|---------------------|---------------------|-------------------|
| | | CHARGES FOR | OPERATING | CAPITAL |
| PRIMARY GOVERNMENT: | EXPENSES | SERVICES | GRANTS AND | GRANTS AND |
| | | | CONTRIBUTIONS | CONTRIBUTIONS |
| Governmental activities: | | | | |
| General government | \$ 1,171,448 | \$ 445,948 | \$ 42,829 | \$ 81,523 |
| Public protection | 5,799,593 | 1,273,710 | 1,147,407 | 12,806 |
| Public ways and facilities | 299,304 | 39,767 | 159,602 | 88,773 |
| Health and sanitation | 2,638,135 | 708,097 | 1,521,459 | 1,400 |
| Public assistance | 5,061,367 | 61,568 | 4,238,169 | |
| Education | 112,035 | 3,098 | 1,675 | |
| Recreation and cultural services | 290,669 | 206,364 | 1,994 | |
| Interest on long-term debt | 191,551 | | | |
| Total governmental activities | <u>15,564,102</u> | <u>2,738,552</u> | <u>7,113,135</u> | <u>184,502</u> |
| Business-type activities: | | | | |
| Hospitals | 3,092,682 | 1,730,231 | 54,922 | |
| Aviation | 4,182 | 3,030 | 314 | 1,484 |
| Waterworks | 74,810 | 61,514 | 50 | 1,413 |
| Community Development Commission | 246,195 | 11,972 | 208,185 | |
| Total business-type activities | <u>3,417,869</u> | <u>1,806,747</u> | <u>263,471</u> | <u>2,897</u> |
| Total primary government | <u>\$ 18,981,971</u> | <u>\$ 4,545,299</u> | <u>\$ 7,376,606</u> | <u>\$ 187,399</u> |
| COMPONENT UNIT - | | | | |
| First 5 LA | <u>\$ 139,587</u> | <u>\$</u> | <u>\$ 143,428</u> | <u>\$</u> |

GENERAL REVENUES:

Taxes:

Property taxes

Utility users taxes

Voter approved taxes

Documentary transfer taxes

Other taxes

Sales and use taxes, levied by the State

Grants and contributions not restricted

to special programs

Investment earnings

Miscellaneous

TRANSFERS - NET

Total general revenues and transfers

CHANGE IN NET ASSETS

NET ASSETS, JULY 1, 2007, as restated (Note 2)

NET ASSETS, JUNE 30, 2008

The notes to the basic financial statements are an integral part of this statement.

NET (EXPENSE) REVENUE AND
CHANGES IN NET ASSETS

| PRIMARY GOVERNMENT | | | COMPONENT UNIT |
|----------------------------|-----------------------------|---------------|----------------|
| GOVERNMENTAL ACTIVITIES | BUSINESS-TYPE ACTIVITIES | TOTAL | FIRST 5 LA |
| \$ (601,148) | \$ | \$ (601,148) | |
| (3,365,670) | | (3,365,670) | |
| (11,162) | | (11,162) | |
| (407,179) | | (407,179) | |
| (761,630) | | (761,630) | |
| (107,262) | | (107,262) | |
| (82,311) | | (82,311) | |
| (191,551) | | (191,551) | |
| (5,527,913) | | (5,527,913) | |
| | (1,307,529) | (1,307,529) | |
| | 646 | 646 | |
| | (11,833) | (11,833) | |
| | (26,038) | (26,038) | |
| | (1,344,754) | (1,344,754) | |
| (5,527,913) | (1,344,754) | (6,872,667) | |
| | | | \$ 3,841 |
| 4,514,909 | 4,405 | 4,519,314 | |
| 65,583 | | 65,583 | |
| 255,580 | | 255,580 | |
| 56,439 | | 56,439 | |
| 62,935 | | 62,935 | |
| 78,953 | | 78,953 | |
| 778,936 | 37 | 778,973 | |
| 324,132 | 14,073 | 338,205 | 34,996 |
| 229,810 | 24,950 | 254,760 | 468 |
| (1,152,946) | 1,152,946 | | |
| 5,214,331 | 1,196,411 | 6,410,742 | 35,464 |
| (313,582) | (148,343) | (461,925) | 39,305 |
| 15,883,997 | 1,891,056 | 17,775,053 | 860,487 |
| \$ 15,570,415 | \$ 1,742,713 | \$ 17,313,128 | \$ 899,792 |

FUNCTIONS

PRIMARY GOVERNMENT:

Governmental activities:

General government
Public protection
Public ways and facilities
Health and sanitation
Public assistance
Education
Recreation and cultural services
Interest on long-term debt
Total governmental activities

Business-type activities:

Hospitals
Aviation
Waterworks
Community Development Commission
Total business-type activities

Total primary government

COMPONENT UNIT -

Total - First 5 LA

GENERAL REVENUES:

Taxes:

Property taxes
Utility users taxes
Voter approved taxes
Documentary transfer taxes
Other taxes

Sales and use taxes, levied by the State
Grants and contributions not restricted
to special programs

Investment earnings

Miscellaneous

TRANSFERS - NET

Total general revenues and transfers

CHANGE IN NET ASSETS

NET ASSETS, JULY 1, 2007, as restated (Note 2)

NET ASSETS, JUNE 30, 2008

COUNTY OF LOS ANGELES
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008 (in thousands)

| | GENERAL FUND | FIRE PROTECTION DISTRICT | FLOOD CONTROL DISTRICT | PUBLIC LIBRARY |
|---|---------------------|--------------------------------|------------------------------|-------------------|
| ASSETS: | | | | |
| Pooled cash and investments: (Notes 1 and 5) | | | | |
| Operating (Note 1) | \$ 1,494,243 | 121,353 | 145,474 | 27,929 |
| Other (Note 1) | 849,282 | 42,043 | 11,445 | 4,110 |
| Total pooled cash and investments | 2,343,525 | 163,396 | 156,919 | 32,039 |
| Other investments (Notes 4 and 5) | 6,236 | | | 120 |
| Taxes receivable | 320,281 | 70,407 | 19,855 | 9,217 |
| Interest receivable | 20,503 | 618 | 735 | 160 |
| Other receivables | 1,804,965 | 39,034 | 5,860 | 1,347 |
| Due from other funds (Note 14) | 357,416 | 6,441 | 24,906 | 1,993 |
| Advances to other funds (Note 14) | 571,872 | | 6,213 | |
| Inventories | 43,906 | 6,797 | | 1,066 |
| TOTAL ASSETS | \$ 5,468,704 | 286,693 | 214,488 | 45,942 |
| LIABILITIES AND FUND BALANCES | | | | |
| LIABILITIES: | | | | |
| Accounts payable | \$ 252,794 | 5,780 | 9,996 | 2,408 |
| Accrued payroll | 472,007 | 49,779 | | 4,918 |
| Other payables | 151,700 | 2,118 | | 375 |
| Due to other funds (Note 14) | 561,540 | 7,662 | 22,154 | 2,393 |
| Deferred revenue (Note 7) | 380,322 | 51,317 | 20,439 | 6,757 |
| Advances payable | 263,500 | | | |
| Third party payor liability (Notes 10 and 13) | 12,401 | | | |
| TOTAL LIABILITIES | 2,094,264 | 116,656 | 52,589 | 16,851 |
| FUND BALANCES: | | | | |
| Reserved for: | | | | |
| Encumbrances | 532,752 | 16,629 | 112,849 | 8,675 |
| Inventories | 43,906 | 6,797 | | 1,066 |
| Housing programs | | | | |
| Debt service | | | | |
| Endowments and annuities | | | | |
| Assets unavailable for appropriation | 20,808 | 25 | 12,011 | 15 |
| Unreserved, designated for: | | | | |
| Budget uncertainties | 292,113 | 49,500 | | |
| Program expansion | 302,763 | 25,423 | | 5,379 |
| Health services | 242,408 | | | |
| Capital projects | 315,355 | 51,222 | 13,314 | |
| Special revenue funds - program expansion | | | | |
| Unreserved, undesignated, reported in: | | | | |
| General fund | 1,624,335 | | | |
| Special revenue funds | | 20,441 | 23,725 | 13,956 |
| Capital projects funds | | | | |
| TOTAL FUND BALANCES | 3,374,440 | 170,037 | 161,899 | 29,091 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 5,468,704 | 286,693 | 214,488 | 45,942 |

The notes to the basic financial statements are an integral part of this statement.

| REGIONAL PARK AND OPEN SPACE DISTRICT | NONMAJOR GOVERNMENTAL FUNDS | ELIMINATIONS (NOTE 4) | TOTAL GOVERNMENTAL FUNDS |
|--|-----------------------------------|--------------------------|--------------------------------|
| \$ 283,342 | 1,420,830 | | \$ 3,493,171 |
| 3,728 | 56,769 | | 967,377 |
| 287,070 | 1,477,599 | | 4,460,548 |
| | 585,059 | (269,995) | 321,420 |
| 3,868 | 19,596 | | 443,224 |
| 1,387 | 6,077 | | 29,480 |
| 4,839 | 205,845 | | 2,061,890 |
| 323 | 361,496 | | 752,575 |
| | 11,034 | | 589,119 |
| | 37,563 | | 89,332 |
| \$ 297,487 | 2,704,269 | (269,995) | \$ 8,747,588 |
| \$ 936 | 53,715 | | \$ 325,629 |
| | 481 | | 527,185 |
| 464 | 1,866 | | 156,523 |
| 4,073 | 347,071 | | 944,893 |
| 6,009 | 41,318 | | 506,162 |
| | 7,327 | | 270,827 |
| | 877 | | 13,278 |
| 11,482 | 452,655 | | 2,744,497 |
| 84,450 | 161,872 | | 917,227 |
| | 37,563 | | 89,332 |
| | 1,167 | | 1,167 |
| | 717,083 | (269,995) | 447,088 |
| | 3,455 | | 3,455 |
| | 41,167 | | 74,026 |
| | 43,097 | | 384,710 |
| 39,489 | | | 373,054 |
| | | | 242,408 |
| | 70,000 | | 449,891 |
| | 275,287 | | 275,287 |
| | | | 1,624,335 |
| 162,066 | 710,825 | | 931,013 |
| | 190,098 | | 190,098 |
| 286,005 | 2,251,614 | (269,995) | 6,003,091 |
| \$ 297,487 | 2,704,269 | (269,995) | \$ 8,747,588 |

ASSETS:

Pooled cash and investments: (Notes 1 and 5)

Operating (Note 1)

Other (Note 1)

Total pooled cash and investments

Other investments (Notes 4 and 5)

Taxes receivable

Interest receivable

Other receivables

Due from other funds (Note 14)

Advances to other funds (Note 14)

Inventories

TOTAL ASSETS

LIABILITIES AND FUND BALANCES

LIABILITIES:

Accounts payable

Accrued payroll

Other payables

Due to other funds (Note 14)

Deferred revenue (Note 7)

Advances payable

Third party payor liability (Notes 10 and 13)

TOTAL LIABILITIES

FUND BALANCES:

Reserved for:

Encumbrances

Inventories

Housing programs

Debt service

Endowments and annuities

Assets unavailable for appropriation

Unreserved, designated for:

Budget uncertainties

Program expansion

Health services

Capital projects

Special revenue funds - program expansion

Unreserved, undesignated, reported in:

General fund

Special revenue funds

Capital projects funds

TOTAL FUND BALANCES

TOTAL LIABILITIES AND FUND BALANCES

COUNTY OF LOS ANGELES
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2008 (in thousands)

Fund balances - total governmental funds (page 27) \$ 6,003,091

Amounts reported for governmental activities in the statement of
net assets are different because:

Capital assets used in governmental activities are not reported in
governmental funds:

| | | | |
|----------------------------------|----|-----------|------------|
| Land & Easements | \$ | 7,015,260 | |
| Construction-in-progress | | 579,108 | |
| Buildings and improvements - net | | 2,659,802 | |
| Equipment - net | | 274,157 | |
| Infrastructure - net | | 4,470,576 | 14,998,903 |

Other long-term assets are not available to pay for current-period
expenditures and are unearned, or not recognized, in governmental funds:

| | | | |
|--------------------------|----|---------|---------|
| Deferred revenue - taxes | \$ | 324,998 | |
| Long-term receivables | | 183,881 | 508,879 |

The net pension obligation (an asset) pertaining to governmental
fund types is not recorded in governmental fund statements. 101,589

Accrued interest payable is not recognized in governmental funds. (15,279)

Long-term liabilities, including bonds and notes payable, are not due and
payable in the current period and, therefore, are not reported in the
governmental funds:

| | | | |
|---|----|-------------|-------------|
| Bonds and notes payable (including accreted interest) | \$ | (1,575,458) | |
| Pension bonds payable | | (623,720) | |
| Capital lease obligations | | (173,309) | |
| Accrued vacation/sick leave | | (709,855) | |
| Workers' compensation | | (1,745,246) | |
| Litigation/self-insurance | | (139,640) | |
| OPEB obligation | | (974,336) | (5,941,564) |

Assets and liabilities of certain internal service funds are included in
governmental activities in the accompanying statement of net assets. (85,204)

Net assets of governmental activities (page 23) \$ 15,570,415

The notes to the basic financial statements are an integral part of this statement.



COUNTY OF LOS ANGELES
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008 (in thousands)

| | GENERAL FUND | FIRE PROTECTION DISTRICT | FLOOD CONTROL DISTRICT | PUBLIC LIBRARY |
|--|-----------------|--------------------------------|------------------------------|-------------------|
| REVENUES: | | | | |
| Taxes | \$ 3,796,296 | 611,359 | 93,153 | 71,007 |
| Licenses, permits and franchises | 58,799 | 12,592 | 741 | |
| Fines, forfeitures and penalties | 251,933 | 4,415 | 1,429 | 638 |
| Revenue from use of money and property: | | | | |
| Investment income (Note 5) | 223,591 | 2,685 | 6,610 | 980 |
| Rents and concessions (Note 9) | 56,614 | 90 | 7,428 | 12 |
| Royalties | 598 | | 369 | |
| Intergovernmental revenues: | | | | |
| Federal | 2,944,622 | 1,455 | 6,086 | 162 |
| State | 4,207,046 | 16,982 | 3,396 | 2,055 |
| Other | 110,000 | 30,955 | 4,747 | 1,358 |
| Charges for services | 1,695,004 | 181,586 | 118,798 | 2,366 |
| Miscellaneous | 282,818 | 273 | 1,420 | 614 |
| TOTAL REVENUES | 13,627,321 | 862,392 | 244,177 | 79,192 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| General government | 919,534 | | | |
| Public protection | 4,222,644 | 807,151 | 211,267 | |
| Public ways and facilities | | | | |
| Health and sanitation | 2,345,484 | | | |
| Public assistance | 4,619,225 | | | |
| Education | | | | 105,385 |
| Recreation and cultural services | 231,584 | | | |
| Debt service: | | | | |
| Principal | 101,931 | 8,489 | | 1,130 |
| Interest and other charges | 186,647 | 7,896 | | 1,616 |
| Capital leases | 19,629 | | | |
| Capital outlay | 97,270 | | | 898 |
| TOTAL EXPENDITURES | 12,743,948 | 823,536 | 211,267 | 109,029 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 883,373 | 38,856 | 32,910 | (29,837) |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfers in (Note 14) | 342,906 | | 244 | 41,660 |
| Transfers out (Note 14) | (1,123,808) | (16,488) | (19,048) | (4,798) |
| Issuance of debt (Note 10) | | | | |
| Refunding bonds issued (Note 10) | | | | |
| Payment to refunded bonds escrow agent (Note 10) | | | | |
| Capital leases (Note 9) | 97,270 | | | 898 |
| Sales of capital assets | 1,036 | 158 | 175 | 3 |
| TOTAL OTHER FINANCING SOURCES (USES) | (682,596) | (16,330) | (18,629) | 37,763 |
| NET CHANGE IN FUND BALANCES | 200,777 | 22,526 | 14,281 | 7,926 |
| FUND BALANCE, JULY 1, 2007, as restated (Note 2) | 3,173,663 | 147,511 | 147,618 | 21,165 |
| FUND BALANCE, JUNE 30, 2008 | \$ 3,374,440 | 170,037 | 161,899 | 29,091 |

The notes to the basic financial statements are an integral part of this statement.

| REGIONAL PARK AND OPEN SPACE DISTRICT | NONMAJOR GOVERNMENTAL FUNDS | ELIMINATIONS (NOTE 4) | TOTAL GOVERNMENTAL FUNDS |
|--|-----------------------------------|--------------------------|--------------------------------|
| \$ | 251,678 | | \$ 4,823,493 |
| | 7,379 | | 79,511 |
| 805 | 81,915 | | 341,135 |
| 13,112 | 88,282 | (12,189) | 323,071 |
| | 14,226 | | 78,370 |
| | 11 | | 978 |
| | 197,427 | | 3,149,752 |
| | 392,485 | | 4,621,964 |
| | 23,345 | | 170,405 |
| 78,613 | 164,928 | | 2,241,295 |
| | 157,520 | | 442,645 |
| 92,530 | 1,379,196 | (12,189) | 16,272,619 |
| | 15,107 | | 934,641 |
| | 87,861 | | 5,328,923 |
| | 318,468 | | 318,468 |
| | 116,911 | | 2,462,395 |
| | 151,368 | | 4,770,593 |
| | 299 | | 105,684 |
| 32,944 | 7,500 | | 272,028 |
| | 142,977 | (34,240) | 220,287 |
| | 75,284 | (12,189) | 259,254 |
| | | | 19,629 |
| | 89,922 | | 188,090 |
| 32,944 | 1,005,697 | (46,429) | 14,879,992 |
| 59,586 | 373,499 | 34,240 | 1,392,627 |
| 423 | 217,119 | | 602,352 |
| (35,216) | (553,327) | | (1,752,685) |
| | 3,000 | | 3,000 |
| | 94,315 | | 94,315 |
| | (94,315) | | (94,315) |
| | | | 98,168 |
| | 2,727 | | 4,099 |
| (34,793) | (330,481) | | (1,045,066) |
| 24,793 | 43,018 | 34,240 | 347,561 |
| 261,212 | 2,208,596 | (304,235) | 5,655,530 |
| \$ 286,005 | 2,251,614 | (269,995) | \$ 6,003,091 |

REVENUES:

Taxes

Licenses, permits and franchises

Fines, forfeitures and penalties

Revenue from use of money and property:

Investment income (Note 5)

Rents and concessions (Note 9)

Royalties

Intergovernmental revenues:

Federal

State

Other

Charges for services

Miscellaneous

TOTAL REVENUES

EXPENDITURES:

Current:

General government

Public protection

Public ways and facilities

Health and sanitation

Public assistance

Education

Recreation and cultural services

Debt service:

Principal

Interest and other charges

Capital leases

Capital outlay

TOTAL EXPENDITURES

EXCESS (DEFICIENCY) OF REVENUES OVER
EXPENDITURES

OTHER FINANCING SOURCES (USES):

Transfers in (Note 14)

Transfers out (Note 14)

Issuance of debt (Note 10)

Refunding bonds issued (Note 10)

Payment to refunded bonds escrow agent (Note 10)

Capital leases (Note 9)

Sales of capital assets

TOTAL OTHER FINANCING SOURCES (USES)

NET CHANGE IN FUND BALANCES

FUND BALANCE, JULY 1, 2007, as restated (Note 2)

FUND BALANCE, JUNE 30, 2008

COUNTY OF LOS ANGELES
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, 2008 (in thousands)

| | | |
|--|------------------|----------------------------|
| Net change in fund balances - total governmental funds (page 31) | | \$ 347,561 |
| Amounts reported for governmental activities in the statement of activities are different because: | | |
| Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: | | |
| Expenditures for general capital assets, infrastructure and other related capital asset adjustments | \$ 356,061 | |
| Less - current year depreciation expense | <u>(338,817)</u> | 17,244 |
| In the statement of activities, only the gain or loss on the disposal of capital assets is reported, whereas in the governmental funds, the proceeds from the sale are reported as an increase in financial resources. Thus, the change in net assets differs from the change in fund balance. | | (3,341) |
| Contribution of capital assets is not recognized in the governmental funds. | | 25,481 |
| Revenue timing differences result in more revenue in government-wide statements. | | 69,138 |
| Issuance of long-term debt along with any bond premium provides revenue in the governmental funds, but increases long-term liabilities in the statement of net assets. | | (3,000) |
| Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets: | | |
| Pension bonds | \$ 108,075 | |
| General obligation bonds | 373 | |
| Certificates of participation | 69,961 | |
| Assessment bonds | 34,240 | |
| Other long term notes and loans | <u>25,638</u> | 238,287 |
| Some expenses reported in the accompanying statement of activities do not require (or provide) the use of current financial resources and, therefore, are not reported as expenditures in governmental funds: | | |
| Change in workers' compensation | \$ 62,691 | |
| Change in litigation/self-insurance | (60,227) | |
| Change in accrued vacation/sick leave | (47,495) | |
| Change in OPEB liability | (974,336) | |
| Change in third party payor liability | 400 | |
| Change in accrued interest payable | 3,150 | |
| Change in accretion of tobacco settlement bonds | (19,554) | |
| Change in accretion of pension bonds | <u>88,826</u> | (946,545) |
| The change in the net pension obligation (an asset) is not recognized in governmental funds. | | (20,577) |
| The portion of internal service funds that is reported with governmental activities. | | <u>(37,830)</u> |
| Change in net assets of governmental activities (page 25) | | <u><u>\$ (313,582)</u></u> |

The notes to the basic financial statements are an integral part of this statement.

COUNTY OF LOS ANGELES
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL ON BUDGETARY BASIS
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2008 (in thousands)

| | GENERAL FUND | | | |
|--|--------------------|-----------------|---------------------------------|---|
| | ORIGINAL BUDGET | FINAL BUDGET | ACTUAL ON BUDGETARY BASIS | VARIANCE FROM FINAL BUDGET OVER (UNDER) |
| REVENUES: | | | | |
| Taxes | \$ 3,828,094 | 3,842,971 | 3,826,908 | (16,063) |
| Licenses, permits and franchises | 56,880 | 60,924 | 58,799 | (2,125) |
| Fines, forfeitures and penalties | 206,047 | 206,124 | 251,933 | 45,809 |
| Revenue from use of money and property: | | | | |
| Investment income | 100,625 | 114,727 | 217,378 | 102,651 |
| Rents and concessions | 51,693 | 52,243 | 56,614 | 4,371 |
| Royalties | 156 | 156 | 598 | 442 |
| Intergovernmental revenues: | | | | |
| Federal | 3,128,513 | 3,173,676 | 2,948,385 | (225,291) |
| State | 4,568,927 | 4,588,722 | 4,189,202 | (399,520) |
| Other | 92,302 | 93,144 | 105,891 | 12,747 |
| Charges for services | 1,744,459 | 1,758,279 | 1,695,004 | (63,275) |
| Miscellaneous | 114,518 | 220,331 | 314,521 | 94,190 |
| TOTAL REVENUES | 13,892,214 | 14,111,297 | 13,665,233 | (446,064) |
| EXPENDITURES: | | | | |
| Current: | | | | |
| General government | 1,300,940 | 1,363,585 | 912,999 | (450,586) |
| Public protection | 4,480,743 | 4,575,551 | 4,414,810 | (160,741) |
| Health and sanitation | 2,712,971 | 2,693,857 | 2,469,110 | (224,747) |
| Public assistance | 4,984,500 | 5,016,098 | 4,739,945 | (276,153) |
| Recreation and cultural services | 249,014 | 250,844 | 240,237 | (10,607) |
| Debt Service- | | | | |
| Interest | 18,365 | 18,365 | 18,365 | |
| Capital Outlay | 1,413,544 | 1,355,655 | 178,249 | (1,177,406) |
| TOTAL EXPENDITURES | 15,160,077 | 15,273,955 | 12,973,715 | (2,300,240) |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | (1,267,863) | (1,162,658) | 691,518 | 1,854,176 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Sales of capital assets | 676 | 676 | 1,036 | 360 |
| Transfers in | 479,427 | 493,057 | 306,238 | (186,819) |
| Transfers out | (1,024,450) | (1,088,103) | (1,064,589) | 23,514 |
| Appropriation for contingencies | | (302) | | 302 |
| Changes in reserves and designations | 105,853 | 50,973 | 168,244 | 117,271 |
| OTHER FINANCING SOURCES (USES) - NET | (438,494) | (543,699) | (589,071) | (45,372) |
| NET CHANGE IN FUND BALANCE | (1,706,357) | (1,706,357) | 102,447 | 1,808,804 |
| FUND BALANCE, JULY 1, 2007 (Note 15) | 1,706,357 | 1,706,357 | 1,706,357 | |
| FUND BALANCE, JUNE 30, 2008 (Note 15) | \$ | | 1,808,804 | 1,808,804 |

The notes to the basic financial statements are an integral part of this statement.

COUNTY OF LOS ANGELES
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL ON BUDGETARY BASIS
 FIRE PROTECTION DISTRICT
 FOR THE YEAR ENDED JUNE 30, 2008 (in thousands)

| | FIRE PROTECTION DISTRICT | | | |
|--|--------------------------|-----------------|---------------------------------|---|
| | ORIGINAL BUDGET | FINAL BUDGET | ACTUAL ON BUDGETARY BASIS | VARIANCE FROM FINAL BUDGET OVER (UNDER) |
| REVENUES: | | | | |
| Taxes | \$ 611,230 | 618,757 | 618,757 | |
| Licenses, permits and franchises | 8,252 | 8,252 | 12,592 | 4,340 |
| Fines, forfeitures and penalties | 2,655 | 2,655 | 4,415 | 1,760 |
| Revenue from use of money and property: | | | | |
| Investment income | 1,000 | 1,870 | 2,442 | 572 |
| Rents and concessions | 86 | 86 | 90 | 4 |
| Intergovernmental revenues: | | | | |
| Federal | 11,892 | 12,592 | 1,455 | (11,137) |
| State | 15,586 | 17,122 | 16,982 | (140) |
| Other | 28,291 | 28,291 | 30,955 | 2,664 |
| Charges for services | 165,615 | 181,994 | 181,586 | (408) |
| Miscellaneous | 628 | 628 | 273 | (355) |
| TOTAL REVENUES | 845,235 | 872,247 | 869,547 | (2,700) |
| EXPENDITURES: | | | | |
| Current-Public protection: | | | | |
| Salaries and employee benefits | 709,669 | 734,519 | 718,220 | (16,299) |
| Services and supplies | 112,610 | 116,354 | 98,470 | (17,884) |
| Other charges | 960 | 960 | 882 | (78) |
| Capital assets | 15,996 | 18,099 | 8,357 | (9,742) |
| TOTAL EXPENDITURES | 839,235 | 869,932 | 825,929 | (44,003) |
| EXCESS OF REVENUES OVER EXPENDITURES | 6,000 | 2,315 | 43,618 | 41,303 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Sales of capital assets | 103 | 103 | 158 | 55 |
| Transfers in | 43 | 43 | | (43) |
| Transfers out | (10,951) | (15,951) | (15,951) | |
| Changes in reserves and designations | (51,822) | (43,137) | (41,104) | 2,033 |
| OTHER FINANCING SOURCES (USES) - NET | (62,627) | (58,942) | (56,897) | 2,045 |
| NET CHANGE IN FUND BALANCE | (56,627) | (56,627) | (13,279) | 43,348 |
| FUND BALANCE, JULY 1, 2007 (Note 15) | 56,627 | 56,627 | 56,627 | |
| FUND BALANCE, JUNE 30, 2008 (Note 15) | \$ | | 43,348 | 43,348 |

The notes to the basic financial statements are an integral part of this statement.

COUNTY OF LOS ANGELES
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL ON BUDGETARY BASIS
 FLOOD CONTROL DISTRICT
 FOR THE YEAR ENDED JUNE 30, 2008 (in thousands)

| | FLOOD CONTROL DISTRICT | | | |
|--|------------------------|-----------------|---------------------------------|---|
| | ORIGINAL BUDGET | FINAL BUDGET | ACTUAL ON BUDGETARY BASIS | VARIANCE FROM FINAL BUDGET OVER (UNDER) |
| REVENUES: | | | | |
| Taxes | \$ 93,125 | 94,451 | 94,451 | |
| Licenses, permits and franchises | 1,176 | 1,176 | 741 | (435) |
| Fines, forfeitures and penalties | 1,200 | 1,200 | 1,429 | 229 |
| Revenue from use of money and property: | | | | |
| Investment income | 5,421 | 5,808 | 6,538 | 730 |
| Rents and concessions | 8,633 | 8,633 | 7,428 | (1,205) |
| Royalties | 200 | 200 | 369 | 169 |
| Intergovernmental revenues: | | | | |
| Federal | 5,119 | 5,119 | 6,086 | 967 |
| State | 3,055 | 3,096 | 3,396 | 300 |
| Other | 2,300 | 5,300 | 4,747 | (553) |
| Charges for services | 113,449 | 113,449 | 119,275 | 5,826 |
| Miscellaneous | 1,165 | 1,165 | 728 | (437) |
| TOTAL REVENUES | 234,843 | 239,597 | 245,188 | 5,591 |
| EXPENDITURES: | | | | |
| Current-Public protection: | | | | |
| Services and supplies | 239,013 | 219,860 | 210,961 | (8,899) |
| Other charges | 19,871 | 20,121 | 19,613 | (508) |
| Capital assets | 160 | 160 | 116 | (44) |
| Capital Outlay | 4,325 | 27,118 | 21,712 | (5,406) |
| TOTAL EXPENDITURES | 263,369 | 267,259 | 252,402 | (14,857) |
| DEFICIENCY OF REVENUES OVER EXPENDITURES | (28,526) | (27,662) | (7,214) | 20,448 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Sales of capital assets | 921 | 921 | 175 | (746) |
| Transfers in | | | 244 | 244 |
| Transfers out | (1,330) | (1,790) | (23) | 1,767 |
| Long-term debt proceeds | | | 692 | 692 |
| Appropriation for contingencies | | 726 | | (726) |
| Changes in reserves and designations | 12,630 | 11,500 | 21,226 | 9,726 |
| OTHER FINANCING SOURCES (USES) - NET | 12,221 | 11,357 | 22,314 | 10,957 |
| NET CHANGE IN FUND BALANCE | (16,305) | (16,305) | 15,100 | 31,405 |
| FUND BALANCE, JULY 1, 2007 (Note 15) | 16,305 | 16,305 | 16,305 | |
| FUND BALANCE, JUNE 30, 2008 (Note 15) | \$ | | 31,405 | 31,405 |

The notes to the basic financial statements are an integral part of this statement.

COUNTY OF LOS ANGELES
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL ON BUDGETARY BASIS
 PUBLIC LIBRARY
 FOR THE YEAR ENDED JUNE 30, 2008 (in thousands)

| | PUBLIC LIBRARY | | | |
|--|--------------------|-----------------|---------------------------------|---|
| | ORIGINAL BUDGET | FINAL BUDGET | ACTUAL ON BUDGETARY BASIS | VARIANCE FROM FINAL BUDGET OVER (UNDER) |
| REVENUES: | | | | |
| Taxes | \$ 73,489 | 73,489 | 71,918 | (1,571) |
| Fines, forfeitures and penalties | | | 638 | 638 |
| Revenue from use of money and property: | | | | |
| Investment income | 180 | 180 | 922 | 742 |
| Rents and concessions | 15 | 15 | 12 | (3) |
| Intergovernmental revenues: | | | | |
| Federal | | | 162 | 162 |
| State | 2,054 | 2,054 | 2,055 | 1 |
| Other | 1,360 | 1,360 | 1,358 | (2) |
| Charges for services | 2,112 | 2,112 | 2,366 | 254 |
| Miscellaneous | 1,088 | 1,088 | 614 | (474) |
| TOTAL REVENUES | 80,298 | 80,298 | 80,045 | (253) |
| EXPENDITURES: | | | | |
| Current-Education: | | | | |
| Salaries and employee benefits | 78,935 | 78,935 | 70,580 | (8,355) |
| Services and supplies | 45,998 | 51,309 | 38,291 | (13,018) |
| Other charges | 752 | 752 | 604 | (148) |
| Capital assets | 695 | 1,564 | 1,216 | (348) |
| TOTAL EXPENDITURES | 126,380 | 132,560 | 110,691 | (21,869) |
| DEFICIENCY OF REVENUES OVER EXPENDITURES | (46,082) | (52,262) | (30,646) | 21,616 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Sales of capital assets | | | 3 | 3 |
| Transfers in | 41,644 | 47,853 | 41,660 | (6,193) |
| Transfers out | (4,376) | (4,405) | (4,401) | 4 |
| Changes in reserves and designations | (1,981) | (1,981) | (785) | 1,196 |
| OTHER FINANCING SOURCES (USES) - NET | 35,287 | 41,467 | 36,477 | (4,990) |
| NET CHANGE IN FUND BALANCE | (10,795) | (10,795) | 5,831 | 16,626 |
| FUND BALANCE, JULY 1, 2007 (Note 15) | 10,795 | 10,795 | 10,795 | |
| FUND BALANCE, JUNE 30, 2008 (Note 15) | \$ | | 16,626 | 16,626 |

The notes to the basic financial statements are an integral part of this statement.

COUNTY OF LOS ANGELES
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL ON BUDGETARY BASIS
 REGIONAL PARK AND OPEN SPACE DISTRICT
 FOR THE YEAR ENDED JUNE 30, 2008 (in thousands)

| | REGIONAL PARK AND OPEN SPACE DISTRICT | | | |
|--|---------------------------------------|-----------------|---------------------------------|---|
| | ORIGINAL BUDGET | FINAL BUDGET | ACTUAL ON BUDGETARY BASIS | VARIANCE FROM FINAL BUDGET OVER (UNDER) |
| REVENUES: | | | | |
| Fines, forfeitures and penalties | \$ 1,202 | 1,202 | 805 | (397) |
| Revenue from use of money and property- | | | | |
| Investment income | 12,530 | 12,530 | 13,349 | 819 |
| Charges for services | 78,038 | 78,038 | 78,562 | 524 |
| TOTAL REVENUES | 91,770 | 91,770 | 92,716 | 946 |
| EXPENDITURES: | | | | |
| Current-Recreation and cultural services: | | | | |
| Services and supplies | 4,994 | 5,350 | 3,884 | (1,466) |
| Other charges | 191,109 | 191,109 | 42,466 | (148,643) |
| TOTAL EXPENDITURES | 196,103 | 196,459 | 46,350 | (150,109) |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | (104,333) | (104,689) | 46,366 | 151,055 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfers in | 98,618 | 98,974 | 83,140 | (15,834) |
| Transfers out | (131,365) | (131,365) | (117,933) | 13,432 |
| Appropriation for contingencies | (3,301) | (3,301) | | 3,301 |
| Changes in reserves and designations | 22,217 | 22,217 | 32,740 | 10,523 |
| OTHER FINANCING SOURCES (USES) - NET | (13,831) | (13,475) | (2,053) | 11,422 |
| NET CHANGE IN FUND BALANCE | (118,164) | (118,164) | 44,313 | 162,477 |
| FUND BALANCE, JULY 1, 2007 (Note 15) | 119,700 | 119,700 | 119,700 | |
| FUND BALANCE, JUNE 30, 2008 (Note 15) | \$ 1,536 | 1,536 | 164,013 | 162,477 |

The notes to the basic financial statements are an integral part of this statement.

COUNTY OF LOS ANGELES
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2008 (in thousands)

| | BUSINESS-TYPE ACTIVITIES - | | | | |
|---|----------------------------------|--------------------------------------|------------------------------|---|---|
| | Harbor UCLA Medical Center | Olive View UCLA Medical Center | LAC+USC Medical Center | Martin Luther King Jr. Ambulatory Care Center | Rancho Los Amigos National Rehab Center |
| ASSETS | | | | | |
| Current assets: | | | | | |
| Pooled cash and investments: (Notes 1 and 5) | | | | | |
| Operating (Note 1) | \$ 614 | 477 | 89,644 | 316 | 230 |
| Other (Note 1) | 18,655 | 17,846 | 41,332 | 8,764 | 3,495 |
| Total pooled cash and investments | 19,269 | 18,323 | 130,976 | 9,080 | 3,725 |
| Other investments (Note 5) | | | | | |
| Taxes receivable | | | | | |
| Accounts receivable - net (Note 13) | 129,592 | 126,221 | 255,939 | 180,785 | 65,355 |
| Interest receivable | 2 | | 533 | 1 | 1 |
| Other receivables | 10,778 | 10,289 | 24,485 | 4,766 | 3,627 |
| Due from other funds (Note 14) | 47,403 | 56,131 | 192,968 | 19,648 | 20,740 |
| Advances to other funds (Note 14) | | | | | |
| Inventories | 3,370 | 4,162 | 12,296 | 2,013 | 1,407 |
| Total current assets | 210,414 | 215,126 | 617,197 | 216,293 | 94,855 |
| Noncurrent assets: | | | | | |
| Restricted assets (Note 5) | 39,509 | 31,345 | 74,935 | 1,090 | 7,314 |
| Net pension obligation (Note 7) | 5,979 | 5,188 | 15,700 | 6,663 | 4,304 |
| Capital assets: (Notes 6 and 9) | | | | | |
| Land and easements | 1,001 | 15,171 | 18,183 | 2,277 | 217 |
| Buildings and improvements | 77,672 | 152,939 | 163,685 | 194,951 | 187,179 |
| Equipment | 37,887 | 28,050 | 115,021 | 48,771 | 11,864 |
| Infrastructure | | | | | |
| Construction in progress | 51,078 | 1,954 | 896,740 | | 6,550 |
| Less accumulated depreciation | (72,805) | (100,937) | (194,214) | (139,696) | (99,986) |
| Total capital assets - net | 94,833 | 97,177 | 999,415 | 106,303 | 105,824 |
| Total noncurrent assets | 140,321 | 133,710 | 1,090,050 | 114,056 | 117,442 |
| TOTAL ASSETS | 350,735 | 348,836 | 1,707,247 | 330,349 | 212,297 |
| LIABILITIES | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | 11,587 | 10,781 | 41,513 | 4,951 | 3,756 |
| Accrued payroll | 27,497 | 20,263 | 49,976 | 7,738 | 9,280 |
| Other payables | 2,110 | 1,770 | 3,243 | 1,745 | 1,000 |
| Accrued interest payable | 89 | | 85 | 206 | 219 |
| Due to other funds (Note 14) | 18,591 | 45,451 | 64,410 | 21,872 | 6,632 |
| Advances from other funds (Note 14) | 96,862 | 71,315 | 199,678 | 146,920 | 53,508 |
| Advances Payable | | | 7,844 | | |
| Unearned revenue (Note 7) | 391 | 339 | 1,735 | 436 | 282 |
| Current portion of long-term liabilities (Note 10) | 102,869 | 64,436 | 190,990 | 39,321 | 25,701 |
| Total current liabilities | 259,996 | 214,355 | 559,474 | 223,189 | 100,378 |
| Noncurrent liabilities: | | | | | |
| Accrued vacation and sick leave (Note 10) | 28,680 | 19,432 | 49,269 | 8,336 | 9,898 |
| Bonds and notes payable (Note 10) | 9,655 | | 14,202 | 38,746 | 35,614 |
| Pension bonds payable (Notes 7 and 10) | 24,729 | 21,455 | 64,930 | 27,557 | 17,801 |
| Capital lease obligations (Notes 9 and 10) | | | | | 143 |
| Workers' compensation (Notes 10 and 17) | 27,324 | 27,982 | 124,641 | 61,556 | 22,190 |
| Litigation and self-insurance (Notes 10 and 17) | 12,062 | 4,424 | 52,292 | 13,958 | 190 |
| OPEB obligation (Notes 8 and 10) | 41,378 | 36,490 | 88,279 | 16,681 | 16,863 |
| Third party payor liability (Notes 10 and 13) | 16,029 | 10,573 | 80,723 | 5,054 | 8,079 |
| Total noncurrent liabilities | 159,857 | 120,356 | 474,336 | 171,888 | 110,778 |
| TOTAL LIABILITIES | 419,853 | 334,711 | 1,033,810 | 395,077 | 211,156 |
| NET ASSETS | | | | | |
| Invested in capital assets, net of related debt (Notes 6 and 10) | 51,620 | 95,575 | 947,800 | 66,283 | 68,934 |
| Restricted: | | | | | |
| Debt service | 39,420 | 31,345 | 74,850 | 884 | 7,095 |
| Special purpose | | | | | |
| Unrestricted (deficit) | (160,158) | (112,795) | (349,213) | (131,895) | (74,888) |
| TOTAL NET ASSETS (DEFICIT) (Note 3) | \$ (69,118) | 14,125 | 673,437 | (64,728) | 1,141 |

The notes to the basic financial statements are an integral part of this statement.

| ENTERPRISE FUNDS | | | GOVERNMENTAL ACTIVITIES |
|---------------------|---------------------------------|--------------|------------------------------|
| Waterworks Funds | Nonmajor Enterprise Funds | Total | Internal Service Funds |
| \$ 91,792 | 4,448 | \$ 187,521 | \$ 61,170 |
| 893 | 6 | 90,991 | 8,339 |
| 92,685 | 4,454 | 278,512 | 69,509 |
| | 55,495 | 55,495 | 8,618 |
| 915 | | 915 | |
| | | 757,892 | |
| 426 | 3 | 966 | 273 |
| 8,892 | 6,700 | 69,537 | 5,759 |
| 2,469 | 48 | 339,407 | 59,358 |
| 1,164 | | 1,164 | |
| | | 23,248 | 7,676 |
| 106,551 | 66,700 | 1,527,136 | 151,193 |
| | | 154,193 | 8,603 |
| | | 37,834 | 7,300 |
| 10,799 | 199,160 | 246,808 | |
| 117,000 | 177,225 | 1,070,651 | 1,734 |
| 481 | 3,105 | 245,179 | 207,477 |
| 1,095,023 | 39,720 | 1,134,743 | |
| 31,465 | 1,688 | 989,475 | |
| (457,749) | (185,504) | (1,250,891) | (118,729) |
| 797,019 | 235,394 | 2,435,965 | 90,482 |
| 797,019 | 235,394 | 2,627,992 | 106,385 |
| 903,570 | 302,094 | 4,155,128 | 257,578 |
| 2,520 | 3,995 | 79,103 | 6,778 |
| | | 114,754 | 23,445 |
| | 1,693 | 11,561 | 1,740 |
| | | 599 | 169 |
| 5,022 | 162 | 162,140 | 44,307 |
| | | 568,283 | 22,000 |
| | | 7,844 | |
| 475 | 314 | 3,972 | 578 |
| 93 | 1,443 | 424,853 | 43,798 |
| 8,110 | 7,607 | 1,373,109 | 142,815 |
| | 204 | 115,819 | 36,540 |
| 86 | 3,674 | 101,977 | 30,565 |
| | | 156,472 | 30,191 |
| | | 143 | |
| | | 263,693 | 56,898 |
| | | 82,926 | 1,341 |
| | | 199,691 | 42,559 |
| | | 120,458 | |
| 86 | 3,878 | 1,041,179 | 198,094 |
| 8,196 | 11,485 | 2,414,288 | 340,909 |
| 796,915 | 230,891 | 2,258,018 | 54,690 |
| 98,459 | 2,968 | 255,021 | 729 |
| | 52,690 | 52,690 | 2,920 |
| | 4,060 | (824,889) | (141,670) |
| \$ 895,374 | 290,609 | 1,740,840 | \$ (83,331) |
| | | 1,873 | |
| | | \$ 1,742,713 | |

