COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

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April 2, 2008

TO: Supervisor Yvonne B. Burke, Chair
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

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

SUBJECT: **2006-2007 SINGLE AUDIT REPORT**

Attached is the Single Audit Report (Report) for the County for fiscal year 2006-2007. 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 $3.1 billion.

The Report identifies a number of areas where County departments are not in compliance with federal assistance requirements for matters such as timely reporting and sub-recipient monitoring. County departments are in general agreement with the auditors' findings and have agreed in most cases to take corrective action. In a few instances, departments do not agree with the findings. 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 of implementation.

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Attachment

c: William T Fujioka
Sachi A. Hamai
Audit Committee
Public Information Office
Affected Department Heads
Departmental Grant Coordinators

MACIAS GINI & O'CONNELL LLP

CERTIFIED PUBLIC ACCOUNTANTS & MANAGEMENT CONSULTANTS

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, 2007

COUNTY OF LOS ANGELES
BASIC FINANCIAL STATEMENTS AND SINGLE AUDIT REPORTS
FOR THE YEAR ENDED JUNE 30, 2007

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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, 2007, 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 of the following opinion units:

Opinion Unit	Assets	Net assets or fund balance	Revenues
Governmental Activities	1%	1%	1%
Business-type Activities	5%	9%	10%
Aggregate Remaining Fund Information	75%	73%	16%

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, 2007, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2007, on our consideration of the County's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and the schedule of funding progress listed in the accompanying table of contents 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 Gini & O'Connell LLP

Certified Public Accountants

Los Angeles, California
December 13, 2007

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, 2007. 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 $17.177 billion. However, net assets are classified into three categories and the unrestricted component is negative $836 million. See further discussion on page 7.

During the current year, the County's net assets increased by a total of $1.523 billion. Net assets related to governmental activities increased by $1.335 billion, while net assets related to business-type activities increased by $188 million.

At the end of the current year, the County's General Fund reported a total fund balance of $3.08 billion. The amount of unreserved fund balance was $2.602 billion. Of the unreserved total, $1.235 billion was designated.

The County's capital asset balances were $17.258 billion at year-end and increased by $612 million during the year.

During the current year, the County's total long-term debt decreased by $373 million. Bond maturities of $757 million exceeded the $384 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.

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 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 $17.177 billion at the close of the most recent fiscal year.

Summary of Net Assets
As of June 30, 2007 and 2006
(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current and other assets	$ 7,517,376	$ 7,056,499	$ 854,182	$ 957,836	$ 8,371,558	$ 8,014,335
Capital assets	14,929,975	14,432,994	2,328,116	2,213,544	17,258,091	16,646,538
Total assets	22,447,351	21,489,493	3,182,298	3,171,380	25,629,649	24,660,873
Current and other liabilities	1,321,963	1,244,728	198,490	199,773	1,520,453	1,444,501
Long-term liabilities	5,684,764	6,139,202	1,247,234	1,423,405	6,931,998	7,562,607
Total liabilities	7,006,727	7,383,930	1,445,724	1,623,178	8,452,451	9,007,108
Net assets:						
Invested in capital assets, net of related debt	14,192,494	13,567,513	2,190,999	1,827,225	16,383,493	15,394,738
Restricted net assets	1,443,083	1,378,439	186,266	165,427	1,629,349	1,543,866
Unrestricted net assets (deficit)	(194,953)	(840,389)	(640,691)	(444,450)	(835,644)	(1,284,839)
Total net assets	15,440,624	14,105,563	1,736,574	1,548,202	17,177,198	15,653,765
Total liabilities and net assets	$ 22,447,351	$ 21,489,493	$ 3,182,298	$ 3,171,380	$ 25,629,649	$ 24,660,873

As indicated above, the County's total net assets consist of the following three components:

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

Capital Assets, Net of Related Debt

The largest portion of the County's net assets ($16.384 billion) represents its investment in capital assets (i.e., land, structures and improvements, infrastructure, and equipment), 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 $1.629 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 unrestricted net assets are negative $836 million. Both governmental and business-type activities reported deficits in this category of $195 million and $641 million, respectively. The deficits are primarily due to unfunded liabilities related to workers' compensation, accrued vacation and sick leave, and litigation and self-insurance claims. For the business-type activities, medical malpractice liabilities and third party payor liabilities are additional factors. At June 30, 2007, there were $3.799 billion of liabilities recorded for all of the items noted above and for all activities. Of this amount, the County's budget had cumulatively funded approximately $171 million as of June 30, 2007, which consists of $89 million related to governmental activities and $82 million related to business-type activities. The $89 million represents the County's policy of funding the General Fund's share of liabilities that are payable within one year from the balance sheet date and is applied to accrued vacation and sick leave as well as litigation and self-insurance claims. The budgetary funding of $82 million that has been provided for the business-type activities pertains to estimated third party payor liabilities for the County's hospitals.

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

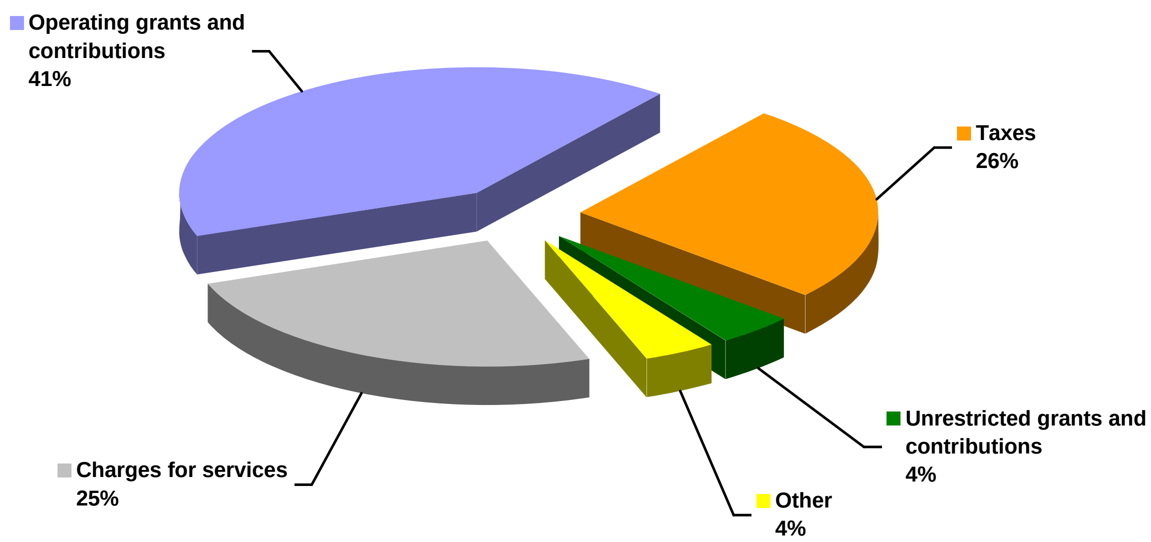
The following table indicates the changes in net assets for governmental and business-type activities:

Summary of Changes in Net Assets
For the Years Ended June 30, 2007 and 2006
(in thousands)