ASSETS

Current assets:

Pooled cash and investments: (Notes 1 and 5)

Operating (Note 1)

Other (Note 1)

Total pooled cash and investments

Other investments (Note 5)

Taxes receivable

Accounts receivable - net (Note 13)

Interest receivable

Other receivables

Due from other funds (Note 14)

Advances to other funds (Note 14)

Inventories

Total current assets

Noncurrent assets:

Restricted assets (Note 5)

Net pension obligation (Note 7)

Capital assets: (Notes 6 and 9)

Land and easements

Buildings and improvements

Equipment

Infrastructure

Construction in progress

Less accumulated depreciation

Total capital assets - net

Total noncurrent assets

TOTAL ASSETS

LIABILITIES

Current liabilities:

Accounts payable

Accrued payroll

Other payables

Accrued interest payable

Due to other funds (Note 14)

Advances from other funds (Note 14)

Advances Payable

Unearned revenue (Note 7)

Current portion of long-term liabilities (Note 10)

Total current liabilities

Noncurrent liabilities:

Accrued vacation and sick leave (Note 10)

Bonds and notes payable (Note 10)

Pension bonds payable (Notes 7 and 10)

Capital lease obligations (Notes 9 and 10)

Workers' compensation (Notes 10 and 17)

Litigation and self-insurance (Notes 10 and 17)

OPEB obligation (Notes 8 and 10)

Third party payor liability (Notes 10 and 13)

Total noncurrent liabilities

TOTAL LIABILITIES

NET ASSETS

Invested in capital assets, net of related debt
(Notes 6 and 10)

Restricted:

Debt service

Special purpose

Unrestricted (deficit)

TOTAL NET ASSETS (DEFICIT) (Note 3)

Adjustment to reflect the consolidation of internal
service fund activities related to enterprise funds

NET ASSETS OF BUSINESS-TYPE ACTIVITIES (PAGE 23)

COUNTY OF LOS ANGELES
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2008 (in thousands)

| | BUSINESS-TYPE ACTIVITIES - | | | | |
|---|----------------------------------|--------------------------------------|------------------------------|---|---|
| | Harbor UCLA Medical Center | Olive View UCLA Medical Center | LAC+USC Medical Center | Martin Luther King Jr. Ambulatory Care Center | Rancho Los Amigos National Rehab Center |
| OPERATING REVENUES: | | | | | |
| Net patient service revenues (Note 13) | \$ 385,281 | 323,861 | 711,346 | 195,379 | 110,009 |
| Rentals | | | | | |
| Charges for services | | | | | |
| Other | 16,382 | 13,588 | 45,979 | 2,122 | 4,907 |
| TOTAL OPERATING REVENUES | 401,663 | 337,449 | 757,325 | 197,501 | 114,916 |
| OPERATING EXPENSES: | | | | | |
| Salaries and employee benefits | 390,251 | 294,515 | 740,286 | 133,005 | 140,169 |
| Services and supplies | 102,380 | 87,449 | 202,501 | 47,825 | 25,943 |
| Other professional services | 113,359 | 112,146 | 283,659 | 77,933 | 31,400 |
| Depreciation and amortization (Note 6) | 4,692 | 5,004 | 9,896 | 4,948 | 2,799 |
| Medical malpractice | 4,091 | 5,895 | 11,282 | 2,388 | 187 |
| Rent | 3,477 | 2,569 | 8,504 | 2,358 | 1,540 |
| TOTAL OPERATING EXPENSES | 618,250 | 507,578 | 1,256,128 | 268,457 | 202,038 |
| OPERATING LOSS | (216,587) | (170,129) | (498,803) | (70,956) | (87,122) |
| NONOPERATING REVENUES (EXPENSES): | | | | | |
| Taxes | | | | | |
| Interest income | 591 | 473 | 5,815 | 372 | 284 |
| Interest expense | (6,536) | (4,460) | (14,357) | (8,893) | (6,840) |
| Intergovernmental transfers expense (Note 13) | (40,247) | (38,143) | (104,100) | (8,051) | (9,118) |
| Intergovernmental revenues: | | | | | |
| State | | | | | |
| Federal | | | | | |
| TOTAL NONOPERATING REVENUES (EXPENSES) | (46,192) | (42,130) | (112,642) | (16,572) | (15,674) |
| LOSS BEFORE CONTRIBUTIONS AND TRANSFERS | (262,779) | (212,259) | (611,445) | (87,528) | (102,796) |
| Capital contributions | | | | | |
| Transfers in (Note 14) | 217,485 | 190,937 | 605,142 | 82,951 | 90,683 |
| Transfers out (Note 14) | (732) | (451) | (31,191) | (507) | (23) |
| CHANGE IN NET ASSETS | (46,026) | (21,773) | (37,494) | (5,084) | (12,136) |
| TOTAL NET ASSETS (DEFICIT), JULY 1, 2007, as restated (Note 2) | (23,092) | 35,898 | 710,931 | (59,644) | 13,277 |
| TOTAL NET ASSETS (DEFICIT), JUNE 30, 2008 | \$ (69,118) | 14,125 | 673,437 | (64,728) | 1,141 |

The notes to the basic financial statements are an integral part of this statement.

| ENTERPRISE FUNDS | | | GOVERNMENTAL ACTIVITIES | |
|---------------------|---------------------------------|--------------|------------------------------|--|
| Waterworks Funds | Nonmajor Enterprise Funds | Total | Internal Service Funds | |
| \$ | | \$ 1,725,876 | \$ | OPERATING REVENUES: |
| | 14,622 | 14,622 | 22,705 | Net patient service revenues (Note 13) |
| 61,514 | 379 | 61,893 | 409,450 | Rentals |
| 982 | 504 | 84,464 | | Charges for services |
| | | | | Other |
| 62,496 | 15,505 | 1,886,855 | 432,155 | TOTAL OPERATING REVENUES |
| | | 1,698,226 | 354,241 | OPERATING EXPENSES: |
| 47,403 | 247,045 | 760,546 | 66,070 | Salaries and employee benefits |
| 2,017 | 254 | 620,768 | 13,119 | Services and supplies |
| 25,379 | 2,805 | 55,523 | 27,796 | Other professional services |
| | | 23,843 | | Depreciation and amortization (Note 6) |
| | | 18,448 | | Medical malpractice |
| | | | | Rent |
| 74,799 | 250,104 | 3,177,354 | 461,226 | TOTAL OPERATING EXPENSES |
| (12,303) | (234,599) | (1,290,499) | (29,071) | OPERATING LOSS |
| 4,405 | | 4,405 | | NONOPERATING REVENUES (EXPENSES): |
| 4,304 | 2,234 | 14,073 | 1,331 | Taxes |
| (11) | (272) | (41,369) | (7,317) | Interest income |
| | | (199,659) | | Interest expense |
| | | | | Intergovernmental transfers expense (Note 13) |
| 87 | 25 | 112 | | Intergovernmental revenues: |
| | 209,454 | 209,454 | 621 | State |
| | | | | Federal |
| 8,785 | 211,441 | (12,984) | (5,365) | TOTAL NONOPERATING REVENUES (EXPENSES) |
| (3,518) | (23,158) | (1,303,483) | (34,436) | LOSS BEFORE CONTRIBUTIONS AND TRANSFERS |
| 1,413 | | 1,413 | | Capital contributions |
| 21 | 350 | 1,187,569 | 196 | Transfers in (Note 14) |
| | | (32,904) | (4,528) | Transfers out (Note 14) |
| (2,084) | (22,808) | (147,405) | (38,768) | CHANGE IN NET ASSETS |
| 897,458 | 313,417 | | (44,563) | TOTAL NET ASSETS (DEFICIT), JULY 1, 2007, as restated (Note 2) |
| \$ 895,374 | 290,609 | | \$ (83,331) | TOTAL NET ASSETS (DEFICIT), JUNE 30, 2008 |
| | | (938) | | Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds |
| | | \$ (148,343) | | CHANGE IN NET ASSETS OF BUSINESS-TYPE ACTIVITIES (PAGE 25) |

COUNTY OF LOS ANGELES
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008 (in thousands)

| | BUSINESS-TYPE ACTIVITIES - | | | | |
|--|----------------------------------|--------------------------------------|------------------------------|---|---|
| | Harbor UCLA Medical Center | Olive View UCLA Medical Center | LAC+USC Medical Center | Martin Luther King Jr. Ambulatory Care Center | Rancho Los Amigos National Rehab Center |
| CASH FLOWS FROM OPERATING | | | | | |
| ACTIVITIES: | | | | | |
| Cash received from patient services | \$ 376,700 | 281,825 | 747,263 | 119,890 | 125,344 |
| Rentals received | | | | | |
| Cash received from charges for services | | | | | |
| Other operating revenues | 16,397 | 13,609 | 45,986 | 2,123 | 4,909 |
| Cash received for services provided to other funds | 17,218 | 17,862 | 26,527 | 7,575 | 369 |
| Cash paid for salaries and employee benefits | (349,286) | (264,541) | (669,104) | (143,600) | (123,069) |
| Cash paid for services and supplies | (79,058) | (63,081) | (171,283) | (16,480) | (8,062) |
| Other operating expenses | (120,227) | (116,531) | (303,888) | (84,404) | (32,968) |
| Cash paid for services from other funds | (36,023) | (32,916) | (105,278) | (40,538) | (17,518) |
| Net cash provided by (required for) operating activities | (174,279) | (163,773) | (429,777) | (155,434) | (50,995) |
| CASH FLOWS FROM NONCAPITAL | | | | | |
| FINANCING ACTIVITIES: | | | | | |
| Cash advances received from other funds | 161,827 | 132,889 | 362,464 | 216,945 | 61,843 |
| Cash advances paid/returned to other funds | (140,853) | (99,522) | (318,100) | (121,079) | (79,265) |
| Interest paid on pension bonds | (3,964) | (3,438) | (10,404) | (4,416) | (2,853) |
| Interest paid on advances | (1,213) | (578) | (2,696) | (2,204) | (1,504) |
| Intergovernmental transfers | (40,247) | (38,143) | (104,100) | (8,051) | (9,118) |
| Intergovernmental receipts | | | | | |
| Transfers in | 217,485 | 190,937 | 605,142 | 82,951 | 90,683 |
| Transfers out | (732) | (451) | (31,191) | (507) | (23) |
| Net cash provided by (required for) noncapital financing activities | 192,303 | 181,694 | 501,115 | 163,639 | 59,763 |
| CASH FLOWS FROM CAPITAL AND | | | | | |
| RELATED FINANCING ACTIVITIES: | | | | | |
| Proceeds from taxes | | | | | |
| Proceeds from bonds and notes | 69,500 | 31,700 | 94,300 | 1,000 | 6,500 |
| Interest paid on capital borrowing | (1,481) | (494) | (1,373) | (2,555) | (2,783) |
| Principal payments on bonds and notes | (1,637) | (10,025) | (1,554) | (3,786) | (4,022) |
| Principal payments on capital leases | | | | | (125) |
| Acquisition and construction of capital assets | (39,599) | (9,644) | (106,319) | (824) | (925) |
| Net cash provided by (required for) capital and related financing activities | 26,783 | 11,537 | (14,946) | (6,165) | (1,355) |
| CASH FLOWS FROM INVESTING ACTIVITIES - | | | | | |
| Interest income received | 308 | 233 | 5,637 | 50 | 75 |
| Net increase (decrease) in cash and cash equivalents | 45,115 | 29,691 | 62,029 | 2,090 | 7,488 |
| Cash and cash equivalents, July 1, 2007 | 13,663 | 19,977 | 143,882 | 8,080 | 3,551 |
| Cash and cash equivalents, June 30, 2008 | \$ 58,778 | 49,668 | 205,911 | 10,170 | 11,039 |

The notes to the basic financial statements are an integral part of this statement.

| ENTERPRISE FUNDS | | | GOVERNMENTAL | |
|---------------------|---------------------------------|--------------|------------------------------|--|
| | | | ACTIVITIES | |
| Waterworks Funds | Nonmajor Enterprise Funds | Total | Internal Service Funds | |
| \$ | | \$ 1,651,022 | \$ | CASH FLOWS FROM OPERATING |
| | 14,322 | 14,322 | | ACTIVITIES: |
| 61,104 | | 61,104 | 22,631 | Cash received from patient services |
| 982 | 504 | 84,510 | 426,670 | Rentals received |
| | | 69,551 | | Cash received from charges for services |
| | 285 | (1,549,315) | (320,055) | Other operating revenues |
| (46,982) | (246,509) | (631,455) | (53,473) | Cash received for services provided to other funds |
| (1,942) | (254) | (660,214) | (13,119) | Cash paid for salaries and employee benefits |
| | | (232,273) | | Cash paid for services and supplies |
| | | | | Other operating expenses |
| | | | | Cash paid for services from other funds |
| 13,162 | (231,652) | (1,192,748) | 62,654 | Net cash provided by (required for) operating |
| | | | | activities |
| | | | | |
| | | 935,968 | | CASH FLOWS FROM NONCAPITAL |
| | | (758,819) | | FINANCING ACTIVITIES: |
| | | (25,075) | (4,840) | Cash advances received from other funds |
| | | (8,195) | | Cash advances paid/returned to other funds |
| | | (199,659) | | Interest paid on pension bonds |
| 87 | 209,479 | 209,566 | 621 | Interest paid on advances |
| 21 | 350 | 1,187,569 | 196 | Intergovernmental transfers |
| | | (32,904) | (4,528) | Intergovernmental receipts |
| | | | | Transfers in |
| 108 | 209,829 | 1,308,451 | (8,551) | Transfers out |
| | | | | Net cash provided by (required for) |
| | | | | noncapital financing activities |
| | | | | |
| 4,221 | | 4,221 | | CASH FLOWS FROM CAPITAL AND |
| | 6 | 203,006 | 50,360 | RELATED FINANCING ACTIVITIES: |
| (11) | (272) | (8,969) | (3,168) | Proceeds from taxes |
| (17) | (710) | (21,751) | (53,245) | Proceeds from bonds and notes |
| | | (125) | (145) | Interest paid on capital borrowing |
| (15,160) | (1,947) | (174,418) | (33,383) | Principal payments on bonds and notes |
| | | | | Principal payments on capital leases |
| (10,967) | (2,923) | 1,964 | (39,581) | Acquisition and construction of capital assets |
| | | | | Net cash provided by (required for) capital |
| | | | | and related financing activities |
| 4,521 | 2,241 | 13,065 | 1,056 | |
| | | | | CASH FLOWS FROM INVESTING ACTIVITIES - |
| 6,824 | (22,505) | 130,732 | 15,578 | Interest income received |
| | | | | |
| 85,861 | 82,454 | 357,468 | 71,152 | Net increase (decrease) in cash and cash |
| | | | | equivalents |
| \$ 92,685 | 59,949 | \$ 488,200 | \$ 86,730 | Cash and cash equivalents, July 1, 2007 |
| | | | | Cash and cash equivalents, June 30, 2008 |

Continued...

COUNTY OF LOS ANGELES
STATEMENT OF CASH FLOWS - Continued
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008 (in thousands)

| | BUSINESS-TYPE ACTIVITIES - | | | | |
|---|----------------------------------|--------------------------------------|------------------------------|---|---|
| | Harbor UCLA Medical Center | Olive View UCLA Medical Center | LAC+USC Medical Center | Martin Luther King Jr. Ambulatory Care Center | Rancho Los Amigos National Rehab Center |
| RECONCILIATION OF OPERATING | | | | | |
| LOSS TO NET CASH PROVIDED BY | | | | | |
| (REQUIRED FOR) OPERATING ACTIVITIES: | | | | | |
| Operating loss | \$ (216,587) | (170,129) | (498,803) | (70,956) | (87,122) |
| Adjustments to reconcile operating | | | | | |
| loss to net cash provided by (required for) | | | | | |
| operating activities: | | | | | |
| Depreciation and amortization | 4,692 | 5,004 | 9,896 | 4,948 | 2,799 |
| Other charges - net | 1,849 | 2,916 | (6,606) | (1,180) | (166) |
| (Increase) decrease in: | | | | | |
| Accounts receivable - net | (14,659) | (49,706) | (71,576) | (62,394) | 11,505 |
| Interest receivable | | | | | |
| Other receivables | (1,583) | (165) | (2,212) | 2,091 | (542) |
| Due from other funds | 22,279 | 15,389 | 82,085 | 4,759 | (841) |
| Inventories | 490 | (76) | 743 | 1,268 | (214) |
| Net pension obligation | 1,211 | 1,050 | 3,180 | 1,349 | 872 |
| Increase (decrease) in: | | | | | |
| Accounts payable | 1,226 | 291 | 2,304 | (4,782) | 1,393 |
| Accrued payroll | 4,954 | 3,123 | 7,994 | (5,457) | 1,922 |
| Other payables | 199 | 160 | 266 | 74 | 75 |
| Accrued vacation and sick leave | 3,702 | (4,546) | 3,892 | (4,853) | 7,177 |
| Due to other funds | (14,850) | (10,938) | (68,459) | (6,810) | (205) |
| Unearned revenue | | | (2,446) | | |
| Pension bonds payable | (11,588) | (10,053) | (30,431) | (12,914) | (8,341) |
| Workers' compensation liability | (2,392) | 875 | (8,512) | (4,359) | (2,766) |
| Litigation and self-insurance liability | 700 | 4,382 | (443) | (1,375) | 159 |
| OPEB obligation | 44,378 | 39,136 | 94,679 | 17,890 | 18,085 |
| Third party payor liability | 1,700 | 9,514 | 54,672 | (12,733) | 5,215 |
| TOTAL ADJUSTMENTS | 42,308 | 6,356 | 69,026 | (84,478) | 36,127 |
| NET CASH PROVIDED BY (REQUIRED FOR) | | | | | |
| OPERATING ACTIVITIES | \$ (174,279) | (163,773) | (429,777) | (155,434) | (50,995) |
| RECONCILIATION OF CASH AND CASH | | | | | |
| EQUIVALENTS TO THE STATEMENT OF | | | | | |
| NET ASSETS: | | | | | |
| Pooled cash and investments | \$ 19,269 | 18,323 | 130,976 | 9,080 | 3,725 |
| Other investments | | | | | |
| Restricted assets | 39,509 | 31,345 | 74,935 | 1,090 | 7,314 |
| TOTAL | \$ 58,778 | 49,668 | 205,911 | 10,170 | 11,039 |

The notes to the basic financial statements are an integral part of this statement.

| ENTERPRISE FUNDS | | | GOVERNMENTAL ACTIVITIES | | |
|---------------------|---------------------------------|----------------|------------------------------|--|--|
| Waterworks Funds | Nonmajor Enterprise Funds | Total | Internal Service Funds | | |
| \$ (12,303) | (234,599) | \$ (1,290,499) | \$ (29,071) | | RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (REQUIRED FOR) OPERATING ACTIVITIES: |
| | | | | | Operating loss |
| | | | | | Adjustments to reconcile operating loss to net cash provided by (required for) operating activities: |
| 25,379 | 2,805 | 55,523 | 27,796 | | Depreciation and amortization |
| | 509 | (2,678) | 141 | | Other charges - net |
| | | (186,830) | | | (Increase) decrease in: |
| | | | 41 | | Accounts receivable - net |
| (45) | (1,843) | (4,299) | (916) | | Interest receivable |
| (700) | 10 | 122,981 | 17,152 | | Other receivables |
| | | 2,211 | 274 | | Due from other funds |
| | | 7,662 | 1,478 | | Inventories |
| | | | | | Net pension obligation |
| | | | | | Increase (decrease) in: |
| 1,480 | 1,324 | 3,236 | 965 | | Accounts payable |
| | | 12,536 | 3,456 | | Accrued payroll |
| | (7) | 767 | 159 | | Other payables |
| | 285 | 5,657 | 1,513 | | Accrued vacation and sick leave |
| (1,059) | (142) | (102,463) | 11,204 | | Due to other funds |
| 335 | 6 | (2,105) | (57) | | Unearned revenue |
| | | (73,327) | (14,145) | | Pension bonds payable |
| | | (17,154) | (2,980) | | Workers' compensation liability |
| 75 | | 3,498 | | | Litigation and self-insurance liability |
| | | 214,168 | 45,644 | | OPEB obligation |
| | | 58,368 | | | Third party payor liability |
| 25,465 | 2,947 | 97,751 | 91,725 | | TOTAL ADJUSTMENTS |
| \$ 13,162 | (231,652) | \$ (1,192,748) | \$ 62,654 | | NET CASH PROVIDED BY (REQUIRED FOR) OPERATING ACTIVITIES |
| | | | | | RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS: |
| \$ 92,685 | 4,454 | \$ 278,512 | \$ 69,509 | | Pooled cash and investments |
| | 55,495 | 55,495 | 8,618 | | Other investments |
| | | 154,193 | 8,603 | | Restricted assets |
| \$ 92,685 | 59,949 | \$ 488,200 | \$ 86,730 | | TOTAL |

COUNTY OF LOS ANGELES
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2008 (in thousands)

| | PENSION TRUST FUND | INVESTMENT TRUST FUNDS | AGENCY FUNDS |
|---|-----------------------|---------------------------|---------------------|
| ASSETS | | | |
| Pooled cash and investments (Note 5) | \$ 86,438 | \$ 13,284,552 | \$ 1,261,788 |
| Other investments: (Note 5) | | 474,638 | 43,927 |
| Stocks | 19,285,947 | | |
| Bonds | 11,296,770 | | |
| Short-term investments | 741,505 | | |
| Commodities | 638,575 | | |
| Real estate | 3,996,568 | | |
| Mortgages | 260,913 | | |
| Alternative assets | 3,296,714 | | |
| Cash collateral on loaned securities | 2,322,698 | | |
| Taxes receivable | | | 310,536 |
| Interest receivable | 132,306 | 129,447 | 2,498 |
| Other receivables | 849,578 | | |
| TOTAL ASSETS | <u>42,908,012</u> | <u>13,888,637</u> | <u>\$ 1,618,749</u> |
| LIABILITIES | | | |
| Accounts payable | 1,799,138 | | |
| Other payables (Note 5) | 2,384,203 | | |
| Due to other governments | | | 1,618,749 |
| TOTAL LIABILITIES | <u>4,183,341</u> | | <u>\$ 1,618,749</u> |
| NET ASSETS | | | |
| Held in trust for pension benefits and investment trust participants | <u>\$ 38,724,671</u> | <u>\$ 13,888,637</u> | |

The notes to the basic financial statements are an integral part of this statement.

COUNTY OF LOS ANGELES
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008 (in thousands)

| | PENSION TRUST FUND | INVESTMENT TRUST FUNDS |
|---|-----------------------|---------------------------|
| ADDITIONS: | | |
| Contributions: | | |
| Pension trust contributions: | | |
| Employer | \$ 788,029 | \$ |
| Member | 414,752 | |
| Contributions to investment trust funds | | 40,191,455 |
| Total contributions | 1,202,781 | 40,191,455 |
| Investment earnings: | | |
| Investment income | 4,929,295 | 584,425 |
| Net decrease in the fair value of investments | (6,258,819) | |
| Securities lending income (Note 5) | 122,531 | |
| Total investment earnings (losses) | (1,206,993) | 584,425 |
| Less - Investment expenses: | | |
| Expense from investing activities | 114,183 | |
| Expense from securities lending activities (Note 5) | 104,941 | |
| Total net investment expense | 219,124 | |
| Net investment earnings (losses) | (1,426,117) | 584,425 |
| Miscellaneous | 1,767 | |
| NET INCREASE (DECREASE) IN ADDITIONS | (221,569) | 40,775,880 |
| DEDUCTIONS: | | |
| Salaries and employee benefits | 33,626 | |
| Services and supplies | 14,597 | |
| Benefit payments | 1,887,684 | |
| Distribution from investment trust funds | | 39,869,092 |
| Miscellaneous | 25,959 | |
| TOTAL DEDUCTIONS | 1,961,866 | 39,869,092 |
| CHANGE IN NET ASSETS | (2,183,435) | 906,788 |
| NET ASSETS HELD IN TRUST, JULY 1, 2007 | 40,908,106 | 12,981,849 |
| NET ASSETS HELD IN TRUST, JUNE 30, 2008 | \$ 38,724,671 | \$ 13,888,637 |

The notes to the basic financial statements are an integral part of this statement.

COUNTY OF LOS ANGELES
NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The County of Los Angeles (County) is a legal subdivision of the State of California (State) charged with general governmental powers. The County's powers are exercised through an elected Board of Supervisors (Board) which, as the governing body of the County, is responsible for the legislative and executive control of the County. As required by the Governmental Accounting Standards Board (GASB), these basic financial statements include both those of the County and its component units. The component units discussed below are included primarily because the Board is financially accountable for them.

Blended Component Units

County management has determined that the following related entities should be included in the basic financial statements as blended component units:

| | |
|---------------------------------------|---|
| Fire Protection District | Garbage Disposal Districts |
| Flood Control District | Sewer Maintenance Districts |
| Street Lighting Districts | Waterworks Districts |
| Improvement Districts | Los Angeles County Capital Asset Leasing |
| Community Development | Corporation (a Non Profit Corporation) (NPC) |
| Commission (including the | Various Joint Powers Authorities (JPAs) |
| Housing Authority of the | Los Angeles County Employees |
| County of Los Angeles) (CDC) | Retirement Association (LACERA) |
| Regional Park and Open Space District | Los Angeles County Securitization Corporation |
| | (LACSC) |

Although they are separate legal entities, the various districts and the CDC are included primarily because the Board is also their governing Board. As such, the Board establishes policy, appoints management and exercises budgetary control. The NPC and JPAs have been included because their sole purpose is to finance and construct County capital assets and because they are dependent upon the County for funding. Blended component units are those that, because of the closeness of the relationship with the primary government, should be blended in the basic financial statements as though they are part of the primary government. LACERA is reported in the Pension Trust Fund of the basic financial statements and has been included because its operations are dependent upon County funding and because its operations, almost exclusively, benefit the County.

The LACSC is a California public benefit corporation created by the County Board of Supervisors in January 2006. Three directors, the County's Auditor-Controller, Treasurer and Tax Collector, and an independent party designated by at least one of the County directors, govern the LACSC. The LACSC purpose is to acquire the County's rights in relation to future tobacco settlement payments and to facilitate the issuance of long-term bonds secured by the County Tobacco Assets. The LACSC provides service solely to the County and is reported as a blended component unit of the County.

Discretely Presented Component Unit

First 5 LA (First 5), was established by the County as a separate legal entity to administer the County's share of tobacco taxes levied by the State pursuant to Proposition 10. The County's Board established First 5 with nine voting members and four non-voting representatives. Of the nine voting members, one is a member of the Board of Supervisors, two are heads of County Departments (Health Services and Mental Health), one is an early childhood education expert, and five are public members appointed by the Board. The non-voting representatives are from other County commissions and planning groups.

COUNTY OF LOS ANGELES
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Discretely Presented Component Unit-Continued

First 5 services are focused on the development and well-being of all children, from the prenatal stage until age five. First 5 is a component unit of the County because the County's Board appoints the voting Commissioners and the County has the ability to impose its will by removing those commissioners at will. It is discretely presented because its governing body is not substantially the same as the County's governing body and it does not provide services entirely or exclusively to the County.

Component Unit Financial Statements

Separate financial statements or additional financial information for each of the component units may be obtained from the Auditor-Controller at 500 West Temple Street, Room 525, Los Angeles, California 90012.

Government-wide Financial Statements

The statement of net assets and statement of activities display information about the primary government, the County, and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities, except for services provided among funds (other than internal service funds). These statements distinguish between the governmental and business-type activities of the County and between the County and its discretely presented component unit. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the County and for each function of the County's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipients of goods or services offered by the programs. Grants and contributions that are restricted to meeting the operational or capital requirements of a particular program are also recognized as program revenues. Revenues that are not classified as program revenues, including all taxes, are presented instead as general revenues.

Net assets are classified into the following three categories: 1) invested in capital assets, net of related debt; 2) restricted and 3) unrestricted. Net assets are reported as restricted when they have external restrictions imposed by creditors, grantors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. At June 30, 2008, the restricted net assets balances were \$1.606 billion and \$308 million for governmental activities and business-type activities, respectively. For governmental activities, \$92 million was restricted by enabling legislation.

When both restricted and unrestricted net assets are available, restricted resources are used first and then unrestricted resources are used to the extent necessary.

Fund Financial Statements

The fund financial statements provide information about the County's funds, including fiduciary funds and blended component units. Separate statements for each fund category - governmental, proprietary, and fiduciary - are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are separately aggregated and reported as nonmajor funds.

COUNTY OF LOS ANGELES
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Fund Financial Statements-Continued

The County reports the following major governmental funds:

General Fund

The General Fund is available for any authorized purpose and is used to account for all resources except for those accounted for in other funds.

Fire Protection District Fund

The Fire Protection District Fund was established to provide for fire prevention and suppression, rescue service, management of hazardous materials incidents, ocean lifeguard services, and acquisition and maintenance of district property and equipment. Revenues are derived principally from the Countywide tax levy and charges for services.

Flood Control District Fund

The Flood Control District Fund was established to provide for the control and conservation of flood, storm and other waste waters, to conserve such waters for beneficial and useful purposes, and to protect the harbors, waterways, public highways and property located within the District from damage from such flood and storm waters. Revenues are derived primarily from the Countywide tax levy and benefit assessments (charges for services).

Public Library Fund

The Public Library Fund was established to provide free library services to the unincorporated areas of the County and to cities that contract for these services. Revenues are derived principally from the Countywide tax levy.

Regional Park and Open Space District Fund

The Regional Park and Open Space District Fund was established to administer grant programs designed to preserve beaches, parks and wild lands, to acquire and renovate new and existing recreational facilities, and to restore rivers, streams, and trails in the County. Funding is derived from voter-approved assessments and long-term debt proceeds.

The County's major enterprise funds consist of five Hospital Funds and a Waterworks Enterprise Fund. The Hospital Enterprise funds provide health services to County residents. Revenues are principally patient service fees. Subsidies are also received from the General Fund. The Waterworks Enterprise Fund provides water services to County residents. Revenues are derived primarily from the sale of water and water service standby charges. A description of each Enterprise Fund is provided below:

Harbor-UCLA Medical Center

The Harbor-UCLA Medical Center (H/UCLA) provides acute and intensive care unit medical/surgical inpatient and outpatient care services, trauma and emergency room services, acute psychiatric services, pediatric and obstetric services, and transplants.

Olive View-UCLA Medical Center

The Olive View-UCLA Medical Center (OV/UCLA) provides acute and intensive care, emergency services, medical/surgical inpatient and outpatient health care services, obstetric and gynecological services, and psychiatric services.

LAC+USC Medical Center

The LAC+USC Medical Center (LAC+USC) provides acute and intensive care unit medical/surgical inpatient and outpatient services, trauma and emergency room services, a burn center, psychiatric services, renal dialysis, AIDS services, pediatric and obstetric services, and communicable disease services.

COUNTY OF LOS ANGELES
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Fund Financial Statements-Continued

Martin Luther King, Jr. Ambulatory Care Center

The Martin Luther King, Jr. Multi-Service Ambulatory Care Center (MLK-MACC), formerly known as Martin Luther King, Jr.-Harbor Hospital, began the 2007-08 fiscal year providing general adult medical, surgical and low-risk obstetrical and gynecological care with a basic emergency room. Upon the loss of the hospital's licensing/accreditation on August 25, 2007, inpatient and emergency services were closed and the facility was re-organized as MLK-MACC. The MLK-MACC provides urgent care services, comprehensive outpatient services, including, primary, specialty and subspecialty services in surgery, medicine, pediatrics, obstetrics, HIV/AIDS, and dental services.

Rancho Los Amigos National Rehabilitation Center

The Rancho Los Amigos National Rehabilitation Center (Rancho) specializes in the rehabilitation for victims of spinal cord injuries and strokes, pathokinesiology and polio services, services for liver diseases, pediatrics, ortho diabetes, dentistry, and neuro-science.

Waterworks Funds

The Waterworks Enterprise funds provide for the administration, maintenance, operation and improvement of district water systems.

The following fund types have also been reported:

Internal Service Funds

The Internal Service Funds are used to account for the financing of services provided by a department or agency to other departments or agencies on a cost-reimbursement basis. The County's principal Internal Service Fund is used to account for the cost of services provided by the Department of Public Works to various other County funds and agencies.

Fiduciary Fund Types

Pension Trust Fund

The Pension Trust Fund is used to account for financial activities of LACERA.

Investment Trust Funds

The Pooled Investment Trust Fund is used to account for net assets of the County's external investment pool.

The Specific Investment Trust Fund is used to account for the net assets of individual investment accounts, in aggregate. The related investment activity occurs separately from the County's investment pool and is provided as a service to external investors.

Agency Funds

The Agency Funds are used primarily to account for assets held by the County in an agency capacity pending transfer or distribution to individuals, private organizations, other governmental entities, and other funds. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. These funds (including Clearing and Revolving Funds, Deposit Funds, Other Agency Funds, State and City Revenue Funds, and Tax Collection Funds) account for assets held by the County in an agency capacity for individuals or other government units.

COUNTY OF LOS ANGELES
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Basis of Accounting

The government-wide, proprietary, pension and investment trust fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the County gives (or receives) value without directly receiving (or giving) equal value in exchange, include property and sales taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from grants and similar items are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The County considers revenues to be available if collectible within one year after year-end, except for property taxes, which are considered available to the extent that they are collectible within 60 days after year-end. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims (including workers' compensation) and judgments are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and capital leases are reported as other financing sources.

For the governmental funds financial statements, revenues are recorded when they are susceptible to accrual. Specifically, property and sales taxes, investment income, and charges for services and other miscellaneous revenue are all considered to be susceptible to accrual and have been recognized as revenue in the current fiscal period. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met and are recorded at the time of receipt or earlier, if the susceptible to accrual criteria are met. All other revenues are not considered susceptible to accrual and are recognized when received.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the County's five Hospital Enterprise Funds (Hospitals) are from patient services. The principal operating revenues for the Waterworks Enterprise Funds are from charges for services. The principal operating revenues for the County's Nonmajor Enterprise Funds and Internal Service Funds are charges for services and rental revenues. Operating expenses for all Enterprise Funds and the Internal Service Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. Medical malpractice expenses, which are self-insured, are classified as operating expenses of the Hospitals. All other revenues and expenses not meeting this definition are reported as nonoperating items. As discussed in Note 13, intergovernmental transfer payments are recorded in the Hospitals and this item is classified as a nonoperating expense.

Agency funds do not have a measurement focus because they report only assets and liabilities. They do however, use the accrual basis of accounting to recognize receivables and payables.

COUNTY OF LOS ANGELES
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Basis of Accounting-Continued

The County applies all applicable Financial Accounting Standards Board (FASB) statements issued on or before November 30, 1989, in accounting and reporting for government-wide and proprietary fund financial statements. FASB statements issued after November 30, 1989, have not been applied unless specifically adopted in a GASB statement.

Budgetary Data

In accordance with the provisions of Sections 29000-29144 of the Government Code of the State of California (Government Code), commonly known as the County Budget Act, the County prepares and adopts a budget on or before August 30 for each fiscal year. Budgets are adopted for the major governmental funds and certain nonmajor governmental funds on a basis of accounting which is different from generally accepted accounting principles (GAAP). Annual budgets were not adopted for the JPAs, Public Buildings and the LACSC debt service funds, the capital project funds and the permanent funds.

The County budget is organized by budget unit and by expenditure object. Budget units are established at the discretion of the Board of Supervisors. Within the General Fund (with certain exceptions), budget units are generally defined as individual departments. For other funds, each individual fund constitutes a budget unit. Expenditures are controlled on the object level for all budget units within the County, except for capital asset expenditures, which are controlled on the sub-object level. The total budget exceeds \$24 billion and is currently controlled through the use of approximately 400 separate budget units. There were no excesses of expenditures over the related appropriations within any fund for the year ended June 30, 2008. The County prepares a separate budgetary document, the County Budget, which demonstrates legal compliance with budgetary control.

Transfers of appropriations between budget units must be approved by the Board. Supplemental appropriations financed by unanticipated revenue during the year must also be approved by the Board. Transfers of appropriations between objects of expenditure within the same budget unit must be approved by the Board or the Chief Administrative Office, depending upon the amount transferred. The original and final budget amounts are reported in the accompanying basic financial statements. Any excess of budgetary expenditures and other financing uses over revenues and other financing sources is financed by beginning available fund balances as provided for in the County Budget Act.

Note 15 describes the differences between the budgetary basis of accounting and GAAP. A reconciling schedule is also presented for the major governmental funds.

Property Taxes

All jurisdictions within California derive their taxing authority from the State Constitution and various legislative provisions contained in the Government Code and Revenue and Taxation Code. Property is assessed at 100% of full cash or market value (with some exceptions) pursuant to Article XIII A of the California State Constitution and statutory provisions by the County Assessor and State Board of Equalization. The total 2007-2008 assessed valuation of the County of Los Angeles exceeded \$1 trillion for the first time and approximated \$1,010 billion.

The property tax levy to support general operations of the various jurisdictions is limited to one percent (1%) of full cash value and is distributed in accordance with statutory formulae. Amounts needed to finance the annual requirements of voter-approved debt are excluded from this limitation and are separately calculated and levied each fiscal year. The rates are formally adopted by either the Board or the city councils and, in some instances, the governing board of a special district.

COUNTY OF LOS ANGELES
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Property Taxes-Continued

The County is divided into 11,242 tax rate areas, which are unique combinations of various jurisdictions servicing a specific geographic area. The rates levied within each tax rate area vary only in relation to levies assessed as a result of voter-approved taxes or indebtedness.

Property taxes are levied on both real and personal property. Secured property taxes are levied during September of each year. They become a lien on real property on January 1 preceding the fiscal year for which taxes are levied. These tax payments can be made in two equal installments; the first is due November 1 and delinquent with penalties after December 10; the second is due February 1 and delinquent with penalties after April 10. Secured property taxes which are delinquent and unpaid as of June 30 are declared to be tax defaulted and are subject to redemption penalties, costs, and interest when paid. If the delinquent taxes are not paid at the end of five (5) years, the property may be sold at public auction. The proceeds are used to pay the delinquent amounts due, and any excess is remitted, if claimed, to the taxpayer. Additional tax liens are created when there is a change in ownership of property or upon completion of new construction. Tax bills for these new tax liens are issued throughout the fiscal year and contain various payment and delinquent dates but are generally due within one year. If the new tax liens are lower, the taxpayer receives a tax refund rather than a tax bill. Unsecured personal property taxes are not a lien against real property. These taxes are due on August 1 and become delinquent, if unpaid, on August 31.

Deposits and Investments

In accordance with GASB Statements No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans" and No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," the accompanying basic financial statements reflect the fair value of investments. Specific disclosures related to GASB 31 appear in Note 5.

Deposits and investments are reflected in the following asset accounts:

Pooled Cash and Investments

As provided for by the Government Code, the cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing interest earnings through investment activities. Interest earned on pooled investments is deposited to participating funds based upon each fund's average daily deposit balance during the allocation period. Each respective fund's share of the total pooled cash and investments is included among asset balances under the caption "Pooled Cash and Investments."

Pooled Cash and Investments are identified within the following categories for all County operating funds:

Operating Pooled Cash and Investments

This account represents amounts reflected in the County's day-to-day financial records. Such amounts are utilized to determine the availability of cash for purposes of disbursing and borrowing funds.

COUNTY OF LOS ANGELES
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Deposits and Investments-Continued

Other Pooled Cash and Investments

This account represents amounts identified in various agency funds as of June 30, 2008 that were owed to or were more appropriately classified in County operating funds. Accordingly, certain cash balances have been reclassified from the agency funds as required by GASB Statement No. 34.

Other Investments

"Other Investments" represent Pension Trust Fund investments, investments of the CDC, various JPAs, NPCs and Public Buildings (bond financed capital assets), and amounts on deposit with the County Treasurer which are invested separately as provided by the Government Code or by specific instructions from the depositing entity.

Restricted Assets

Enterprise Funds' restricted assets represent cash and investments of certain JPAs and Public Buildings projects restricted in accordance with the provisions of the certificates of participation issued. The Internal Service Funds' restricted assets represent cash and investments restricted for debt service in accordance with the provisions of the LAC-CAL bond indenture. All of the above noted assets are included in the various disclosures in Note 5. These restricted assets are presented as noncurrent assets and are generally associated with long-term bonds payable.

Inventories

Inventories, which consist of materials and supplies held for consumption, are valued at cost using the average cost basis. The inventory costs of the governmental funds are accounted for as expenditures when the inventory items are consumed. Reported inventories are offset with a corresponding reservation of fund balance because these amounts are not available for appropriation and expenditure.

Of the amounts reported as inventories in the governmental activities, \$37,563,000 represents land held for resale by the CDC. The CDC records land held for resale at the lower of cost or estimated net realizable value.

Capital Assets

Capital assets, which include land and easements, buildings and improvements, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Infrastructure assets are divided into the five following networks: road; water; sewer; flood control and aviation. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation. Certain buildings and equipment are being leased under capital leases as defined in FASB Statement No. 13. The present value of the minimum lease obligation has been capitalized in the statement of net assets and is also reflected as a liability in that statement.

Capital outlay is recorded as expenditures of the General, Special Revenue, and Capital Project Funds and as assets in the government-wide financial statements to the extent the County's capitalization threshold is met. Interest incurred during the construction phase of the capital assets of business-type activities is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

COUNTY OF LOS ANGELES
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Capital Assets-Continued

The County's capitalization thresholds are \$5,000 for equipment, \$100,000 for buildings and improvements and \$100,000 for infrastructure assets. Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities, or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and the related accumulated depreciation, as applicable, are removed from the respective accounts and any resulting gain or loss is included in the results of operations. Specific disclosures related to capital assets appear in Note 6.

Capital assets are depreciated or amortized using the straight-line method over the following estimated useful lives:

| | |
|----------------------------|-----------------|
| Buildings and Improvements | 10 to 50 years |
| Equipment | 2 to 35 years |
| Infrastructure | 15 to 100 years |

Works of art and historical treasures held for public exhibition, education, or research in furtherance of public service, rather than financial gain, are not capitalized. These items are protected, encumbered, conserved, and preserved by the County. It is the County's policy to utilize proceeds from the sale of these items for the acquisition of other items for collection and display.

Advances Payable

The County uses certain agency funds as clearing accounts for the distribution of financial resources to other County funds. Pursuant to GASB 34, for external financial reporting purposes, the portions of the clearing account balances that pertain to other County funds should be reported as cash of the appropriate funds. The corresponding liability is included in "Advances Payable."

Vacation and Sick Leave Benefits

Vacation pay benefits accrue to employees ranging from 10 to 20 days per year depending on years of service and the benefit plan. Sick leave benefits accrue at the rate of 10 to 12 days per year for union represented employees depending on years of service. Non-represented employees accrue at a rate of 8 days per year depending on the benefit plan. All benefits are payable upon termination, if unused, within limits and rates as specified in the County Salary Ordinance.