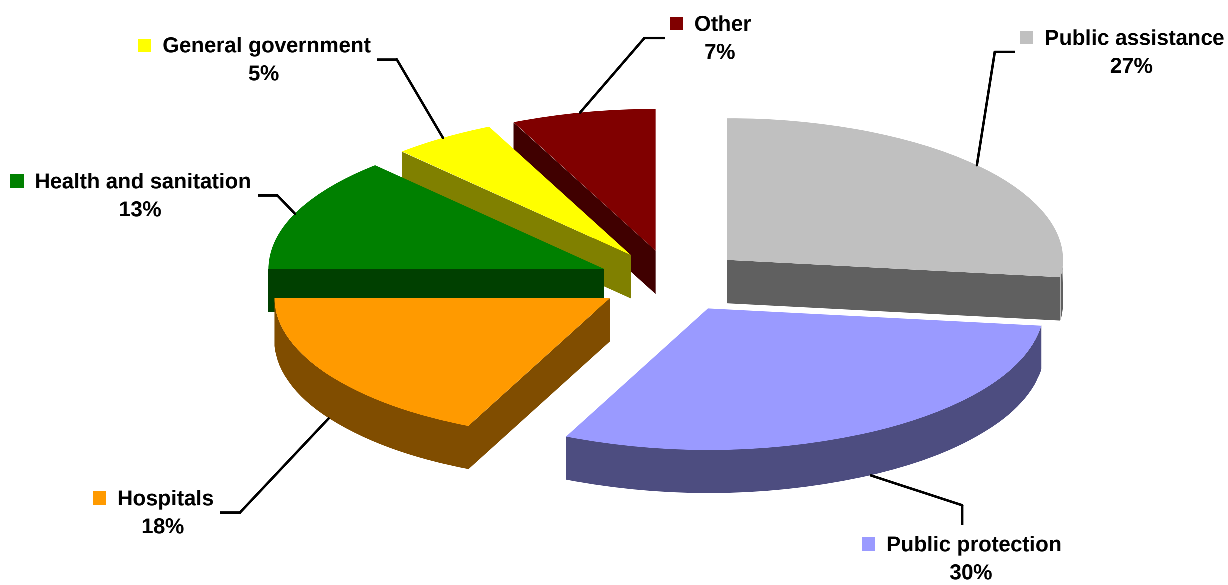
	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program revenues:						
Charges for services	$ 2,396,868	$ 2,337,634	$ 1,957,979	$ 2,004,419	$ 4,354,847	$ 4,342,053
Operating grants and contributions	6,980,549	6,801,256	304,720	309,526	7,285,269	7,110,782
Capital grants and contributions	25,135	64,258	12,992	74,821	38,127	139,079
General revenues:						
Taxes	4,688,595	4,292,919	3,782	743	4,692,377	4,293,662
Unrestricted grants and contributions	761,705	730,516	35	34	761,740	730,550
Investment earnings	335,851	244,005	18,043	9,703	353,894	253,708
Miscellaneous	259,357	171,049	50,443	58,804	309,800	229,853
Total revenues	15,448,060	14,641,637	2,347,994	2,458,050	17,796,054	17,099,687
Expenses:						
General government	807,155	795,290			807,155	795,290
Public protection	4,872,413	4,443,432			4,872,413	4,443,432
Public ways and facilities	282,827	360,980			282,827	360,980
Health and sanitation	2,223,695	2,151,515			2,223,695	2,151,515
Public assistance	4,539,458	4,465,520			4,539,458	4,465,520
Education	99,136	92,867			99,136	92,867
Recreation and cultural services	266,967	240,274			266,967	240,274
Interest on long-term debt	239,608	221,838			239,608	221,838
Hospitals			2,894,493	2,778,251	2,894,493	2,778,251
Aviation			5,761	5,236	5,761	5,236
Waterworks			97,504	67,563	97,504	67,563
Community Development Commission			211,077	202,298	211,077	202,298
Total expenses	13,331,259	12,771,716	3,208,835	3,053,348	16,540,094	15,825,064
Excess (deficiency) before transfers and special item	2,116,801	1,869,921	(860,841)	(595,298)	1,255,960	1,274,623
Transfers	(1,049,213)	(989,117)	1,049,213	989,117		
Special item	267,473				267,473	
Changes in net assets	1,335,061	880,804	188,372	393,819	1,523,433	1,274,623
Net assets – beginning	14,105,563	13,224,759	1,548,202	1,154,383	15,653,765	14,379,142
Net assets – ending	$ 15,440,624	$ 14,105,563	$ 1,736,574	$ 1,548,202	$ 17,177,198	$ 15,653,765

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

REVENUES BY SOURCE – ALL ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2007



EXPENSES BY TYPE – ALL ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2007



The County's net assets increased by $1.523 billion overall during the current fiscal year. The increases for governmental and business-type activities were $1.335 billion and $188 million, respectively. Following are specific major factors that resulted in the net asset changes.

<u>Governmental Activities</u>

Revenues from governmental activities grew by $806 million (5.5%) 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 $396 million higher than the previous year. The additional growth in tax revenues was concentrated in property taxes ($369 million) and was consistent with the continued upward trend in the County's assessed property values, although the housing market began to slow down during the fiscal year.

- Operating grants and contributions are the County's largest source of program revenues and grew by $179 million. The growth in this revenue source was primarily associated with health and mental health programs, where revenues grew by $101 million. Federal and State funding for road and highway programs also increased by $40 million. The remaining growth of $38 million was associated with federal and State grant funding for public safety programs.