Liabilities for accrued vacation and sick leave benefits are accrued in the government-wide financial statements and in the proprietary funds. For the governmental funds, expenditures are recorded when amounts become due and payable (i.e., when employees terminate from service).

Long-term Debt

In the government-wide and proprietary funds financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary funds statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

COUNTY OF LOS ANGELES
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Long-term-Debt-Continued

In the governmental funds financial statements, bond premiums, discounts, and issuance costs, are recognized in the period issued. Bond proceeds are reported as other financing sources net of the applicable premium or discount. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. Interest is reported as an expenditure in the period in which the related payment is made. The matured portion of long-term debt (i.e. portion that has come due for payment) is reported as a liability in the fund financial statement of the related fund.

Cash Flows

For purposes of reporting cash flows, all amounts reported as "Pooled Cash and Investments," "Other Investments," and "Restricted Assets" are considered cash equivalents. Pooled cash and investment amounts represent funds held in the County Treasurer's cash management pool. Such amounts are similar in nature to demand deposits (i.e., funds may be deposited and withdrawn at any time without prior notice or penalty).

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

2. ACCOUNTING CHANGES AND RESTATEMENT OF FUND BALANCES/NET ASSETS

As discussed below, the County implemented the following GASB Statements in the 2007-2008 fiscal year:

Governmental Accounting Standards Board Statement No. 45

For the fiscal year ended June 30, 2008, the County implemented GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." This Statement establishes standards for the measurement, recognition, and display of other post employment benefits (OPEB) expenses/expenditures and related liabilities (assets), note disclosures and required supplementary information (RSI). This matter is further discussed in Note 8.

Long-Term Disability Benefits

The County provides long-term disability benefits (LTD benefits) that were determined to be within the definition of OPEB. Prior to GASB 45, the County had recognized liabilities for LTD benefits in the government-wide financial statements and the proprietary funds. These amounts were classified as Litigation and Self-Insurance liabilities. Although the previously recorded liability amounts were actuarially determined, they were not in compliance with provisions of GASB 45. Effective July 1, 2007, the County began to measure LTD benefits in accordance with GASB 45, which provides for the prospective measurement of such expenses. Previously recorded LTD benefit liabilities have been removed and beginning fund balances have been restated (increased) as indicated at the end of this Note.

COUNTY OF LOS ANGELES
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

2. ACCOUNTING CHANGES AND RESTATEMENT OF FUND BALANCES/NET ASSETS-Continued

Governmental Accounting Standards Board Statement No. 45-Continued

Employer Assets Held by OPEB Administrator

In conjunction with implementing GASB 45, the County determined that certain assets were held by LACERA (the OPEB administrator) in an OPEB Agency Fund. These amounts were held on behalf of the County and earmarked for future OPEB benefit payments. However, the County has not yet established an OPEB trust (or equivalent arrangement) and GASB 45 requires that such amounts be recorded as employer assets. Effective July 1, 2007, the County has recognized assets (Other Receivables) in all applicable funds to reflect the OPEB related amount held by LACERA. Accordingly, beginning fund balances have been restated (increased) as indicated at the end of this Note.

Governmental Accounting Standards Board Statement No. 50

GASB Statement No. 50, "Pension Disclosures," amends Statements 25 and 27 to more closely align the financial reporting requirements for pensions with those for OPEB. GASB Statement No. 50 did not have an impact on the County's financial statements, but required additional and rearranged disclosures in Note 7.

Restatement of Fund Balances/Net Assets

In order to meet the guidelines presented in GASB Statement 45, the County restated beginning balances to reflect the removal of the long-term disability (LTD) liabilities, as previously presented. Additionally, the County restated beginning balances to reflect the inclusion of LACERA's OPEB Agency Fund. The effects of the changes are as follows (in thousands):

| | Fund Balance /Net Assets July 1, 2007 as <u>previously reported</u> | Effect of Removal of LTD Liabilities | Effect of LACERA OPEB Agency Fund | Fund Balance /Net Assets July 1, 2007 <u>as restated</u> |
|------------------------------------|--|--|---|---|
| Government-wide: | | | | |
| Governmental activities | \$ 15,440,624 | \$ 338,959 | \$ 104,414 | \$ 15,883,997 |
| Business-type activities | 1,736,574 | 132,558 | 21,924 | 1,891,056 |
| Governmental funds: | | | | |
| Major Governmental funds: | | | | |
| General Fund | 3,080,444 | | 93,219 | 3,173,663 |
| Fire Protection District | 141,941 | | 5,570 | 147,511 |
| Public Library | 20,213 | | 952 | 21,165 |
| Internal Service Fund-Public Works | (79,791) | 20,859 | 4,673 | (54,259) |
| Proprietary funds: | | | | |
| Major enterprise funds: | | | | |
| Harbor/UCLA Medical Center | (47,974) | 20,339 | 4,543 | (23,092) |
| Olive View/UCLA Medical Center | 12,695 | 19,197 | 4,006 | 35,898 |
| LAC+USC Medical Center | 651,917 | 49,322 | 9,692 | 710,931 |
| Martin Luther King Jr./ | | | | |
| Ambulatory Care Center | (92,358) | 30,882 | 1,832 | (59,644) |
| Rancho Los Amigos National | | | | |
| Rehab Center | (1,392) | 12,818 | 1,851 | 13,277 |

COUNTY OF LOS ANGELES
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

3. NET ASSET DEFICITS

The following funds had net asset deficits at June 30, 2008 (in thousands):

| | <u>Accumulated Deficit</u> |
|--|----------------------------|
| Enterprise Funds: | |
| Harbor/UCLA Medical Center | \$ 69,118 |
| M. L. King, Jr. Ambulatory Care Center | 64,728 |
| Internal Service Fund- | |
| Public Works | 91,811 |

The Enterprise and Internal Service Funds' deficits result primarily from the recognition of certain liabilities including accrued vacation and sick leave, OPEB obligation, workers' compensation, self-insurance and, for the enterprise funds, medical malpractice and third party payor liabilities, as required by GAAP. Deficits are expected to continue until such liabilities are retired through user charges or otherwise funded.

4. ELIMINATIONS

The Regional Park and Open Space District (RPOSD), a blended component unit, is authorized to issue assessment bonds to acquire and improve recreational land and facilities. These bonds are secured by voter-approved property tax assessments. The RPOSD executed a financing agreement with the Public Works Financing Authority, another blended component unit referred to in the basic financial statements as "Joint Powers Authorities" (JPAs). Under the terms of the agreement, the RPOSD sold \$510,185,000 of bonds in 1997 that were acquired as an investment by the JPAs. The JPAs financed this investment from proceeds of a simultaneous issuance of an equivalent amount of bonds as a public offering. The structure of the publicly offered JPA bonds was designed to match the RPOSD's bonds relative to principal and interest maturities and interest rates. This series of transactions was conducted to facilitate the issuance of RPOSD related bonds and to minimize the County's overall interest cost. Pursuant to the financing agreement with the JPAs, the RPOSD has pledged all available tax assessments necessary to ensure the timely payment of principal and interest on the bonds issued by the JPAs. The 1997 bonds were partially refunded in 2004-2005 and the remaining 1997 bonds were fully refunded in 2007-2008. The transactions between the two component units have been accounted for as follows:

Fund Financial Statements

At June 30, 2008, the governmental fund financial statements reflect an investment asset (referred to as "Other Investments") held by the JPAs of \$269,995,000 that has been recorded in the Nonmajor Governmental Funds. The governmental fund financial statements do not reflect a liability for the related bonds payable (\$269,995,000), as this obligation is not currently due. Accordingly, the value of the asset represents additional fund balance in the Nonmajor Governmental Funds.

In order to reflect the economic substance of the transaction described above, an eliminations column has been established in the governmental fund financial statements. The purpose of the column is to remove the duplication of assets, fund balances, revenues and expenditures that resulted from the consolidation of the two component units into the County's overall financial reporting structure.

COUNTY OF LOS ANGELES
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

4. ELIMINATIONS-Continued

Government-wide Financial Statements

The government-wide financial statements are designed to minimize the duplicative effects of transactions between funds. Accordingly, the effects of the transaction described above have been eliminated from the amounts presented within governmental activities (as appropriate under the accrual basis of accounting). The specific items eliminated were other investments and bonds payable (\$269,995,000) and investment earnings and interest expense (\$12,189,000 for each). Accordingly, there are no reconciling differences between the two sets of financial statements (after the effects of eliminations) for this matter.

The bonds payable of \$269,995,000 that were publicly issued are included among the liabilities presented in the Government-wide Financial Statements. Disclosures related to those outstanding bonds appear in Note 10 and are captioned "Assessment Bonds."

5. CASH AND INVESTMENTS

Investments in the County's cash and investment pool, other cash and investments, and Pension Trust Fund investments, are stated at fair value. Aggregate pooled cash and investments and other cash and investments are as follows at June 30, 2008 (in thousands):

| | Pooled Cash and Investments | Other Investments | <u>Restricted Assets</u> | | Total |
|---|--------------------------------|----------------------|--|------------------------------|----------------------|
| | | | <u>Pooled Cash and Investments</u> | <u>Other Investments</u> | |
| Governmental Funds | \$ 4,460,548 | \$ 321,420 | | | \$ 4,781,968 |
| Proprietary Funds | 348,021 | 64,113 | \$ 25,194 | \$ 137,602 | 574,930 |
| Fiduciary Funds (excluding Pension Trust Fund) | 14,546,340 | 518,565 | | | 15,064,905 |
| Pension Trust Fund | 86,438 | 41,839,690 | | | 41,926,128 |
| Component Unit | 875,166 | | | | 875,166 |
| Total | <u>\$ 20,316,513</u> | <u>\$ 42,743,788</u> | <u>\$ 25,194</u> | <u>\$ 137,602</u> | <u>\$ 63,223,097</u> |

Deposits-Custodial Credit Risk

The custodial credit risk for deposits is the risk that the County will not be able to recover deposits that are in the possession of an outside party. Deposits are exposed to custodial credit risk if they are not insured or not collateralized.

At June 30, 2008, the carrying amount of the County's deposits was \$97,696,000 and the balance per various financial institutions was \$96,817,000. County's deposits are not exposed to custodial credit risk since all its deposits are either covered by federal depository insurance or collateralized with securities held by the County or its agent in the County's name, in accordance with California Government Code Section 53652.

At June 30, 2008, the carrying amount of Pension Trust Fund deposits was \$44,087,000. Pension Trust Fund deposits are held in the Fund's custodial bank and, therefore, are not exposed to custodial credit risk since its deposits are eligible for and covered by "pass through insurance" in accordance with applicable law and FDIC rules and regulations.

COUNTY OF LOS ANGELES
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

5. CASH AND INVESTMENTS-Continued

Investments

State statutes authorize the County to invest pooled funds in certain types of investments including obligations of the United States Treasury, federal, State and local agencies, commercial paper rated A-1 by Standard Poor's Corporation or P-1 by Moody's Commercial Paper Record, medium-term corporate and deposit notes, negotiable certificates of deposit, floating rate notes, money market funds, guaranteed investment contracts, repurchase and reverse repurchase agreements, bankers' acceptances, State and local area investment funds, and mortgage pass-through securities.

The investments are managed by the County Treasurer who reports on a monthly basis to the Board of Supervisors. In addition, Treasury investment activity is subject to an annual investment policy review, compliance oversight, quarterly financial reviews, and annual financial reporting.

Investments held by the County Treasurer are stated at fair value, except for certain non-negotiable securities that are reported at cost because they are not transferable and have terms that are not affected by changes in market interest rates. The fair value of pooled investments is determined annually and is based on current market prices. The fair value of each participant's position in the pool is the same as the value of the pool shares. The method used to determine the value of participants' equity withdrawn is based on the book value of the participants' percentage participation at the date of such withdrawals.

The Pension Trust Fund is managed by LACERA. Pension Trust Fund investments are authorized by State Statutes which are referred to as the "County Employees' Retirement Law of 1937." Statutes authorize a "Prudent Expert" guideline as to form and types of investments which may be purchased. Examples of the Fund's investments are obligations of the various agencies of the federal government, corporate and private placement bonds, global bonds, domestic and global stocks, domestic and global convertible debentures and real estate. LACERA's investment policy also allows the limited use of derivatives by certain investment managers. The classes of derivatives that are permitted are futures contracts, currency forward contracts, options, and swaps.

The interest rate risk, foreign currency risk, credit risk, concentration of credit risk, and custodial credit risk related to Pension Trust Fund investments are different than the corresponding risk on investments held by the County Treasurer. Detailed deposit and investment risk disclosures are included in Note G of LACERA's Report on Audited Financial Statements for the year ended June 30, 2008.

The School Districts and the Superior Court are required by legal provisions to participate in the County's investment pool. Eighty-one percent (81%) of the Treasurer's external investment pool consists of these involuntary participants. Voluntary participants in the County's external investment pool include the Sanitation Districts, Metropolitan Transportation Authority, the South Coast Air Quality Management District and other special districts with independent governing boards. The deposits held for both involuntary and voluntary entities are included in the External Pooled Investment Trust Fund. Certain specific investments have been made by the County, as directed by external depositors. This investment activity occurs separately from the County's investment pool and is reported in the Specific Investment Trust Fund. The pool is not registered as an investment company with the Securities and Exchange Commission (SEC) nor is it an SEC Rule 2a7-like pool. California Government Code statutes and the County Board of Supervisors set forth the various investment policies that the County Treasurer must follow.

COUNTY OF LOS ANGELES
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

5. CASH AND INVESTMENTS-Continued

Investments-Continued

County pooled and other investments (excluding Pension Trust Fund other investments) at June 30, 2008 (in thousands) are as follows:

| | Fair Value |
|--|----------------------|
| U.S. Government securities | \$ 7,744,671 |
| Negotiable certificates of deposit | 4,349,618 |
| Commercial paper | 7,089,527 |
| Corporate and deposit notes | 1,314,561 |
| Municipal bonds | 5,370 |
| Los Angeles County securities | 190,404 |
| Guaranteed investment contracts | 251,437 |
| Investment in money market funds | 227,022 |
| Investment in State and local agency investment funds | 112,235 |
| 1st and 2nd mortgages | 866 |
| Total | <u>\$ 21,285,711</u> |

Pension Trust Fund investments are reported in the basic financial statements at fair value at June 30, 2008 (in thousands) and are as follows:

| | Fair Value |
|-----------------------------------|----------------------|
| Domestic and international equity | \$ 21,564,558 |
| Fixed income | 12,038,275 |
| Real estate | 3,996,568 |
| Private equity | 3,296,714 |
| Commodities | 638,575 |
| Mortgages | 260,913 |
| Total | <u>\$ 41,795,603</u> |

The Pension Trust Fund also had deposits with the Los Angeles County Treasury Pool at June 30, 2008 totaling \$86,438,000. The Pension Trust Fund portfolio contained no concentration of investments in any one organization (other than those issued or guaranteed by the U.S. Government) that represents 5% or more of the total investment portfolio.

The County has not provided nor obtained any legally binding guarantees during the year ended June 30, 2008 to support the value of shares in the Treasurer's investment pool.

Fair value fluctuates with interest rates, and increasing rates could cause fair value to decline below original cost. County management believes the liquidity in the portfolio is more than adequate to meet cash flow requirements and to preclude the County from having to sell investments below original cost for that purpose.

COUNTY OF LOS ANGELES
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

5. CASH AND INVESTMENTS-Continued

Investments-Continued

A summary of deposits and investments held by the Treasurer's Pool is as follows (in thousands):

| | <u>Fair Value</u> | <u>Principal</u> | <u>Interest Rate % Range</u> | <u>Maturity Range</u> | <u>Weighted Average Maturity (Years)</u> |
|------------------------------------|---------------------|---------------------|----------------------------------|-----------------------|--|
| U. S. Government securities | \$7,356,400 | \$7,371,943 | 2.41% - 9.25% | 7/3/08 - 5/29/13 | 3.87 |
| Negotiable certificates of deposit | 4,339,502 | 4,340,612 | 2.40% - 3.058% | 7/3/08 - 8/21/09 | 0.13 |
| Commercial paper | 7,061,349 | 7,062,687 | 2.30% - 3.00% | 7/1/08 - 9/2/08 | 0.04 |
| Corporate and deposit notes | 1,314,332 | 1,318,842 | 2.20% - 5.20% | 7/1/08 - 1/21/11 | 0.82 |
| Los Angeles County securities | 190,404 | 190,404 | 2.35% - 4.66% | 6/30/10 - 12/1/37 | 25.90 |
| Money market mutual funds | 518 | 518 | 0.25% | 7/1/08 | |
| Deposits | <u>79,202</u> | <u>79,202</u> | | | |
| | <u>\$20,341,707</u> | <u>\$20,364,208</u> | | | 1.75 |

A summary of other (non-pooled) deposits and investments, excluding the Pension Trust Fund, is as follows (in thousands):

| | <u>Fair Value</u> | <u>Principal</u> | <u>Interest Rate % Range</u> | <u>Maturity Range</u> | <u>Weighted Average Maturity (Years)</u> |
|------------------------------------|---------------------|--------------------|----------------------------------|-----------------------|--|
| Local Agency Investment Fund \$ | 112,235 | 112,238 | | | 0.5 |
| Commercial paper | 28,178 | 28,178 | 4.21% | 8/20/08 | 0.14 |
| Corporate and deposit notes | 229 | 230 | 5.33% | 8/3/09 | 1.09 |
| Mortgage trust deeds | 866 | 866 | 4.50% - 5.50% | 8/1/12 - 4/1/17 | 6.25 |
| Municipal bonds | 5,370 | 5,370 | 5.00% | 9/2/21 | 13.15 |
| Negotiable certificates of deposit | 10,116 | 10,000 | 5.05% | 3/16/09 | 0.71 |
| Guaranteed investment contracts | 251,437 | 251,437 | 4.65% - 4.87% | 1/6/09 - 3/15/10 | 1.42 |
| U.S. agency securities | 282,170 | 280,424 | 3.63% - 5.59% | 7/18/08 - 6/10/13 | 1.03 |
| U.S. treasury bonds | 430 | 315 | 7.25% - 11.25% | 2/15/15 - 5/15/16 | 6.96 |
| U.S. treasury notes | 61,744 | 60,507 | 3.25% - 4.88% | 8/15/08 - 7/31/11 | 0.79 |
| U.S. treasury bills | 43,927 | 43,577 | 2.05% - 2.09% | 8/14/08 - 12/11/08 | 0.29 |
| Money market mutual funds | 226,504 | 226,504 | 0.35% | 7/1/08 | |
| Deposits | <u>18,494</u> | <u>18,494</u> | | | |
| | <u>\$ 1,041,700</u> | <u>\$1,038,140</u> | | | |

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The government code limits most investment maturities to five years, with the exception of commercial paper and bankers' acceptances which are limited to 270 days and 180 days, respectively. The County Treasurer manages equity and mitigates exposure to declines in fair value by generally investing in short-term investments with maturities of six months or less and by holding all investments to maturity. The County's investment guidelines limit the weighted average maturity of its portfolios to less than 18 months. Of the Pooled Cash and Investments and Other Investments at June 30, 2008, more than 58% have a maturity of six months or less. Of the remainder, less than 40% have a maturity of more than one year.

COUNTY OF LOS ANGELES
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

5. CASH AND INVESTMENTS-Continued

Interest Rate Risk-Continued

As of June 30, 2008, variable-rate notes comprised 5.61% of the Treasury Pool and Other Investment portfolios. The notes are tied to one-month and three-month London Interbank Offered Rate (LIBOR) with monthly and quarterly coupon resets. The fair value of variable-rate coupon resets back to the market rate on a periodic basis. Effectively, at each reset date, a variable-rate investment reprices back to par value, eliminating interest rate risk at each periodic reset.

Custodial Credit Risk

Custodial credit risk for investments is the risk that the County will not be able to recover the value of investment securities that are in the possession of an outside party. All securities owned by the County are deposited in trust for safekeeping with a custodial bank different from the County's primary bank, except for Bond Anticipation Notes, certain long-term debt proceeds issued by Los Angeles County entities, investment in the State's Local Area Investment Fund, and mortgage trust deeds which are held in the County Treasurer's vault. Securities are not held in broker accounts. At June 30, 2008, the County's external investment pools and specific investments did not have any securities exposed to custodial credit risk and there was no securities lending.

Credit Risk and Concentration of Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The County Treasurer mitigates these risks by holding a diversified portfolio of high quality investments.

The County's investment policy establishes minimum acceptable credit ratings for investments from any two nationally recognized statistical rating organizations. For an issuer of short-term debt, the rating must be no less than A-1 (S&P) or P-1 (Moody's) while an issuer of long-term debt shall be rated no less than an "A." At June 30, 2008, a portion of the County's other investments was invested in the State of California's Local Agency Investment Fund which is unrated as to credit quality.

The County's Investment Policy, approved annually by the Board of Supervisors, limits the maximum total par value for each permissible security type (e.g., commercial paper and certificates of deposit) to a certain percentage of the investment pool. Exceptions to this are obligations of the United States government and United States government agencies or government-sponsored enterprises, which do not have limits. Further, the County restricts investments in any one issuer based on the issuer's Nationally Recognized Statistical Rating Organization (NRSRO) ratings. For bankers acceptances, certificates of deposit, corporate notes and floating rate notes, the highest issuer limit was \$575 million, approximately 2.7% of the investment pool's daily investment balance. For commercial paper, the highest issuer limit was \$750 million, or 3.5% of the investment pool's daily investment balance.

The following is a summary of the credit quality distribution and concentration of credit risk by investment type as a percentage of each portfolio's fair value at June 30, 2008:

| | <u>S & P</u> | <u>Moody's</u> | <u>% of Portfolio</u> |
|------------------------------------|------------------|----------------|-----------------------|
| Pooled Cash and Investments: | | | |
| Commercial paper | A-1 | P-1 | 34.85% |
| Corporate and deposit notes | A-1+ | P-1 | 6.49% |
| Los Angeles County securities | A | A2 | 0.94% |
| Negotiable certificates of deposit | A-1 | P-1 | 21.41% |
| U.S. Government securities | AAA | Aaa | 36.31% |
| Money market mutual funds | AAAm | Aaa | 0.00% |
| | | | <u>100.00%</u> |

COUNTY OF LOS ANGELES
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

5. CASH AND INVESTMENTS-Continued

Credit Risk and Concentration of Credit Risk-Continued

Other Investments:

| | | | |
|------------------------------------|-----------|-----------|----------------|
| Local Agency Investment Fund | Not rated | Not rated | 10.97% |
| Commercial paper | A-1+ | P-1 | 2.75% |
| Corporate and deposit notes | A-1+ | P-1 | 0.02% |
| Mortgage trust deeds | AA | Aa3 | 0.08% |
| Municipal bonds | AA | Aa3 | 0.53% |
| Negotiable certificates of deposit | A-1+ | P-1 | 0.99% |
| Guaranteed investment contracts | Not rated | Not rated | 24.57% |
| U.S. agency securities | AAA | Aaa | 27.58% |
| U.S. treasury securities | AAA | Aaa | 10.37% |
| Money market mutual funds | AAAm | Aaa | 22.14% |
| | | | <u>100.00%</u> |

The earned yield, which includes net gains on investments sold, on all investments held by the Treasurer's Pool for the fiscal year ended June 30, 2008 was 4.62%.

A separate financial report is not issued for the external investment pool. The following represents a condensed statement of net assets and changes in net assets for the Treasurer's Pool as of June 30, 2008 (in thousands):

Statement of Net Assets

| | |
|--|----------------------|
| Net assets held in trust for all pool participants | <u>\$ 20,341,707</u> |
| Equity of internal pool participants | \$ 6,940,990 |
| Equity of external pool participants | <u>13,400,717</u> |
| Total equity | <u>\$ 20,341,707</u> |

Statement of Changes in Net Assets

| | |
|--|----------------------|
| Net assets at July 1, 2007 | \$ 18,010,933 |
| Net change in investments by pool participants | <u>2,330,774</u> |
| Net assets at June 30, 2008 | <u>\$ 20,341,707</u> |

The unrealized loss on investments held in the Treasurer's Pool was \$22,501,000 as of June 30, 2008. This amount takes into account all changes in fair value (including purchases, sales and redemptions) that occurred during the year.

Reverse Repurchase Agreements

The California Government Code permits the County Treasurer to enter into reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The fair value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing the broker-dealer a margin against a decline in the fair value of the securities. If the broker-dealer defaults on the obligation to resell these securities to the County or provide securities or cash of equal value, the County would suffer an economic loss equal to the difference between the fair value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest.

The County's investment guidelines limit the maximum par value of reverse repurchase agreements to \$500,000,000 and proceeds from reverse repurchase agreements may only be reinvested in instruments with maturities at or before the maturity of the reverse repurchase agreement. During the fiscal year, the County did not enter into any reverse repurchase agreements.

COUNTY OF LOS ANGELES
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

5. CASH AND INVESTMENTS-Continued

Derivatives

The California Government Code permits the County Treasurer to purchase floating rate notes, that is, any instruments that have a coupon interest rate that is adjusted periodically due to changes in a base or benchmark rate. The County's investment guidelines limit the amount of floating rate notes to 10% of the Los Angeles County Treasury Pool portfolio and prohibit the purchase of inverse floating rate notes and hybrid or complex structured investments. As of June 30, 2008, there were approximately \$1,137,950,000 in floating rate notes.

LACERA utilizes forward currency contracts to control currency exposure and facilitate the settlement of international security purchase and sale transactions. Included in net investment income are gains and losses from foreign currency transactions. At June 30, 2008, forward currency contracts receivable and payable totaled \$146,108,000 and \$146,262,000, respectively.

Securities Lending Transactions

LACERA, as the administering agency for the Pension Trust Fund, is authorized to participate in a securities lending program under policies adopted by the LACERA Board of Investments. This program is an investment management activity that mirrors the fundamentals of a loan transaction in which a security is used as collateral. Securities are lent to brokers and dealers (borrowers) and LACERA receives cash as collateral. LACERA pays the borrower interest on the collateral received and invests the collateral with the goal of earning a higher yield than the interest rate paid to the borrower.

LACERA's program is managed by one principal borrower and two agent lenders. Under exclusive borrowing and lending arrangements, securities on loan must be collateralized with a fair value of 102% for U.S. securities, and 105% for international securities, of the borrowed securities. Collateral is marked to market daily. Cash collateral is invested by the agent lenders in short-term, liquid instruments.

Under the terms of the lending agreements, the two agent lenders have agreed to hold LACERA harmless for borrower default from the loss of securities or income, or from any litigation arising from these loans. The principal borrower's agreement entitles LACERA to terminate all loans upon the occurrence of default and purchase a like amount of "replacement securities." Either LACERA or the borrower can terminate all loans on securities on demand.

At year end, LACERA had no credit risk exposure to borrowers because the collateral exceeded the amount borrowed. As of June 30, 2008, there were no violations of legal or contractual provisions. LACERA had no losses on securities lending transactions resulting from the default of a borrower for the year ended June 30, 2008. Securities on loan at year-end, which include stocks and government and corporate bonds, are maintained in LACERA's financial records. A corresponding liability is recorded for the fair value of the invested cash collateral received.

As of June 30, 2008, the fair value of securities on loan was \$2.25 billion. The value of the cash collateral received for those securities was \$2.32 billion and there was no non-cash collateral. Securities lending assets (Other Investments) and liabilities (Other Payables) of \$2.3 billion are recorded in the Pension Trust Fund. Pension Trust Fund income, net of expenses, from securities lending was \$17.6 million for the year ended June 30, 2008.

For the year ended June 30, 2008, the Los Angeles County Treasury Pool did not enter into any securities lending transactions.

COUNTY OF LOS ANGELES
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

5. CASH AND INVESTMENTS-Continued

Summary of Deposits and Investments

Following is a summary of the carrying amount of deposits and investments at June 30, 2008 (in thousands):

| | <u>County</u> | <u>Pension Trust Fund</u> | <u>Total</u> |
|-------------|----------------------|-------------------------------|----------------------|
| Deposits | \$ 97,696 | \$ 44,087 | \$ 141,783 |
| Investments | <u>21,285,711</u> | <u>41,795,603</u> | <u>63,081,341</u> |
| | <u>\$ 21,383,407</u> | <u>\$ 41,839,690</u> | <u>\$ 63,223,097</u> |

6. CAPITAL ASSETS

Capital assets activity of the primary government for the year ended June 30, 2008 is as follows (in thousands):

| | <u>Balance July 1, 2007</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance June 30, 2008</u> |
|---|---------------------------------|------------------|------------------|----------------------------------|
| <u>Governmental Activities</u> | | | | |
| Capital assets, not depreciated: | | | | |
| Land | \$ 2,339,457 | 12,487 | (1,246) | \$ 2,350,698 |
| Easements | 4,655,380 | 9,187 | (5) | 4,664,562 |
| Construction in progress-buildings and improvements | 224,014 | 88,856 | (57,603) | 255,267 |
| Construction in progress-infrastructure | <u>214,828</u> | <u>165,838</u> | <u>(56,825)</u> | <u>323,841</u> |
| Subtotal | <u>7,433,679</u> | <u>276,368</u> | <u>(115,679)</u> | <u>7,594,368</u> |
| Capital assets, depreciated: | | | | |
| Buildings and improvements | 3,963,481 | 101,640 | (19,791) | 4,045,330 |
| Equipment | 978,264 | 151,695 | (37,086) | 1,092,873 |
| Infrastructure | <u>6,958,759</u> | <u>93,699</u> | <u>(4)</u> | <u>7,052,454</u> |
| Subtotal | <u>11,900,504</u> | <u>347,034</u> | <u>(56,881)</u> | <u>12,190,657</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (1,328,529) | (72,424) | 16,492 | (1,384,461) |
| Equipment | (657,160) | (123,267) | 36,306 | (744,121) |
| Infrastructure | <u>(2,418,519)</u> | <u>(163,360)</u> | <u>1</u> | <u>(2,581,878)</u> |
| Subtotal | <u>(4,404,208)</u> | <u>(359,051)</u> | <u>52,799</u> | <u>(4,710,460)</u> |
| Total capital assets, being depreciated, net | <u>7,496,296</u> | <u>(12,017)</u> | <u>(4,082)</u> | <u>7,480,197</u> |
| Governmental activities capital assets, net | <u>\$14,929,975</u> | <u>264,351</u> | <u>(119,761)</u> | <u>15,074,565</u> |
| <u>Business-type Activities</u> | | | | |
| Capital assets, not depreciated: | | | | |
| Land | \$ 216,328 | | (55) | \$ 216,273 |
| Easements | 29,122 | 1,413 | | 30,535 |
| Construction in progress-buildings and improvements | 857,957 | 100,818 | (140) | 958,635 |
| Construction in progress-infrastructure | <u>14,903</u> | <u>16,289</u> | <u>(352)</u> | <u>30,840</u> |
| Subtotal | <u>1,118,310</u> | <u>118,520</u> | <u>(547)</u> | <u>1,236,283</u> |

COUNTY OF LOS ANGELES
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

6. CAPITAL ASSETS-Continued

Business-type Activities-Continued

| | <u>Balance July 1, 2007</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance June 30, 2008</u> |
|--|---------------------------------|------------------|--------------------|----------------------------------|
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | 1,071,044 | 440 | (833) | 1,070,651 |
| Equipment | 223,024 | 68,528 | (17,618) | 273,934 |
| Infrastructure | <u>1,135,018</u> | <u>334</u> | <u>(609)</u> | <u>1,134,743</u> |
| Subtotal | <u>2,429,086</u> | <u>69,302</u> | <u>(19,060)</u> | <u>2,479,328</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (661,880) | (10,999) | 724 | (672,155) |
| Equipment | (173,931) | (27,074) | 16,089 | (184,916) |
| Infrastructure | <u>(383,469)</u> | <u>(24,373)</u> | <u>87</u> | <u>(407,755)</u> |
| Subtotal | <u>(1,219,280)</u> | <u>(62,446)</u> | <u>16,900</u> | <u>(1,264,826)</u> |
| Total capital assets, being depreciated, net | <u>1,209,806</u> | <u>6,856</u> | <u>(2,160)</u> | <u>1,214,502</u> |
| Business-type activities capital assets, net | <u>\$ 2,328,116</u> | <u>125,376</u> | <u>(2,707)</u> | <u>\$ 2,450,785</u> |
| Total Capital Assets, net | <u>\$17,258,091</u> | <u>\$389,727</u> | <u>\$(122,468)</u> | <u>\$17,525,350</u> |

Depreciation Expense

Depreciation expense was charged to functions/programs of the primary government as follows (in thousands):

| | |
|--|-------------------|
| Governmental activities: | |
| General government | \$ 32,064 |
| Public protection | 177,575 |
| Public ways and facilities | 84,677 |
| Health and sanitation | 14,700 |
| Public assistance | 7,616 |
| Education | 1,839 |
| Recreation and cultural services | 19,707 |
| Capital assets held by the County's internal service funds are charged to the various functions based on their usage of the assets | <u>20,873</u> |
| Total depreciation expense, governmental activities | <u>\$ 359,051</u> |
| Business-type activities: | |
| Hospitals | \$ 27,339 |
| Aviation | 1,680 |
| Waterworks | 25,379 |
| Community Development Commission | 1,125 |
| Capital assets held by the County's internal service funds are charged to the various functions based on their usage of the assets | <u>6,923</u> |
| Total depreciation expense, business-type activities | <u>\$ 62,446</u> |

COUNTY OF LOS ANGELES
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

6. CAPITAL ASSETS-Continued

Discretely Presented Component Unit

Capital assets activity for the First 5 LA component unit for the year ended June 30, 2008 was as follows (in thousands):

| | Balance July 1, 2007 | Additions | Deletions | Balance June 30, 2008 |
|---|-------------------------|---------------|-----------|--------------------------|
| Capital assets, not depreciated- | | | | |
| Land | \$ 2,039 | \$ | \$ | \$ 2,039 |
| Capital assets, depreciated: | | | | |
| Buildings and improvements | 16,874 | 416 | | 17,290 |
| Equipment | 1,213 | 456 | | 1,669 |
| Subtotal | <u>18,087</u> | <u>872</u> | <u></u> | <u>18,959</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (5,876) | (239) | | (6,115) |
| Equipment | (698) | (337) | | (1,035) |
| Subtotal | <u>(6,574)</u> | <u>(576)</u> | <u></u> | <u>(7,150)</u> |
| Total capital assets being depreciated, net | <u>11,513</u> | <u>296</u> | <u></u> | <u>11,809</u> |
| Component unit capital assets, net | <u>\$ 13,552</u> | <u>\$ 296</u> | <u>\$</u> | <u>\$ 13,848</u> |

7. PENSION PLAN

Plan Description

The County pension plan is administered by the Los Angeles County Employees Retirement Association (LACERA) which was established under the County Employees' Retirement Law of 1937. It provides benefits to employees of the County and the following additional entities that are not part of the County's reporting entity:

Little Lake Cemetery District
Local Agency Formation Commission
Los Angeles County Office of Education
South Coast Air Quality Management District

New employees of the latter two agencies are not eligible for LACERA benefits.

LACERA is technically a cost sharing, multi-employer defined benefit plan. However, because the non-County entities are immaterial to its operations the disclosures herein are made as if LACERA was a single employer defined benefit plan. LACERA provides retirement, disability, death benefits and cost of living adjustments to eligible members. Benefits are authorized in accordance with the California Constitution, the County Employees' Retirement Law, the bylaws, procedures and policies adopted by LACERA's Boards of Retirement and Investments and Board of Supervisors' resolutions.

LACERA issues a stand-alone financial report which is available at its offices located at Gateway Plaza, 300 N. Lake Avenue, Pasadena, California 91101-4199.

COUNTY OF LOS ANGELES
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

7. PENSION PLAN-Continued

Funding Policy

LACERA has seven benefit tiers known as A, B, C, D and E, and Safety A and B. All tiers except E are employee contributory. Tier E is employee non-contributory. New general employees are eligible for tiers D or E at their discretion. New safety members are eligible for only Safety B. Rates for the tiers are established in accordance with State law by LACERA's Boards of Retirement and Investments and the County Board of Supervisors.

The following employer rates were in effect for 2007-2008:

| | <u>A</u> | <u>B</u> | <u>C</u> | <u>D</u> | <u>E</u> |
|-----------------|----------|----------|----------|----------|----------|
| General Members | 18.14% | 11.44% | 11.14% | 11.33% | 11.29% |
| Safety Members | 26.89% | 20.93% | | | |

The rates were determined by the actuarial valuation performed as of June 30, 2006 and are the same as those used to calculate the annual required contribution (ARC).

Employee rates vary by the option and employee entry age from 5% to 15% of their annual covered salary.

During 2007-2008, the County contributed the full amount of the ARC.

Annual Pension Cost and Net Pension Obligation

The County's annual pension cost and net pension obligation for 2007-2008, computed in accordance with GASB 27, as amended by GASB 50, were as follows (in thousands):

| | |
|---|---------------------|
| Annual required contribution (ARC): | |
| County | \$ 827,789 |
| Non County entities | <u>122</u> |
| Total ARC | 827,911 |
| Interest on net pension obligation (asset) | (13,674) |
| Adjustment to ARC | <u>44,110</u> |
| Annual pension cost | <u>858,347</u> |
| Contributions made: | |
| County | 827,789 |
| Non County entities | <u>841</u> |
| Total contributions | 828,630 |
| Cost in excess of contributions | 29,717 |
| Net pension obligation (asset), July 1, 2007 | <u>(176,440)</u> |
| Net pension obligation (asset), June 30, 2008 | <u>\$ (146,723)</u> |

| <u>Fiscal Year Ended</u> | <u>Trend Information (in thousands)</u> | | <u>Net Pension Obligation (Asset)</u> |
|------------------------------|---|--|---|
| | <u>Annual Pension Cost (APC)</u> | <u>Percentage of APC Contributed</u> | |
| June 30, 2006 | \$ 822,468 | 82.3% | \$ (267,485) |
| June 30, 2007 | 842,896 | 89.2% | (176,440) |
| June 30, 2008 | 858,347 | 96.5% | (146,723) |

COUNTY OF LOS ANGELES
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

7. PENSION PLAN-Continued

Funded Status and Funding Progress

As of June 30, 2007, the most recent actuarial valuation date, the funded ratio was determined to be 93.8%. The actuarial value of assets was \$37 billion, and the actuarial accrued liability (AAL) was \$39.5 billion, resulting in an unfunded AAL of \$2.5 billion. The covered payroll was \$5.6 billion and the ratio of the unfunded AAL to the covered payroll was 43.8%.

The schedule of funding process, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

The annual required contribution was calculated using the entry age normal method. The most recent actuarial valuation also assumed an annual investment rate of return of 7.75%, and projected salary increases ranging from 4.26% to 10.24%, with both assumptions including a 3.5% inflation factor. Additionally, the valuation assumed post-retirement benefit increases of between 2% and 3%, in accordance with the provisions of the specific benefit options. The actuarial value of assets was determined utilizing a three-year smoothed method based on the difference between the expected market value and the actual market value of assets as of the valuation date.

The County contribution rate (effective for the 2007-2008 fiscal year) was equal to 2.24% of payroll (using the level percentage of payroll amortization method, over a 30-year open period) plus the normal cost rate of 10.16%, for a total rate of 12.40% of payroll.

LACERA uses the accrual basis of accounting. Member and employer contributions are recognized in the period in which the contributions are due, and benefits and refunds are recognized when payable in accordance with the terms of each plan.

Because it is negative, the net pension obligation represents an asset. Accordingly, a pension asset, "Net Pension Obligation," has been recognized in the government-wide financial statements and in the proprietary funds financial statements.

Pension Obligation Bonds and Certificates

During 1994-95 the County sold approximately \$1,965,230,000 in par value pension bonds and utilized the proceeds to fund LACERA. A portion of the bonds (\$1,365,230,000) were fixed rate. The remaining \$600,000,000 were variable rate bonds, which were restructured into fixed rate bonds during 1995-96. In conjunction with the 1994-95 issuance of the pension bonds, the County entered into debt service advance agreements. Under the agreements, the County received \$79,022,000 in exchange for future interest that the County would have earned on deposits with the trustee between the time the County is required to pay debt service payments to the trustee and the time the trustee pays the bondholders. These proceeds have been recorded as unearned revenue on the government-wide statements and deferred revenue on the fund-based statements, and are being amortized over the life of the bonds on the basis of annual debt service requirements. As of June 30, 2008, the unamortized balance was \$9,604,000.

COUNTY OF LOS ANGELES
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

7. PENSION PLAN-Continued

Pension Obligation Bonds and Certificates-Continued

For the year ended June 30, 2008, the combined principal and interest payments for both the bonds and certificates were \$295,292,000 and \$86,323,000, respectively. For governmental activities, the total debt service was \$283,213,000. For business-type activities, the total debt service was \$ 98,402,000. At June 30, 2008, the total outstanding principal on both bonds and certificates was \$900,824,000, including accretions of \$548,569,000 on deep discount bonds. The bonds have interest rates varying from 7.07% to 9.19%.

The following is a summary of future funding requirements for all outstanding pension bonds and certificates (in thousands):

| Year Ending June 30 | <u>Governmental Activities</u> | | <u>Business-type Activities</u> | |
|--------------------------------|--------------------------------|------------------|---------------------------------|------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> |
| 2009 | \$ 86,771 | \$151,001 | \$ 29,793 | \$ 52,773 |
| 2010 | 86,851 | 178,557 | 30,354 | 62,403 |
| 2011 | <u>87,801</u> | <u>187,956</u> | <u>30,685</u> | <u>65,688</u> |
| Total | <u>261,423</u> | <u>\$517,514</u> | <u>90,832</u> | <u>\$180,864</u> |
| Accretions | <u>407,116</u> | | <u>141,453</u> | |
| Total Pension Bonds Payable | <u>\$ 668,539</u> | | <u>\$ 232,285</u> | |

8. OTHER POSTEMPLOYMENT BENEFITS

Plan Description

As discussed in Note 2, the County implemented GASB Statement No. 45 for the fiscal year ended June 30, 2008. GASB 45 establishes financial reporting standards designed to measure, recognize, and display OPEB costs.

LACERA administers a cost sharing, multi-employer defined benefit Other Postemployment Benefit (OPEB) plan on behalf of the County. As indicated in Note 7-Pension Plan, because the non-County entities are immaterial to its operations, the disclosures herein are made as if LACERA was a single employer defined benefit plan.

In April 1982, the County of Los Angeles adopted an ordinance pursuant to Government Code Section 31691 which provided for a health insurance program and death benefits for retired employees and their dependents. In 1994, the County amended the agreements to continue to support LACERA's retiree insurance benefits program regardless of the status of active member insurance.

LACERA issues a stand-alone financial report that includes the required information for the OPEB plan. The report is available at its offices located at Gateway Plaza, 300 North Lake Avenue, Pasadena, California 91101-4199.

COUNTY OF LOS ANGELES
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

8. OTHER POSTEMPLOYMENT BENEFITS-Continued

Funding Policy

In 1996-1997, the County entered into an agreement with LACERA to establish an Internal Revenue Code Section 401(h) Account to use in connection with the County's payment of retiree health care costs. Section 401(h) permits the establishment of a separate account (a "401(h) Account") to fund retiree healthcare benefits, and limits contributions to the 401(h) Account to 25% of aggregate contributions to LACERA. This agreement also permits the use of LACERA excess earnings reserves to reduce the County's funding requirements for these benefits.