- Current year investment earnings increased by $92 million, or 37.6 %. The yield from the County's Treasury Pool improved from 3.95% in the prior year to 5.25% in the current year.

Expenses related to governmental activities increased by $560 million (4.4%) during the current year. The significant majority of the net increases in expenses were attributable to the public protection category, which grew by $429 million. Salaries and employee benefits expenses increased in the public protection area by $328 million. Significant factors that contributed to the increase were negotiated cost increases and expanded staffing in areas such as juvenile halls, probation camps, Sheriff's patrol programs, jail facilities and fire protection services.

As discussed in Note 5 to the basic financial statements, the County recognized a Special Item totaling $267 million in the current year. The County accepted title to the Walt Disney Concert Hall, which has been recorded as a $267 million addition to the County's capital assets. This transaction culminates a process which began 20 years ago with an initial donation of $50 million. The County subsequently entered into a series of public/private partnerships and real estate transactions that resulted in the construction of this cultural landmark and ownership by the County.

Business-type Activities

Revenues from business-type activities decreased in comparison to the prior year by $110 million (4.5%). The most significant change was in the area of capital grants and contributions, which decreased by $62 million. The decrease was attributable to capital contributions (primarily from the Federal Emergency Management Agency) associated with the building of the LAC+USC Medical Center. This funding is diminishing as the project is nearly completed. The remaining reduction in revenues is primarily associated with the Hospitals, which experienced an overall reduction in average daily census of approximately 5%.

Expenses related to business-type activities increased from the previous year by $155 million (5.1%). The increased expenses were principally related to the Hospitals, where expenses were higher by $116 million. Hospital costs for salaries and employee benefits increased by $76 million and were reflective of negotiated wage and benefit increases. There were also cost increases associated with pharmaceutical supplies and contracted services.

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 $5.556 billion, an increase of $362 million in comparison with the prior year. Of the total fund balance, $1.408 billion is reserved to indicate the extent that funds have been committed or are otherwise unavailable for spending. An additional $1.677 billion has been designated and set aside for intended spending purposes as indicated in the financial statements. The remaining $2.471 billion of the balances are unreserved and undesignated.

Revenues from all governmental funds for the current year were $15.238 billion, an increase of $623 million (4.3%) from the previous year. Expenditures for all governmental funds in the current year were $13.849 billion, an increase of $828 million (6.4%) from the previous year. In addition, other financing uses exceeded other financing sources by $1.028 billion as compared to $563 million in the prior year.

Governmental Funds-Continued

The General Fund is the County's principal operating fund. During the current year, the fund balance in the General Fund increased by $342 million (12.5%). At the end of the current fiscal year, the General Fund's total fund balance was $3.08 billion. Of this amount, $478 million was reserved and therefore unavailable for spending. Of the unreserved total of $2.602 billion, $1.235 billion has been designated (earmarked) and the remaining $1.367 billion is considered both unreserved and undesignated.

General Fund revenues during the current year were $12.871 billion, an increase of $539 million (4.4%) from the previous year. General Fund expenditures during the current year were $11.759 billion, an increase of $689 million (6.2%) from the previous year. Other financing sources/uses-net was negative $770 million in the current year as compared to negative $850 million in the prior year.

Following are significant changes in General Fund revenues and expenditures:

- Revenues from taxes increased by $355 million (11%), primarily from property taxes. The increase was attributable to ongoing growth in property values and their related tax levies as the housing market remained generally resilient throughout the fiscal year.

- Revenues from charges for services increased by $110 million. A large portion ($44 million) of this increase was concentrated in the Sheriff's Department and was related to recoveries of increased salaries and benefits from contracting agencies. The Assessor's Office realized a $28 million increase as a result of additional billable activity and higher cost recoveries associated with property tax administration. The remaining increase in this revenue category ($38 million) was recognized in several other areas, predominately Health Services Administration and Drug and Alcohol programs.

- Investment income increased by $57 million (33.7%), as current year revenues were $226 million in comparison with the prior year amount of $169 million. As previously mentioned, the yield on investments during the current year was considerably higher than the prior year's yield.