Health care benefits earned by County employees are dependent on the number of completed years of retirement service credited to the retiree by LACERA upon retirement; it does not include reciprocal service in another retirement system. The benefits earned by County employees range from 40% of the benchmark plan cost with ten completed years of service to 100% of the benchmark plan cost with 25 or more completed years of service. In general, each completed year of service after ten years reduces the member's cost by 4%. Service includes all service on which the member's retirement allowance was based.

Health care benefits include medical, dental, vision, Medicare Part B reimbursement and death benefits. In addition to these retiree health care benefits, the County provides long-term disability benefits to employees, and these benefits have been determined to fall within the definition of OPEB, per GASB 45. These long-term disability benefits provide for income replacement if an employee is unable to work because of illness or injury. Specific coverage depends on the employee's employment classification, chosen plan and, in some instances years of service.

A trust fund has not been established for the retiree health benefits or the long-term disability benefits. The County's contribution is on a pay-as-you-go basis. During the 2007-2008 fiscal year, the County made payments to LACERA totaling \$352 million for retiree health care benefits. Included in this amount was \$9 million paid through the 401(h) Account, \$29.6 million for Medicare Part B reimbursements and \$6.1 million in death benefits. Additionally, \$34.9 million was paid by member participants. The County also made payments of \$29 million for long-term disability benefits.

Annual OPEB Cost and Net OPEB Obligation (including Long-Term Disability)

The County's Annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The following table shows the ARC, the amount actually contributed and the net OPEB Obligation (in thousands):

| | |
|--|----------------------------|
| Annual OPEB required contribution (ARC) | <u>\$ 1,615,272</u> |
| Annual OPEB cost (expense) | 1,615,272 |
| Less: Contributions made (pay-as-you-go) | <u>(381,124)</u> |
| Cost in excess of contributions | 1,234,148 |
| Net OPEB obligation, July 1, 2007 | <u>0</u> |
| Net OPEB obligation, June 30, 2008 | <u><u>\$ 1,234,148</u></u> |

COUNTY OF LOS ANGELES
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

8. OTHER POSTEMPLOYMENT BENEFITS-Continued

Annual OPEB Cost and Net OPEB Obligation (including Long-Term Disability)-Continued

| Fiscal Year Ended | Trend Information (in thousands) | | Net OPEB Obligation |
|----------------------|----------------------------------|----------------------------------|------------------------|
| | Annual OPEB Cost (ARC) | Percentage of ARC Contributed | |
| June 30, 2008 | \$ 1,615,272 | 23.6% | \$ 1,234,148 |

Funded Status and Funding Progress

As of July 1, 2006, the most recent actuarial valuation date for OPEB health care benefits, the funded ratio was 0%. The actuarial value of assets was zero. The actuarial accrued liability (AAL) was \$20.3 billion, resulting in an unfunded AAL of \$20.3 billion. The covered payroll was \$5.2 billion and the ratio of the unfunded AAL to the covered payroll was 389.98%.

As of July 1, 2007, the most recent actuarial valuation date for OPEB long-term disability benefits, the funded ratio was 0%. The actuarial value of assets was zero. The actuarial accrued liability (AAL) was \$929.3 million, resulting in an unfunded AAL of \$929.3 million. The covered payroll was \$5.6 billion and the ratio of the unfunded AAL to the covered payroll was 16.55%.

The schedules of funding progress are presented as RSI following the notes to the financial statements. These RSI schedules are to present multi-year trend information. However, there is no data available prior to the above indicated first valuations.

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continued revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point.

The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

Actuarial calculations reflect a long-term perspective. Actuarial methods and assumptions used include techniques designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

While the actuarial valuations for OPEB health care and OPEB long-term disability benefits were prepared by two different firms, they both used the same methods and assumptions. The projected unit credit cost method was used. Both valuations assumed an annual investment rate of return of 5%, an inflation rate of 3.5% per annum and projected salary increases of 4.01% to 9.98%. The total expected increase in salary is the increase due to promotions and longevity, adjusted for an assumed 3.75% per annum increase in the general wage level of the membership. An actuarial asset valuation was not performed. Finally, the firms used the level percentage of projected payroll over a rolling (open) 30 year amortization period.

COUNTY OF LOS ANGELES
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

8. OTHER POSTEMPLOYMENT BENEFITS-Continued

Actuarial Methods and Assumptions-Continued

The healthcare cost trend initial and ultimate rates are as follows:

| | | <u>Initial Year</u> | <u>Ultimate</u> |
|------------------------------|-------------------------------|---------------------|-----------------|
| Healthcare Cost Trend | | | |
| Rates | LACERA Medical Under 65 | 6.50% | 5.00% |
| (Initial and Ultimate Rates) | LACERA Medical Over 65 | 15.00% | 5.25% |
| | Firefighters Local 1014 (all) | 11.50% | 5.00% |
| | Part B Premiums | 11.50% | 5.00% |
| | Dental (all) | 7.20% | 3.00% |

9. LEASES

Operating Leases

The following is a schedule of future minimum rental payments required under operating leases entered into by the County that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2008 (in thousands):

| <u>Year Ending June 30</u> | <u>Governmental Activities</u> |
|----------------------------|------------------------------------|
| 2009 | \$ 79,052 |
| 2010 | 57,451 |
| 2011 | 42,423 |
| 2012 | 30,811 |
| 2013 | 23,721 |
| 2014-2018 | 46,350 |
| 2019-2023 | 8,602 |
| 2024-2028 | 6 |
| Total | <u>\$ 288,416</u> |

Rent expenditures related to operating leases were \$ 80,944,000 for the year ended June 30, 2008.

Capital Leases

The following is a schedule of future minimum lease payments under capital leases together with the present value of future minimum lease payments as of June 30, 2008 (in thousands):

| <u>Year Ending June 30</u> | <u>Governmental Activities</u> | <u>Business-type Activities</u> |
|----------------------------|------------------------------------|-------------------------------------|
| 2009 | \$ 32,785 | \$ 145 |
| 2010 | 27,736 | 147 |
| 2011 | 21,606 | |
| 2012 | 18,330 | |
| 2013 | 18,235 | |
| 2014-2018 | 74,614 | |
| 2019-2023 | 68,940 | |
| 2024-2028 | 69,190 | |

COUNTY OF LOS ANGELES
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

9. LEASES-Continued

Capital Leases-Continued

| <u>Year Ending June 30</u> | <u>Governmental Activities</u> | <u>Business-type Activities</u> |
|---|------------------------------------|-------------------------------------|
| 2029-2033 | 58,501 | |
| 2034-2038 | 32,239 | |
| Total | <u>\$ 422,176</u> | <u>\$ 292</u> |
| Less: Amount representing interest | <u>248,807</u> | <u>19</u> |
| Present value of future minimum lease payments | <u>\$ 173,369</u> | <u>\$ 273</u> |

The following is a schedule of property under capital leases by major classes at June 30, 2008 (in thousands):

| | <u>Governmental Activities</u> | <u>Business-type Activities</u> |
|----------------------------|------------------------------------|-------------------------------------|
| Land | \$ 17,279 | \$ |
| Buildings and improvements | 191,263 | 1,200 |
| Equipment | 71,207 | 393 |
| Accumulated depreciation | (80,147) | (958) |
| Total | <u>\$ 199,602</u> | <u>\$ 635</u> |

Future rent revenues to be received from noncancelable subleases are \$1,345,000 as of June 30, 2008.

Leases of County-Owned Property

The County has entered into operating leases relative to the Marina del Rey Project area, various County golf courses and regional parks, and Asset Development Projects. Substantially all of the Marina's land and harbor facilities are leased to others under agreements classified as operating leases. Certain golf courses and regional parks are leased under agreements which provide for activities such as golf course management and clubhouse operations, food and beverage concessions, and recreational vehicle camping. The Asset Development Projects are ground leases and development agreements entered into by the County for private sector development of commercial, industrial, residential, and cultural uses on vacant or underutilized County owned property. The Asset Development leases cover remaining periods ranging generally from 1 to 89 years and are accounted for in the General Fund. The lease terms for the golf courses and regional parks cover remaining periods ranging from 1 to 27 years and are also accounted for in the General Fund. The Marina del Rey leases cover remaining periods ranging from 1 to 59 years and are accounted for in the General Fund.

COUNTY OF LOS ANGELES
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

9. LEASES-Continued

Leases of County-Owned Property-Continued

The land carrying value of the Asset Development Project ground leases and the Marina del Rey Project area leases is \$429,493,000. The carrying value of the capital assets associated with the golf course and regional park operating leases is not determinable.

The following is a schedule of future minimum rental receipts on noncancelable leases as of June 30, 2008 (in thousands):

| <u>Year Ending June 30</u> | <u>Governmental Activities</u> |
|----------------------------|------------------------------------|
| 2009 | \$ 38,233 |
| 2010 | 38,614 |
| 2011 | 38,585 |
| 2012 | 37,842 |
| 2013 | 35,770 |
| Thereafter | <u>1,294,335</u> |
| Total | <u>\$ 1,483,379</u> |

The following is a schedule of rental income for these operating leases for the year ended June 30, 2008 (in thousands):

| | <u>Governmental Activities</u> |
|--------------------|------------------------------------|
| Minimum rentals | \$ 38,437 |
| Contingent rentals | <u>23,542</u> |
| Total | <u>\$ 61,979</u> |

The minimum rental income is a fixed amount based on the lease agreements. The contingent rental income is a percentage of revenue above a certain base for the Asset Development leases or a calculated percentage of the gross revenue less the minimum rent payment for the other leases.

10. LONG-TERM OBLIGATIONS

Long-term obligations of the County consist of bonds, notes and loans payable, pension bonds payable (see Note 7), OPEB (see Note 8), capital lease obligations (see Note 9) and other liabilities which are payable from the General, Special Revenue, Debt Service, Enterprise and Internal Service Funds.

COUNTY OF LOS ANGELES
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

10. LONG-TERM OBLIGATIONS-Continued

A summary of bonds, notes and loans payable recorded within governmental activities follows (in thousands):

| | <u>Original Par Amount of Debt</u> | <u>Balance June 30, 2008</u> |
|---|--|----------------------------------|
| Los Angeles County Flood Control District Refunding Bonds 2.5% to 5.0% | \$ 143,195 | \$ 81,035 |
| Los Angeles County Flood Control District Revenue Bonds 4.0% to 4.12% | 20,540 | 18,175 |
| Regional Park and Open Space District Bonds (issued by Public Works Financing Authority), 3.0% to 5.25% | 275,535 | 289,156 |
| Community Development Commission (CDC) Notes Payable, 2.31% to 7.91% | 69,295 | 45,856 |
| NPC Bond Anticipation Notes, 2.35% to 4.658% | 9,450 | 9,450 |
| NPC Bonds 3.0% to 4.0% | 34,042 | 19,769 |
| Marina del Rey Loans Payable, 4.5% to 4.7% | 23,500 | 20,705 |
| Public Buildings Certificates of Participation, 2.8% to 7.75% | 944,106 | 757,055 |
| Los Angeles County Securitization Corporation Tobacco Settlement Asset-Backed Bonds 5.25% to 6.65% | 319,827 | 363,476 |
| Total | <u>\$ 1,839,490</u> | <u>\$ 1,604,677</u> |

A summary of bonds and notes payable recorded within business-type activities follows (in thousands):

| | <u>Original Par Amount of Debt</u> | <u>Balance June 30, 2008</u> |
|---|--|----------------------------------|
| NPC Bond Anticipation Notes, 2.35% to 4.658% | \$ 5,550 | \$ 5,550 |
| NPC Bonds 3.0% to 4.0% | 19,993 | 11,611 |
| Public Buildings Certificates of Participation, 2.8% to 7.0% | 140,064 | 110,507 |
| Commercial Paper, 1.35% to 1.9% | 205,500 | 205,500 |
| Waterworks District Bonds, 3.3% to 8.0% | 280 | 104 |
| Community Development Commission Mortgage Notes, 0.00% to 7.3% | 11,395 | 4,504 |
| Total | <u>\$ 382,782</u> | <u>\$ 337,776</u> |

COUNTY OF LOS ANGELES
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

10. LONG-TERM OBLIGATIONS-Continued

General Obligation Bonds

The Flood Control District issued general obligation bonds to finance flood control projects. These bonds fully matured in November, 2007.

Waterworks Districts issued general obligation bonds to finance water system projects. Revenue for retirement of such bonds is provided from ad valorem taxes on property within the jurisdiction of the governmental unit issuing the bonds. Principal and interest requirements on general obligation long-term debt Los Angeles County (LAC) Waterworks District bonds are as follows (in thousands):

| <u>Year Ending</u> <u>June 30</u> | <u>Business-type Activities</u> | |
|--------------------------------------|---------------------------------|-----------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2009 | \$ 18 | \$ 9 |
| 2010 | 19 | 7 |
| 2011 | 21 | 6 |
| 2012 | 22 | 3 |
| 2013 | <u>24</u> | <u>1</u> |
| Total | <u>\$ 104</u> | <u>\$ 26</u> |

Assessment Bonds

The Regional Park and Open Space District issued voter approved assessment bonds in 1997, some of which were advance refunded in 2004-2005 and the remainder in 2007-2008, to fund the acquisition, restoration, improvement and preservation of beach, park, wildlife and open space resources within the District. As discussed in Note 4, the bonds were purchased by the Public Works Financing Authority (Authority) and similar bonds were issued as a public offering. The bonds issued by the Authority are payable from the proceeds of annual assessments levied on parcels within the District's boundaries.

Principal and interest requirements on assessment bonds are as follows (in thousands):

| <u>Year Ending</u> <u>June 30</u> | <u>Governmental Activities</u> | |
|--------------------------------------|--------------------------------|------------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2009 | \$ 23,120 | \$ 12,822 |
| 2010 | 24,215 | 11,692 |
| 2011 | 25,375 | 10,514 |
| 2012 | 26,560 | 9,270 |
| 2013 | 27,855 | 7,925 |
| 2014-2018 | 116,295 | 18,922 |
| 2019-2023 | <u>26,575</u> | <u>1,391</u> |
| Subtotal | 269,995 | <u>\$ 72,536</u> |
| Add: Unamortized Bond Premiums | <u>19,161</u> | |
| Total Assessment Bonds | <u>\$ 289,156</u> | |

COUNTY OF LOS ANGELES
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

10. LONG-TERM OBLIGATIONS-Continued

Certificates of Participation-Continued

The County has issued certificates of participation (COPs) through various financing entities that have been established by, and are component units of, the County. The debt proceeds have been used to finance the acquisition of County facilities and equipment. The County makes annual payments to the financing entities for the use of the property and the debt is secured by the underlying capital assets that have been financed. Principal and interest requirements on COPs (LAC Flood Control District Refunding bonds and Revenue bonds, NPC bonds, and Public Buildings COPs for Governmental Activities and NPC bonds and Public Buildings COPs for Business-type activities) are as follows (in thousands):

| Year Ending June 30 | <u>Governmental Activities</u> | | <u>Business-type Activities</u> | |
|-------------------------------------|--------------------------------|-------------------|---------------------------------|------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> |
| 2009 | \$ 87,794 | \$ 38,728 | \$ 17,322 | \$ 7,270 |
| 2010 | 83,399 | 35,998 | 15,747 | 6,549 |
| 2011 | 72,244 | 33,611 | 14,609 | 5,873 |
| 2012 | 71,026 | 31,096 | 13,165 | 5,236 |
| 2013 | 64,440 | 28,889 | 12,610 | 4,488 |
| 2014-2018 | 177,607 | 126,104 | 41,297 | 12,076 |
| 2019-2023 | 131,563 | 87,776 | | |
| 2024-2028 | 64,910 | 22,718 | | |
| 2029-2033 | 52,585 | 6,997 | | |
| 2034-2038 | <u>6,750</u> | <u>169</u> | | |
| Subtotal | 812,318 | <u>\$ 412,086</u> | 114,750 | <u>\$ 41,492</u> |
| Accretions | 72,826 | | | |
| Unamortized Bond Premiums | 28,875 | | 7,368 | |
| Unamortized Loss | <u>(37,985)</u> | | | |
| Total Certificates of Participation | <u>\$ 876,034</u> | | <u>\$ 122,118</u> | |

Tobacco Settlement Asset-Backed Bonds

In 2006, the County entered into a Sale Agreement with the Los Angeles County Securitization Corporation (LACSC) under which the County relinquishes to the LACSC a portion of its future tobacco settlement revenues (TSRs) for the next 40 years. The County received from the sold TSRs a lump sum payment of \$319,827,000 and a residual certificate in exchange for the rights to receive and retain 25.9% of the County's TSRs through 2046. The residual certificate represented the County's ownership interest in excess TSRs to be received by the LACSC during the term of the sales agreement. Residuals through 2011 were expected to be approximately \$140,632,000. The total TSRs sold, based on the projected payment schedule in the Master Settlement Agreement and adjusted for historical trends, was estimated to be \$1,438,000,000. The estimated present value of the TSRs sold, net of the expected residuals and assuming a 5.7% interest rate at the time of the sale, was \$309,230,000. In the event of a decline in the tobacco settlement revenues for any reason, including the default or bankruptcy of a participating cigarette manufacturer, resulting in a decline in the tobacco settlement revenues and possible default on the Tobacco Bonds, neither the California County Tobacco Securitization Agency, the County nor the LACSC has any liability to make up any such shortfall.

COUNTY OF LOS ANGELES
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

10. LONG-TERM OBLIGATIONS-Continued

Tobacco Settlement Asset-Backed Bonds-Continued

Principal and interest requirements (in thousands) for the Tobacco Settlement Asset-Backed bonds, which do not begin until 2011, are as follows:

| Year Ending June 30 | <u>Governmental Activities</u> | |
|--|--------------------------------|-------------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2011 | \$ | \$ 21,197 |
| 2012 | | 21,197 |
| 2013 | | 21,197 |
| 2014-2018 | | 105,987 |
| 2019-2023 | 60,280 | 97,864 |
| 2024-2028 | 46,370 | 85,681 |
| 2029-2033 | | 69,311 |
| 2034-2038 | 62,196 | 60,224 |
| 2039-2043 | 53,157 | 38,738 |
| 2044-2048 | <u>97,824</u> | <u>16,173</u> |
| Subtotal | 319,827 | <u>\$ 537,569</u> |
| Accretions | <u>43,649</u> | |
| Total Tobacco Settlement Asset-Backed Bonds | <u>\$ 363,476</u> | |

Notes, Loans, and Commercial Paper

Bond Anticipation Notes (BANS) are issued by the Los Angeles County Capital Assets Leasing Corporation (LACCAL Equipment Acquisition Internal Service Fund) to provide interim financing for equipment purchases. BANS are purchased by the County Treasury Pool and are payable within five years. In addition, the BANS are issued with a formal agreement that, in the event they are not liquidated within the five-year period, they convert to capital leases with a three-year term secured by County real property. During the 2007-2008 fiscal year, LACCAL issued additional BANS in the amount of \$25,000,000.

CDC notes are secured by annual contributions from the United States Department of Housing and Urban Development (HUD) and housing units constructed with the note proceeds. Commission mortgage notes are secured by revenues from the operation of housing projects and from housing assistance payments from HUD. During the 2007-08 fiscal year, CDC issued additional notes payable in the amount of \$3,000,000 as reflected in the governmental activities.

Marina del Rey loans were obtained from the California Department of Boating and Waterways for the restoration and renovation of the marina seawall. The loans are secured by Marina del Rey lease revenue and by Los Angeles County Music Center parking revenues.

COUNTY OF LOS ANGELES
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

10. LONG-TERM OBLIGATIONS-Continued

Notes, Loans, and Commercial Paper-Continued

Tax-exempt commercial paper notes (TECP) are issued by the County to pay for the construction costs for the various hospital construction projects. Repayment of the TECP is secured by a letter of credit and a sublease of twenty-one County-owned properties. Pursuant to the underlying leases, the County is able to amortize the remaining TECP over the useful life of the underlying assets. The term of individual commercial paper notes may not exceed 270 days. During the 2007-2008 fiscal year, the County issued additional TECP in the amount of \$203,000,000.

Principal and interest requirements on CDC Notes payable, NPC BANS, and Marina del Rey Loans payable for Governmental Activities and NPC BANS, Commercial paper, and CDC Mortgage notes for Business-type Activities are as follows (in thousands):

| Year Ending June 30 | <u>Governmental Activities</u> | | <u>Business-type Activities</u> | |
|------------------------|--------------------------------|------------------|---------------------------------|-----------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> |
| 2009 | \$ 2,736 | \$ 3,310 | \$ 206,331 | \$ 98 |
| 2010 | 12,529 | 3,296 | 5,905 | 45 |
| 2011 | 3,232 | 3,144 | 350 | 13 |
| 2012 | 3,895 | 2,965 | | |
| 2013 | 4,009 | 2,759 | | |
| 2014-2018 | 19,755 | 10,690 | 974 | |
| 2019-2023 | 17,982 | 5,294 | | |
| 2024-2028 | 10,395 | 1,514 | | |
| 2029-2033 | 1,478 | 67 | | |
| Indeterminate maturity | | | 1,994 | |
| Total | <u>\$ 76,011</u> | <u>\$ 33,039</u> | <u>\$ 215,554</u> | <u>\$ 156</u> |

Summary-All Future Principal, Interest and Accretions

The following summarizes total future principal and interest requirements for the various debt issues referenced above (in thousands):

| <u>Debt Type</u> | <u>Governmental Activities</u> | | <u>Business-type Activities</u> | |
|---|--------------------------------|--------------------|---------------------------------|------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> |
| General Obligation Bonds | \$ | \$ | \$ 104 | \$ 26 |
| Assessment Bonds | 269,995 | 72,536 | | |
| Certificates of Participation | 812,318 | 412,086 | 114,750 | 41,492 |
| Tobacco Settlement Asset-Backed Bonds | 319,827 | 537,569 | | |
| Notes, Loans, and Commercial Paper | 76,011 | 33,039 | 215,554 | 156 |
| Subtotal | 1,478,151 | <u>\$1,055,230</u> | 330,408 | <u>\$ 41,674</u> |
| Add: Accretions | 116,475 | | | |
| Unamortized Bond Premiums | 48,036 | | 7,368 | |
| Less: Unamortized Loss on Advance Refunding of Debt | (37,985) | | | |
| Total Bonds and Notes Payable | <u>\$ 1,604,677</u> | | <u>\$ 337,776</u> | |

COUNTY OF LOS ANGELES
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

10. LONG-TERM OBLIGATIONS-Continued

Summary-All Future Principal, Interest and Accretions-Continued

Long-term liabilities recorded in the Government-wide Statement of Net Assets include accreted interest on zero coupon bonds, unamortized bond premiums, and unamortized losses on advance debt refundings.

Advance Refunding of Debt

On July 5, 2007, the County issued \$94,315,000 of Regional Park and Open Space District lease revenue refunding bonds, maturing on various dates between 2007 and 2019. These bonds, with an average rate of 3.76%, were issued to refund the outstanding principal amount of \$126,520,000 of bonds issued in 1997, with an average interest rate of 5.29%.

U.S. Government securities were purchased and deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. Accordingly, the refunded bonds were considered to be defeased and the liabilities for those bonds were removed from the Government-Wide Statement of Net Assets – Governmental Activities. Specific disclosures related to the refunding issue are as follows (in thousands):

| | |
|--|-------------------|
| Proceeds of refunding bonds issued | \$ 94,315 |
| Prior years' bond reserves and/or premiums | 23,876 |
| County equity contribution | 13,020 |
| Deposit to escrow | <u>\$ 131,211</u> |

| | |
|--|-----------|
| Future years' aggregate debt service payment reduction | \$ 16,449 |
|--|-----------|

| | |
|---------------------------------------|----------|
| Present value savings (economic gain) | \$ 6,465 |
|---------------------------------------|----------|

For the advance refunding transaction, the carrying amount of the refunded debt was less than the reacquisition price. This difference was \$4,691,000. This amount has been reported as a reduction of the amount of outstanding debt in the basic financial statements.

Bonds Defeased in Prior Years

In prior years, various debt obligations, consisting of bonds and certificates of participation, were defeased by placing the proceeds of refunding bonds in an irrevocable trust to provide for all future debt service payments on the old obligations. Accordingly, the trust account assets and the related liabilities for the defeased bonds are not reflected in the County's financial position. At June 30, 2008, the amount of outstanding bonds and certificates of participation considered defeased was \$241,895,000. All of this amount was related to governmental activities.

COUNTY OF LOS ANGELES
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

10. LONG-TERM OBLIGATIONS-Continued

Changes in Long-term Liabilities

The following is a summary of long-term liabilities and corresponding activity for the year ended June 30, 2008 (in thousands):

| | <u>Balance July 1, 2007</u> | <u>Additions/ Accretions</u> | <u>Transfers/ Maturities</u> | <u>Balance June 30, 2008</u> | <u>Due Within One Year</u> |
|---|---------------------------------|----------------------------------|----------------------------------|----------------------------------|--------------------------------|
| Governmental activities: | | | | | |
| Bonds and notes payable | \$ 1,688,286 | \$ 153,658 | \$ 237,267 | \$ 1,604,677 | \$ 120,401 |
| Pension bonds payable (Note 7) | 879,585 | | 211,046 | 668,539 | 218,197 |
| Capital lease obligations (Note 9) | 98,450 | 98,168 | 23,249 | 173,369 | 15,537 |
| Accrued vacation and sick leave | 700,200 | 94,482 | 45,474 | 749,208 | 42,859 |
| Workers' compensation liability (Note 17) | 1,875,134 | 208,106 | 273,777 | 1,809,463 | 308,156 |
| Litigation and self-insurance liability, as restated (Note 17) | 86,582 | 92,182 | 37,705 | 141,059 | 108,056 |
| OPEB obligation (Note 8) | | 1,019,980 | | 1,019,980 | 68,951 |
| Third party payor liability | <u>17,568</u> | <u>1,850</u> | <u>6,140</u> | <u>13,278</u> | <u>13,278</u> |
| Total governmental activities | <u>\$ 5,345,805</u> | <u>\$1,668,426</u> | <u>\$ 834,658</u> | <u>\$ 6,179,573</u> | <u>\$ 895,435</u> |
| Business-type activities: | | | | | |
| Bonds and notes payable | \$ 160,344 | 221,639 | 44,207 | 337,776 | 224,490 |
| Pension bonds payable (Note 7) | 305,612 | | 73,327 | 232,285 | 75,813 |
| Capital lease obligations (Note 9) | 398 | | 125 | 273 | 130 |
| Accrued vacation and sick leave | 119,151 | 15,669 | 10,012 | 124,808 | 8,989 |
| Workers' compensation liability (Note 17) | 328,119 | 23,373 | 40,527 | 310,965 | 47,272 |
| Litigation and self-insurance liability, as restated (Note 17) | 102,832 | 22,173 | 18,675 | 106,330 | 23,404 |
| OPEB obligation (Note 8) | | 214,168 | | 214,168 | 14,477 |
| Third party payor liability (Note 13) | <u>98,220</u> | <u>82,065</u> | <u>23,697</u> | <u>156,588</u> | <u>36,130</u> |
| Total business-type activities | <u>\$ 1,114,676</u> | <u>\$ 579,087</u> | <u>\$ 210,570</u> | <u>\$ 1,483,193</u> | <u>\$ 430,705</u> |

For governmental activities, the General Fund, the Fire Protection District Special Revenue Fund and the Public Library Special Revenue Fund have typically been used to liquidate workers' compensation, accrued vacation and sick leave and litigation and self-insurance liabilities.

Bond interest accretions for deep discount bonds have been included in the amounts reported for Bonds and Notes Payable and Pension Bonds Payable. For Bonds and Notes Payable, accretions increased during 2007-2008, thereby increasing liabilities for Bonds and Notes Payable by \$21,783,000 for governmental activities. Amounts accreted for Pension Bonds in previous years were paid during 2007-2008 thereby decreasing liabilities for Pension Bonds Payable for governmental and business-type activities by \$95,207,000 and \$33,079,000, respectively, for interest accretions. Note 17 contains information about changes in the combined current and long-term liabilities for workers' compensation and litigation and self-insurance liabilities.

COUNTY OF LOS ANGELES
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

11. SHORT-TERM DEBT

On July 2, 2007, the County issued \$500,000,000 short-term Tax and Revenue Anticipation Notes at an effective interest rate of 3.62%. The proceeds of the notes were used to assist with County General Fund cash flow needs prior to the first major apportionment of property taxes, which occurred in December 2007. The notes matured and were redeemed on June 30, 2008.

12. CONDUIT DEBT OBLIGATIONS

Community Facilities and Improvement District Bonds

As of June 30, 2008, various community facilities and improvement districts established by the County had outstanding special tax bonds payable totaling \$82,800,000 and limited obligation improvement bonds totaling \$11,645,000. The bonds were issued to finance the cost of various construction activities and infrastructure improvements which have a regional or direct benefit to the related property owners.

The bonds do not constitute an indebtedness of the County and are payable solely from special taxes and benefit assessments collected from property owners within the districts. In the opinion of County officials, these bonds are not payable from any revenues or assets of the County and neither the full faith and credit of the County, the State or any political subdivision thereof is obligated to the payment of the principal or interest on the bonds. Accordingly, no liability has been recorded in the accompanying basic financial statements.

The County functions as an agent for the districts and bondholders. Debt service transactions related to the various bond issues are reported in the agency funds. Construction activities are reported in the Improvement Districts' Capital Projects Fund. Revenues have been recorded (proceeds from property owners) to reflect the bond proceeds issued for capital improvements.

Residential Mortgage Revenue Bonds

Residential Mortgage Revenue Bonds have been issued to provide funds to purchase mortgage loans secured by first trust deeds on newly constructed and existing single family residences in the County. The purpose of this program is to provide low interest rate home mortgage loans to persons who are unable to qualify for conventional mortgages at market rates. Multi-Family Mortgage Revenue Bonds have been issued to provide permanent financing for apartment projects located in the County to be partially occupied by persons of low or moderate income. The amount of Mortgage Revenue Bonds outstanding as of June 30, 2008, was \$723,704,000.

The bonds do not constitute an indebtedness of the County. The bonds are payable solely from payments made on and secured by a pledge of the acquired mortgage loans and certain funds and other monies held for the benefit of the bondholders pursuant to the bond indentures. In the opinion of County officials, these bonds are not payable from any revenues or assets of the County, and neither the full faith and credit nor the taxing authority of the County, the State or any political subdivision thereof is obligated to the payment of the principal or interest on the bonds. Accordingly, no liability has been recorded in the accompanying basic financial statements.

COUNTY OF LOS ANGELES
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

12. CONDUIT DEBT OBLIGATIONS-Continued

Industrial Development and Other Conduit Bonds

Industrial development bonds, and other conduit bonds, have been issued to provide financial assistance to private sector entities and nonprofit corporations for the acquisition of industrial and health care facilities which provide a public benefit. The bonds are secured by the facilities acquired and/or bank letter of credit and are payable solely from project revenue or other pledged funds. The County is not obligated in any manner for the repayment of the bonds. Accordingly, no liability has been recorded in the accompanying basic financial statements.

As of June 30, 2008, the amount of industrial development and other conduit bonds outstanding was \$14,080,000.

13. HOSPITAL AND OTHER PROGRAM REVENUES

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Medi-Cal Hospital / Uninsured Care Demonstration Project

The Medicaid Demonstration Project, which was a sub-state waiver, included the Supplemental Project Pool (SPP) program and the Federally Reimbursable Ambulatory Care Service Costs. This sub-state waiver was terminated on June 30, 2005. A new Statewide Project, the California's Medi-Cal Hospital / Uninsured Care Demonstration Project, was implemented on July 1, 2005. This Demonstration Project and the associated changes to various State Plan Amendments either modified and/or replaced the Medi-Cal Fee For Services, SB 855 and SB 1255 payment funding systems.

The Demonstration Project was negotiated between the State of California's Department of Health Services (SDHS) and the federal Centers for Medicare and Medicaid Services (CMS), and covers the period from July 1, 2005 to June 30, 2010. The implementing State legislation (SB 1100) was enacted by the Legislature in September 2005. The five-year Demonstration Project applies to payments Statewide (which currently includes 21 public hospitals, including all University of California owned hospitals, identified as Designated Public Hospitals, and private and non-designated public safety net hospitals that serve large numbers of Medi-Cal patients).

The Medicaid Demonstration Project restructures inpatient hospital fee-for-service (FFS) payments and Disproportionate Share Hospital (DSH) payments, as well as the financing method by which the State draws down federal matching funds. Under the old system, public hospitals negotiated and received inpatient FFS contract per diem payments and supplemental contract payments (SB 1255) under the Medi-Cal Selective Provider Contract Program, and received DSH funds pursuant to a statutory formula (SB 855). The non-federal share of the inpatient FFS per diems was funded with State general funds, while the non-federal share of the supplemental contract payments and DSH payments was provided in the form of intergovernmental transfers (IGTs) of funds made by the public entities that operated public hospitals.

COUNTY OF LOS ANGELES
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

13. HOSPITAL AND OTHER PROGRAM REVENUES-Continued

Medi-Cal Hospital / Uninsured Care Demonstration Project-Continued

Under the Demonstration Project, payments for the public hospitals are comprised of: 1) FFS cost-based reimbursement for inpatient hospital services; 2) DSH payments and 3) distribution from a newly created pool of federal funding for uninsured care, known as the Safety Net Care Pool (SNCP), which was capped Statewide at \$586 million for FY 2007-08. The non-federal share of these three types of payments will be provided by the public hospitals rather than the State, primarily through certified public expenditures (CPE) whereby the hospital would expend its local funding for services to draw down the federal financial participation (FFP), currently provided at a 50% match. For the inpatient hospital cost-based reimbursement, each hospital will provide its own CPE and receive all of the resulting federal match. For the DSH and SNCP distributions, the CPEs of all the public hospitals will be used in the aggregate to draw down the federal match. It is therefore possible for one hospital to receive the federal match that results from another hospital's CPE. In this situation, the first hospital is referred to as a "recipient" hospital, while the second is referred to as a "donor" hospital. A recipient hospital is required to "retain" the FFP amounts resulting from donated CPEs.

The Demonstration Project restricts the amount of IGTs that may be used for DSH payments. A hospital's IGT may be used to draw federal DSH funding, but only with respect to DSH payments made to that hospital, and the gross amount of such IGT funded payments (non-federal plus federal match) may not exceed 75% of the hospital's uncompensated care costs to ensure compliance with the OBRA 1993 hospital-specific DSH limit. The gross IGT funded DSH payment must be "retained" by the hospital.

The County of Los Angeles provides funding for the State's share of the Demonstration Project by transferring funds to the State. These transferred funds, referred to as IGTs, are used by the State to draw down federal matching funds. The combined IGTs sent to the State by each hospital Enterprise Fund plus the matching federal funds are utilized by the State to provide supplemental funding for health care expenses.

The County recognizes the supplemental funding received for each hospital as net patient services revenue as reflected in the Statement of Revenues, Expenses, and Changes in Net Assets. The IGT payments are reflected as non-operating expenses by each Hospital in the Statement of Revenues, Expenses, and Changes in Fund Net Assets. For the year ended June 30, 2008, the estimated cost of the IGTs and the related estimated revenues are as follows (in thousands):

| <u>Program</u> | <u>Intergovernmental Transfers Expense</u> | <u>Revenues</u> |
|--------------------------------|--|-----------------|
| Medicaid Demonstration Project | \$199,659 | \$808,358 |

Baseline Payments

The Demonstration Project prioritizes payments so that, to the extent possible, total payments to hospitals are at a minimum "baseline" level. For public hospitals, the baseline level is determined and satisfied on a hospital-specific basis. The baseline for the 2007-08 program year is established at each hospital's total net Medi-Cal inpatient payments for 2006-07. The State DHS estimates the aggregate baseline funding for the Statewide designated public hospitals to be \$2.258 billion.

COUNTY OF LOS ANGELES
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

13. HOSPITAL AND OTHER PROGRAM REVENUES-Continued

Baseline Payments-Continued

The estimated FY 2007-08 baseline for Los Angeles County hospitals is as follows (in thousands):

| <u>Hospital Name</u> | <u>Baseline Amount</u> |
|--|----------------------------|
| LAC+USC Medical Center | \$ 360,349 |
| Harbor-UCLA Medical Center | 175,827 |
| MLK, Jr.-Harbor Hospital | 15,813 |
| Rancho Los Amigos National Rehabilitation Center | 82,624 |
| Olive View -UCLA Medical Center | <u>113,381</u> |
| Total | <u>\$ 747,994</u> |

The three funding components that will be utilized to meet each hospital's baseline level are as follows:

- 1) Medi-Cal inpatient FFS cost-based reimbursement: The FFP which is paid to the hospital represents approximately half of the facility-specific costs or CPE. The hospital's amounts will fluctuate based on the number of facility-specific Medi-Cal patients served and the facility-specific cost-computations that will be adjusted on an interim and final basis.
- 2) DSH funds: These payments are made to hospitals to take into account the uncompensated costs of care delivered to the uninsured, undocumented immigrants, shortfalls between Medi-Cal psychiatric and Medi-Cal managed care payments. The non-federal share of these funds will be a combination of CPEs for these services and IGTs that are subject to interim and final cost settlement. There is an annual fixed allotment of federal DSH funds. The waiver allocates almost all of these funds to public hospitals. (The State DHS estimates the aggregate value of federal DSH funds for the Statewide designated public hospitals to be \$1.025 billion as of June 30, 2008.)
- 3) SNCP Distributions: These federal payments are made to public hospitals and clinics for uncompensated care delivered to uninsured patients and for certain designated non-hospital costs, such as drugs and supplies for the uninsured. The non-federal share of these funds will be based on CPEs for these services.

Stabilization Payments

Payments to private and non-designated public DSH hospitals that exceed the aggregate baseline are considered stabilization funds and are included in the allocation among all waiver hospitals based on State law. Stabilization is distributed to the Designated Public Hospitals from the SNCP. The non-federal share of these funds will be based on CPEs for related services.

SB 1100 requires the California Department of Health Services (CDHS) to finalize the calculation of stabilization funding for each hospital and pay that amount by April 1 following the project year. This determination will be based on cost estimates and specified adjustments. Under State law, the stabilization payments determined through this process shall not be modified for any reason other than mathematical errors or mathematical omissions on the part of the State of California.

COUNTY OF LOS ANGELES
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

13. HOSPITAL AND OTHER PROGRAM REVENUES-Continued

Reported CPEs Subject to Audit

All CPEs reported by each hospital will be subject to State and federal audit and final reconciliation. If at the end of the final reconciliation process, it is determined that a hospital's claimed CPEs resulted in an overpayment of federal funds to the State, the hospital may be required to return the overpayment whether or not they received the federal matching funds.

South Los Angeles Medical Services Preservation Fund

On October 12, 2007, State Senate Bill (SB) 474 established an annual fund to stabilize health services for low-income, underserved populations of South Los Angeles. The "South Los Angeles Medical Services Preservation Fund" is intended to address the regional impact of the closure of the MLK-Harbor Hospital (currently MLK-MACC) and will help defray the County's costs for treating uninsured patients in the South Los Angeles area. The estimated amount of the funds identified to MLK-MACC for FY 2007-08 is \$87.7 million for 10.5 months.

SB 474 also requires the County to make intergovernmental transfers to the State to fund the non-federal share of increased Medi-Cal payments to those private hospitals that serve the South Los Angeles population formerly served by MLK-Harbor Hospital. An IGT expense of \$4.385 million is recorded as health care expenditures in the County's General Fund.

Other Medi-Cal Programs

Cost Based Reimbursement Clinics (CBRC)

A State Plan Amendment to extend CBRC funding has been approved by the federal government. The Amendment is effective July 1, 2005 through June 30, 2010. CBRC reimburses at 100 percent of reasonable costs for Medi-Cal outpatient services provided to Medi-Cal beneficiaries at hospital-based clinics, Multi-Ambulatory Care Centers (MACC) and health centers (excluding clinics that provide predominately public health services).

Cost Report Settlements

Medi-Cal field audits for FY 2004-05 have been completed and audit reports have been issued for all hospitals and health centers with the exception of Martin Luther King, Jr. MACC (MLK), formerly known as MLK-Harbor Hospital, and Rancho Los Amigos National Rehabilitation Center (Rancho). FY 2005-06 Medi-Cal audits are in progress.

The hospitals have various outstanding appeals pertaining to Medi-Cal audit settlements. The FYs 2002-03 and 2003-04 informal level appeals for Medi-Cal have been resolved and \$3.5 million will be paid to the County as a result of the resolution of those appeals.

COUNTY OF LOS ANGELES
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

13. HOSPITAL AND OTHER PROGRAM REVENUES-Continued

Other Medi-Cal Programs-Continued

Medi-Cal Managed Care Supplement

In October 2006, the State submitted a proposal to the CMS to allow supplements to the Medi-Cal managed care capitation rates. The County and the State continued to work with CMS and finally obtained approval for the supplements on April 10, 2008. The term of the State agreement will be for the period of October 1, 2006 through September 30, 2008 and expires on December 31, 2008. The County does not receive managed care payments directly from the State; rather, the State contracts with L.A. Care which then subcontracts for services with various provider networks, including DHS' Community Health Plan. The estimated aggregate gross payment for FYs 2006-07 and 2007-08 is \$129.475 million. An estimated IGT expenditure of \$64.75 million was recorded as health care expenditures in the County's General Fund.

Revenues from the various Medi-Cal programs (FFS, DSH, SNCP, CBRC, AB 915, SB 1732, and Managed Care) represent approximately 78% of the hospitals' patient care revenue for the year ended June 30, 2008.

Medicare Program

Services to inpatient Medicare program beneficiaries are primarily paid under prospectively determined rates-per-discharge based upon diagnostic related groups (DRGs). Certain other services to Medicare beneficiaries are reimbursed based on a fee schedule or other rates.

Medicare audits have been completed at all hospitals and notices of program reimbursement have been received for all hospitals through FY 2000-01. For FYs 2001-02 and 2002-03, Medicare audits have been completed for all hospitals except for LAC+USC Medical Center (LAC+USC). For FY 2003-04, the audits for MLK, Rancho, and Olive View-UCLA Medical Center (OV/UCLA) have been completed and the notices of program reimbursement have been issued. The audits for LAC+USC and Harbor/UCLA Medical Center (H/UCLA) have not been scheduled for FY 2003-04.

For FYs 2004-05 through 2005-06, the audits for MLK and OV/UCLA have been completed and notices of program reimbursement have been issued. Rancho audits are in progress. The audits for LAC+USC and H/UCLA have not been scheduled.

For FY 2006-07, the audit for Rancho has been completed and the notice of program reimbursement has been issued. The audits for LAC+USC, H/UCLA, MLK, and OV/UCLA have not been scheduled.

Revenues from the Medicare program represent approximately 8% of patient care revenue for the year ended June 30, 2008.