- Current expenditures increased by $702 million (6.5%), and there were increases in all functional areas. The most significant increase was in the area of public protection, where expenditures were higher by $382 million. There were additional funds allocated to the public protection area and expenditures were notably higher in the Sheriff's Department ($230 million) and Probation Department ($53 million). Expenditures also increased in the areas of health and sanitation ($122 million) and general government ($103 million).

Governmental Funds-Continued

The Fire Protection District reported a year-end fund balance of $142 million, which represented a decrease of $10 million from the previous year. Revenues increased by $81 million, of which $40 million was attributable to property taxes and the remaining increase was associated with a variety of other revenues. Expenditures and other financing uses were higher by $121 million and $18 million, respectively. Salaries and benefits increased by $52 million. Capital asset spending was also a factor as equipment expenditures were higher by $35 million, primarily due to helicopter and fire engine purchases. The increase in other financing uses was attributable to transfers that were made to capital projects funds for future facilities' needs.

The Flood Control District reported a year-end fund balance of $148 million, which was $12 million higher than the previous year. This increase was primarily attributable to a comparable increase in revenues from property taxes ($13 million).

The Public Library Fund reported a year-end fund balance of $20 million, which was $5 million higher than the previous year. The principal factors associated with the fund balance growth were higher property tax revenues and "transfers in," each of which increased by $5 million in comparison to the previous year.

The Regional Park and Open Space District reported a year-end fund balance of $261 million, which was $15 million higher than the previous year. Current year revenues ($91 million) were similar to the previous year ($90 million) while expenditures declined by $3 million and "transfers out" to reimburse County related expenditures were lower by $4 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 are the five hospital enterprise funds, and each one has been reported as a major fund. Each hospital enterprise fund 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 total subsidy amount was $883 million and is reflected in the Statement of Revenues, Expenses and Changes in Fund Net Assets as "transfers in." Additional "transfers in" of $147 million were recognized from the Health Services Measure B Special Revenue Fund ("Measure B Fund"), which provides funding for trauma and emergency services.

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

Proprietary Funds-Continued

The average daily census for the County's Hospitals declined from the previous year's average of 1,493 to the current year average of 1,415. This decrease coincided with the curtailment of services at Martin Luther King/Harbor Hospital (MLK/Harbor). As discussed in Notes 12 and 18 to the basic financial statements, MLK/Harbor continued to be confronted with quality control issues and regulatory sanctions. In the current year, MLK/Harbor's operating revenues and expenses were lower by $37 million (10.3%) and $51 million (11.8%), respectively. As discussed in Note 18, the federal Centers for Medicare & Medicaid Services notified the County in August 2007 that MLK/Harbor failed to meet several Conditions of Participation and terminated the County's contract for this facility. The County has instituted a contingency plan that seeks to preserve outpatient services at MLK/Harbor and facilitates replacement of inpatient services at other County and private facilities. The County is also evaluating the feasibility of contracting with a qualified private operator to re-open and resume services at MLK/Harbor.

The Waterworks Funds reported year-end net assets of $897 million, a $10 million reduction from the previous year. However, the District's cash and investment position improved in the current year by $20 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 14 to the basic financial statements. There are approximately 100 separate budget units within the General Fund, excluding capital improvement projects, which are individually budgeted. 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 $637 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):

Category	Increase (Decrease) From Original Budget	Final Budget Amount	Actual Amount	Variance-Positive (Negative)
Taxes	$ 92,576	$ 3,526,669	$ 3,563,294	$ 36,625
Intergovernmental revenues	133,868	7,638,263	7,120,437	(517,826)
Charges for services	(91,067)	1,553,172	1,503,659	(49,513)
All other revenues	185,502	681,406	823,688	142,282
Other sources and transfers	24,595	392,131	186,248	(205,883)
Total	$ 345,474	$13,791,641	$13,197,326	$(594,315)

Changes from Amounts Originally Budgeted

During the year, net increases in budgeted revenues and other financing sources approximated $345 million. The most significant changes occurred in the following areas:

- The budget for tax revenues was increased by $93 million. This increase consisted of $83 million that was recognized in conjunction with year-end budgetary changes that are designed to demonstrate compliance with legal provisions related to the appropriation of revenues from property taxes and certain other tax related revenues. The remaining $10 million was appropriated for a variety of programs.