Other Program Revenues

Proposition 99 imposes an additional State excise tax on cigarettes and other tobacco products. The increased taxes on tobacco products generate additional revenues for health care, research, health education, and public resources. State Assembly Bill 75 (AB 75) allocates these revenues to health care providers based upon their share of the financial burden for providing care to persons who are uninsured or otherwise unable to pay for care. The County's share of the AB 75 California Healthcare for the Indigent Program (CHIP) revenues for the year ended June 30, 2008 was \$9.9 million.

COUNTY OF LOS ANGELES
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

13. HOSPITAL AND OTHER PROGRAM REVENUES-Continued

Other Program Revenues-Continued

Revenues related to the aforementioned programs are included in the accompanying basic financial statements as hospital operating revenues. Uncollected amounts are reported as Accounts Receivable. Claims for these programs are subject to audit by State and/or federal agencies.

Accounts Receivable-net

The following is a summary, by hospital, of accounts receivable and allowances for uncollectible amounts for the year ended June 30, 2008 (in thousands):

| | <u>H/UCLA</u> | <u>OV/UCLA</u> | <u>LAC+USC</u> | <u>MLK/H</u> | <u>Rancho</u> | <u>Total</u> |
|---|-------------------|----------------|----------------|----------------|----------------|-------------------|
| Accounts receivable | \$ 561,552 | 298,403 | 852,741 | 196,388 | 192,493 | \$2,101,577 |
| Less: Allowance for uncollectible amounts | <u>431,960</u> | <u>172,182</u> | <u>596,802</u> | <u>15,603</u> | <u>127,138</u> | <u>1,343,685</u> |
| Accounts Receivable - net | <u>\$ 129,592</u> | <u>126,221</u> | <u>255,939</u> | <u>180,785</u> | <u>65,355</u> | <u>\$ 757,892</u> |

Charity Care

Charity care includes those uncollectible amounts, for which the patient is unable to pay. Generally, charity care adjustment accounts are those accounts for which an indigence standard has been established and under which the patient qualifies. Inability to pay may be determined through one of the Department's Reduced Cost Health Care plans, through other eligibility plans utilized by the Department, by the Treasurer-Tax Collector, or by an outside collection agency. Determinations of charity care may be made prior to, at the time of service, or any time thereafter.

The total amount of such charity care provided by the hospitals for the fiscal year ended June 30, 2008, based on established rates, is as follows (in thousands):

| | |
|-------------------------------------|--------------------|
| Charges forgone | \$1,298,794 |
| Less: Federal and State subventions | <u>9,939</u> |
| Net charges forgone | <u>\$1,288,855</u> |

Litigation Regarding Reduction in Health Services

In March 2003, two lawsuits were filed in Federal District Court against the County challenging health care reductions approved by the Board. The lawsuits challenged the closure of Rancho Los Amigos National Rehabilitation Center as well as the reduction of the 100 beds at LAC+USC Medical Center. On August 9, 2005, the Board of Supervisors approved a negotiated settlement with the plaintiffs. The Federal District Court approved the Rancho settlement on December 19, 2005, and the LAC+USC settlement on March 10, 2006. These settlement agreements allow for the phased reduction of beds at LAC+USC contingent upon meeting established milestone reductions in patients' average length of stay. Specifically, DHS was able to reduce 25 beds immediately, with additional decreases tied to achieving and maintaining milestone reductions for prescribed periods of time. The settlement also calls for DHS to continue to operate Rancho, although at a reduced size with only core rehabilitation services, for a three-year period through March 9, 2009, while the County simultaneously seeks an entity to take over hospital operations.

COUNTY OF LOS ANGELES
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

14. INTERFUND TRANSACTIONS

Interfund Receivables/Payables

Interfund receivables and payables have been eliminated in the government-wide financial statements, except for "internal balances" that are reflected between the governmental and business-type activities. Interfund receivables and payables have been recorded in the fund financial statements. Such amounts arise due to the exchange of goods or services (or subsidy transfers) between funds that were pending the transfer of cash as of June 30, 2008.

Cash transfers related to interfund receivables/payables are generally made within 30 days after year-end. Amounts due to/from other funds at June 30, 2008 are as follows (in thousands):

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|-----------------------------------|---------------------------------------|----------------|
| General Fund | Fire Protection District | \$ 2,265 |
| | Flood Control District | 4,289 |
| | Public Library | 2,135 |
| | Regional Park and Open Space District | 4,073 |
| | Internal Service Funds | 8,059 |
| | Waterworks Enterprise Funds | 24 |
| | Harbor-UCLA Medical Center | 14,675 |
| | Olive View-UCLA Medical Center | 38,402 |
| | LAC+USC Medical Center | 31,991 |
| | M.L. King Ambulatory Care Center | 18,969 |
| | Rancho Los Amigos Nat'l Rehab Center | 5,249 |
| | Nonmajor Enterprise Funds | 14 |
| | Nonmajor Governmental Funds | <u>227,271</u> |
| | | <u>357,416</u> |
| Fire Protection District | General Fund | 3,303 |
| | Internal Service Funds | 4 |
| | LAC+USC Medical Center | 6 |
| | Nonmajor Governmental Funds | <u>3,128</u> |
| | | <u>6,441</u> |
| Flood Control District | General Fund | 3,554 |
| | Internal Service Funds | 19,250 |
| | Nonmajor Enterprise Funds | 1 |
| | Nonmajor Governmental Funds | <u>2,101</u> |
| | | <u>24,906</u> |
| Public Library | General Fund | 1,343 |
| | Nonmajor Governmental Funds | <u>650</u> |
| | | <u>1,993</u> |
| Regional Park and Open Space Dist | General Fund | <u>323</u> |

COUNTY OF LOS ANGELES
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

14. INTERFUND TRANSACTIONS-Continued

Interfund Receivables/Payables-Continued

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|----------------------------------|--------------------------------------|----------------|
| Internal Service Funds | General Fund | 11,224 |
| | Fire Protection District | 75 |
| | Flood Control District | 17,628 |
| | Public Library | 4 |
| | Waterworks Enterprise Funds | 4,988 |
| | Harbor-UCLA Medical Center | 2 |
| | M.L. King Ambulatory Care Center | 14 |
| | Rancho Los Amigos Nat'l Rehab Center | 45 |
| | Nonmajor Enterprise Funds | 144 |
| | Nonmajor Governmental Funds | <u>25,234</u> |
| | | <u>59,358</u> |
| Waterworks Enterprise Funds | General Fund | 2 |
| | Internal Service Funds | <u>2,467</u> |
| | | <u>2,469</u> |
| Harbor-UCLA Medical Center | General Fund | 25,178 |
| | Fire Protection District | 29 |
| | Olive View-UCLA Medical Center | 3,666 |
| | LAC+USC Medical Center | 9,851 |
| | M.L. King Ambulatory Care Center | 708 |
| | Rancho Los Amigos Nat'l Rehab Center | 26 |
| | Nonmajor Governmental Funds | <u>7,945</u> |
| | | <u>47,403</u> |
| Olive View-UCLA Medical Center | General Fund | 44,634 |
| | Fire Protection District | 98 |
| | Harbor-UCLA Medical Center | 21 |
| | LAC+USC Medical Center | 27 |
| | M.L. King Ambulatory Care Center | 24 |
| | Rancho Los Amigos Nat'l Rehab Center | 15 |
| | Nonmajor Governmental Funds | <u>11,312</u> |
| | | <u>56,131</u> |
| LAC+USC Medical Center | General Fund | 128,870 |
| | Fire Protection District | 129 |
| | Harbor-UCLA Medical Center | 3,859 |
| | Olive View-UCLA Medical Center | 3,323 |
| | M.L. King Ambulatory Care Center | 2,109 |
| | Rancho Los Amigos Nat'l Rehab Center | 1,297 |
| | Nonmajor Governmental Funds | <u>53,381</u> |
| | | <u>192,968</u> |
| M.L. King Ambulatory Care Center | General Fund | 10,152 |
| | Harbor-UCLA Medical Center | 34 |
| | Olive View-UCLA Medical Center | 60 |
| | LAC+USC Medical Center | <u>9,402</u> |
| | | <u>19,648</u> |

COUNTY OF LOS ANGELES
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

14. INTERFUND TRANSACTIONS-Continued

Interfund Receivables/Payables-Continued

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|--------------------------------------|----------------------------------|---------------------|
| Rancho Los Amigos Nat'l Rehab Center | General Fund | 7,493 |
| | Fire Protection District | 66 |
| | LAC+USC Medical Center | 13,133 |
| | M.L. King Ambulatory Care Center | 48 |
| | | <u>20,740</u> |
| Nonmajor Enterprise Funds | Internal Service Funds | <u>48</u> |
| Nonmajor Governmental Funds | General Fund | 325,464 |
| | Fire Protection District | 5,000 |
| | Flood Control District | 237 |
| | Public Library | 254 |
| | Internal Service Funds | 14,479 |
| | Waterworks Enterprise Funds | 10 |
| | Nonmajor Enterprise Funds | 3 |
| | Nonmajor Governmental Funds | 16,049 |
| | | <u>361,496</u> |
| Total Interfund Receivables/Payables | | <u>\$ 1,151,340</u> |

Interfund Transfers

Transfers were made during the year from the General Fund to subsidize the operations of the Public Library and the five hospitals. Other transfers primarily consisted of payments from the various operating funds (principally the General Fund) to debt service funds in accordance with long-term debt covenants. In addition, special revenue funds that are statutorily restricted made transfers to other funds to reimburse eligible costs incurred.

Interfund transfers to/from other funds for the year ended June 30, 2008 are as follows (in thousands):

| <u>Transfer From</u> | <u>Transfer To</u> | <u>Amount</u> |
|--------------------------|--------------------------------------|------------------|
| General Fund | Public Library | \$ 41,391 |
| | Internal Service Funds | 14 |
| | Harbor-UCLA Medical Center | 181,834 |
| | Olive View-UCLA Medical Center | 165,183 |
| | LAC+USC Medical Center | 501,220 |
| | M.L. King Ambulatory Care Center | 75,599 |
| | Rancho Los Amigos Nat'l Rehab Center | 77,591 |
| | Nonmajor Governmental Funds | 80,976 |
| | | <u>1,123,808</u> |
| Fire Protection District | Nonmajor Governmental Funds | <u>16,488</u> |

COUNTY OF LOS ANGELES
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

14. INTERFUND TRANSACTIONS-Continued

Interfund Transfers-Continued

| <u>Transfer From</u> | <u>Transfer To</u> | <u>Amount</u> |
|---------------------------------------|---------------------------------------|--------------------|
| Flood Control District | Internal Service Funds | 23 |
| | Nonmajor Governmental Funds | <u>19,025</u> |
| | | <u>19,048</u> |
| Public Library | General Fund | 3,876 |
| | Nonmajor Governmental Funds | <u>922</u> |
| | | <u>4,798</u> |
| Regional Park and Open Space District | Nonmajor Governmental Funds | <u>35,216</u> |
| Internal Service Funds | General Fund | 3,903 |
| | Waterworks Enterprise Funds | 21 |
| | Nonmajor Governmental Funds | <u>604</u> |
| | | <u>4,528</u> |
| Harbor-UCLA Medical Center | Nonmajor Governmental Funds | <u>732</u> |
| Olive View-UCLA Medical Center | Nonmajor Governmental Funds | <u>451</u> |
| LAC+USC Medical Center | Harbor-UCLA Medical Center | 9,749 |
| | M.L. King Ambulatory Care Center | 7,352 |
| | Rancho Los Amigos Nat'l Rehab Center | 13,092 |
| | Nonmajor Governmental Funds | <u>998</u> |
| | | <u>31,191</u> |
| M.L. King Ambulatory Care Center | Nonmajor Governmental Funds | <u>507</u> |
| Rancho Los Amigos Nat'l Rehab Center | Nonmajor Governmental Funds | <u>23</u> |
| Nonmajor Governmental Funds | General Fund | 335,127 |
| | Flood Control District | 244 |
| | Public Library | 269 |
| | Regional Park and Open Space District | 423 |
| | Internal Service Funds | 159 |
| | Harbor-UCLA Medical Center | 25,902 |
| | Olive View-UCLA Medical Center | 25,754 |
| | LAC+USC Medical Center | 103,922 |
| | Nonmajor Enterprise Funds | 350 |
| | Nonmajor Governmental Funds | <u>61,177</u> |
| | | <u>553,327</u> |
| Total Interfund Transfers | | <u>\$1,790,117</u> |

COUNTY OF LOS ANGELES
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

14. INTERFUND TRANSACTIONS-Continued

Short-term Advances

The General Fund makes short-term advances to assist the Hospital Funds in meeting their cash flow requirements. The General Fund, along with other funds that receive services from the Public Works Internal Service Fund, makes short-term advances to ensure sufficient cash is available to fund operations.

Advances from/to other funds at June 30, 2008 are as follows (in thousands):

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|-----------------------------|--------------------------------------|-------------------|
| General Fund | Internal Service Funds | \$ 3,589 |
| | Harbor-UCLA Medical Center | 96,862 |
| | Olive View-UCLA Medical Center | 71,315 |
| | LAC+USC Medical Center | 199,678 |
| | M.L. King Ambulatory Care Center | 146,920 |
| | Rancho Los Amigos Nat'l Rehab Center | <u>53,508</u> |
| | | <u>571,872</u> |
| Flood Control District | Internal Service Funds | <u>6,213</u> |
| Waterworks Enterprise Funds | Internal Service Funds | <u>1,164</u> |
| Nonmajor Governmental Funds | Internal Service Funds | <u>11,034</u> |
| Total Short-term Advances | | <u>\$ 590,283</u> |

15. BUDGETARY ACCOUNTING CHANGES/RECONCILIATION BETWEEN THE BUDGETARY BASIS AND GAAP

The County's Statement of Revenues, Expenditures and Changes in Fund Balances-Budget and Actual on Budgetary Basis for the major governmental funds has been prepared on the budgetary basis of accounting, which is different from GAAP.

The amounts presented for the governmental fund statements are based on the modified accrual basis of accounting and differ from the amounts presented on a budgetary basis of accounting. The major areas of difference are as follows:

- For budgetary purposes, reserves and designations are recorded as other financing uses at the time they are established. Although designations are not legal commitments, the County recognizes them as uses of budgetary fund balance. Designations that are subsequently cancelled or otherwise made available for appropriation are recorded as other financing sources.

COUNTY OF LOS ANGELES
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

15. BUDGETARY ACCOUNTING CHANGES/RECONCILIATION BETWEEN THE BUDGETARY BASIS AND GAAP-Continued

- Under the budgetary basis, revenues (primarily intergovernmental) are recognized at the time encumbrances are established for certain programs and capital improvements. The intent of the budgetary policy is to match the use of budgetary resources (for amounts encumbered, but not yet expended) with funding sources that will materialize as revenues when actual expenditures are incurred. Under the modified accrual basis, revenues are not recognized until the qualifying expenditures are incurred.
- For the General Fund, obligations for accrued vacation and sick leave and estimated liabilities for litigation and self-insurance are recorded as budgetary expenditures to the extent that they are estimated to be payable within one year after year-end. Under the modified accrual basis of accounting, such expenditures are not recognized until they become due and payable in accordance with GASB Interpretation No. 6.
- In conjunction with the sale of pension obligation bonds in 1994-95, the County sold the right to future investment income on debt service deposits. Under the budgetary basis, the proceeds were included in 1994-95 revenues. Under the modified accrual basis, the proceeds were recorded as deferred revenue (unearned) and are being amortized over the life of the bonds. This matter is also discussed in Note 7.
- In conjunction with the sale of Tobacco Settlement Asset-Backed bonds in 2005-06, the County sold 25.9% of its future tobacco settlement revenues. Under the budgetary basis, the proceeds were recognized as revenues. Under the modified accrual basis, the proceeds were recorded as a sale of future revenues and were being recognized over the duration of the sale agreement, in accordance with GASB Statement No. 48. This matter is also discussed in Note 10, under the caption, "Tobacco Settlement Asset-Backed Bonds."
- Under the budgetary basis, property tax revenues are recognized to the extent that they are collectible within one year after year-end. Under the modified accrual basis, property tax revenues are recognized only to the extent that they are collectible within 60 days.
- For budgetary purposes, investment income is recognized prior to the effect of changes in the fair value of investments. Under the modified accrual basis, the effects of such fair value changes have been recognized.
- In conjunction with implementing GASB 45, the County determined that certain assets were held by LACERA (the OPEB administrator) in an OPEB Agency Fund. For budgetary purposes, any excess payments (beyond the pay-as-you-go amount) are recognized as expenditures. Under the modified accrual basis, the expenditures are adjusted to recognize the OPEB Agency assets at June 30, 2008. This matter is also discussed in Note 2.

COUNTY OF LOS ANGELES
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

15. BUDGETARY ACCOUNTING CHANGES/RECONCILIATION BETWEEN THE BUDGETARY BASIS AND GAAP-Continued

The following schedule is a reconciliation of the budgetary and GAAP fund balances for the major governmental funds (in thousands):

| | General Fund | Fire Protection District | Flood Control District | Public Library | Regional Park and Open Space District |
|--|---------------------|--------------------------------|------------------------------|-------------------|--|
| Fund balance - budgetary basis | \$ 1,808,804 | \$ 43,348 | \$ 31,405 | \$ 16,626 | \$ 164,013 |
| Reserves and designations | <u>1,750,106</u> | <u>150,411</u> | <u>138,174</u> | <u>15,136</u> | <u>123,939</u> |
| Subtotal | <u>3,558,910</u> | <u>193,759</u> | <u>169,579</u> | <u>31,762</u> | <u>287,952</u> |
| Adjustments: | | | | | |
| Accrual of estimated liability for litigation and self-insurance claims | 106,239 | (1,001) | | (62) | |
| Accrual of vacation and sick leave benefits | 36,766 | | | | |
| Deferral of unearned investment income | (6,272) | (309) | | (69) | |
| Deferral of sale of tobacco settlement revenue | (272,797) | | | | |
| Change in revenue accruals | <u>(48,406)</u> | <u>(22,412)</u> | <u>(7,680)</u> | <u>(2,540)</u> | <u>(1,947)</u> |
| Subtotal | <u>(184,470)</u> | <u>(23,722)</u> | <u>(7,680)</u> | <u>(2,671)</u> | <u>(1,947)</u> |
| Fund balance - GAAP basis | <u>\$ 3,374,440</u> | <u>\$ 170,037</u> | <u>\$ 161,899</u> | <u>\$ 29,091</u> | <u>\$ 286,005</u> |

16. OTHER COMMITMENTS

Construction Commitments

At June 30, 2008, the LAC+USC Medical Center Hospital Enterprise Fund had contractual commitments of approximately \$20,638,000 to provide for the construction of the LAC+USC Medical Center replacement facility. The construction is currently being financed by commercial paper and a grant from the Federal Emergency Management Agency. There were also contractual commitments of approximately \$4,041,000 for various hospital construction projects that were financed by commercial paper.

LACERA Capital Commitments

At June 30, 2008, LACERA had outstanding capital commitments to various investment managers, approximating \$2,470,000,000. Subsequent to June 30, 2008, LACERA funded \$229,000,000 of these capital commitments.

COUNTY OF LOS ANGELES
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

16. OTHER COMMITMENTS-Continued

Investment Purchase Commitments

At June 30, 2008, the County had open trade commitments with various brokers to purchase investments approximating \$2,400,000 with settlement dates subsequent to year end. These investment transactions had not been recorded as of June 30, 2008, since the County neither takes delivery of the securities nor earns interest on the investments until the settlement date. By July 1, 2008, the County had purchased such investments.

17. RISK MANAGEMENT

The County purchases insurance for certain risk exposures such as aviation, employee fidelity, boiler and machinery in certain structures, art objects, catastrophic hospital general liability, volunteer, special events, public official bond, crime, safety reserve employee death and disability, and fiduciary liability for the deferred compensation plans. There have been no settlements related to these programs that exceeded insurance coverage in the last three years. The County also has insurance on most major structures. Losses did not exceed coverage in 2006-2007 or 2007-2008.

The County retains the risk for all other loss exposures. Major areas of risk include workers' compensation, medical malpractice, law enforcement, theft and damage to property including natural disasters, errors and omissions, and torts. Expenditures are accounted for in the fund whose operations resulted in the loss. Claims expenditures and liabilities are reported when it is probable that a loss has been incurred and the amount of that loss, including those incurred but not reported, can be reasonably estimated. The County utilizes actuarial studies, historical data, and individual claims reviews to estimate these liabilities. The liabilities include estimable incremental claim adjustment expenses, net of salvage, and subrogation of approximately 10% of the total liabilities. They do not include other claim adjustment costs because the County does not believe it is practical or cost effective to estimate them.

As indicated in the following table, the County's workers' compensation liabilities as of June 30, 2008 were approximately \$2.120 billion. This amount is undiscounted and is based on an actuarial study of the County's self-insured program as of June 30, 2008. Approximately \$171,599,000 of the total liabilities pertain to salary continuation payments and other related costs mandated by the State Labor Code.

As of June 30, 2008, the County's best estimate of these liabilities is \$2.368 billion. As discussed in Note 2, the County restated beginning balances to reflect the removal of the LTD disability liability in accordance with GASB 45. Changes in the reported liability since July 1, 2006 resulted from the following (in thousands):

| | <u>Beginning of Fiscal Year Liability, as restated</u> | <u>Current Year Claims and Changes In Estimates</u> | <u>Claim Payments</u> | <u>Balance At Fiscal Year-End</u> |
|-----------------------------------|--|---|---------------------------|---|
| <u>2006-2007</u> | | | | |
| Workers' Compensation | \$ 2,370,702 | \$ 143,593 | \$(311,042) | \$ 2,203,253 |
| Other | <u>722,420</u> | <u>24,458</u> | <u>(85,947)</u> | <u>660,931</u> |
| Total 2006-2007 | <u>\$ 3,093,122</u> | <u>\$ 168,051</u> | <u>\$(396,989)</u> | <u>\$ 2,864,184</u> |
| <u>2007-2008</u> | | | | |
| Workers' Compensation | \$ 2,203,253 | \$ 231,480 | \$(314,305) | \$ 2,120,428 |
| Other (as restated, July 1, 2007) | <u>189,414</u> | <u>114,355</u> | <u>(56,380)</u> | <u>247,389</u> |
| Total 2007-2008 | <u>\$ 2,392,667</u> | <u>\$ 345,835</u> | <u>\$(370,685)</u> | <u>\$ 2,367,817</u> |

COUNTY OF LOS ANGELES
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

17. RISK MANAGEMENT-Continued

In addition to the above estimated liabilities, the County has determined that claims seeking damages of approximately \$539.8 million are reasonably possible of creating adverse judgments against the County. Because of the uncertainty of their outcome, no loss has been accrued for these claims.

18. PROPOSITIONS 218 AND 62

In November 1996, the voters approved the "Right To Vote on Taxes Act" (Proposition 218) which limits the County's ability to levy general and special taxes without voter approval and property related benefit assessments without property owner approval. In September 1998, the Board of Supervisors approved ordinance amendments to bring the County's general purpose taxes into conformance with Proposition 218.

In September 1995, the California Supreme Court upheld the constitutionality of Proposition 62, which requires voter approval of all new local taxes. Taxes imposed without voter approval after the 1986 effective date of Proposition 62 may be invalidated. The Court did not provide clarification about whether the decision would apply only prospectively to all new taxes or retrospectively to all taxes since the effective date of the Proposition.

A class action lawsuit was filed against the County, contending the County's utility taxes do not meet the requirements of Proposition 62 and are therefore invalid. Discussions have taken place with the plaintiffs and on July 1, 2008, the Board authorized a settlement of the lawsuit. The monetary provisions of the settlement are estimated at \$65 million and liabilities of this amount have been recognized in the government-wide financial statements (governmental activities). As discussed in Note 19 (Unincorporated Los Angeles County Utility Users' Tax), the County placed a measure on the November 4, 2008 ballot in conjunction with the settlement. County management believes there is no additional material exposure for this matter.

19. SUBSEQUENT EVENTS

Tax and Revenue Anticipation Notes ("TRANS")

On July 1, 2008, the County issued \$500,000,000 in 2008-09 TRANS which will mature on June 30, 2009. The TRANS are collateralized by taxes and other revenues attributable to the 2008-09 fiscal year and were issued in the form of Fixed Rate Notes at an effective interest rate of 1.58%.

Capital Asset Leasing Corporation Bond Anticipation Notes

On both September 4, 2008 and October 31, 2008, the Corporation issued a \$5,000,000 Bond Anticipation Note each with an initial interest rate of 1.97% and 0.612% respectively. The rates are adjustable on January 2 and July 1, of each year. The notes were purchased by the Los Angeles County Treasury Pool and are due on June 30, 2011. Proceeds of the notes are being used to purchase equipment. The notes are to be paid from the proceeds of lease revenue bonds.

COUNTY OF LOS ANGELES
NOTES TO THE BASIC FINANCIAL STATEMENTS-Continued

19. SUBSEQUENT EVENTS-Continued

Unincorporated Los Angeles County Utility User Tax

On November 4, 2008, the voters approved the Unincorporated Los Angeles County Utility Users' Tax Continuation Measure (Measure U) to validate and reduce the Los Angeles County's existing utility users' tax from 5 percent to 4.5 percent. The funds will be used to continue funding the essential services, including sheriff's deputies, parks, libraries, street repairs, and other general fund services. The adoption of this measure prospectively addresses the validity of taxes that are collectible for FY 2008-2009. As discussed in Note 18, there is a pending lawsuit that addresses the collection of taxes prior to the adoption of this measure. The lawsuit is expected to be settled in March, 2009.

Recent Financial Market Events

While there have been numerous fluctuations in the financial markets in the past several months, the County Treasurer's Pool has not sustained material negative effects.

Subsequent to June 30, 2008, Pension Trust Fund investments managed by LACERA experienced material reductions in investment values due to the downturn in the financial markets. As of October 31, 2008, LACERA's investment portfolio, excluding securities lending collateral, had declined by an estimated \$6.91 billion in value to \$32.6 billion (unaudited). The most significant decline was in the domestic and international public equity portfolios. These portfolios declined \$5.96 billion, or 31%, during this period. LACERA's stand-alone audited financial report (see Note O to the financial statements) discusses specific market events which impacted LACERA's investment portfolios subsequent to June 30, 2008.

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

Los Angeles County Employees Retirement Association
Schedule of Funding Progress-Pension Plan
(Dollar amounts in thousands)

| <u>Actuarial Valuation Date</u> | <u>Actuarial Value of Assets (a)</u> | <u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u> | <u>Unfunded AAL (b-a)</u> | <u>Funded Ratio (a/b)</u> | <u>Covered Payroll (c)</u> | <u>Unfunded AAL as a Percentage of Covered Payroll ((b-a)/c)</u> |
|---|--|--|-----------------------------------|-----------------------------------|------------------------------------|--|
| 06/30/05 | \$ 29,497,485 | \$ 34,375,949 | \$ 4,878,464 | 85.8% | \$ 4,982,084 | 97.9% |
| 06/30/06 | 32,819,725 | 36,258,929 | 3,439,204 | 90.5% | 5,205,804 | 66.1% |
| 06/30/07 | 37,041,832 | 39,502,456 | 2,460,624 | 93.8% | 5,615,736 | 43.8% |

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)
Schedule of Funding Progress-Other Post Employment Benefits
(Dollar amounts in thousands)

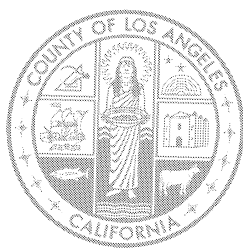
Retiree Health Care(1)

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) - Entry Age (b) | Unfunded AAL (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | Unfunded AAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------------|--|---|--------------------------|--------------------------|---------------------------|--|
| July 1, 2006 | \$ 0 | \$ 20,301,800 | \$ 20,301,800 | 0% | \$ 5,205,804 | 389.98% |

Long-Term Disability(1)

| | | | | | | |
|--------------|------|------------|------------|----|--------------|--------|
| July 1, 2007 | \$ 0 | \$ 929,265 | \$ 929,265 | 0% | \$ 5,615,736 | 16.55% |
|--------------|------|------------|------------|----|--------------|--------|

(1) There is no data available prior to this first valuation.



**SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS**



**COUNTY OF LOS ANGELES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008**

| Federal Grantor/Pass Through Grantor/Program Title | Catalog of Federal Domestic Assistance Number (CFDA#) | Pass-Thru Entity ID No. | Federal Expenditures |
|--|--|--------------------------------|---------------------------------|
| <u>U.S. Agency for International Development</u> | | | |
| <i>Direct Program</i> | | | |
| International Search and Rescue Operations | 98.001 | | \$ 998,409 |
| Total U.S. Agency for International Development | | | 998,409 |
| <u>U.S. Department of Agriculture</u> | | | |
| <i>Passed Through the California Department of Aging</i> | | | |
| Senior Farmer's Market Program | 10.576 | | 168,180 |
| <i>Passed Through the California Department of Education</i> | | | |
| Child Nutrition Program - School Breakfast | 10.553 (3) | 19 34199 9000 | 1,826,741 |
| Child Nutrition Program - School Lunch | 10.555 (3) | 19 34199 9000 | 2,877,076 |
| Summer Food Service Program for Children | 10.559 (3) | CN06679 | 25,815 |
| Summer Food Service Program for Children | 10.559 (3) | 19-86190V | 574,705 |
| <i>Subtotal Child Nutrition Cluster (10.553, 10.555, 10.559)</i> | | | 5,304,337 |
| <i>Passed Through the California Department of Social Services</i> | | | |
| Dollar Value of Food Stamps Issued | 10.551 (2) | | 808,221,299 |
| Food Stamp Program Administration - NAFS | 10.561 (2) | | 115,729,415 |
| <i>Subtotal Food Stamp Cluster (10.551, 10.561)</i> | | | 923,950,714 |
| Total U.S. Department of Agriculture | | | 929,423,231 |
| <u>U.S. Department of Defense</u> | | | |
| <i>Direct Program</i> | | | |
| Procurement Technical Assistance | 12.002 | | 253,376 |
| Total U.S. Department of Defense | | | 253,376 |
| <u>U.S. Department of Education</u> | | | |
| <i>Direct Program</i> | | | |
| Supplemental Education Opportunity | 84.007 (1) | | 15,247 |
| Pell Grants | 84.063 (1) | | 146,775 |
| <i>Passed Through the California Department of Alcohol and Drugs</i> | | | |
| Drug Free Schools and Communities (DFSC) - Friday Night Live | 84.186 | 50b-08 | 75,000 |
| Drug Free Schools and Communities - School Based | 84.186 | 82 | 50,000 |
| Drug Free Schools and Communities - Club Live | 84.186 | 50c-08 | 75,000 |
| <i>Subtotal 84.186</i> | | | 200,000 |
| <i>Passed Through the California Department of Education</i> | | | |
| <i>Passed Through the Los Angeles County Office of Education</i> | | | |
| Federal - Educational Aid Disabled Student (IDEA) | 84.027 (10) | | 13,832,574 |
| Total U.S. Department of Education | | | 14,194,596 |
| <u>U.S. Department of Health and Human Services</u> | | | |
| <i>Direct Program</i> | | | |
| Public Health Preparedness and Response for Bioterrorism | 93.069 | | 36,519,566 |
| Child Mental Health Initiative Grant | 93.104 | | 1,033,645 |
| Tuberculosis/Centers for Disease Control Cooperative Agreement | 93.116 | | 4,496,877 |
| Active Varicella Surveillance and Epidemic Studies | 93.185 | | 186,051 |
| Childhood Lead Poisoning Case Management | 93.197 | | 767,217 |
| Families Coming Together to Fight Substance Abuse | 93.243 | | 374,533 |

**COUNTY OF LOS ANGELES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008**

| Federal Grantor/Pass Through Grantor/Program Title | Catalog of Federal Domestic Assistance Number (CFDA#) | Pass-Thru Entity ID No. | Federal Expenditures |
|---|--|--------------------------------|---------------------------------|
| State Epidemiology and Lab Surveillance Responses | 93.283 | | \$ 668,053 |
| Adult Viral Hepatitis Prevention Coordinator | 93.283 | | 63,834 |
| <i>Subtotal 93.283</i> | | | <u>731,887</u> |
| Rapid Testing Algorithms | 93.491 | | 207,496 |
| Bioterrorism Hospital Preparedness Program | 93.889 | | 13,925,218 |
| HIV Emergency Relief Project Grant | 93.914 | | 35,254,989 |
| Minority AIDS Initiative (MAI) | 93.914 | | 418,712 |
| <i>Subtotal 93.914</i> | | | <u>35,673,701</u> |
| Scholarships for Disadvantaged Students | 93.925 (1) | | 12,218 |
| Special Projects of National Significance/PHC | 93.928 | | 62,094 |
| Special Projects of National Significance/MSM Youth | 93.928 | | 184,583 |
| <i>Subtotal 93.928</i> | | | <u>246,677</u> |
| HIV Prevention Project | 93.940 | | 15,804,592 |
| Expanded and Integrated HIV Testing for Populations | 93.940 | | 44,115 |
| National HIV Behavioral Surveillance | 93.940 | | 124,661 |
| <i>Subtotal 93.940</i> | | | <u>15,973,368</u> |
| Enhanced HIV/AIDS Surveillance for Perinatal Prevention | 93.941 | | 104,733 |
| HIV Risk Behavior Surveillance MSM | 93.943 | | 37,513 |
| STD-Test HIV Seronegative | 93.943 | | 31,760 |
| <i>Subtotal 93.943</i> | | | <u>69,273</u> |
| HIV AIDS Surveillance and Seroprevalence | 93.944 | | 2,775,202 |
| Morbidity and Risk Behavior Surveillance | 93.944 | | 533,425 |
| Monitoring Atypical HIV Strains in Los Angeles County | 93.944 | | 67,463 |
| <i>Subtotal 93.944</i> | | | <u>3,376,090</u> |
| Comprehensive STD Preventions Systems | 93.977 | | 3,617,752 |
| <i>Passed Through the California Family Health Center</i> | | | |
| Family Planning | 93.217 | | 938,092 |
| <i>Passed Through the California Department of Aging</i> | | | |
| Title VII: Elder Abuse Prevention | 93.041 | AP-0708-19 | 88,598 |
| Title VII - Ombudsman | 93.042 | AP-0708-19 | 211,147 |
| Area Agency on Aging - III D | 93.043 | AP-0708-19 | 367,872 |
| Area Agency on Aging III B | 93.044 (11) | AP-0708-19 | 5,890,455 |
| Area Agency on Aging III C-I | 93.045 (11) | AP-0708-19 | 5,080,382 |
| Area Agency on Aging III C-II | 93.045 (11) | AP-0708-19 | 4,259,234 |
| Area Agency on Aging III USDA CI | 93.053 (11) | AP-0708-19 | 766,579 |
| Area Agency on Aging III USDA CII | 93.053 (11) | AP-0708-19 | 605,496 |
| <i>Subtotal Aging Cluster (93.044, 93.045, 93.053)</i> | | | <u>16,602,146</u> |
| Area Agency on Aging Title III E | 93.052 | AP-0708-19 | 2,289,619 |
| Area Agency on Aging Health Insurance Counseling and Advocacy Program (HICAP) | 93.779 | HI-0708-19 | 166,919 |
| <i>Passed Through the California Department of Alcohol and Drugs</i> | | | |
| Federal Drug Medi-Cal (Prenatal and Drug) | 93.778 (13) | 40 & 40a | 3,541,926 |

**COUNTY OF LOS ANGELES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008**

| Federal Grantor/Pass Through Grantor/Program Title | Catalog of Federal Domestic Assistance Number (CFDA#) | Pass-Thru Entity ID No. | Federal Expenditures |
|---|--|--------------------------------|---------------------------------|
| Alcohol Block Grant | 93.959 | 50-08 | \$ 49,314,792 |
| Federal Female Offender | 93.959 | 45-08 | 353,778 |
| New Prenatal Set - Aside | 93.959 | 52-08 | 3,376,329 |
| Substance Abuse Block Grant New HIV Set - Aside | 93.959 | 51-08 | 3,724,019 |
| Substance Abuse Prevention and Treatment Projects | 93.959 | 56-08 | 188,213 |
| Substance Abuse Prevention and Treatment Block Grant Adolescent Treatment | 93.959 | 50a-08 | 1,597,462 |
| Substance Abuse Prevention and Treatment Set - Aside | 93.959 | 50d-08 | 12,049,467 |
| Alcohol Block Grant | 93.959 | | 1,167,425 |
| Substance Abuse Prevention and Treatment Set - Aside | 93.959 | | 247,375 |
| <i>Subtotal 93.959</i> | | | <u>72,018,860</u> |
| <i>Passed Through the California Department of Child Support Services</i> | | | |
| Child Support Enforcement Title IV D | 93.563 | | 117,292,438 |
| <i>Passed Through the California Department of Community Services and Development</i> | | | |
| Community Services Block Grant 06F-4722 | 93.569 | | 4,295,660 |
| Community Services Block Grant 08F-4921 | 93.569 | | 2,093,179 |
| Community Services Block Grant American Indian 06F-4760 | 93.569 | 06F-4760 | 143,060 |
| Community Services Block Grant American Indian 08F-4960 | 93.569 | 08F-4960 | 174,570 |
| Community Services Block Grant American Indian 08F-4975 | 93.569 | 08F-4975 | 15,000 |
| <i>Subtotal 93.569</i> | | | <u>6,721,469</u> |
| <i>Passed Through the California Department of Education</i> | | | |
| Child Day Care Program | 93.596 (12) | CAPP7031 | 9,256,389 |
| <i>Passed Through the California Department of Health Services</i> | | | |
| Health Care Program Children in Foster Care | 93.658 | 75-1545-0-1-60 | 7,175,935 |
| Medi-Cal Administrative Activities (MAA) | 93.778 (13) | 04-35096 | 10,615,144 |
| Targeted Case Management (TCM) | 93.778 (13) | 19-0712 | 3,373,177 |
| Medi-Cal Eligibility Determination | 93.778 (13) | | 213,865,897 |
| In Home Supportive Services - Personal Care Services Program Health Related | 93.778 (13) | | 58,999,776 |
| Child Health and Disability Program | 93.778 (13) | 75-0512-0-1-55 | 5,708,653 |
| <i>Subtotal 93.778</i> | | | <u>292,562,647</u> |
| Comprehensive AIDS Resources Emergency Act Title II | 93.917 | 06-55756 | 5,141,469 |
| <i>Passed Through the California Department of Mental Health</i> | | | |
| McKinney Homeless Act Program | 93.150 | 1946001347j5 | 1,948,874 |
| Mental Health Services: Block Grant | 93.958 | 1946001347j5 | 15,508,357 |
| <i>Passed Through the California Department of Public Health</i> | | | |
| Immunization Calendar Year | 93.568 | 06-55673 | 4,991,497 |
| Immunization Supplemental Fund | 93.568 | 07-65229 | 218,184 |
| Immunization Tracking | 93.568 | 07-65283 | 24,345 |
| <i>Subtotal 93.568</i> | | | <u>5,234,026</u> |
| Health Facilities Inspection | 93.777 (13) | 05-45391 | 12,578,490 |
| Refugee Preventive Health Services | 93.978 | 07-70-9460-1 | 1,697,560 |
| Maternal and Child Health | 93.994 | 200719 | 2,015,728 |
| <i>Passed Through the California Department of Social Services</i> | | | |
| Promoting Safe and Stable Families Program (PSSF) | 93.556 | CFL 07/08-13 | 10,214,085 |

**COUNTY OF LOS ANGELES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008**

| Federal Grantor/Pass Through Grantor/Program Title | Catalog of Federal Domestic Assistance Number (CFDA#) | Pass-Thru Entity ID No. | Federal Expenditures |
|--|--|--------------------------------|---------------------------------|
| CALWORKS - FG/U Assistance | 93.558 | | \$ 445,964,772 |
| CALWORKS Legal Immigrants (MC) | 93.558 | | 17,260,669 |
| CALWORKS Diversion - Federal | 93.558 | | 16,739 |
| CALWORKS Fraud Incentives | 93.558 | | 15,245,565 |
| CALWORKS Single | 93.558 | | 500,044,936 |
| CALWORKS Temporary Assistance for Needy Families Time-Out Assistance | 93.558 | | 36,827,123 |
| Emergency Assistance Foster Care Administration and Assistance (Title IV-A) | 93.558 | CFL 07/08-42 | 36,266,057 |
| <i>Subtotal 93.558</i> | | | <u>1,051,625,861</u> |
| Refugee Resettlement | 93.566 | | 5,335,607 |
| Refugee Employment Social Services | 93.566 | | 3,127,450 |
| <i>Subtotal 93.566</i> | | | <u>8,463,057</u> |
| Refugee Targeted Assistance Program | 93.584 | | 2,198,854 |
| Children's Welfare Services IV B (Direct Cost) | 93.645 | CFL 07/08-56 | 8,633,797 |
| Probation IVE Administration and Assistance | 93.658 (15) | CFL 07/08-56 | 320,000 |
| AIDS to Families with Dependent Children - FC - Administration and Assistance | 93.658 (15) | CFL 07/08-56 | 155,543,675 |
| Children's Welfare Services Title IVE | 93.658 (15) | CFL 07/08-56 | 188,149,188 |
| Foster Parent Training | 93.658 (15) | CFL 07/08-56 | 33,770 |
| Foster Family Licensing | 93.658 (15) | CFL 07/08-56 | 583,033 |
| Group Home Month Visits / CWD | 93.658 (15) | CFL 07/08-56 | 953,091 |
| Cohort 1 | 93.658 (15) | CFL 07/08-56 | 1,302,918 |
| Probation Title IV-E | 93.658 (15) | | 51,109,000 |
| <i>Subtotal 93.658</i> | | | <u>397,994,675</u> |
| Adoptions - Administration and Assistance | 93.659 | CFL 07/08-27 | 120,849,612 |
| Children's Welfare Services Title XX | 93.667 | CFL 07/08-56 | 35,992,119 |
| Independent Living Skills - Children's Services | 93.674 | CFL 07/08-45 | 7,778,998 |
| Adult Protective Services/County Services Block Grant | 93.778 (13) | | 9,429,824 |
| Children's Welfare Services XIX (HLTH REEL) | 93.778 (13) | CFL 07/08-56 | 31,523,795 |
| <i>Subtotal 93.778</i> | | | <u>40,953,619</u> |
| <i>Passed Through the California Secretary of State</i> | | | |
| Help America Vote Act Section 261 Elections Assistance for Individuals with Disabilities | 93.617 | 07G26112 | 312,784 |
| Total U.S. Department of Health and Human Services | | | <u>2,375,692,324</u> |
| <u>U.S. Department of Homeland Security</u> | | | |
| <i>Direct Program</i> | | | |
| Terrorism Early Warning (TEW) Resource Center | 97.007 | | 77,686 |
| Assistance to Firefighters Grant EMW-2006-FG-18330 | 97.044 | | 496,000 |
| TSA National Explosives Detection Canine Team Program | 97.072 | | 328,790 |
| Urban Search and Rescue EMW-2003-CA-0101 | 97.025 | | 36,985 |
| Urban Search and Rescue EMW-2006-CA-0196 | 97.025 | | 342,309 |
| Urban Search and Rescue EMW-2007-CA-0155 | 97.025 | | 710,447 |
| <i>Subtotal 97.025</i> | | | <u>1,089,741</u> |