- Estimated revenues from intergovernmental sources were increased by $134 million. During the fiscal year, budgeted revenues for the Department of Children and Family Services were augmented by approximately $52 million. The increases were primarily associated with the Services Outcome Improvement Project and foster care services. Estimated revenues for mental health services were increased by $29 million and were used to augment appropriations. Estimated revenues from Homeland Security grant funds ($20 million) also increased during the fiscal year to fund the County's emergency preparedness and response operations. Various other changes comprised the remaining $33 million that was increased from the amounts originally budgeted for intergovernmental revenues.

- The net decrease of $91 million related to charges for services was primarily due to adjustments made to the General Fund's Office of Managed Care budget. Anticipated revenues related to a managed care supplemental reimbursement rate did not materialize during the current year and the budget was adjusted accordingly.

- The increase of $186 million related to "all other revenues" was mostly concentrated in two revenue categories, miscellaneous revenues and investment income. The budgeted amount of miscellaneous revenues was increased by $100 million, of which $99 million was attributable to tobacco settlement revenues. The County's policy is to budget tobacco settlement revenues after they have been received. Estimated revenues from investment income were increased by $82 million as a result of higher than anticipated yield on cash and investments throughout the year.

Actual Revenues/Financing Sources Compared with Final Budget Amounts

Actual revenues and other financing sources recognized by the General Fund were approximately $594 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 $518 million lower than the amount budgeted. Social service programs, including children and family services, accounted for approximately $221 million of this variance, which was mostly attributable to lower than anticipated caseloads and reimbursable social service related expenditures. Under-realized State sales taxes that fund social services programs were also a factor. An additional $153 million pertained to anticipated reimbursement of capital improvement and disaster recovery projects that were not completed prior to year-end. Approximately $89 million (mostly federal assistance) was associated with mental health services, due to lower than expected reimbursable costs. The remaining variance of $55 million was related to a variety of other programs that received intergovernmental revenues.

- The actual amount of "other sources and transfers" was $206 million lower than the amount budgeted. Of this amount, "transfers in" totaling $136 million were assumed in the budget for capital improvements and extraordinary building maintenance projects which did not incur expected costs. The Community Services and Support Plan, a mental health related program which anticipated "transfers in" of $130 million, did not fully materialize at the budgeted level and "transfers in" were $58 million lower than budgeted. There were various other sources and transfers that comprised the remaining variance of $12 million.

- The amount budgeted for "all other revenues" was exceeded by $142 million. Investment income exceeded the amount budgeted by $60 million as the yield on investments was higher than anticipated. The remaining variance of $82 million was generated by diverse revenue sources including property tax penalties ($33 million), rents, concessions, and royalties ($18 million), miscellaneous revenues ($26 million) and licenses, permits and franchises ($5 million).

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):

Category	Increase (Decrease) From Original Budget	Final Budget Amount	Actual Amount	Variance-Positive
General government	$ (100,605)	$ 1,146,202	$ 769,193	$ 377,009
Public protection	96,516	4,170,369	4,040,507	129,862
Health and sanitation	18,591	2,389,938	2,192,620	197,318
Public assistance	65,280	4,813,492	4,497,898	315,594
All other expenditures	36,184	1,458,596	395,642	1,062,954
Transfers out	(21,611)	968,146	957,820	10,326
Contingencies	130,337	130,337		130,337
Reserves/designations-net	120,782	(215,611)	(292,883)	77,272
Total	$ 345,474	$ 14,861,469	$ 12,560,797	$2,300,672

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 $345 million. As discussed below, the most significant changes occurred in the following areas:

- After the original budget was established, appropriations for contingencies were increased by $130 million. The increase occurred at the end of the fiscal year and was financed by offsetting increases in budgeted revenues (primarily taxes) that were recognized to comply with statutory requirements.

- Provisions for net reserves and designations were increased during the year by $121 million. At the end of the fiscal year, a $78 million reserve was established for long-term receivables associated with State-funded mental health programs. There were additions of $66 million related to designations established for health services. Miscellaneous reductions of approximately $23 million were made to other designations.