**COUNTY OF LOS ANGELES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008**

| Federal Grantor/Pass Through Grantor/Program Title | Catalog of Federal Domestic Assistance Number (CFDA#) | Pass-Thru Entity ID No. | Federal Expenditures |
|---|--|--------------------------------|---------------------------------|
| <i>Passed Through the United Way</i> | | | |
| Food Basket Distribution | 97.024 | LROID 069500-009 | \$ 10,372 |
| Emergency Food and Shelter National Board Program | 97.024 | LROID 069500-009 | 11,837 |
| <i>Subtotal 97.024</i> | | | <u>22,209</u> |
| <i>Passed Through the California Office of Emergency Services</i> | | | |
| Earthquake (Northridge) | 97.036 | ST DR 1008 | 1,018,615 |
| 2005 Winterstorms | 97.036 | ST DR 1577 | 6,988,577 |
| 2005 Winterstorms #2 | 97.036 | ST DR 1585 | 2,707,274 |
| 2007 Wildfires (Santa Clarita Valley) | 97.036 | | 8,072 |
| <i>Subtotal 97.036</i> | | | <u>10,722,538</u> |
| Hazard Mitigation Grant | 97.039 | FMA 05-PL01 | 5,433,156 |
| <i>Passed Through the California Office of Homeland Security</i> | | | |
| State Homeland Security Program 05 | 97.067 (14) | | 1,657,603 |
| State Homeland Security Program 06 | 97.067 (14) | 2006-0071 | 5,068,907 |
| State Homeland Security Program 06 | 97.067 (14) | | 926,463 |
| State Homeland Security Program 07 | 97.067 (14) | 2007-2008 | 308,458 |
| <i>Subtotal Homeland Security Cluster 97.067</i> | | | <u>7,961,431</u> |
| Buffer Zone Protection Program 05 | 97.078 | | 608,385 |
| <i>Passed Through the California Office of Homeland Security</i> | | | |
| <i>Passed Through the City of Los Angeles</i> | | | |
| Urban Area Security Initiative 05 | 97.008 | 2005-0015 | 75,200 |
| Urban Area Security Initiative 05 | 97.008 | | 7,384,689 |
| Urban Area Security Initiative 06 | 97.008 | | 1,225,238 |
| <i>Subtotal 97.008</i> | | | <u>8,685,127</u> |
| Total U.S. Department of Homeland Security | | | <u>35,425,063</u> |
| <u>U.S. Department of Housing and Urban Development (HUD)</u> | | | |
| <i>Direct Program</i> | | | |
| Homeless Foster Youth Program (HFYP) | 14.235 | | 2,127,138 |
| <i>Passed Through the Los Angeles County Community Development Commission</i> | | | |
| Community Development Block Grant - Santa Clarita Service Center | 14.218 (4) | F96517-05 | 10,000 |
| Project Star (Studying, Tutoring, and Reading) | 14.218 (4) | F96125-07 | 30,000 |
| Project Star (La Puente/Graham Library) | 14.218 (4) | F98125-07/600908-07 | 75,140 |
| Hacienda Heights Community Recreation Program | 14.218 (4) | F96411-08 | 26,896 |
| Burke's Club Drug Prevention and Gang Intervention | 14.218 (4) | F96228-08 | 69,910 |
| Adventure Park Recreation Program | 14.218 (4) | F96410-08 | 67,772 |
| Amigo Park Mobile Recreation Program | 14.218 (4) | F96409-08 | 27,537 |
| Pathfinder Senior Recreation Program | 14.218 (4) | F98415-08 | 11,571 |
| Stephen Sorensen Park Community Building Project | 14.218 (4) | 600581-04 | 75,635 |
| Loma Alta Park Recreation Program | 14.218 (4) | 600475-08 | 19,552 |
| Pamela Park Recreation Program | 14.218 (4) | 600482-08 | 20,101 |
| Pearblossom Park Recreation Program | 14.218 (4) | 600483-08 | 13,739 |
| Community Development Block Grant | 14.218 (4) | 600922-07 | 730,488 |
| Community Code Enforcement East Los Angeles - 1st District | 14.218 (4) | F96131-07 | 163,159 |
| Community Code Enforcement 4th District | 14.218 (4) | 600727-07 | 31,543 |
| Century Station Code Enforcement | 14.218 (4) | | 6,500 |
| Homeowners Fraud Prevention Program | 14.218 (4) | F96227-7 | 45,597 |

**COUNTY OF LOS ANGELES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008**

| Federal Grantor/Pass Through Grantor/Program Title | Catalog of Federal Domestic Assistance Number (CFDA#) | Pass-Thru Entity ID No. | Federal Expenditures |
|---|--|--------------------------------|---------------------------------|
| Fraud Prevention for Senior and Families | 14.218 (4) | 600978.07 | \$ 90,403 |
| Success Through Awareness and Resistance (STAR) | 14.218 (4) | F96233-07 | 25,000 |
| Lennox Station Community Youth Center | 14.218 (4) | F96235-07 | 20,988 |
| Rowland Heights Youth Athletic League Program-Carolyn Rosas Park | 14.218 (4) | F96415-07 | 34,456 |
| Century Sheriff Youth Activity League Center Firestone | 14.218 (4) | F96234-07 | 10,495 |
| Century Station Code Enforcement Project | 14.218 (4) | F96232-07 | 29,045 |
| Community Code Enforcement East Los Angeles - 1st District | 14.218 (4) | | 303,516 |
| <i>Subtotal Community Development Block Grant (CDBG)</i> | | | |
| <i>Entitlement and (HUD-Administered) Small Cities Cluster (14.218)</i> | | | 1,939,043 |
| Total U.S. Department of HUD | | | 4,066,181 |
| <u>U.S. Department of Justice</u> | | | |
| <i>Direct Program</i> | | | |
| Asset Forfeiture | 16.UNKNOWN | | 509,426 |
| Asset Seizure and Forfeiture | 16.UNKNOWN | | 42,000 |
| Asset Forfeiture (NARCO) | 16.UNKNOWN | | 5,546,587 |
| Southwest Border Initiative | 16.UNKNOWN | | 521,821 |
| <i>Subtotal 16.UNKNOWN</i> | | | 6,619,834 |
| Drug Enforcement Administration | 16.001 | | 152,109 |
| 2004 Solving Cold Cases with DNA-384 | 16.560 | | 163,353 |
| DNA Forensic Casework Backlog Red Program | 16.560 | | 39,957 |
| <i>Subtotal 16.560</i> | | | 203,310 |
| DNA Forensic Casework Backlog Red Program | 16.564 | | 239,176 |
| LASD Command and Control Personal Computer | 16.580 | | 158,348 |
| Gang and Narcotics Enforcement Team (GANET) | 16.580 | | 399,342 |
| <i>Subtotal 16.580</i> | | | 557,690 |
| JAG Strategies Against Gang Environments (SAGE) | 16.592 | | 40,000 |
| JAG Community Law Enforcement and Recovery (CLEAR) | 16.592 | | 61,000 |
| JAG at Risk Youth Countywide | 16.592 | | 99,700 |
| <i>Subtotal 16.592</i> | | | 200,700 |
| State Criminal Alien Assistance Program | 16.606 | | 16,342,867 |
| Bulletproof Vest Partnership Program | 16.607 | | 112,194 |
| Cops Creating a Culture of Integrity | 16.710 | | 9,544 |
| RCPI 2004 Integrity Initiative | 16.710 | | 904 |
| Cops 2003 Technology Program-CF28 | 16.710 | | 53,290 |
| RCPI Integrity/Public Trust Initiative | 16.710 | | 5,979 |
| Cops 2005 Technology Program | 16.710 | | 104,000 |
| <i>Subtotal 16.710</i> | | | 173,717 |
| Gang Resistance, Education and Training | 16.737 | | 51,640 |
| Community Law Enforcement and Recovery (CLEAR) (JAG) | 16.738 (16) | | 181,000 |
| Abolish Chronic Truancy (ACT) (JAG) | 16.738 (16) | | 190,000 |
| Strategies Against Gang Environments (SAGE) (JAG) | 16.738 (16) | | 494,000 |
| Special Enforcement Unit (CRASH) (JAG) | 16.738 (16) | | 114,000 |
| L.A. Bridges (JAG) | 16.738 (16) | | 116,000 |
| City Clear (JAG) | 16.738 (16) | | 657,273 |

**COUNTY OF LOS ANGELES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008**

| Federal Grantor/Pass Through Grantor/Program Title | Catalog of Federal Domestic Assistance Number (CFDA#) | Pass-Thru Entity ID No. | Federal Expenditures |
|--|--|--------------------------------|---------------------------------|
| Alternative Sentencing Program (JAG) | 16.738 (16) | | \$ 208,000 |
| <i>Subtotal 16.738</i> | | | <u>1,960,273</u> |
| DNA Capacity Enhancement Program | 16.741 | | 301,875 |
| Community Law Enforcement and Recovery (CITY) | 16.744 | | 504,240 |
| <i>Passed Through the City of Los Angeles</i> | | | |
| City Clear (OJJDP) | 16.541 | | 109,848 |
| City Clear (JAG) | 16.738 (16) | | 97,000 |
| <i>Passed Through the California Office of Emergency Services</i> | | | |
| Elder Abuse Advocacy and Outreach Program (EAAOP-VOC) | 16.575 | | 153,869 |
| Special Emphasis Victim Assistance Program (SEVAP) | 16.575 | | 110,000 |
| Victim Witness Assistance Program (VWAP) | 16.575 | | 1,585,553 |
| <i>Subtotal 16.575</i> | | | <u>1,849,422</u> |
| Stalking and Threat Assessment Team (STAT) | 16.588 | | 180,000 |
| Lancaster Domestic Violence Program | 16.588 | | 89,484 |
| <i>Subtotal 16.588</i> | | | <u>269,484</u> |
| Project Safe Neighborhoods | 16.609 | | 131,200 |
| Project Safe Neighborhoods | 16.609 | US07P30190 | 169,369 |
| Project Safe Neighborhoods | 16.609 | US05S20190 | 50,000 |
| <i>Subtotal 16.609</i> | | | <u>350,569</u> |
| Clearinghouse Electronic Surveillance System | 16.738 (16) | | 353,955 |
| Coverdell Forensic Sciences Improvement Act Program | 16.742 | CQ05050190 | 111,818 |
| 2007 Paul Coverdell Forensic | 16.742 | CQ07060190 | 64,426 |
| <i>Subtotal 16.742</i> | | | <u>176,244</u> |
| Project Safe Neighborhoods | 16.744 | | 150,244 |
| Six Cities Clear | 16.744 | | 123,029 |
| Anti Gang Initiative | 16.744 | AG07B10190 | 120,602 |
| Agi Century Gang Suppression | 16.744 | AG07A10190 | 59,336 |
| <i>Subtotal 16.744</i> | | | <u>453,211</u> |
| <i>Passed Through the Corrections Standards Authority</i> | | | |
| Juvenile Accountability Block Grant | 16.523 | | 231,244 |
| Disproportionate Minority Contact | 16.542 | CSA 338-06 | 123,806 |
| Disproportionate Minority Contact | 16.542 | CSA 338-07 | 83,589 |
| <i>Subtotal 16.542</i> | | | <u>207,395</u> |
| Total U.S. Department of Justice | | | <u>31,517,997</u> |
| <u>U.S. Department of Labor</u> | | | |
| <i>Passed Through the California Department of Aging</i> | | | |
| Older American Title V Project | 17.235 | TV-0708-19 | 1,993,346 |
| <i>Passed Through the California Employment Development Department</i> | | | |
| Workforce Investment Act Adult | 17.258 (5) | R760327 | 1,842,154 |
| Workforce Investment Act Adult | 17.258 (5) | R865463 | 8,042,401 |
| Workforce Investment Act Rapid Response | 17.258 (5) | R865463 | 595,355 |
| Workforce Investment Act Adult Recap ST | 17.258 (5) | R865463 | 13,486 |
| Workforce Investment Act Youth | 17.259 (5) | R760327 | 3,354,040 |

**COUNTY OF LOS ANGELES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008**

| Federal Grantor/Pass Through Grantor/Program Title | Catalog of Federal Domestic Assistance Number (CFDA#) | Pass-Thru Entity ID No. | Federal Expenditures |
|---|--|--------------------------------|---------------------------------|
| Workforce Investment Act Youth | 17.259 (5) | R865463 | \$ 7,878,121 |
| Workforce Investment Act Dislocated Worker | 17.260 (5) | R760327 | 1,355,086 |
| Workforce Investment Act Dislocated Worker | 17.260 (5) | R865463 | 6,147,450 |
| Workforce Investment Act Dislocated Worker Recap ST | 17.260 (5) | R865463 | 22,258 |
| <i>Subtotal WIA Cluster (17.258, 17.259, 17.260)</i> | | | <u>29,250,351</u> |
| National Emergency Grant (NEG) Disaster | 17.261 | R865463 | <u>975,861</u> |
| Total U.S. Department of Labor | | | <u>32,219,558</u> |
| <u>U.S. Department of the Interior</u> | | | |
| <i>Passed Through the California Department of Parks and Recreation</i> | | | |
| Helen Keller Park Development | 15.916 | 06-01556 | 35,377 |
| Pamela Park Development | 15.916 | | 16,297 |
| Bassett Park Development | 15.916 | | 76,632 |
| <i>Subtotal 15.916</i> | | | <u>128,306</u> |
| Total U.S. Department of the Interior | | | <u>128,306</u> |
| <u>U.S. Department of Transportation</u> | | | |
| <i>Direct Program</i> | | | |
| Airport Improvement Program | 20.106 | | 1,675,207 |
| Urbanized Area Formula Program | 20.507 (7) | | 216,000 |
| Job Access and Reverse Commute | 20.516 (8) | MOUPT001001 | 208,770 |
| <i>Passed Through the California Department of Transportation</i> | | | |
| Bridge Retrofit Program | 20.205 (6) | BRLSZD-5953(286) | 1,342,880 |
| Surface Transportation Program (STP) | 20.205 (6) | STPL-5953(468) | 19,509,681 |
| Highway Bridge Rehabilitation | 20.205 (6) | BRLS-5953(518) | 4,919,737 |
| Hazard Elimination Safety | 20.205 (6) | STPLH-5953(523) | 244,182 |
| 1998/1999 Demonstration | 20.205 (6) | HP21L-5953(384) | 1,970,813 |
| Transportation Enhancement Activities | 20.205 (6) | STPLER-5953(498) | 295,433 |
| Regional Surface Transportation Program | 20.205 (6) | STPLER-5953(417) | 298,976 |
| Emergency Relief Program | 20.205 (6) | ER4206(002) | 200,598 |
| <i>Subtotal Highway Planning and Construction Cluster (20.205)</i> | | | <u>28,782,300</u> |
| Los Angeles County Subregional Planning | 20.505 | 07-065.LACS1 | 14,749 |
| Public Transportation for Non Urbanized Areas | 20.509 | 645404 | 582,846 |
| <i>Passed Through the California Office of Traffic Safety</i> | | | |
| Traffic Safety CB0213 | 20.600 (9) | | 362,160 |
| Office of Traffic and Safety Program Driving Under the Influence | 20.600 (9) | AL0699 | 837,531 |
| DUI Enforcement and Education for Contract Cities | 20.600 (9) | AL0651 | 556,705 |
| DUI Enforcement and Education for Contract Cities | 20.600 (9) | AL0808 | 689,665 |
| <i>Subtotal Highway Safety Cluster (20.600)</i> | | | <u>2,446,061</u> |
| Total U.S. Department of Transportation | | | <u>33,925,933</u> |
| <u>U.S. Election Assistance Commission</u> | | | |
| <i>Passed Through the California Secretary of State</i> | | | |
| Help America Vote Act Section 301 Voting Systems Program | 90.401 | 07G30112 | 360,310 |
| Total U.S. Election Assistance Commission | | | <u>360,310</u> |

COUNTY OF LOS ANGELES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

| <u>Federal Grantor/Pass Through Grantor/Program Title</u> | <u>Catalog of Federal Domestic Assistance Number (CFDA#)</u> | <u>Pass-Thru Entity ID No.</u> | <u>Federal Expenditures</u> |
|---|--|--------------------------------|---------------------------------|
| <u>U.S. National Endowment for the Arts</u> | | | |
| <i>Passed Through the Arts Midwest</i> | | | |
| The Big Read Grant | 45.024 | 22619/27725 | \$ 40,000 |
| Total U.S. National Endowment for the Arts | | | <u>40,000</u> |
| <u>U.S. Office of the President</u> | | | |
| <i>Direct Program</i> | | | |
| High Intensity Drug Traffic (HIDTA) | 99.UNKNOWN | | <u>111,426</u> |
| Total U.S. Office of the President | | | <u>111,426</u> |
| Total Federal Expenditures | | | <u><u>\$ 3,458,356,710</u></u> |

Legend

| | |
|--|-------------|
| (1) Student Financial Assistance Cluster | \$ 174,240 |
| (2) Food Stamp Cluster | 923,950,714 |
| (3) Child Nutrition Cluster | 5,304,337 |
| (4) CDBG-Entitlement and (HUD-Administered) Small Cities Cluster | 1,939,043 |
| (5) WIA Cluster | 29,250,351 |
| (6) Highway Planning and Construction Cluster | 28,782,300 |
| (7) Federal Transit Cluster | 216,000 |
| (8) Transit Services Programs Cluster | 208,770 |
| (9) Highway Safety Cluster | 2,446,061 |
| (10) Special Education Cluster (IDEA) | 13,832,574 |
| (11) Aging Cluster | 16,602,146 |
| (12) CCDF Cluster | 9,256,389 |
| (13) Medicaid Cluster | 349,636,682 |
| (14) Homeland Security Cluster | 7,961,431 |
| (15) Total for 93.658 | 405,170,610 |
| (16) Total for 16.738 | 2,411,228 |

See accompanying Notes to Schedule of Expenditures of Federal Awards.

**COUNTY OF LOS ANGELES
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008**

NOTE 1 - GENERAL

The accompanying schedule of expenditures of federal awards represents all federal programs of the County of Los Angeles, California (the County). The County's basic financial statements include the operations of the Community Development Commission (CDC), which expended \$291,031,919 in federal awards, which are not included in the accompanying schedule of expenditures of federal awards for the year ended June 30, 2008. The CDC engaged other auditors to perform an audit in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. All federal financial assistance received directly from federal/state agencies as well as federal financial assistance passed through other government agencies are included in the schedule.

NOTE 2 - BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented generally using the modified-accrual basis of accounting for program expenditures accounted for in the governmental funds and the accrual basis of accounting for program expenditures accounted for in the proprietary funds, as described in Note 1 of the notes to the County's basic financial statements. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*. However, some amounts presented in this schedule are reported on a cash basis, as described in the succeeding paragraph.

Certain federal program expenditures in the schedule of expenditures of federal awards are converted to and reported on a cash basis due to the claiming requirements of the State pass-through agencies. These expenditures are presented on a cash basis in order to be consistent with the amounts previously claimed and reported to the State for reimbursement purposes. Listed below are the affected programs.

**Catalog of Federal Domestic
Assistance Number
(CFDA#)**

Program Name

| | |
|--------|--|
| 10.561 | Food Stamp Program Administration - NAFS |
| 14.235 | Homeless Foster Youth Program (HFYP) |
| 16.738 | Alternate Sentencing Program |
| 17.235 | Older American Title V Project |
| 17.261 | National Emergency Grant |
| 93.052 | Area Agency on Aging Title III E |
| 93.116 | Tuberculosis CDC Cooperative Agreement |
| 93.556 | Promoting Safe and Stable Families Program |
| 93.558 | Adult Protective Services |
| 93.558 | CalWorks Single |
| 93.558 | EA Foster Care Admin and Asst (Title IV-A) |
| 93.563 | Child Support Enforcement Title IV |
| 93.566 | Refugee Resettlement |
| 93.568 | Immunization Calendar Year |
| 93.569 | Community Services Block Grant American Indian |
| 93.596 | Child Day Care Program |
| 93.645 | Children's Welfare Services IV B (Dir Cost) |
| 93.658 | Probation IVE Admin and Asst |
| 93.658 | AFDC-FC-Admin and Asst |
| 93.658 | Children's Welfare Services Title IVE |
| 93.658 | Foster Parent Training |

**COUNTY OF LOS ANGELES
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008**

**Catalog of Federal Domestic
Assistance Number
(CFDA#)**

Program Name

| | |
|--------|---|
| 93.658 | Foster Family Licensing |
| 93.658 | Group Home Month Visits/ CWD |
| 93.658 | Cohort 1 |
| 93.658 | Probation Title IV-E |
| 93.659 | Adoptions- Administration and Assistance |
| 93.667 | Children's Welfare Services Title XX |
| 93.674 | Independent Living Skills – Children's Services |
| 93.778 | Medi-Cal Eligibility Determination |
| 93.778 | IHSS – PCSP Health Related |
| 93.778 | Children's Welfare SRVS XIX (HLTH REEL) |
| 93.778 | Medi-Cal Administrative Activities |
| 93.778 | Targeted Case Management |
| 93.977 | Comprehensive STD Prevention Systems |
| 93.978 | Refugee Preventive Health Services |
| 93.994 | Maternal and Child Health |
| 97.036 | Earthquake (Northridge) |
| 97.036 | 2005 Winterstorms |

NOTE 3 - SUMMARY OF COMMUNITY SERVICES BLOCK GRANT – CSBG CFDA #93.569

The following summarizes the federal expenditures of the Department of Community and Senior Services for the County's Community Services Block Grant (CSBG), U.S. Department of Health and Human Services, passed through the California Department of Community Services and Development, CFDA #93.569 for the year ended June 30, 2008.

| <u>Program Name</u> | <u>Grant No.</u> | <u>Expenditure</u> | |
|----------------------------|-------------------------|---------------------------|----------------|
| | | <u>Amount</u> | |
| CSBG - American Indian | 06F-4760 | \$ | 143,060 |
| CSBG - American Indian | 08F-4960 | | 174,570 |
| CSBG - American Indian | 08F-4975 | | 15,000 |
| | | \$ | <u>332,630</u> |

NOTE 4 - SUBRECIPIENT AWARDS

Of the federal expenditures presented in the schedule of expenditures of federal awards, the County provided a significant amount of funding to various subrecipients. Listed below is a summary of amounts provided to the subrecipients by County program title.

| <u>County Program Title</u> | <u>CFDA #</u> | <u>Amount Provided to Subrecipients</u> |
|--|----------------------|--|
| Workforce Investment Act Adult – R760327 | 17.258 | \$ 706,394 |
| Workforce Investment Act Adult – R865463 | 17.258 | 7,210,401 |
| Workforce Investment Act Rapid Response | 17.258 | 318,743 |

COUNTY OF LOS ANGELES
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

| <u>County Program Title</u> | <u>CFDA #</u> | <u>Amount Provided to Subrecipients</u> |
|--|---------------|---|
| Workforce Investment Act Adult Recap ST | 17.258 | \$ 13,486 |
| Workforce Investment Act Youth – R760327 | 17.259 | 1,935,648 |
| Workforce Investment Act Youth – R865463 | 17.259 | 7,103,592 |
| Workforce Investment Act Dislocated Worker – R760327 | 17.260 | 357,914 |
| Workforce Investment Act Dislocated Worker – R865463 | 17.260 | 5,549,941 |
| Workforce Investment Act Dislocated Worker Recap ST | 17.260 | 22,258 |
| <i>Subtotal WIA Cluster (17.258, 17.259, and 17.260)</i> | | <u>23,218,377</u> |
| National Emergency Grant (NEG) Disaster | 17.261 | 772,521 |
| Traffic Safety CB0213 | 20.600 | 90,144 |
| Federal Educational Aid Disabled Student | 84.027 | 12,621,379 |
| Drug Free Schools and Communities (DFSC) - Friday Night Live | 84.186 | 75,000 |
| Drug Free Schools and Communities - Club Live | 84.186 | 75,000 |
| Drug Free Schools and Communities - School Based | 84.186 | 45,000 |
| <i>Subtotal 84.186</i> | | <u>195,000</u> |
| Title VII: Elder Abuse Prevention | 93.041 | 88,598 |
| Title VII: Ombudsman | 93.042 | 211,147 |
| Area Agency on Aging III D | 93.043 | 367,872 |
| Area Agency on Aging III B | 93.044 | 3,960,479 |
| Area Agency on Aging III C II | 93.045 | 3,805,192 |
| Area Agency on Aging III C I | 93.045 | 4,594,617 |
| Area Agency on Aging III USDA CII | 93.053 | 605,496 |
| Area Agency on Aging III USDA CI | 93.053 | 766,579 |
| <i>Subtotal Aging Cluster (93.044, 93.045, and 93.053)</i> | | <u>13,732,363</u> |
| Area Agency on Aging Title III E | 93.052 | 1,573,264 |
| Public Health Preparedness and Response for Bioterrorism | 93.069 | 11,828,128 |
| Child Mental Health Initiative Grant | 93.104 | 909,095 |
| Tuberculosis/Centers for Disease Control Cooperative Agreement | 93.116 | 53,246 |
| McKinney Homeless Act Program | 93.150 | 1,147,676 |
| Childhood Lead Poisoning Case Management | 93.197 | 35,000 |
| Families Coming Together to Fight Substance Abuse | 93.243 | 374,533 |
| Rapid Testing Algorithms | 93.491 | 1,950 |
| Promoting Safe and Stable Families Program (PSSF) | 93.556 | 10,214,085 |
| CalWORKs Single | 93.558 | 149,304,958 |
| Refugee Employment Social Services | 93.566 | 2,933,788 |

COUNTY OF LOS ANGELES
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

| <u>County Program Title</u> | <u>CFDA #</u> | <u>Amount Provided to Subrecipients</u> |
|---|---------------|---|
| Immunization Tracking | 93.568 | \$ 9,329 |
| Immunization Supplemental Fund | 93.568 | 216,311 |
| <i>Subtotal 93.568</i> | | <u>225,640</u> |
| Community Services Block Grant American Indian 06F-4760 | 93.569 | 128,385 |
| Community Services Block Grant American Indian 08F-4960 | 93.569 | 135,797 |
| Community Services Block Grant American Indian 08F-4975 | 93.569 | 15,000 |
| Community Services Block Grant 08F-4921 | 93.569 | 1,104,842 |
| Community Services Block Grant 06F-4722 | 93.569 | 3,307,853 |
| <i>Subtotal 93.569</i> | | <u>4,691,877</u> |
| Refugee Targeted Assistance Program | 93.584 | 1,674,738 |
| Independent Living Skills - Children's Services | 93.674 | 4,207,430 |
| Medi-Cal Administrative Activities (MAA) | 93.778 | 882,504 |
| Area Agency on Aging Health Insurance Counseling and Advocacy Program | 93.779 | 152,495 |
| Bioterrorism Hospital Preparedness Program | 93.889 | 12,135,207 |
| Minority AIDS Initiative (MAI) | 93.914 | 292,533 |
| HIV Emergency Relief Project Grant | 93.914 | 25,036,024 |
| <i>Subtotal 93.914</i> | | <u>25,328,557</u> |
| Comprehensive AIDS Resources Emergency ACT Title II | 93.917 | 4,533,293 |
| Special Projects of National Significance / PHC | 93.928 | 62,094 |
| Special Projects of National Significance / MSM Youth | 93.928 | 86,756 |
| <i>Subtotal 93.928</i> | | <u>148,850</u> |
| HIV Prevention Project | 93.940 | 9,535,200 |
| Enhanced HIV/AIDS Surveillance for Perinatal Prevention | 93.941 | 54,930 |
| Monitoring Atypical HIV Strains in Los Angeles County | 93.944 | 2,023 |
| HIV AIDS Surveillance and Seroprevalence | 93.944 | 257,164 |
| <i>Subtotal 93.944</i> | | <u>259,187</u> |
| Mental Health Services: Block Grant | 93.958 | 2,609,656 |
| Substance Abuse Block Grant New HIV Set - Aside | 93.959 | 475,019 |
| New Prenatal Set – Aside | 93.959 | 2,902,239 |
| Substance Abuse Prevention and Treatment Block Grant | | |
| Adolescent Treatment | 93.959 | 1,437,716 |

**COUNTY OF LOS ANGELES
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008**

| <u>County Program Title</u> | <u>CFDA #</u> | <u>Amount Provided to Subrecipients</u> |
|---|---------------|---|
| Federal Female Offender | 93.959 | \$ 353,778 |
| Alcohol Block Grant | 93.959 | 38,877,529 |
| Substance Abuse Prevention and Treatment Projects | 93.959 | 169,463 |
| Substance Abuse Prevention and Treatment - Set Aside | 93.959 | 12,049,467 |
| Alcohol Block Grant | 93.959 | <u>763,425</u> |
| <i>Subtotal 93.959</i> | | <u>57,028,636</u> |
| Emergency Food and Shelter National Board Program | 97.024 | 11,837 |
| Food Basket Distribution | 97.024 | <u>10,372</u> |
| <i>Subtotal 97.024</i> | | <u>22,209</u> |
| State Homeland Security Program 06 | 97.067 | <u>3,508,596</u> |
| Total Amount Provided to Subrecipients: | | <u><u>\$ 356,672,129</u></u> |



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SACRAMENTO

OAKLAND

WALNUT CREEK

NEWPORT BEACH

SAN MARCOS

SAN DIEGO

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

The Honorable Board of Supervisors
County of Los Angeles, California

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County of Los Angeles, California (County), as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements and have issued our report thereon dated December 15, 2008. Our report was modified to include a reference to other auditors and also included an explanatory paragraph describing the implementation of Governmental Accounting Standards Board (GASB) Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and GASB Statement No. 50, *Pension Disclosures – An Amendment of GASB Statements No. 25 and 27*. 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. Other auditors audited the financial statements of the Community Development Commission (CDC) and the Los Angeles County Employees Retirement Association (LACERA), as described in our report on the County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 08-01 to be a significant deficiency in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above is not a material weakness.

Compliance and Other Matters

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

The County's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the County's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the audit committee, the Board of Supervisors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Macias Jini & O'Connell LLP

Certified Public Accountants

Los Angeles, California
December 15, 2008



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Honorable Board of Supervisors
County of Los Angeles, California

Compliance

We have audited the compliance of the County of Los Angeles, California (County) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

The County's basic financial statements include the operations of the Community Development Commission (CDC), which expended \$291,031,919 in federal awards, which are not included in the schedule of expenditures of federal awards for the year ended June 30, 2008. Our audit, described below, did not include the operations of the CDC because the CDC engaged other auditors to perform an audit in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the County's compliance with those requirements.

As described in findings 08-04, 08-05, 08-06, 08-08, 08-11, 08-12 and 08-15 in the accompanying schedule of findings and questioned costs, the County did not comply with requirements regarding activities allowed or unallowed (findings 08-05, 08-08, and 08-15), eligibility (finding 08-04), subrecipient monitoring (findings 08-06, 08-11 and 08-12) that are applicable to the Adoption Assistance, Chafee Foster Care Independence Program, Foster Care Title IV-E, Social Services Block Grant, Temporary Assistance for Needy Families and Block Grants for Prevention and Treatment of Substance Abuse. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as findings 08-02, 08-03, 08-07, 08-10, and 08-16.

Internal Control Over Compliance

The management of the County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 08-03, 08-04, 08-05, 08-06, 08-08, 08-09, 08-11, 08-12, 08-13, 08-14 and 08-15 to be significant deficiencies.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items 08-03, 08-04, 08-05, 08-06, 08-08, 08-11, 08-12, 08-13 and 08-15 to be material weaknesses.

The County's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the County's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the audit committee, the Board of Supervisors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Macias Jini & O'Connell LLP

Certified Public Accountants

Los Angeles, California
March 5, 2009

**COUNTY OF LOS ANGELES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008**

Section I - Summary of Auditor's Results

(a) Financial Statements

The type of auditor's report issued on the financial statements: **Unqualified Opinion.**

Internal control over financial reporting:

- Material weaknesses identified in internal control over financial reporting: **No**
- Significant deficiencies identified in internal control over financial reporting that are not considered to be material weaknesses: **Yes**

Noncompliance which is material to the financial statements: **No**

(b) Federal Awards

Internal control over major programs:

- Material weaknesses identified in internal control over major programs: **Yes**
- Significant deficiencies in internal control over major programs that are not considered to be material weaknesses: **Yes**

Type of auditor's report issued on compliance for major programs:

- Public Health Emergency Preparedness– Unqualified
- National Bioterrorism Hospital Preparedness Program – Unqualified
- HIV Emergency Relief Projects Grants - Unqualified
- Medicaid Cluster – Unqualified
- Block Grants for Prevention and Treatment of Substance Abuse - Qualified
- Foster Care Title IV-E – Qualified
- Block Grants for Community Mental Health Services- Unqualified
- Temporary Assistance for Needy Families (TANF) – Qualified
- Adoption Assistance– Qualified
- Social Services Block Grant- Qualified
- Chafee Foster Care Independence Program - Qualified
- Homeland Security Cluster – Unqualified

Any audit findings which are required to be reported in accordance with Section 510(a) of Circular A-133: **Yes**

**COUNTY OF LOS ANGELES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008**

Identification of major programs:

| <u>CFDA Number</u> | <u>Name of Federal Program or Cluster</u> |
|---------------------------|--|
| 93.069 | Public Health Emergency Preparedness |
| 93.889 | National Bioterrorism Hospital Preparedness Program |
| 93.914 | HIV Emergency Relief Projects Grants |
| 93.777, 93.778 | Medicaid Cluster |
| 93.959 | Block Grants for Prevention and Treatment of Substance Abuse |
| 93.658 | Foster Care Title IV-E |
| 93.958 | Block Grants for Community Mental Health Services |
| 93.558 | Temporary Assistance for Needy Families (TANF) |
| 93.659 | Adoption Assistance |
| 93.667 | Social Services Block Grant |
| 93.674 | Chafee Foster Care Independence Program |
| 97.067 | Homeland Security Cluster |

Dollar threshold used to distinguish between Type A and Type B programs: **\$10,375,070**

Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: **No**

Section II – Financial Statement Findings

Finding# 08-01 – Capital Assets

Condition

During the walkthrough of the Capital Assets account balance the following was noted:

- a. One (1) capital asset transfer was not entered in the Capital Asset System (CAS). The transferring department completed the transfer forms and physically transferred the asset, but failed to provide the transfer forms to the Capital Asset Section therefore, the asset was not transferred in (CAS). The transferring department identified the error during the bi-annual physical inventory count. The receiving department never reported the error to the Auditor Controller's office. The net dollar impact of this transfer is zero.
- b. One (1) Building & Improvement (B&I) project completed and placed in service during FY 2005/2006 was not capitalized until FY 2007/2008.
- c. Revenue received for the sale of one (1) easement was recognized during FY 2006/2007; however, the title was not transferred until FY 2007/2008. Although the revenue was part of the monthly revenue report, Auditor Controller staff did not follow up to obtain supporting documentation for the revenue and therefore, did not realize that the revenue had not been earned.
- d. One (1) transfer from Construction in Progress (CIP) B&I to completed projects was not approved in accordance to the Internal Control Plan established by the Auditor Controller's office. The Auditor Controller's Office applied two levels of approval, rather than only one. Auditor Controller stated the eCAPS security workflow was not changed for FX type documents. A change will be requested to ensure only one Auditor Controller approval is required.

**COUNTY OF LOS ANGELES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008**

Out of 47 transactions selected for the testing of the Additions to the Capital Assets account balance the following was noted:

- a. Two (4%) Building & Improvement projects were not capitalized in the year they were placed in service. One (1) project was not listed on the CIP B&I worksheet that is maintained by Auditor Controller to keep track of open projects. One (1) project was listed on the CIP B&I worksheet, however, was not monitored for completion status:
 - i. One (2%) project completed and placed in service during FY 2006/2007 is not yet capitalized. Since this project was not listed on the CIP B&I worksheet, it was never monitored for completion. Auditor Controller staff stated that this was a Waterworks project and until Auditor Controller began using CAS in FY 2006/2007, DPW maintained the CIP-B&I records for Waterworks. In the conversion from DPW records to CAS, this Waterworks project was overlooked for tracking and was not included in the worksheet.
 - ii. One (2%) project completed and placed in service during FY 2007/2008 is not yet capitalized. Although this project was listed on the CIP B&I worksheet with an estimated completion date of May 2008, timely follow up with the department regarding the status of the project was not performed by Auditor Controller. At MGO's request, Auditor Controller staff performed follow up and noted that the project had been completed.

Criteria

- a. Per the *County Fiscal Manual* dated June 2008, "Departments must notify the Auditor-Controller Capital Assets Unit by completing a CAS 09 – Internal Sales and Transfers form. They will complete a FD Disposition document (Event Type: FA09) and copy forward a FA Acquisition document (Event Type: FA27) to the new owner department for completion. The copy forward FA Acquisition document must be completed by the receiving department within 30 days of the transfer date" (pg. 140).
- b. Per GASB 34 § 21-22 "Capital assets should be depreciated over their estimated useful lives unless they are either inexhaustible or are infrastructure assets reported using the modified approach in paragraphs 23 through 25. Inexhaustible capital assets such as land and land improvements should not be depreciated. Depreciation expense should be reported in the statement of activities as discussed in paragraphs 44 and 45. Depreciation expense should be measured by allocating the net cost of depreciable assets (historical cost less estimated salvage value) over their estimated useful lives in a systematic and rational manner. It may be calculated for (a) a class of assets, (b) a network of assets (c) a subsystem of a network or (d) individual assets. Composite methods may be used to calculate depreciation expense". Also, per Auditor Controller's internal control matrix, "Central Accounting maintains a spreadsheet of all CIP-B&I projects with budgeted amount and target completion date. Central Accounting monitors the Board minutes for Notice/Certificate of Completion and works with CEO analysts and departments to obtain copies of those documents. At year end, capital projects budget book and CEO's Space Assignment Notice listing are reviewed to ensure completeness of CIP conversion to B&I".
- c. Per GASB 34 §101, "the statement of net assets and the statement of activities should be prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions should be recognized when the exchange takes place".

**COUNTY OF LOS ANGELES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008**

- d. Per the Auditor Controller's Internal Control Policy "Capital asset documents will be entered into the Capital Asset System by the department and after departmental approvals have been applied, the Department of the Auditor-Controller will apply the final approval. Only one approval by the departments is required for the documents except for the Cancellation and the Disposition documents, which will require two departmental approvals".

Recommendation

Develop and enforce policies and procedures to ensure compliance with internal policies and generally accepted accounting principles.

Views of Responsible Officials and Planned Corrective Action

The County will continue to evaluate the sufficiency of policies and procedures over capital asset transactions. We will also review the overall process of accounting, recording and reporting capital assets, and determine where improvements can be made.

Section III – Federal Award Findings and Questioned Costs

Finding# 08-02 - Reporting – Late Submission of Reports

Program Name: Adoptions – Administration & Assistance
Health Care Program Children in Foster Care
CFDA Titles and Numbers: Adoption Assistance CFDA# 93.659
 Foster Care Title IV-E CFDA# 93.658
Federal Agency: U.S. Department of Health & Human Services (HHS)
Pass- Through Agency: California Department of Social Services (CDSS)
Award Year: June 30, 3008
Name of Department: Department of Children and Family Services (DCFS)

Condition

One of three (33%) selected monthly Expenditure Certification for the County Welfare Department Assistance Claim Expenditures form (CA 800A) was not submitted on a timely basis. The CA 800A Report for the month of December 2007 was due on January 20, 2008, but was submitted to CDSS on January 23, 2008 (i.e., three days late).

For details, please see the chart below:

| <u>Report Date:</u> | <u>Report Type:</u> | <u>Claims Due date</u> | <u>Claims Submission date</u> |
|---------------------|---------------------|------------------------|-------------------------------|
| Dec-07 | CA 800A | 01/20/08 | 1/23/2008 |

Criteria

Any claims submitted to CDSS after 20 calendar days following the end of the claiming month will be deemed late. If the 20th calendar day falls on a weekend or holiday, the claims will be due the following business day per County Fiscal Letter No. 04-04_44.

Questioned Costs: N/A

Systemic or Isolated: Isolated

**COUNTY OF LOS ANGELES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008**

Effect

Failure to submit the CA 800A reports on a timely basis resulted in noncompliance with grant requirements listed in the County Fiscal Letter No. 04-05_44 by the State of California – Health and Human Services Agency, Department of Social Services.

Recommendation

We recommend that the County establish procedures to ensure the timely submission of all reports required by the California Department of Social Services.

Views of Responsible Officials and Planned Corrective Action

The Fiscal Operations Division (FOD) Claiming and Revenue Unit of the Accounting Services Section prepares the monthly Assistance Claim and is aware of the 20th due date. The late submission of the CA 800A Report to CDSS for the month of December 2007 was an isolated occurrence. Nonetheless, in order to ensure this does not occur in the future, the Interim Deputy Director of the Bureau of Finance and Administration will establish and issue written procedures for the FOD Accounting Services staff to follow.

Finding# 08-03 - Activities Allowable or Unallowable – Controls over Cash Disbursements

| | |
|-------------------------------|---|
| Program Name: | Adoptions – Administration & Assistance |
| CFDA Title and Number: | Adoption Assistance CFDA# 93.659 |
| Federal Agency: | U.S. Department of Health & Human Services (HHS) |
| Pass- Through Agency: | California Department of Social Services (CDSS) |
| Award Year: | June 30, 2008 |
| Name of Department: | Department of Children and Family Services (DCFS) |

Condition

Once a child enters into the Adoption Assistance Program, form AAP2 is completed by the eligibility worker of the Revenue Enhancement Division to determine if the child is eligible for funds. After review and approval from the supervisor, the AAP2 form is sent to Fiscal Monitoring and Special Payments division. Data from the AAP2 is entered into an AAP stand alone system. The AAP stand alone system does interface with the APPS (Automated Provider Payment System) which is interfaced with the e-Countywide Accounting and Purchasing System (e-CAPS) for payment. After all the data is entered, a check is automatically generated every month. Currently, there is no process in place to review and approve data entered into the stand alone system.

Due to the weakness noted above, 1 out of 48 cases (2%) selected to review was incorrectly coded as a Federal case in the AAP stand alone system when it should have been coded as a State case.

Criteria

Per OMB Circular A-133§____.300(b)), the County should maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

Questioned Costs: \$15,168

Systemic or Isolated: Systemic

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Effect

Failure to implement internal control procedures over the review of data inputted into the stand alone system may result in disbursement of unallowable costs.

Recommendation

MGO recommends the County implement and enforce policies and procedures over the review of data inputted to the stand alone system.

Views of Responsible Officials and Planned Corrective Action

The Department is in the process of replacing the standalone system with a Web-based system. The expected target date for implementation of the new system is March 2009. New policies and procedures over the review of data inputted to the web-based system will be developed once the system is operational.