- Appropriations were increased for the public protection category by approximately $97 million. Funding was added to the budgets of the Sheriff's Department ($56 million), the Probation Department ($29 million) and various other public protection operations ($12 million). The Sheriff and Probation Departments were allocated $23 million and $16 million, respectively, for negotiated salary and employee benefit increases approved by the Board after the adoption of the Original Budget. The remaining $46 million allocated to the two departments consisted of unanticipated revenues, designations, and other internal County funding sources.

- Overall appropriations were reduced for the general government category by $101 million. As previously mentioned, a $78 million reserve was established for long-term receivables. This reserve was funded by reductions in general government appropriations. General government appropriations were also reduced by $54 million and shifted to other functional areas (primarily public protection) to fund salary and employee benefit increases. There was a net increase of $31 million for various other general government programs, the most significant of which was a $26 million allocation for the County's financial enterprise reporting system.

Actual Expenditures/Other Financing Uses Compared with Final Budget Amount

Actual expenditures/other financing uses for the current year were $2.301 billion lower (approximately 15.5%) than the final total budget of $14.861 billion. Although there were budgetary savings in all categories, following are the functional areas that recognized the largest variations from the final budget:

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

- The category referred to as "all other expenditures" reflected actual spending of $1.063 billion less than the budgeted amount. Nearly all ($1.051 billion) of this variance was related to the capital outlay category. The final budget for capital outlay in the current year was $350 million higher than the comparable amount in the previous year as the County continued to add resources to this area. 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.

- The general government function reported actual expenditures that were $377 million less than the amount budgeted. Of this amount, $260 million represented budgetary savings for items that are not associated with specific County departments, such as provisional appropriations, extraordinary maintenance and repairs, and favorable adjustments to contingent liability cases. The remaining $117 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.

- Actual public assistance expenditures were $316 million lower than the final budget. A large portion of this variance ($160 million) was concentrated in programs operated by the Department of Public Social Services. Administrative costs were lower than anticipated, and program caseload volume and cost per caseload were also less than the amounts budgeted. There were also budgetary savings ($75 million) associated with the Homeless and Housing Program. This is a relatively new Program, and there were delays in the contracting processes associated with the Program's initiatives. Programs operated by the Department of Children and Family Services recognized savings of $61 million that were reflective of vacant positions, hiring delays, and lower than anticipated information technology costs. The remaining variance amount of $20 million was related to other public assistance programs.

- Overall expenditures for the health and sanitation category were $197 million less than the budgeted amount. Appropriations related to mental health services exceeded actual expenditures by $137 million, primarily due to less than anticipated costs for services and supplies. The remaining variance of $60 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, 2007 were $17.258 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.

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

The total increase in the County's capital assets (net of depreciation) for the current fiscal year was $612 million, as shown in the following table.

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

	Current Year	Prior Year	Increase (Decrease)
Land and easements	$ 7,240,287	$ 7,080,469	$ 159,818
Buildings and improvements	3,044,116	2,892,361	151,755
Infrastructure	5,291,789	5,299,612	(7,823)
Equipment	370,197	317,449	52,748
Construction-in-progress	1,311,702	1,056,647	255,055
Total	$17,258,091	$16,646,538	$ 611,553

The County's most significant capital asset activity during the current year was the recognition of the Disney Concert Hall, which was recorded in the financial statements at $267 million. In addition, the rebuilding of the LAC+USC Medical Center remained the most significant active capital spending project and its capitalized costs during the current year approximated $151 million. The overall project cost is estimated at $899 million and the project is expected to be completed during FY 2007-2008. At June 30, 2007, there were outstanding capital commitments of $66 million related to the LAC+USC Medical Center.

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)

	Current Year	Prior Year	Decrease
Bonds and Notes Payable	$ 1,848,630	$ 1,998,099	$ 149,469
Pension Bonds Payable	1,185,197	1,408,441	223,244
Total	$ 3,033,827	$ 3,406,540	$ 372,713

During the current year, the County's liabilities for long-term debt decreased by $373 million, or 10.9%. Specific changes related to governmental and business-type activities are presented in Note 9 to the basic financial statements. During the current year, significant long-term debt transactions were as follows:

- Refunding bonds totaling $321 million were issued to advance refund outstanding bond principal of $382 million.