Finding# 08-04 - Eligibility- Lack of Supporting Documents and Controls over the Eligibility

| | |
|-------------------------------|---|
| Program Name: | Adoptions – Administration & Assistance |
| CFDA Title and Number: | Adoption Assistance CFDA# 93.659 |
| Federal Agency: | U.S. Department of Health & Human Services (HHS) |
| Pass- Through Agency: | California Department of Social Services (CDSS) |
| Award Year: | June 30, 2008 |
| Name of Department: | Department of Children and Family Services (DCFS) |

Condition

During our review of forty-nine Adoption Assistance Program cases the following control and compliance issues were noted:

Four (8%) cases did not contain an initial 4320 form that was properly signed by the adoptive parent(s) and the Agency's Representative; Therefore, MGO was unable to verify whether the 4320 form was signed and in effect before the final decree of adoption.

Criteria

Per Part IV of OMB Circular A-133 Compliance Supplement for the Adoption Assistance program, adoption assistance subsidy payments may be paid on behalf of a child only if all of the following requirements are met:

"The agreement for the subsidy was signed and was in effect before the final decree of adoption and contains information concerning the nature of services; the amount and duration of the subsidy; the child's eligibility for Title XX services and Title XIX Medicaid; and covers the child should he/she move out of State with the adoptive family (42 USC 675(3))"

Furthermore, per review of the 4320 form, the form must be signed by the adoptive parent(s) and the Agency's Representative in order for the form to be complete.

Questioned Costs: \$61,164 (projected based on payments for 12 months for the cases above)

Systemic or Isolated: Systemic

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Effect

Failure to maintain a signed 4320 form on file may result in noncompliance with Part IV of OMB Circular A-133 Compliance Supplement and may lead to inappropriate distribution of funds to ineligible participants.

Recommendation

MGO recommends that the County enforce policies and procedures to maintain signed 4320 forms on file.

Views of Responsible Officials and Planned Corrective Action

Adoption and Permanency Resources Management will reissue procedures to staff to ensure all documentation is kept in file to comply with policy.

Finding# 08-05 - Activities Allowed or Unallowed – Lack of Supporting Documentation for Disbursements

| | |
|-------------------------------|---|
| Program Name: | Independent Living Skills-Children's Services |
| CFDA Title and Number: | Chafee Foster Care Independence Program CFDA# 93.674 |
| Federal Agency: | U.S. Department of Health and Human Services (HHS) |
| Pass- Through Agency: | California Department of Social Services (CDSS) |
| Award Year: | June 30, 2008 |
| Name of Department: | Department of Children and Family Services (DCFS) |

Condition

Out of Forty cash disbursement transactions reviewed, the following was noted:

Five (13%) payments did not contain a receipt or a signed letter from the youth stating the needs for the funding; therefore, MGO was unable to determine if the funds were used for allowable costs.

Criteria

Per California Welfare and Institutions Code Section 10609.3 (e) (1) "The department, in consultation with the Independent Living Program Strategic Planning Committee, shall develop and implement a stipend to supplement and not supplant the Independent Living Program. To qualify for this stipend, a youth shall be otherwise eligible for the Independent Living Program, have been emancipated from foster care to live on his or her own and be approved by the county. The stipend may provide for, but not be limited to, assisting the youth with the following independent living needs":

- a. Bus passes.
- b. Housing rental deposits and fees.
- c. Housing utility deposits and fees.
- d. Work-related equipment and supplies.
- e. Training-related equipment and supplies.
- f. Education-related equipment and supplies.

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Questioned Costs: \$210

Systemic or Isolated: Systemic

Effect

Failure to maintain proper documentation over disbursements may result in disbursement for unallowable costs.

Recommendation

We recommend the County enforce its policies and procedures to keep proper documentation and to ensure disbursements are made for an allowable cost.

Views of Responsible Officials and Planned Corrective Action

In September 2008, the Youth Development Services (YDS) Management revised the Policy Guidelines for Distribution of YDS Benefits that addresses proper documentation (signed requests for services from youth and receipts) of disbursements of allowable costs, etc. On November 3, 2008, the revised policy was disseminated to YDS managers so they could discuss and distribute to staff.

Finding# 08-06 - Subrecipient Monitoring - During the Award Monitoring and Identification of Federal Award Information

| | |
|-------------------------------|---|
| Program Name: | Independent Living Skills-Children's Services |
| CFDA Title and Number: | Chafee Foster Care Independence Program CFDA# 93.674 |
| Federal Agency: | U.S. Department of Health and Human Services (HHS) |
| Pass- Through Agency: | California Department of Social Services (CDSS) |
| Award Year: | June 30, 2008 |
| Name of Department: | Department of Children and Family Services (DCFS) |

Condition

Out of 4 subrecipients selected:

- a. Three (75%) contracts with the subrecipients did not contain the CFDA title, number, and award name.
- b. Three (75%) subrecipients were not accompanied by a single audit report.
- c. Three (75%) subrecipients had no evidence in records indicating the effects of subrecipient noncompliance.
- d. Three (75%) subrecipients had no evidence of follow-up to ensure subrecipient corrected findings.
- e. Two (50%) subrecipients were not accompanied by proper program monitoring review.

Criteria

Per OMB Circular A-133§____.400 (d), *Pass-through entity responsibilities*. A pass-through entity shall perform the following for the Federal awards it makes:

(1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency. When some of this

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information is not available, the pass-through entity shall provide the best information available to describe the Federal award.

(2) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.

(3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

(4) Ensure that subrecipients expending \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

(5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.

(6) Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.

Questioned Costs: \$2,388,143 (Total contract amount for 3 subrecipients).

Systemic or Isolated: Systemic

Effect

Failure to properly monitor subrecipient activities and inform the subrecipients of required information may result in the County being unable to determine whether the subrecipients used the funds appropriately and are in compliance with the federal grant guidelines

Recommendation

Develop and implement procedures to ensure subrecipient monitoring processes are in accordance with OMB Circular A-133 requirements.

Views of Responsible Officials and Planned Corrective Action

Independent Living Program Management will assign staff to develop subrecipient monitoring procedures in accordance with applicable requirements.

Finding# 08-07 - Eligibility – Lack of Beneficiary Certification

| | |
|-------------------------------|---|
| Program Name: | Independent Living Skills-Children's Services |
| CFDA Title and Number: | Chafee Foster Care Independence Program CFDA# 93.674 |
| Federal Agency: | U.S. Department of Health and Human Services (HHS) |
| Pass- Through Agency: | California Department of Social Services (CDSS) |
| Award Year: | June 30, 2008 |
| Name of Department: | Department of Children and Family Services (DCFS) |

Condition

Our review of forty beneficiary files determined that one file (3%) did not contain a Transitional Independent Living Plan (TILP) form signed by the youth (i.e. beneficiary).

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Criteria

Per the Manual of Policies and Procedures (MPP) Section 30-504 posted on the California Department of Social Services website, the following was noted:

"Independent Living Services shall be provided to all eligible youth, based on the needs, services, and goals identified in the most recently completed Transitional Independent living Plan (TILP)." Per review of the TILP it requires signature of the youth for completeness.

Questioned Costs: \$210

Systemic or Isolated: Systemic

Effect

Failure to maintain a signed TILP on file resulted in noncompliance with the Manual of Policies and Procedures (MPP) Section 30-504 and may lead to inappropriate distribution of funds to ineligible youth.

Recommendation

We recommend that the County develop policies and procedures to maintain signed TILP forms on file.

Views of Responsible Officials and Planned Corrective Action

The Department of Children and Family Services revised the Youth Development Transitional Independent Living Planning Procedural Guide in August 2008. Youth Development Services Management disseminated the revised procedural guide and sent staff to attend Transitional Independent Living Plan (TILP) training at the UCLA Child Welfare Center Training Center.

Finding# 08-08 - Activities Allowed or Unallowed –Lack of Supporting Documents and Controls over Payroll Transactions

| | |
|-------------------------------|---|
| Program Name: | Adoptions – Administration & Assistance Independent Living Skills – Children's Services Health Care Program Children in Foster Care Children Welfare Services Title XX |
| CFDA Title and Number: | Adoption Assistance CFDA# 93.659 Chafee Foster Care Independence Program CFDA# 93.674 Foster Care Title IV-E CFDA# 93.658 Social Services Block Grant CFDA# 93.667 |
| Federal Agency: | U.S. Department of Health & Human Services (HHS) |
| Pass- Through Agency: | California Department of Social Services (CDSS) |
| Award Year: | June 30, 2008 |
| Name of Department: | Department of Children and Family Services (DCFS) |

Condition

The Department of Children and Family Services (DCFS) performs one time study per quarter for all federal award programs in the consolidated County Expense Claim (CEC). Out of one hundred fifty-six (156) time study transaction samples from the CEC report, the following control and compliance issues were noted:

- a. Twenty (13%) employee time studies did not contain reasonable hours when compared to hours on the employee's timesheet (for example, an employee was sick or on vacation according to the timecard but hours were allocated to a working Pin Code);

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- b. Sixteen (10%) employee timesheets did not match the hours paid per the CWTAPPS system;
- c. Twenty (13%) employee timesheets were missing;
- d. Three (2%) supervisors' signatures could not be verified. Therefore, it could not be determined whether the timecards were properly approved by authorized personnel;
- e. One (1%) employee was missing the language proficiency certificate on file as evidence of a properly approved bi-lingual pay bonus;
- f. One (1%) employee's salary exceeded the approved MOU range.

Criteria

Per County Payroll Policies and Procedures, timesheets are required to be signed and approved by the supervisor.

Also, employee work hours recorded on the County's time keeping system (i.e. CWTAPPS) should be substantiated by the actual hours recorded on the employee's timesheet.

In addition, employee work hours recorded on the time study should be reasonable when compared to the employee's timesheet.

Furthermore, employee's salaries/hourly rates should be supported by the approved pay rate range per the MOU based on the employee's item number and title.

Questioned Costs: \$66,418

Systemic or Isolated: Systemic

Effect

Failure to properly document the employee's time and bonus entries on the County time keeping system and time studies, absence of supervisory review and absence of documentation supporting employee's salary above the approved MOU range, may result in the submission of unallowable costs and activities causing noncompliance with federal grant guidelines.

Recommendation

We recommend the following actions to be implemented:

- a. Develop policies and procedures to ensure management reviews timecards and time studies concurrently for reasonableness.
- b. Enforce control procedures to ensure that the hours on the employee's timesheet match the hours per CWTAPPS;
- c. Enforce procedures for the record retention of timesheets, in order to ensure that copies are kept on file and management approval may be reviewed;
- d. Enforce policies and procedures to ensure that copies of the Language Proficiency Certificate are kept on file to ensure that the bi-lingual bonus pay is properly supported;
- e. Enforce policies and procedures to ensure that employee's salaries/hourly rates are supported by the approved MOU range.

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Views of Responsible Officials and Planned Corrective Action

- a. The Time Study Section staff will instruct departmental supervisors via the Time Study Instructions they disseminate quarterly to review both time cards and time study reports for appropriateness before they approve them.
- b. The Payroll Section staff has developed an eCAPS Time Collection Payroll Critical Cycle Schedule. This schedule was developed to ensure hours on an employee's time sheet match the hours per CWTAPPS.
- c. Human Resources staff is developing an eCAPS Time Collection Policy that will strengthen the requirements of retention and accurately approved time sheets. Every departmental employee is expected to sign the new policy once it is finalized by July 1, 2009.
- d. Classification & Compensation Management will remind staff to keep copies of the Language Proficiency Certificates on file to comply with policy and procedures by March 31, 2009.
- e. Personnel processing staff will ensure that an employee's salary is calculated and processed in accordance with all County policies and Memorandum of Understandings. A review and approval process was implemented August 1, 2008, whereby, all personnel transactions have an initiator, reviewer/approver and data entry person.

Finding# 08-09 - Subrecipient Monitoring – Lack of Policies and Procedures During the Award Monitoring

| | |
|-------------------------------|---|
| Program Name: | Bioterrorism Hospital Preparedness Program |
| CFDA Title and Number: | National Bioterrorism Hospital Preparedness Program CFDA# 93.889 |
| Federal Agency: | U.S Department of Health and Human Services (HHS) |
| Pass- Through Agency: | (Direct) |
| Award Year: | June 30, 2008 |
| Name of Department: | Department of Health Services (DHS) |

Condition

Although we found no exceptions during our review of five (5) subrecipient files, we noted that there were no procedures in place to ensure that there is a review of single audit reports received from the subrecipients and that there is follow up on any audit findings in compliance with OMB Circular A-133 subrecipients monitoring requirements.

Criteria

Per OMB Circular A-133§____.300(b), the County should maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

Questioned Costs: N/A

Systemic or Isolated: Systemic

Effect

Failure to develop procedures to ensure that single audit reports are reviewed and monitored may result in the County being in non-compliance with OMB A-133.

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Recommendation

We recommend the County develop procedures to ensure that there is a review of single audit reports received from the subrecipients and that there is follow up on any audit findings in compliance with OMB Circular A-133 subrecipients monitoring requirements.

Views of Responsible Officials and Planned Corrective Action

Although there was no formal written procedure, appropriate steps were taken to ensure compliance that subrecipients were aware of the A-133 Audit requirements, which was supported by the auditor's finding of no exceptions of subrecipient files. The process of informing subrecipients of the A-133 audit requirement and requesting them to submit their information was implemented in November 2007. A formal procedure describing the process in place was developed in January 2009.

Finding# 08-10 - Eligibility –Compliance- Lack of supporting documents

| | |
|-------------------------------|---|
| Program Name: | Medi-Cal Eligibility Determination |
| CFDA Title and Number: | Medicaid Cluster CFDA# 93.778/93.777 |
| Federal Agency: | U.S. Department of Health and Human Services (HHS) |
| Pass- Through Agency: | California Department of Social Services (CDSS) |
| Award Year: | June 30, 2008 |
| Name of Department: | Department of Public Social Service (DPSS) |

Condition

During our review of 25 case files the following compliance issue was noted:

One case file (4%) was not accompanied by proper documentation supporting the participant's eligibility for long-term care (i.e. non-emergency medical services).

Criteria

Per OMB Circular A-133 Compliance Supplement, Part IV Medicaid Cluster eligibility requirements, "qualified aliens, as defined at 8 USC 1641, who entered the United States on or after August 22, 1996, are not eligible for Medicaid for a period of five years, beginning on the date the alien became a qualified alien, unless the alien is exempt from this five-year bar under the terms of 8 USC 1613. States must provide Medicaid to certain qualified aliens in accordance with the terms of 8 USC 1612(b) (2), provided that they meet all other eligibility requirements. States may provide Medicaid to all other otherwise eligible qualified aliens who are not barred from coverage under 8 USC 1613 (the five-year bar). All aliens who otherwise meet the Medicaid eligibility requirements are eligible for treatment of an emergency medical condition under Medicaid, as defined in 8 USC 1611(b)(1)(A), regardless of immigration status or date of entry".

Questioned Costs: Unknown

Systemic or Isolated: Systemic

Effect

Failure to properly determine client eligibility in accordance with eligibility requirements may result in non compliance of federal grant guidelines.

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Recommendation

We recommend the County enforce procedures to ensure eligibility determination is in accordance with eligibility requirements defined in the grant guidelines.

Views of Responsible Officials and Planned Corrective Action

The Department of Public Social Services continues to disagree with the noncompliance finding related to aiding a Legal Permanent Resident or legal alien on full scope Medi-Cal who has been in the country less than five years and is in a Long Term Care facility. DPSS disagrees with the finding since DPSS obtained the following statement from the State concurring with DPSS' application of policy to provide full scope Medi-Cal benefits for the case file cited in this finding for Long-Term Care.

The State replied that "Under current Medi-Cal rules, a qualified alien who has been in the country for less than five years and is not exempt from the five-year bar is eligible for full scope Medi-Cal if they meet all eligibility requirements. The State has a process for ensuring that services for which federal financial participation is not available are paid for entirely with state funds for this population."

The County continues to enforce procedures to ensure eligibility determination is in accordance with eligibility requirements defined in the grant guidelines.

Finding# 08-11 - Subrecipient Monitoring – During the Award Monitoring and Identification of Federal Award Information

| | |
|-------------------------------|---|
| Program Name: | Temporary Assistance for Needy Families |
| CFDA Title and Number: | Temporary Assistance for Needy Families CFDA# 93.558 |
| Federal Agency: | U.S. Department of Health and Human Services (HHS) |
| Pass- Through Agency: | California Department of Social Services (CDSS) |
| Award Year: | June 30, 2008 |
| Name of Department: | Department of Public Social Services (DPSS) |

Condition

Out of 15 subrecipients selected the following control and compliance issues were noted:

Fifteen (100%) contracts with the subrecipients did not contain the CFDA title, number, award name and federal agency.

One (7%) subrecipient was not accompanied by a single audit report. As a result, MGO was unable to verify the single audit report was reviewed and a management decision was issued.

Criteria

Per OMB Circular A-133§____.400 (d), *Pass-through entity responsibilities*. A pass-through entity shall perform the following for the Federal awards it makes:

(1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.

(2) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.

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(3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

(4) Ensure that subrecipients expending \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

(5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.

(6) Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.

Questioned Costs: \$39,694,594 (Based on FY 07/08 expenditure amount for 15 Subrecipients)

Systemic or Isolated: Systemic

Effect

Failure to properly monitor subrecipient activities and inform the subrecipients of required information may result in the County being unable to determine whether the subrecipients used the funds appropriately and are in compliance with the federal grant guidelines

Recommendation

Develop and implement procedures to ensure subrecipient monitoring processes are in accordance with OMB Circular A-133 requirements.

Views of Responsible Officials and Planned Corrective Action

- a. The Department of Public Social Services agrees that fifteen contracts with the subrecipients did not contain the CFDA title, number, award name and federal agency. The Department will develop and implement procedures by April 30, 2009, to ensure that documentation is available to reflect that subrecipients are being provided with the CFDA title and number, award name and number, and name of federal agency on an annual basis.
- b. The Department of Public Social Services agrees that one subrecipient was not accompanied by a single audit report. The Options Single Audit, dated December 17, 2007, was appropriately made available to the Department. It was not, however, submitted to MGO by their deadline and, therefore, not reviewed. The Department will reinforce existing procedures to ensure subrecipient processes are in accordance with OMB Circular A-133 requirements.

Finding# 08-12 - Subrecipient Monitoring - During the Award Monitoring

| | |
|-------------------------------|--|
| Program Name: | Alcohol Block Grant |
| CFDA Title and Number: | Block Grants for Prevention and Treatment of Substance Abuse CFDA# 93.959 |
| Federal Agency: | U.S. Department of Health and Human Services (HHS) |
| Pass- Through Agency: | California Department of Alcohol and Drugs (ADP) |
| Award Year: | June 30, 2008 |
| Name of Department: | Department of Public Health |

Condition

During our review of twenty-eight (28) subrecipients, the following compliance issue was noted:

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Six (21%) subrecipients were not accompanied by a Single Audit Report or evidence that the subrecipient is not subject to OMB A-133 single audit.

Criteria

Per OMB Circular A-133§___.400(d), *Pass-through entity responsibilities*. A pass-through entity shall perform the following for the Federal awards it makes:

- (1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.
- (2) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.
- (3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- (4) Ensure that subrecipients expending \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.
- (5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.
- (6) Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.

Questioned Costs: \$2,612,001 (total contract amount for FY 07/08)

Systemic or Isolated: Systemic

Effect

Failure to properly monitor subrecipient activities may result in noncompliance with the federal grant guidelines. Also, the County is unable to determine whether the subrecipients have used the funds appropriately.

Recommendation

We recommend the County develop and enforce subrecipient monitoring procedures to ensure compliance with OMB A-133 Subrecipient Monitoring requirements.

Views of Responsible Officials and Planned Corrective Action

The Department of Public Health Alcohol and Drug Program Administration agrees with this recommendation, which was already implemented in FY 2007-08 and will be an annual process. Letters were sent out to contract service providers that received federal funds requesting their independent audit reports if they received at least \$500,000 in federal funds. If they received less than \$500,000, we requested that they send us a confirmation letter stating that they are not required to obtain an independent audit since they are not subject to OMB A-133.

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Finding# 08-13 - Schedule of Expenditures of Federal Awards (SEFA) – Controls over SEFA Reporting

Program Name: Probation Title IV-E
CFDA Title and Number: Foster Care Title IV-E CFDA# 93.658
Federal Agency: U.S. Department of Health and Human Services (HHS)
Pass- Through Agency: California Department of Social Services (CDSS)
Award Year: June 30, 2008
Name of Department: Probation Department

Condition

Prior year's expenditures for the Probation Department were not reported by the County. See below for details:

| <u>Fiscal Year</u> | <u>Expenditure</u> <u>Amount</u> |
|--------------------|-------------------------------------|
| FY 1999/2000 | \$ 21,778,775 |
| FY 2000/2001 | 22,191,428 |
| FY2001/2002 | 26,275,338 |
| FY2002/2003 | 34,321,728 |
| FY2003/2004 | 36,706,050 |
| FY2004/2005 | 40,867,073 |
| FY2005/2006 | 48,793,531 |
| FY2006/2007 | 50,201,051 |
| Total | <u>\$ 281,134,974</u> |

Criteria

- a. The determination of when an award is expended should be based on when the activity related to the award occurs. Generally, the activity pertains to events that require the non-Federal entity to comply with laws, regulations, and the provisions of contracts or grant agreements, such as: expenditure/expense transactions associated with grants, cost-reimbursement contracts, cooperative agreements, and direct appropriations; the disbursement of funds passed through to subrecipients; (OMB Circular A-133§____.205(a))
- b. Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. (OMB Circular A-133§____.300(b))

Questioned Costs: N/A

Systemic or Isolated: Systemic

Effect

Lack of appropriate policies and procedures over capturing and reporting federal expenditures by the County led to inaccurate reporting of Federal program expenditures.

Recommendation

Develop and enforce procedures to ensure federal expenditures are properly recorded and reported.

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Views of Responsible Officials and Planned Corrective Action

The Probation Department agrees with this recommendation and will develop procedures to ensure that federal grant expenditures are appropriately recorded and reported.

Finding# 08-14 - Activities Allowed or Unallowed – Time Study Allocation Calculation Error

| | |
|-------------------------------|---|
| Program Name: | Probation Title IV-E |
| CFDA Title and Number: | Foster Care Title IV-E CFDA# 93.658 |
| Federal Agency: | U.S. Department of Health and Human Services (HHS) |
| Pass- Through Agency: | California Department of Social Services (CDSS) |
| Award Year: | June 30, 2008 |
| Name of Department: | Probation Department |

Condition

The allocation of 4th quarter time study hours was performed incorrectly on the claim. 667 time study hours were charged to category D-Training when it should have been charged to category E-Court Related Activities.

Criteria

Per the Chief Probation Officer of California (CPOC) Policy Statement dated December, 2007:

- a. Time studies are used to determine the percentage of total time worked in each category;
- b. Total cost pool is multiplied by the percentage of time for each category to determine the cost per category.

Questioned Costs: N/A

Systemic or Isolated: Isolated

Effect

Failure to properly transfer time study hours from system reports to the claim may result in an incorrect claim with the Federal and State causing noncompliance with federal grant guidelines.

Recommendation

We recommend that the County develop procedures to ensure that the claim submitted is accurate.

Views of Responsible Officials and Planned Corrective Action

Effective immediately, we have established policies in an effort to reduce errors on our quarterly Title IV-E claim by having an additional person double check that the time study hours match the program code.

Finding# 08-15 - Activities Allowed or Unallowed – Lack of Supporting documents

| | |
|-------------------------------|---|
| Program Name: | Probation Title IV-E |
| CFDA Title and Number: | Foster Care Title IV-E CFDA# 93.658 |
| Federal Agency: | U.S. Department of Health and Human Services (HHS) |
| Pass- Through Agency: | California Department of Social Services (CDSS) |
| Award Year: | June 30, 2008 |
| Name of Department: | Probation Department |

**COUNTY OF LOS ANGELES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008**

Condition

The Probation department performs one time study per quarter for all Title VI-E employees. Out of forty (40) time study transaction samples, three (8%) employees' time studies were missing.

Criteria

Per the Chief Probation Officer of California (CPOC) Policy Statement dated December, 2007 the following was noted:

CDSS regulations require staff to "complete the time study on a continuous basis throughout the day." In practice this means that staff must make notes, mental or otherwise, of the nature of their activities and at the end of the day, they are to "allocate" their hours into the various claiming categories on the time study form. The time study form must be completed on a daily basis.

Questioned Costs: \$105,036 (The three employees' salaries and indirect costs)

Systemic or Isolated: Systemic

Effect

Failure to properly document the time studies may result in submission of unallowable costs and activities causing noncompliance with federal grant guidelines.

Recommendation

We recommend that the County develop and enforce procedures to ensure time studies are performed and retained for all Title VI-E employees.

Views of Responsible Officials and Planned Corrective Action

Every effort is being taken to ensure that all time studies are in our possession before a Title IV-E claim is submitted. If we have not received a time study by its due date, the information will be submitted when the claim is amended.

Finding# 08-16 - Activities Allowed or Unallowed-Lack of Supporting Documents

| | |
|-------------------------------|---|
| Program Name: | Mental Health Services: Block Grant |
| CFDA Title and Number: | Block Grants for Community Mental Health Services CFDA# 93.958 |
| Federal Agency: | U.S. Department of Health and Human Services (HHS) |
| Pass- Through Agency: | California Department of Mental Health (DMH) |
| Award Year: | June 30, 2008 |
| Name of Department: | Department of Mental Health (DMH) |

Condition

Out of 43 samples selected, one (2%) employee's hours on the timesheet did not match the hours paid per the CWTAPPS system.

Criteria

Employee work hours recorded on the County's time keeping system (i.e., CWTAPPS) should be substantiated by the actual hours recorded on the employee's timesheet.

Questioned Costs: \$224 (total payroll transactions amount based on the findings above)

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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Systemic or Isolated: Isolated

Effect

Failure to properly document the employee's time may result in the submission of unallowable costs and activities causing noncompliance with federal grant guidelines.

Recommendation

We recommend that the County enforce procedures to ensure that the hours on the timesheet match the hours per CWTAPPS.

Views of Responsible Officials and Planned Corrective Action

The Payroll Clerks will work with only one time card at a time. When the time card is processed, it will be placed in a bin marked "completed." The Payroll Clerk will retrieve the next time card from the bin marked "not processed." This will avoid the error of an employee's hours on the timesheet not matching the hours paid per the CWTAPPS system.

**COUNTY OF LOS ANGELES
STATUS OF PRIOR YEAR'S FINDINGS
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Finding# 07-01 – Capital Assets

Condition

For the fiscal year 2006/2007, the County implemented a new information system to account for the County's capital assets – Capital Asset System (CAS). During our review of capital assets, we noted that County managers had to perform significant reviews of information and prepare material adjustments to ensure that the information processed, maintained and reported for capital assets was materially accurate. Specifically, we noted the following:

- a. A report generated by CAS included instances where capital asset additions and improvements amounts did not agree with amounts recorded in CAS.
- b. Certain additions and deletions of infrastructure assets were technically not additions and deletions, but rather improvements to existing infrastructure assets and changes in estimated useful lives. County managers stated that due to CAS limitations, manual adjustments are prepared to account for these transactions.
- c. Capital asset additions recorded in CAS were not always evidenced by management approval within the system. County management indicated that this was likely a system security and approval "set-up" issue during the initial implementation of CAS.
- d. CAS system detail reports did not agree to system summary reports. County managers stated that this occurred during the conversion to CAS for the period under audit and may also be an ongoing system issue.

Recommendation

We recommend County management evaluate the sufficiency of internal controls, the effects of the conversion to CAS, and the overall process of accounting, recording and reporting capital assets, and determine where improvements can be made to ensure the accuracy of the County's capital assets information.

Current Year Management Response

The County completed an internal control assessment of capital assets based on the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Framework. The County has determined that there are no material weaknesses in internal controls in the reporting areas of capital assets, depreciation and amortization. The County has implemented the recommendation, except for resolving the cause of the fourth Finding "Condition," as noted below.

- a. The specific CAS reports with incorrect cost data have been corrected.
- b. The methodology for entering improvements to infrastructure assets has been changed for FY 2007- 2008. The type of material manual adjustments that were required during the FY 2006-2007 financial statement process will no longer be needed.
- c. The system security and approval workflow problems have been diagnosed and resolved.
- d. The incorrectly converted Activity Codes, which caused CAS detail reports and summary reports to disagree, cannot be easily changed in CAS. This problem is expected to be resolved by June 30, 2009. We are in the process of reviewing and testing an automated solution to correct the Activity Codes in the Responsibility Centers.

**COUNTY OF LOS ANGELES
STATUS OF PRIOR YEAR'S FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008**

Current Status as of June 30, 2008

Partially Implemented (see current year finding #08-01)

Expected Implementation Date

June 30, 2008 – Items a. through c.
June 30, 2009 – Item d.

Finding# 07-02 – Information Technology Environment – Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control Framework

Condition

During our audit of the County's basic financial statements, MGO reviewed the County's information Technology (IT) environment and system controls against the framework established by the Committee of Sponsoring Organization of the Treadway Commission (COSO). The COSO framework provides the basis for an effective system of internal control over financial reporting. Overall, decentralization within the County's IT environment has led to inconsistencies in the IT controls currently in place within various County departments. These inconsistencies are systemic and generally relate to controls over passwords, user access rights, and controls over super-users access. We also noted multiple methodologies over change management within the IT environment and differing IT organizational structures. We note that County management is currently determining the current IT controls being utilized at each department.

Recommendation

We recommend County management develop a communication protocol for how departmental IT policies and procedures are developed, and ensure that these policies are either in compliance with the County's overall IT policies or document the reason for establishing alternative controls. This communication protocol should be well documented so that it complies with the COSO framework, which encourages documentation to support the decision making process.

Current Year Management Response

The County began the process of reviewing the recommended action and evaluating its controls to determine if the County complies with COSO requirements. County representatives of the Internal Services Department, Chief Information Office and Auditor-Controller met on June 24, 2008 to begin evaluating and assessing the IT risks and control activities. This IT group expects to complete a COSO compliant assessment by October 31, 2008.

Current Status as of June 30, 2008

Partially Implemented

Expected Implementation Date

October 31, 2008

Finding# 07-03 – Schedule of Expenditures of Federal Awards (SEFA) Reporting – Missing Pass-through Agency Identification Number

Condition

The Schedule of Expenditures of Federal Awards (SEFA) does not list the identifying number assigned by the pass-through entities.

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Recommendation

We recommend the County list the identifying number from the pass-through entity for each federal program presented on the fiscal year 2007/2008 SEFA.

Current Year Management Response

In April 2008, the Auditor-Controller (A-C) forwarded a memo to all County Departmental Fiscal Officers, Administrative Deputies and Grant Coordinators, entitled "2007-2008 Single Audit Requirements." This memo explained the need for all sub-recipients to list the identifying number from the pass-through entity for each federal program from which they receive grant funding. Additionally, on May 7, 2008, A-C staff, along with staff from the County's outside auditors, met with Departmental Grant and Audit Coordinators to discuss the above requirements. Lastly, in June 2008, the A-C forwarded a request for modifications of the Grant System to include the identifying numbers and reflect them in the appropriate SEFA reports. The Grant System modifications are expected to be completed by August 15, 2008.

Current Status as of June 30, 2008

Partially Implemented

Expected Implementation Date

August 15, 2008

Finding# 07-04 – Schedule of Expenditure of Federal Awards (SEFA) – Controls over SEFA Reporting

Condition

Prior year expenditures were not reported on the SEFA. See below for details:

| <u>Fiscal Year</u> | <u>CFDA 93.778</u> | <u>CFDA 39.011</u> | <u>CFDA 90.401</u> | <u>Total</u> |
|--------------------|--------------------|--------------------|--------------------|---------------|
| FY 2002/2003 | \$ 2,587,755 | \$ - | \$ - | \$ 2,587,755 |
| FY 2003/2004 | \$ 2,536,339 | \$ - | \$ - | \$ 2,536,339 |
| FY 2004/2005 | \$ 7,657,570 | \$ 2,003,543 | \$ - | \$ 9,661,113 |
| FY 2005/2006 | \$ 9,962,009 | \$ 4,519,424 | \$ 2,951,927 | \$ 17,433,360 |

CFDA #

Name of County Program

| | |
|--------|---|
| 93.778 | Medi-Cal Administrative Activities (MAA) and Targeted Case Management (TCM) |
| 39.011 | Punch Card Buyout (HAVA) 102 |
| 90.401 | Voting Systems Program (HAVA) 301 |

Recommendation

We recommend the County perform the following:

- a. Develop procedures to ensure that federal expenditures are reported in the appropriate fiscal year. Furthermore, perform analytical procedures annually to mitigate the risk of not reporting material programs.
- b. Coordinate with departments via communications, training, and guidance the importance of reporting federal expenditures timely. Furthermore, train departments on certain characteristics

**COUNTY OF LOS ANGELES
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of federal awards (e.g., language on OMB A-133 compliance requirements in contract agreement) and how to account for them in order to ensure all expenditures are reported timely and properly.

- c. Evaluate the prior year expenditures to determine whether additional reporting requirements are necessary.

Current Year Management Response

- a. The Auditor-Controller's (A-C) procedures have been modified to include forwarding a memo to all County Departmental Fiscal Officers, Administrative Deputies and Grant Coordinators requesting that they review all grant agreements to determine if a Single Audit is required. The importance of reporting federal expenditures in the proper period is also stressed in the memos.

Further, in June 2008, the A-C prepared a schedule and began performing an analytical review, comparing prior year expenditures and current year estimates, to mitigate the risk of not reporting material programs.

Additionally, upon further review, we noted that the MAA program agreement does call for an OMB Circular A-133 audit.

- b. In April 2008, the A-C prepared and forwarded memos discussing the importance of reporting federal expenditures timely and accurately and the necessity for including complete and appropriate language in contracts with sub-recipients. Additionally, A-C staff, along with staff from the County's outside auditors, met with Departmental Grant and Audit Coordinators to discuss the above requirements. A-C staff have also met with individual Departmental personnel for training and guidance on specific issues.
- c. As we perform our analytical review, noted above, we evaluate the prior year's expenditures to determine whether additional reporting requirements are necessary.

Current Status as of June 30, 2008

Implemented

Implementation Date

June 30, 2008

CFDA #39.011 - Help America Vote Act (HAVA) 102 Punch Card Buyout

Finding# 07-05 - Cash Management – Interest Earned Not Remitted to Federal Agency

Condition

The Registrar-Recorder's Office received \$15.8 million in advanced funds from the California Secretary of State in May 2004 to purchase voting systems. Due to a delay in the certification process of the voting systems, the County did not completely spend these advanced funds until fiscal year 2007. During that period, the advanced funds were maintained in a trust fund and the related interest earnings were retained by the County general fund. The grant agreement with the State was silent as to interest earnings on the \$15.8 million in advanced funds. Per County policy, supporting documentation or information is required to justify the payment of interest earnings for each trust fund established. If grant agreements do not specifically require interest earnings to be accounted for as "program income" or returned to the grantor, the County general fund retains any interest earnings. It is noted that County management did confer with County Counsel as to the treatment of interest earnings from this advance.

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Recommendation

We recommend the County remit the interest earned to the funding agency and review its policy on cash management to ensure that interest earned on advanced federal funds is remitted back to the funding agency in accordance with federal guidelines.

Current Year Management Response

Per a letter, dated August 27, 2008, from Chris Reynolds, Deputy Secretary of State, HAVA Activities, consistent with their review HAVA Section 102 and other Federal guidelines, the County may retain the interest earned. The County's stated use of those funds must be, and was, for HAVA-related Section 102 purposes.

We have reviewed our policy on cash management. While we have made no changes, we will be more proactive in working with departments to determine if any of their Federal grants consist of advanced funding, which would, in most cases, require an interest-bearing fund to track the interest earned on the advance.

Current Status as of June 30, 2008

Not Implemented

Expected Implementation Date

August 27, 2008

CFDA #93.674 - Independent Living Skills – Children's Services Program

Finding# 07-06 – Eligibility – Lack of Beneficiary Certification

Condition

Our review of forty beneficiary files determined that four files (10%) did not contain a Transitional Independent Living Plan (TILP) form signed by the youth (i.e., beneficiary).

Recommendation

We recommended that the County develop policies and procedures to maintain signed TILP forms on file.

Current Year Management Response

Youth Development Services Division staff will revise the *Policy Guidelines for Distribution of YDS Benefits* and direct staff to maintain signed TILP forms on file.

Current Status as of June 30, 2008

Not Implemented (see current year finding #08-07)

Expected Implementation Date

July 1, 2008

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CFDA #93.674 - Independent Living Skills – Children's Services Program

Finding# 07-07 – Activities Allowed or Unallowed – Controls Over Documentation for Supporting the Use of Funds

Condition

Out of forty cash disbursement transactions selected, the following internal control weaknesses with respect to additional County procedures were noted:

- a. Fifteen (38%) transactions did not contain evidence of letter sent to youth with the specific language instructing them to return receipts for the funding requested;
- b. Nineteen (48%) transactions did not contain receipts; therefore, the County was unable to determine whether the unused funds were returned to the program;
- c. Two (5%) gift certificate transactions did not contain a Request for Funds form prepared by the accountant;
- d. Thirteen (33%) transactions did not contain a signed letter from the youth stating the need for the funding.

Recommendation

We recommend that the County enforce the internal control procedures developed in the Internal Controls Policy and Procedure Manual and the Policy Guidelines for Distribution of ESD Benefit Manual by:

- a. Sending a copy of the letter to the youth instructing them to submit receipts and return all unused funds and keeping a copy of this letter on file as evidence;
- b. Modifying procedures to include time period for which the youth must turn in receipts after advancement;
- c. Ensuring that all disbursements are accompanied by a Request for Funds form, regardless of whether funds are disbursed via a warrant or a gift certificate;
- d. Ensuring that all request for funds are accompanied by a signed letter from the youth stating the needs for the funding.

Current Year Management Response

Youth Development Services Division staff revised the *Policy Guidelines for Distribution of YDS Benefits* and incorporated all finding recommendations.

Current Status as of June 30, 2008

Partially Implemented (see current year finding #08-05)

Expected Implementation Date

March 31, 2008

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STATUS OF PRIOR YEAR'S FINDINGS
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CFDA #93.674 - Independent Living Skills – Children's Services Program

Finding# 07-08 – Reporting - Late Submission of Report

Condition

The Annual Statistical Report (SOC 405A) was filed with the State of California, Health and Human Services Agency one day late.

Recommendation

We recommend that the County establish procedures to ensure that the Annual Statistical Report (SOC 405A) is filed in a timely manner.

Current Year Management Response

Youth Development Services Division staff will develop a protocol that outlines procedures to ensure the final annual statistical report is filed timely.

Current Status as of June 30, 2008

Not Implemented

Expected Implementation Date

November 3, 2008

CFDA #93.674 - Independent Living Skills – Children's Services Program

Finding# 07-09– Subrecipient Monitoring – During the Award Monitoring and Identification of Federal Award Information

Condition

Out of two samples selected, the following compliance issues were noted:

- a. Two (100%) contracts with the subrecipients did not contain the CFDA title, number, and award name.
- b. Two (100%) subrecipients were not accompanied by proper program monitoring review and no single audit report was requested from these subrecipients.

Recommendation

We recommend that the County develop and implement procedures to ensure the following:

- a. There is a review of single audit reports received from the subrecipients and follow up on audit findings (if any) in compliance with OMB Circular A-133 subrecipients monitoring requirements.
- b. Ensure that either the contract or an accompanying letter to the contract contains the CFDA title, number and award name at the time of the award.
- c. Programmatic monitoring is performed for all subrecipients.

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Current Year Management Response

Youth Development Services administration will assign staff to develop procedures to ensure all single audit subrecipient monitoring reports are reviewed, time tables are established for follow-up, and award letters contain the appropriate documentation.

Current Status as of June 30, 2008

Not Implemented (see current year finding #08-06)

Expected Implementation Date

April 30, 2009

CFDA #93.674 - Independent Living Skills – Children's Services, #93.658 - Health Care Program Children in Foster Care, #93.659 - Adoptions - Administration and Assistance, #93.777/93.778 - Medicaid Cluster (Children's Welfare Services)

Finding# 07-10 – Activities Allowed or Unallowed - Lack of Supporting Documents and Controls over Payroll Transactions

Condition

Department of Children and Family Services (DCFS) performs one timestudy per quarter for all federal award programs in the consolidated County Expense Claim (CEC) report. Out of one hundred (100) time study transaction samples from the CEC report, the following control and compliance issues were noted:

- a. Nine (9%) timecards were "blank" (i.e., no actual work hours were filled out by employees). The County's payroll department recorded default 40 work hours into the Countywide Time Keeping and Payroll Personnel System (CWTAPPS) when the "blank" timesheets were received;
- b. Twenty four (24%) employee timesheets were missing;
- c. One (1%) employee was missing the language proficiency certificate on file as evidence of a properly approved bi-lingual pay bonus;
- d. Three (3%) supervisors' signature identification could not be verified. Therefore, it could not be determined whether the timecard was properly approved by authorized personnel;
- e. Twenty two (22%) employee hours on the timesheets did not match the hours paid per the CWTAPPS system.

Recommendation

We recommend the following actions to be implemented:

- a. Enforce the County payroll policies and procedures by communicating to employees and supervisors via training/memo to complete the default and variance hours on the timesheets;
- b. Establish control procedures to ensure that the hours on the timesheets match the hours per CWTAPPS;
- c. Establish policies and procedures for the record retention of timesheets, in order to ensure that copies are kept on file;

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- d. Develop policies and procedures to ensure that copies of the Language Proficiency Certificate are kept on file to ensure that the bi-lingual bonus pay is properly supported;
- e. Establish procedures to ensure records of the employee's supervisors are kept on file in order to determine whether the timesheet is properly approved by authorized personnel.

Current Year Management Response

- a. DCFS has paper timesheet instructions on the Human Resources intranet website. In addition, Human Resource Management issued a memo to the Executive Team, Division Chiefs, and Regional Administrators reminding them about County payroll policies and procedures in November 2007.
- b. DCFS Management assigned a staff person from the Finance and Administration Deputy Director's team to perform payroll quality assurance.
- c. Human Resource Management issued a memorandum reminding DCFS staff about the County's five year retention policy. As of October 2007, DCFS staff distributes flyers regarding the five year retention of records at their monthly eCAPS Liaison Trainings.
- d. The Classification and Compensation Staff has policies and procedures in place to ensure proper documentation is on file for all bonus requests. Because files are only held for five years, the files for about 800 employees currently receiving the bonus are no longer available. Therefore, Classification and Compensation staff has initiated the procedure of retaining all active bonus files until they have been inactive for five years. Effective May 1, 2008, staff initiated an Annual Review of all bonuses. The Annual Review will ensure that files are not destroyed after five years, and copies of the Language Proficiency Certificate and supporting documentation are on file.
- e. The Payroll Section staff expects the eCAPS Time Collection System to resolve the issue of maintaining employee supervisor records on file.

Current Status as of June 30, 2008

Partially Implemented (see current year finding #08-08)

Expected Implementation Dates

January 2008 – Item a.
May 2008 – Item b.
October 2007 – Item c.
May 2008 – Item d.
January 2009 – Item e.

CFDA #93.914 - HIV Emergency Relief Project Grants

Finding# 07-11 – Subrecipient Monitoring – Lack of Controls over Fiscal Monitoring Process

Condition

Out of forty samples selected the following compliance issues were noted:

- a. Fiscal audits of three (8%) subrecipients have not been conducted in the past three years;
- b. Fiscal audits of eleven (28%) subrecipients have been conducted but the final reports of these audits had not been issued at the time of our review. Four (10%) of these reports have been pending for more than one year after the subrecipients' fiscal year-end;

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- c. Fiscal audit final reports (i.e., Financial Evaluation Reports) of six (15%) subrecipients were issued more than one year after the fiscal year-end of the subrecipients;
- d. Fiscal audit findings discovered on four (10%) of the subrecipients were not followed-up in a timely basis (within six months of the issuance of the report).

Recommendation

We recommend that the County formalize written procedures to ensure both fiscal audits and desk reviews on subrecipients are conducted and completed and findings (if any) are followed up in a timely manner.

Current Year Management Response

The Contract Monitoring Division (CMD) has filled 6 of the 8 vacant items; and during FY 07-08, received approval for an additional supervisory item which has been filled. CMD is actively recruiting for the other two vacancies. In addition, CMD will be requesting two additional items in next year's budget. Once CMD fills these vacancies and trains the new staff, CMD will be able to conduct fiscal reviews on a triennial basis.

CMD has significantly reduced the backlog of fiscal audits and has issued the final reports. It is estimated that CMD will complete the backlog, along with completing the current fiscal audits, by the end of FY 08-09.

CMD has obtained and reviewed the outstanding contractors' Corrective Action Plans (CAP). The contractors have six months to address the findings noted in the reports and are then reassessed by staff.

Current Status as of June 30, 2008

Implemented

Implementation Date

June 30, 2009

CFDA #93.283 - Public Health Bioterrorism Preparedness Program

Finding# 07-12 – Subrecipient Monitoring - During the Award Monitoring and Identification of Federal Award Information

Condition

Out of three samples selected, the following compliance issues were noted:

- a. Three (100%) contracts with the subrecipients did not contain the CFDA title, number, and award name.
- b. Three (100%) subrecipients were not asked to submit single audit reports.

Recommendation

We recommend that the County develop and implement procedures to ensure that there is a review of single audit reports received from the subrecipients and follow up on audit findings (if any) in compliance with OMB Circular A-133 subrecipients monitoring requirements. Also, procedures should be developed to ensure that either the contract or an accompanying letter to the contract contains the CFDA title, number and award name at the time of the award.

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Current Year Management Response

All Bioterrorism contracts now contain the CFDA title, number and award name. For the other Public Health programs, the Department has drafted an accompanying letter to subrecipients that contains the CFDA title, number and award name.

The Department has drafted a letter to subrecipients which requests a copy of their single audit report if their total aggregate of Federal funds is more than \$500,000. The Department is in the process of determining who will send the letter and monitor subrecipients' findings.

Current Status as of June 30, 2008

Implemented

Implementation Date

December 31, 2008

CFDA #93.959 - Alcohol Block Grant

Finding# 07-13 – Subrecipient Monitoring - During the Award Monitoring and Identification of Federal Award Information

Condition

Under current procedures, the Department of Public Health (DPH) conducts contract monitoring on all subrecipients. However, the Department notifies only those subrecipients that have received more than \$500,000 in Alcohol and Drug Program (ADP) funds of the required federal award information. The Department then requests single audit reports from those notified.

Per review of forty samples in our testwork, we noted the following compliance issues:

- a. Twenty-two (55%) subrecipients that received less than \$500,000 in federal awards from ADP did not receive contracts or appending letters notifying them with all required federal award information. Below you will find the details:
 - i. Thirteen (33%)— missing CFDA number, award amount and name of federal agency; and
 - ii. Nine (23%) – missing all information plus award name.
- b. One (3%) subrecipient's Contract Monitoring Report was not filed timely.

Recommendation

We recommend the County perform the following:

- a. Modify current monitoring procedures to ensure that all subrecipients, including those receiving less than \$500,000 in federal funding from the ADP
 - i. receive an appending letter containing all federal award information (i.e., CFDA number, amount of award, name of federal agency and award name) in a timely manner regardless if the agency requests it or not;
 - ii. submit a copy of single audit report (if applicable) for review;

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- b. Enforce monitoring procedures to ensure that all subrecipient monitoring reports are completed timely.

Current Year Management Response

Alcohol and Drug Program Administration (ADPA) has drafted a letter to subrecipients which requests a copy of their single audit report if their total aggregate of Federal funds total more than \$500,000; and, in addition, contains all Federal award information.

ADPA has created procedures to ensure that contract monitoring is completed in a timely manner. All monitoring must be completed no later than the end of the fiscal year, June 30th, and that monitoring reports are turned in to the Senior Contract Program Auditor within ADPA by July 31st.

Current Status as of June 30, 2008

Partially Implemented (see current year finding #08-12)

Expected Implementation Date

February 2009

CFDA #93.889 - Bioterrorism Hospital Preparedness Program

Finding# 07-14 – Subrecipient Monitoring – During the Award Monitoring and Identification of Federal Award Information

Condition

Out of fifteen samples selected, we noted the following compliance issues:

- a. The County Department of Health Services did not present funding source information in the original contracts with the subrecipients. The department subsequently sent out an accompanying letter dated April 16, 2007 notifying its subrecipients of the name of the award as well as the OMB Circular A-133 requirements. This letter was not sent out in a timely manner and some of the required information was missing. The missing information includes CFDA number, amount of award, and name of federal agency;
- b. Fifteen (100%) subrecipients were not accompanied by proper review and follow up on findings identified in the single audit reports.

Recommendation

We recommend that the County develop and implement procedures to ensure that there is a review of single audit reports received from the subrecipients and follow up on any audit findings in compliance with OMB Circular A-133 subrecipients monitoring requirements. Also, procedures should be developed to ensure that either the contract or an accompanying letter to the contract contains the CFDA title, number and award name at the time of the award.

Current Year Management Response

The EMS Agency Assistant Director sent letters to all participating hospitals who received Federal funding through the Hospital Preparedness Program (HPP) requesting submission of A-133 audit information on November 14, 2007 for the FY 05-06 reports. A second letter requesting FY 06-07 reports was sent on June 4, 2008. In July 2008, EMS Agency developed and enforced procedures to incorporate this information into the cover letters that are mailed out with the subrecipient's check.

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The EMS Agency has incorporated funding source information into their contracts and correspondence related to the HPP. In addition, this funding source information will be incorporated into future agreements effective January 1, 2009. This funding source information is not in current agreements which had been approved by the Board of Supervisors prior to the date of this finding.

Current Status as of June 30, 2008

Partially Implemented (see current year finding #08-09)

Expected Implementation Dates

November 14, 2007 – Letters sent to hospitals requesting FY 05-06 reports

June 4, 2008 – Letters sent to hospitals requesting FY 06-07 reports

July 2008 – Letters sent to hospitals incorporating the CFDA title, number and award name

January 1, 2009 – Funding source information will be incorporated

CFDA #93.889 - Bioterrorism Hospital Preparedness Program

Finding# 07-15 – Reporting – Late Submission of Report

Condition

The 2nd quarter Financial Status Quarterly Report (FSQR) was not submitted to the U.S. Department of Health and Human Services in a timely basis. The report was due on March 30, 2007 and was submitted on April 12, 2007.

Recommendation

We recommend that the County establish procedures to ensure the timely submission of all reports required by the U.S. Department of Health and Human Services.

Current Year Management Response

The Federal Department of Health and Human Services no longer requires quarterly Financial Status Reports (FSR); they are only required annually. The report is due to management two (2) weeks before the due date. The FSR for Federal Fiscal Year 2005 was submitted on November 15, 2007.

Current Status as of June 30, 2008

Implemented

Implementation Date

April 12, 2007

CFDA #93.777/93.778- Medicaid Cluster Program

Finding# 07-16 – Subrecipient Monitoring - During the Award Monitoring and Identification of Federal Award Information

Condition

Out of the thirty-five samples selected, the following compliance issues were noted:

- a. Thirty-five (100%) contracts did not contain the required federal grant information (i.e., CFDA title, number, and award name);

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- b. Twenty-seven (77%) single audit reports were not collected;
- c. Six (17%) single audit reports were collected. However, there was no proper review and follow up on the single audit report findings.

Recommendation

We recommend that the County develop and implement procedures to ensure that there is a review of single audit reports received from the subrecipients and follow up on any audit findings in compliance with OMB Circular A-133 subrecipients monitoring requirements. Also, procedures should be developed to ensure that either the contract or an accompanying letter to the contract contains the CFDA title, number and award name at the time of the award.

Current Year Management Response

N/A – The State indicated that the Medicaid payments to a subrecipient for providing patient care services to Medicaid eligible individuals are not considered federal awards under Circular A-133, and do not require single audit reports. The Department will only report the administrative expenditures that cover 10% of the grant amount.

Current Status as of June 30, 2008

N/A

CFDA #93.558 - Temporary Assistance for Needy Families

Finding# 07-17 – Subrecipient Monitoring - During the Award Monitoring and Lack of Program Monitoring Over Subrecipients.

Condition

Out of the fifteen samples selected, we noted that the Department of Public Social Service (DPSS) did not issue a copy of program monitoring report for six (40%) subrecipients we reviewed. As such, we are not able to determine whether all monitoring procedures on these subrecipients have been completed and if there are any outstanding issues or findings that need to be followed-up.

Recommendation

We recommend that the County enforce procedures to complete monitoring reviews by issuing a monitoring report on all subrecipients in accordance with OMB Circular A-133. The monitoring reports should be completed on a timely basis and kept on file.

Current Year Management Response

For the second half of FY 2007-08, the new monitoring schedule resulted in the completion of program monitoring reports for 10 of the 23 subrecipients. For the same period, the monitoring reports for the remaining 13 subrecipients were completed July 15, 2008.

Current Status as of June 30, 2008

Implemented

Expected Implementation Date

July 15, 2008

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CFDA #93.558 - Temporary Assistance for Needy Families

Finding# 07-18 – Income Eligibility and Verification System (IEVS) – Controls over Special Tests and Provisions

Condition

Out of forty samples selected, the following internal control weaknesses were noted:

- a. Nine (23%) case files were missing a copy of the Applicant IEVS abstract in the case folder, and no comments were made by the Eligibility Worker to indicate if the Applicant IEVS match follow-up had been performed and any discrepancy had been documented in the LEADER system, (the Automatic Data Processing system used by the County to determine the Temporary Assistance for Needy Families (TANF) eligibility).
- b. Eight (20%) Applicant IEVS abstract forms in the case files were not signed and dated. In addition, no comments were made by the Eligibility Worker to indicate whether these cases had been reviewed or any discrepancy noted in the LEADER system.

Recommendation

We recommend that the County establish procedures to:

- a. Ensure case files contain Applicant IEVS forms. Review and compare the information obtained from Applicant IEVS against information contained in the case record to determine whether it affects the individual's eligibility, level of assistance or benefits, and services under the TANF program in a timely basis; and
- b. Ensure Eligibility Worker signs and dates the Applicant IEVS abstract and review the Applicant IEVS records for any discrepancy.

Current Year Management Response

DPSS Operations Handbook Manual Letter Number 315 was released on August 7, 2008 reiterating procedures for processing Applicant IEVS abstracts, including an emphasis on reviewing and applying appropriate signatures and dates, as required. In addition, a memo is being sent to all Bureau of Workforce Services Division Chiefs asking that they reinforce the need for their staff to review and become very familiar with all instructions contained in this Manual Letter.

Current Status as of June 30, 2008

Not Implemented

Expected Implementation Date

August 7, 2008

CFDA #93.563 - Child Support Enforcement

Finding# 07-19 – Reporting – Late Submission of Reports

Condition

During our review of the reports submitted to the California Department of Child Support Services, we noted the following:

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- a. The Monthly Report of Collections & Distributions (CS34) for the month ended October 2006 was electronically submitted on November 16, 2006 (i.e., one day late).
- b. The Local Child Support Agency Administrative Expense Claim Schedule & Certification (CS 356) for the quarter ended March 2007 was electronically submitted on April 17, 2007 (i.e., two days late).
- c. The Monthly State Performance Report (CS 1257) for the months of September 2006, October 2006 and May 2007 were electronically submitted on October 25, 2006 (i.e., nine days late), October 16, 2006 (i.e., one day late) and June 22, 2007 (i.e., seven days late), respectively.

Recommendation

We recommend that the County establish procedures to ensure that reports are prepared, reviewed, approved and submitted by the due dates to the California Department of Child Support Services.

Current Year Management Response

The department has issued procedures to ensure that reports are submitted to the State by the due dates. On July 18, 2008, the department also added a 3rd approver in the Executive office as back-up personnel to ensure that approvals are performed with no lapses or delays in the process.

Current Status as of June 30, 2008

Not Implemented

Expected Implementation Date

July 18, 2008

CFDA #17.258/17.259/17.260 - Workforce Investment Act Cluster

Finding# 07-20 – Reporting – Late Submission of Reports

Condition

The following compliance issues were noted:

- a. The Financial Status Quarterly Report (1st Quarter) was not submitted to the California Employment Development Department (EDD) on a timely basis. The report was submitted on October 23, 2007, one business day passed the October 20, 2007 due date.
- b. Program Reports (LAO XWID Extract) for 11 out of the 12 months were not submitted to the California EDD on a timely basis.

Recommendation

We recommend that the County establish procedures to ensure the quarterly reports and program reports are submitted to the Employment Development Department (EDD) on a timely basis.

Current Year Management Response

This finding has been implemented

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Current Status as of June 30, 2008

Implemented

Implementation Date

January 2008

CFDA #97.004/97.067 - Homeland Security Cluster

Finding# 07-21 – Activities Allowed or Unallowed – Lack of Support on Cash Disbursement Transactions

Condition

Out of forty-one samples selected, one (2%) was not accompanied by proper supporting documentation.

Recommendation

We recommend the County develop policies and procedures to collect and maintain proper supporting documentation for all expenditures.

Current Year Management Response

Shared Services Division now collects and maintains all proper supporting documentation for SHSGP 06 and 07 expenditure activities on behalf of OEM. This process ensures that the Corrective Action Plan is fully implemented.

Current Status as of June 30, 2008

Implemented

Implementation Date

July 1, 2006

CFDA #97.004/97.067 - Homeland Security Cluster

Finding# 07-22 – Subrecipient Monitoring- During the Award Monitoring and Identification of Federal Award Information

Condition

Out of forty samples selected, the following compliance issues were noted:

- a. Forty (100%) contracts with the subrecipients did not contain required Federal award information (e.g. CFDA title, number, and award name).
- b. Four (10%) subrecipients were not monitored programmatically. No program audits have been conducted through site visits, limited scope audits or other means.
- c. Nine (23%) subrecipient's single audit reports were not collected.
- d. Thirty-one (78%) subrecipient's single audit reports collected were not accompanied by proper review and follow up on single audit findings.

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Recommendation

We recommend that the County develop and implement procedures to ensure that there is a review of single audit reports received from the subrecipients and follow up on audit findings (if any) in compliance with OMB Circular A-133 subrecipients monitoring requirements. OEM should also ensure that the subrecipient is monitored via site visits. Also, procedures should be developed to ensure that either the contract or an accompanying letter to the contract contains the CFDA title, number and award name at the time of the award.

Current Year Management Response

During the application process OEM informs the subrecipients of the CFDA title, grant number, grant name and award amount. In addition, OEM has developed subrecipient contracts which include the CFDA title, grant name and award amount. These contracts are now required to be signed by each subrecipient before any grant funds are disbursed.

OEM has a Service Level Agreement with the Auditor-Controller's Contract Monitoring Division to hire a contractor to monitor each subrecipient's compliance with grant requirements. The contractor hired was Qui Accountancy and Qui will perform the following tasks:

- Review each subrecipient's most current Single Audit Report
- Conduct on-site visit of each subrecipient and conduct inventory review of grant funded equipment
- Review sample grant expenditure transactions related to training, planning, exercises and equipment
- Provide a detailed report of the monitoring review for each subrecipient

OEM has established a grant's compliance unit that does the following:

- Ensure all subrecipient contracts are approved/signed/filed
- Ensure all subrecipient Single Audit Reports are collected and reviewed
 - Corrective Action Plans are implemented when findings are identified
- Review all subrecipient monitoring reports prepared by QIU ACCOUNTANCY
 - Corrective Action Plans are developed and implemented on all findings

The process described above ensures that the Corrective Action Plan is fully implemented.

Current Status as of June 30, 2008

Implemented

Implementation Date

August 20, 2007

CFDA #97.004/97.067 - Homeland Security Cluster

Finding# 07-23 – Controls over Reporting, Cash Management, Earmarking and Activities Allowed or Unallowed

Condition

During fiscal year 2006/2007, the Office Emergency Management (OEM) contracted with an outside consultant to compile, prepare and approve the Budget Status Information Report (BSIR) Semi-Annual Reports, cash reimbursement claims, and invoices submitted by the departments and subrecipients for

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the Homeland Security Cluster program. While the OEM over-relied on the work performed by the outside consultant, we noted the following issues during our audit:

BSIR Reporting

- a. OEM cannot provide supporting documentation for three out three (100%) BSIR reports selected. Also, there is no evidence that OEM management reviewed and approved the BSIR reports prior to submittal.

Cash Reimbursements and Earmarking

- b. OEM could not provide reimbursement claims and any documentation on thirteen out of fifteen (87%) cash management samples selected. In addition, OEM provided a copy of the reimbursement claim on two remaining samples we requested, however, supporting documents provided to substantiate the reimbursement amount reported were not sufficient.
- c. Due to the missing reimbursement claims and supporting documentation for the selected transactions, MGO is unable to determine that the administration expenditures reported were in compliance with the 3% earmarking requirements for Management & Administration (M&A).

Activities Allowed or Unallowed

- d. Out of a sample of forty transactions tested, we noted that OEM provided thirty-one (77%) supporting documents. None showed evidence of approval from OEM personnel. The remaining nine (23%) were maintained by the originating departments and not OEM.

Recommendation

We recommend that the County establish procedures on records maintenance and internal controls over processes on BSIR reporting, cash management and cash disbursements to County departments and subrecipients.

Current Year Management Response

Shared Services Division now collects and maintains all proper supporting documentation for all SHSGP 2006 and 2007 grant expenditure activities. This includes BSIR, cash management and earmarking of funds, and claims reimbursements on behalf of OEM.

OEM developed policies and procedures to ensure that all the information is properly filed and maintained.

This process ensures that the Corrective Action Plan is fully implemented.

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Implemented

Implementation Date

July 1, 2006

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CFDA# 93.914 - HIV Emergency Relief Grant

Finding# 06-05 - Subrecipient Monitoring, During the Award Monitoring

Condition

- a. Fiscal reviews for 7 of the 25 subrecipients selected have not been done for the past three years. Desk reviews have been alternatively done by the Contract Monitoring Division (CMD).
- b. For 18 of the 25 subrecipients selected, fiscal reviews have been done recently but have not yet been finalized.

Recommendation

Limitations on existing resources may make it difficult, if not impossible, to conduct fiscal site reviews of subrecipients within the three-year period required by County policies. However, failure to conduct reviews for several consecutive periods increases the risk of significant deficiencies in the subrecipients' financial control processes and disallowed costs not being detected in a timely manner. Desk reviews can provide valuable information as far as the financial viability of the subrecipient is concerned. However, such may prove to be inadequate for monitoring purposes in the long run. CMD, in coordination with the Department of Public Health, should ensure that fiscal audits of subrecipients are done periodically.

Current Year Management Response

The Contract Monitoring Division (CMD) has filled 6 of the 8 vacant items; and during FY 07-08, received approval for an additional supervisory item which has been filled. CMD is actively recruiting for the other two vacancies. In addition, CMD will be requesting two additional items in next year's budget. Once CMD fills these vacancies and trains the new staff, CMD will be able to conduct fiscal reviews on a triennial basis.

CMD has significantly reduced the backlog of fiscal audits and has issued the final reports. It is estimated that CMD will complete the backlog, along with completing the current fiscal audits, by the end of FY 08-09.

CMD has obtained and reviewed the outstanding contractors' Corrective Action Plans (CAP). The contractors have six months to address the findings noted in the reports and are then reassessed by staff.

Current Status as of June 30, 2008

Implemented

Implementation Date

June 30, 2009

CFDA# 93.940 - HIV Prevention Project

Finding# 06-06 - Subrecipient Monitoring, During the Award Monitoring

Condition

- a. Fiscal reviews for 6 of the 25 subrecipients selected have not been done for the past three years. Desk reviews have been alternatively done by the CMD.

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- b. For 16 of the 25 subrecipients selected, fiscal reviews have been done recently but have not yet been finalized.

Recommendation

Limitations on existing resources may make it difficult, if not impossible, to conduct fiscal site reviews of subrecipients within the three-year period required by County policies. However, failure to conduct reviews for several consecutive periods increases the risk of significant deficiencies in the subrecipients' financial control processes and disallowed costs not being detected in a timely manner. Desk reviews can provide valuable information as far as the financial viability of the subrecipient is concerned. However, such may prove to be inadequate for monitoring purposes in the long run. CMD, in coordination with the Department of Public Health, should ensure that fiscal audits of subrecipients are done periodically.

Current Year Management Response

The Contract Monitoring Division (CMD) has filled 6 of the 8 vacant items; and during FY 07-08, received approval for an additional supervisory item which has been filled. CMD is actively recruiting for the other two vacancies. In addition, CMD will be requesting two additional items in next year's budget. Once CMD fills these vacancies and trains the new staff, CMD will be able to conduct fiscal reviews on a triennial basis.

CMD has significantly reduced the backlog of fiscal audits and has issued the final reports. It is estimated that CMD will complete the backlog, along with completing the current fiscal audits, by the end of FY 08-09.

CMD has obtained and reviewed the outstanding contractors' Corrective Action Plans (CAP). The contractors have six months to address the findings noted in the reports and are then reassessed by staff.

Current Status as of June 30, 2008

Partially implemented

Expected Implementation Date

June 30, 2009

CFDA# 93.959 - Block Grants for Prevention and Treatment of Substance Abuse

Finding# 06-07 - Subrecipient Monitoring, During the Award Monitoring

Condition

- a. Fiscal reviews for 13 of the 25 subrecipients selected have not been done for the past three years. Desk reviews have been alternatively done by the Contract Monitoring Division (CMD).
- b. For 12 of the 25 subrecipients selected, fiscal reviews have been done recently but have not yet been finalized.

Recommendation

Limitations on existing resources may make it difficult, if not impossible, to conduct fiscal site reviews of subrecipients within the three-year period required by County policies. However, failure to conduct reviews for several consecutive periods increases the risk of significant deficiencies in the subrecipients' financial control processes and disallowed costs not being detected in a timely manner. Desk reviews can provide valuable information as far as the financial viability of the subrecipient is concerned.

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However, such may prove to be inadequate for monitoring purposes in the long run. CCMD, in coordination with the Department of Alcohol and Drug Prevention, should ensure that fiscal audits of subrecipients are done periodically.

Current Year Management Response

The Contract Monitoring Division (CMD) has filled 6 of the 8 vacant items; and during FY 07-08, received approval for an additional supervisory item which has been filled. CMD is actively recruiting for the other two vacancies. In addition, CMD will be requesting two additional items in next year's budget. Once CMD fills these vacancies and trains the new staff, CMD will be able to conduct fiscal reviews on a triennial basis.

CMD has significantly reduced the backlog of fiscal audits and has issued the final reports. It is estimated that CMD will complete the backlog, along with completing the current fiscal audits, by the end of FY 08-09.

CMD has obtained and reviewed the outstanding contractors' Corrective Action Plans (CAP). The contractors have six months to address the findings noted in the reports and are then reassessed by staff.

Current Status as of June 30, 2008

Partially Implemented

Expected Implementation Date

June 30, 2009

CFDA#s 93.575, 93.596 - Child Day Care Program Cluster

Finding# 06-08 - Special Tests and Provisions

Condition

Based on the testwork performed, we noted the following:

- a. 1 of 25 provider files does not have the current Childcare Provider Agreement and Provider Fees Policy Statement on file.
- b. 9 out of 25 childcare provider folders reviewed did not have duly completed and reviewed provider file checklist.

Recommendation

To ensure that required documents, particularly those relating to provider licenses and safety certifications, are obtained and kept on file prior to execution of childcare provider services agreement, DCFS should ensure that required checklists are completed and reviewed by authorized officers.

Failure to keep current provider agreements and fees policy statements on file exposes DCFS to the risk of not being able to legally enforce the contract requirements. DCFS should therefore ensure that properly executed provider agreements and policy statements are kept current and on file.

Current Year Management Response

The DCFS Child Care Program has initiated self-audits that occur twice monthly. Supervisors from a different office review all provider files for the samples chosen as well as the family files to ensure quality control. If any variances are found, they are noted on the audit summary sheet and returned to the worker for correction.

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In addition, the program manager sent out a memorandum to all Child Care staff informing them of the Quality Control for Child Care Providers Folders Policy.

Current Status as of June 30, 2008

Implemented

Implementation Date

December 11, 2007

CFDA# 93.563 - Child Support Enforcement Title IV-D

Finding# 06-09 – Reporting

Condition

19 of the 41 reports examined (CS34, CS35, CS157, CS356 and CS1257) were submitted beyond the due date set by the State. Reports that were submitted late were delinquent between 1 to 12 days.

Recommendation

We recommend that CSSD comply with the reporting requirements set forth in its contract with the State. We also recommend that CSSD consider renegotiating more reasonable report due dates with the State.

Current Year Management Response

The department requests extensions from the State ahead of time as necessary. The department also added the 3rd approver in the Executive office as back-up personnel to ensure there are no lapses or delays in the process.

Current Status as of June 30, 2008

Not implemented

Expected Implementation Date

July 18, 2008

CFDA# 93.556 - Promoting Safe and Stable Families (PSSF)

Finding# 06-10 - Subrecipient Monitoring, Subrecipient Audits

Condition

We noted that 2 out of the 25 subrecipients tested did not have current Single Audit reports on file.

Recommendation

We recommend that DCFS ensure that up-to-date Single Audit reports are obtained from subrecipients, as applicable, and that subrecipients take timely and appropriate corrective action on all audit findings, if any.

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Current Year Management Response

DCFS Contracts staff is responsible for receiving and maintaining Single Audits from subrecipients. The Department's Family Preservation Program managers will be able to assume responsibility for the review and follow up of Financial Statements and Single Audits after a period of [fiscal/finance] training. Additionally, Family Preservation Program staff will develop monitoring standards, protocols, and forms to identify weaknesses and needed corrective actions. Training is expected to be completed by the end of February 2009.

Current Status as of June 30, 2008

Partially implemented

Expected Implementation Date

March 2009

CFDA# 93.556 - Promoting Safe and Stable Families (PSSF)

Finding# 06-11 - Subrecipient Monitoring, During the Award Monitoring

Condition

3 out of 11 Family Preservation (FP) subrecipients selected for testing did not have their technical reviews for fiscal year ended June 30, 2006. Technical reviews cover verification of effective implementation of the FP programs, including policy, budget, referrals, network collaboration and compliance with the service and fiscal dates, and identification of issues.

Recommendation

Technical reviews for all subrecipients should be done annually, in accordance with DCFS' existing policies.

Current Year Management Response

Community Based Support Division staff have been unable to conduct the technical reviews on an annual basis due to a continued staff shortage. Staff expect to complete all technical audits for FY 07-08 services by the end of October 2008.

Current Status as of June 30, 2008

Partially implemented

Expected Implementation Date

October 31, 2008

CFDA# 93.556 - Promoting Safe and Stable Families (PSSF)

Finding# 06-12 - Subrecipient Monitoring, During the Award Monitoring

Condition

During our review of subrecipient monitoring activities, we noted that several attendance sheets were missing for the Family Preservation monthly roundtable meetings and Family Support quarterly meetings.

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Recommendation

DCFS should ensure that attendance sheets for the required monthly and quarterly meetings are kept on file.

Current Year Management Response

Community Based Support Division staff conduct Family Preservation Program and Family Support Section meetings and utilize sign-in sheets to track attendance. Staff maintains all sign-in sheets in their administrative files.

Current Status as of June 30, 2008

Partially implemented

Expected Implementation Date

December 5, 2008

CFDA# 93.556 - Promoting Safe and Stable Families (PSSF)

Finding# 06-13 - Matching, Level of Effort, Earmarking

Condition

As of June 30, 2006, expenses adjusted as of the 3rd quarter for Family Preservation, Family Support, Adoption Promotion and Time Limited Family Reunification represent 25%, 48%, 14% and 13%, respectively of total program expenses for the Promoting Safe and Stable Families (PSSF) program.

Based on our inquiries, it also appears that there is no monitoring system in place to ensure compliance with the minimum earmarking requirements for the PSSF program.

Recommendation

We recommend that DCFS establish a system that will monitor compliance with the earmarking requirements applicable to the program.

Current Year Management Response

The DCFS Fiscal Operations Division (FOD) Accounting Services Section continues to provide quarterly reports of Expenditures Claimed to the PSSF program managers.

For Fiscal Year 2007/2008, DCFS is in full compliance with the 20% minimum requirements with all the PSSF programs. Please see detailed documentation below for the actual expenditures.

| PSSF Programs | Claim Amount | % |
|---------------------------------------|---------------------|-------------|
| Family Preservation | \$ 1,773,696 | 20% |
| Family Support | 2,572,589 | 29% |
| Adoption Promotion & Support Services | 2,833,607 | 31% |
| Time Limited Family Reunification | 1,844,248 | 20% |
| Total Amount | \$ 9,024,140 | 100% |

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In addition, in January 3, 2008, the FOD Claiming and Revenue manager issued a procedural memo to Accounting Services staff to ensure ongoing monitoring and adherence to the 20% minimum requirement. Furthermore, the Accounting staff continues to meet with the PSSF program managers and/or their designees to discuss any issues or concerns regarding their program expenditure reports.

Current Status as of June 30, 2008

Implemented

Implementation Date

January 3, 2008

CFDA# 93.658 - Foster Care – Title IV-E

Finding# 06-17 - Subrecipient Monitoring, Subrecipient Audits

Condition

5 out of the 25 foster care providers selected for review did not have updated Single Audit reports on file as of June 30, 2006.

Recommendation

We recommend that DCFS ensure that up-to-date Single Audit reports are obtained from subrecipients, as applicable and that subrecipients take timely and appropriate corrective action on all audit findings, if any.

Current Year Management Response

DCFS has procedures in place to request and monitor receipt of single audit reports from subrecipients as applicable.

Current Status as of June 30, 2008

N/A - Per State of California Department of Social Services guidance, the State is responsible for monitoring subrecipients in accordance with OMB A-133.

CFDA#s 97.004, 97.067 - Homeland Security Grant Cluster

Finding# 06-21 - Subrecipient Monitoring

Condition

Other than equipment review, none of the 25 subrecipients selected for testing had been audited to test compliance with the provisions of the grant as well as controls in place to ensure compliance.

We also noted that Office of Emergency Management (OEM) has started obtaining copies of Single Audit reports from its subrecipients. However, review of said reports and monitoring of corrective action on audit findings has yet to be performed.

Recommendation

Failure to conduct subrecipient monitoring activities increases the risk of significant deficiencies in the subrecipients' financial control processes and disallowed costs not being detected in a timely manner. We recommend that the Auditor-Controller's Office, in coordination with OEM, expand the scope of its

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existing review process beyond equipment review and include compliance with the significant provisions of the grant agreement as well as related controls over said compliance requirements.

OEM should also ensure that a formal review and monitoring process of Single Audit reports submitted by its subrecipients and corrective plans of action for reported deficiencies, if any, are put into place.

Current Year Management Response

During the application process OEM informs the subrecipients of the CFDA title, grant number, grant name and award amount. In addition, OEM has developed subrecipient contracts which include the CFDA title, grant name and award amount. These contracts are now required to be signed by each subrecipient before any grant funds are disbursed.

OEM has contracted with QIU Accounting to monitor each subrecipient's compliance with grant requirements by performing the following tasks:

- Review each subrecipient's most current Single Audit Report
- Conduct on-site visit of each subrecipient and conduct inventory review of grant funded equipment
- Review sample grant expenditure transactions related to training, planning, exercises and equipment
- Provide a detailed report of the monitoring review for each subrecipient

OEM has established a grant's compliance unit that does the following:

- Ensure all subrecipient contracts are approved/signed/filed
- Ensure all subrecipient Single Audit Reports are collected and reviewed
 - Corrective Action Plans are implemented when findings are identified
- Review all subrecipient monitoring reports prepared by QIU ACCOUNTING
 - Corrective Action Plans are developed and implemented on all findings

The process described above ensures that the Corrective Action Plan is fully implemented.

Current Status as of June 30, 2008

Implemented

Implementation Date

August 20, 2007

CFDA# 84.027 – Special Education Cluster

Finding# 05-02 - Subrecipient Monitoring

Condition

Federal award information (e.g., CFDA title and number, amount of award, award name, name of federal agency) and applicable compliance requirements at the time of the award were not included in contract agreements with the subrecipients. DMH Contract Development and Administration Division made no written communication with subrecipients to make them aware of the federal award information. In addition, in the financial summary attached to the contract agreements, the federal award amount under Special Education Grant (IDEA) is combined with the State Grant and is described as SB90JIDEA AB3632.

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Recommendation

Management should include in subrecipient contracts the required federal award information (e.g., CFDA title and number, award name, name of federal agency and amount of federal funds) and applicable compliance requirements at the time of the award.

Current Year Management Response

This recommendation is fully implemented.

Current Status as of June 30, 2008

Implemented

Implementation Date

June 30, 2008

CFDA #93.563 - Child Support Enforcement Title IV-D

Finding# 05-06 - Cash Management

Condition

The total ARS and Court Trustee Balance Reconciliations contained two unreconciled items. The first item pertains to a reconciling difference from February 17, 1995 to November 30, 1998 of \$1,095,782, and the second item pertains to a reconciling difference from December 1, 1998 to December 31, 2004 of \$671,921.

Recommendation

Child Support Services Department (CSSD) should implement policies and procedures to ensure that reconciling items are researched and resolved on a timely basis.

Current Year Management Response

The department (CSSD) has fully implemented policies and procedures to ensure that reconciling items are researched and resolved on a timely basis. In October 2007, the department had escheated all accumulated undistributed collections, followed the instruction on the Child Support Services (CSS) Letter 04-022 and abated in CSSD 2nd quarter Administrative Expense claim (AEC). The department continues to escheat and abate undistributed collections that reach the 3-year waiting period monthly.

Current Status as of June 30, 2008

Implemented

Implementation Date

January 2008

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CFDA #93.914 - HIV Emergency Relief Project

Finding# 05-14 - Subrecipient Monitoring

Condition

The Fiscal Monitoring Instrument (FMI) is the guide utilized to provide evidence of the procedures performed to support the issuance of the Financial Evaluation Report. Based on the testwork performed, the following findings were noted:

- a. 6 out of 50 items selected did not have Fiscal Monitoring Instruments (FMIs) and Financial Evaluation Reports;
- b. 2 out of 50 items selected did not have FMIs, although the related Financial Evaluation Reports were issued;
- c. 21 out of 50 items selected have no final Financial Evaluation Reports, only draft copies are available for 19 out of 50 items selected, fiscal reviews were not performed within the 3-year period County policy, but desk reviews were performed for the current year;
- d. 4 out of 50 items selected did not have the Plan of Corrective Action on findings noted on the fiscal reviews;
- e. 5 out of 50 items selected did not have Quality Management reviews.

Recommendation

The Centralized Contract Monitoring Division (CCMD) should ensure compliance with the performance of the fiscal reviews for programs at least once in three years, verifying that the subrecipients are in compliance with the requirements applicable to the federal program, including the audit requirements of OMB Circular A-133. Moreover, CCMD should keep complete documentation, including Financial Reviews and FMIs, to support the review performed. The Office of Aids Program and Policy (OAPP) also perform Quality Management Reviews for all programs at least once a year.

Current Year Management Response

The Contract Monitoring Division (CMD) has filled 6 of the 8 vacant items; and during FY 07-08, received approval for an additional supervisory item which has been filled. CMD is actively recruiting for the other two vacancies. In addition, CMD will be requesting two additional items in next year's budget. Once CMD fills these vacancies and trains the new staff, CMD will be able to conduct fiscal reviews on a triennial basis.

CMD has significantly reduced the backlog of fiscal audits and has issued the final reports. It is estimated that CMD will complete the backlog, along with completing the current fiscal audits, by the end of FY 08-09.

CMD has obtained and reviewed the outstanding contractors' Corrective Action Plans (CAP). The contractors have six months to address the findings noted in the reports and are then reassessed by staff. OAPP has implemented an annual agency-wide Quality Management (QM) review for all programs. Quality Management staff is coordinating their QM reviews with the annual Facilities and Operations reviews scheduled for each agency.

Current Status as of June 30, 2008

Implemented

**COUNTY OF LOS ANGELES
STATUS OF PRIOR YEAR'S FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008**

Implementation Date

January 17, 2006 - CMD
June 30, 2009 - OAPP

CFDA #93.940 - HIV Prevention Project

Finding# 05-15 - Subrecipient Monitoring

Condition

The Fiscal Monitoring Instrument (FMI) is the guide utilized to provide evidence of the procedures performed to support the issuance of the Financial Evaluation Report. Based on the testwork performed, the following findings were noted:

- a. 5 out of 50 items selected did not have Financial Monitoring Instruments (FMIs) and Financial Evaluation Reports;
- b. 1 out of 50 items selected did not have FMIs, although the related Financial Evaluation Reports were issued;
- c. 15 out of 50 items selected have no final Financial Evaluation Reports, only draft copies were available for 19 out of 50 items selected, fiscal reviews were not performed within the 3-year period County policy, but desk reviews were performed for the current year;
- d. 4 out of 50 items selected did not have the Plan of Corrective Action on findings noted on the fiscal reviews.

Recommendation

Centralized Contract Monitoring Division (CCMD) should ensure compliance with the performance of the fiscal reviews for programs at least once in three years to verify that the subrecipients are in compliance with the requirements applicable to the federal program, including the audit requirements of OMB Circular A-133. Moreover, CCMD should keep complete documentation, including Financial Reviews and FMIs, to support the review performed.

Current Year Management Response

The Contract Monitoring Division (CMD) has filled 6 of the 8 vacant items; and during FY 07-08, received approval for an additional supervisory item which has been filled. CMD is actively recruiting for the other two vacancies. In addition, CMD will be requesting two additional items in next year's budget. Once CMD fills these vacancies and trains the new staff, CMD will be able to conduct fiscal reviews on a triennial basis.

CMD has significantly reduced the backlog of fiscal audits and has issued the final reports. It is estimated that CMD will complete the backlog, along with completing the current fiscal audits, by the end of FY 08-09.

CMD has obtained and reviewed the outstanding contractors' Corrective Action Plans (CAP). The contractors have six months to address the findings noted in the reports and are then reassessed by staff.

Current Status as of June 30, 2008

Partially Implemented

**COUNTY OF LOS ANGELES
STATUS OF PRIOR YEAR'S FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008**

Expected Implementation Date

June 30, 2009

CFDA #93.959 - Substance Abuse Prevention and Treatment

Finding# 05-16 - Subrecipient Monitoring

Condition

The Fiscal Monitoring Instrument (FMI) is the guide utilized to provide evidence of the procedures performed to support the issuance of the Financial Evaluation Report. Based on the testwork performed, the following findings were noted:

- a. 3 out of 50 items selected did not have FMI and Financial Evaluation Reports;
- b. 1 out of 50 items selected had the FMI but not the Financial Evaluation Report;
- c. 18 out of 50 items have no final Financial Evaluation Reports, only draft copies were available;
- d. 34 out of 50 items selected did not have fiscal reviews performed within the 3-year period County policy, but had desk reviews performed in the current year.

Recommendation

Centralized Contract Monitoring Division (CCMD) should perform fiscal reviews for programs at least once in three years to ensure that the subrecipients are in compliance with the requirements applicable to the federal program, including the audit requirements of OMB Circular A-133. Moreover, CCMD should keep complete documentation, i.e., Financial Reviews and FMIs, to support the review performed.

Current Year Management Response

The Contract Monitoring Division (CMD) has filled 6 of the 8 vacant items; and during FY 07-08, received approval for an additional supervisory item which has been filled. CMD is actively recruiting for the other two vacancies. In addition, CMD will be requesting two additional items in next year's budget. Once CMD fills these vacancies and trains the new staff, CMD will be able to conduct fiscal reviews on a triennial basis.

CMD has significantly reduced the backlog of fiscal audits and has issued the final reports. It is estimated that CMD will complete the backlog, along with completing the current fiscal audits, by the end of FY 08-09.

CMD has obtained and reviewed the outstanding contractors' Corrective Action Plans (CAP). The contractors have six months to address the findings noted in the reports and are then reassessed by staff.

Current Status as of June 30, 2008

Partially Implemented

Expected Implementation Date

June 30, 2009

**COUNTY OF LOS ANGELES
STATUS OF PRIOR YEAR'S FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008**

CFDA #97.004 - Preparedness Equipment Support Cluster

Finding# 05-17 - Subrecipient Monitoring

Condition

There are no subrecipient monitoring activities performed for 50 of the 50 subrecipients reviewed.

Recommendation

The Office of Emergency Management (OEM) should develop and perform subrecipient monitoring procedures to ensure that federal awards are used for authorized purposes. This will ensure that subrecipients know and comply with the terms and conditions of the grant.

Current Year Management Response

During the application process OEM informs the subrecipients of the CFDA title, grant number, grant name and award amount. In addition, OEM has developed subrecipient contracts which include the CFDA title, grant name and award amount. These contracts are now required to be signed by each subrecipient before any grant funds are disbursed.

OEM has contracted with QIU Accounting to monitor each subrecipient's compliance with grant requirements by performing the following tasks:

- Review each subrecipient's most current Single Audit Report
- Conduct on-site visit of each subrecipient and conduct inventory review of grant funded equipment
- Review sample grant expenditure transactions related to training, planning, exercises and equipment
- Provide a detailed report of the monitoring review for each subrecipient

OEM has established a grant's compliance unit that does the following:

- Ensure all subrecipient contracts are approved/signed/filed
- Ensure all subrecipient Single Audit Reports are collected and reviewed
 - Corrective Action Plans are implemented when findings are identified
- Review all subrecipient monitoring reports prepared by QIU ACCOUNTING
 - Corrective Action Plans are developed and implemented on all findings

The process described above ensures that the Corrective Action Plan is fully implemented.

Current Status as of June 30, 2008

Implemented

Implementation Date

August 20, 2007

CFDA #93.596 - Child Day Care Program

Finding# 05-32 - Allowable Costs and Activities

Condition

Based on the procedures performed, 2 of the 30 timesheets requested cannot be found.

**COUNTY OF LOS ANGELES
STATUS OF PRIOR YEAR'S FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008**

Recommendation

Management should implement controls and retain documentation to support all hours worked for the program.

Current Year Management Response

Originally planned to be in full production by January 2009, difficulties operating the system, department-wide, have delayed the roll-out. Approximately half of the department is using e-Time Collection Timesheets. The roll out plan for the rest of the department has been extended until 2010.

Current Status as of June 30, 2008

Partially Implemented

Expected Implementation Date

January 2010