- New debt of $20 million was issued to finance the acquisition of equipment. Equipment debt totaling $15 million was redeemed during the year in accordance with maturity schedules.

- Pension bonds totaling $223 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 29, 2007, and by periodic borrowing from available trust funds.

Bond Ratings

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

	Moody's	Standard and Poor's	Fitch
General Obligation Bonds	Aa3	AA-	
Pension Bonds	A1	A+	
Facilities	A2	A+	A
Equipment/Non-Essential Leases	A3	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 General Obligation Bonds were upgraded by Standard and Poor's from A+ to AA-. Standard and Poor's also upgraded the County's Pension Bonds, Facilities, and Equipment/Non-Essential Leases from A to A+. The Regional Park and Open Space District Bonds were upgraded by both Moody's and Fitch from Aa3 and AA, respectively, to Aa2 and AA+, respectively. 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 2007-2008 Budget on June 18, 2007. The Budget was adopted based on estimated fund balances that would be available at the end of 2006-2007. The Board updated the Budget on September 25, 2007 to reflect final 2006-2007 fund balances and other pertinent financial information. For the County's General Fund, the 2007-2008 Budget, as updated in September 2007, utilized $1.706 billion of available fund balance, which exceeded the previously estimated fund balance of $1.341 billion. The additional fund balance of $365 million was used to appropriate $75 million to carryover lapsed appropriations and $290 million was appropriated or designated for one-time needs which were predominately capital improvements.

The 2007-2008 Budget continues the County's conservative budgetary approach in response to the ongoing uncertainty at both the federal and State levels. The economic outlook for the County remains positive with slightly slower growth expected. The County is sensitive to predictions of a "bursting housing bubble" and although this has not materialized, the housing market continues to contract. The slowing resale housing market presents the biggest risk to the County, as it has a potential negative impact on property tax revenues, the County's most important source of local funding.

For 2007-2008, the County is in the process of implementing Governmental Accounting Standards Board Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions," which establishes financial reporting standards designed to measure, recognize, and display postemployment benefit costs. The County has determined that its share of the actuarial accrued liability for retiree health programs is $20.302 billion. The actuarial required contribution (ARC) for 2007-2008 is $1.555 billion. Although there are no legal requirements to fund the ARC, the County has established a Joint Labor Management Retiree Health Committee and is examining the feasibility of creating a trust fund for purposes of pre-funding these benefits. At this time, the County's Budget has appropriated the "pay-as-you-go" amount of retiree health benefits for 2007-2008, which are estimated at $342 million.

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, 2007 (in thousands)

	PRIMARY GOVERNMENT			COMPONENT UNIT
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	FIRST 5 LA
ASSETS				
Pooled cash and investments: (Notes 1 and 4)				
Operating (Note 1)	$ 3,965,791	$ 205,875	$ 4,171,666	$ 163,111
Other (Note 1)	905,740	57,965	963,705	
Total pooled cash and investments	4,871,531	263,840	5,135,371	163,111
Other investments (Note 4)	303,363	78,720	382,083	679,422
Taxes receivable	344,068	731	344,799	
Accounts receivable - net		584,767	584,767	
Interest receivable	48,115	1,853	49,968	12,237
Other receivables	1,514,618	29,610	1,544,228	21,839
Internal balances (Note 13)	200,022	(200,022)		
Inventories	95,447	25,459	120,906	
Restricted assets (Note 4)	9,268	23,728	32,996	
Net pension obligation (Note 6)	130,944	45,496	176,440	
Capital assets: (Notes 5 and 8)				
Capital assets, not being depreciated	7,433,679	1,118,310	8,551,989	2,039
Capital assets, net of accumulated depreciation	7,496,296	1,209,806	8,706,102	11,513
Total capital assets	14,929,975	2,328,116	17,258,091	13,552
TOTAL ASSETS	22,447,351	3,182,298	25,629,649	890,161
LIABILITIES				
Accounts payable	359,139	76,533	435,672	27,661
Accrued payroll	454,588	102,218	556,806	
Other payables	108,859	11,135	119,994	
Accrued interest payable	18,432	684	19,116	
Unearned revenue (Note 6)	93,365	7,920	101,285	1,782
Advances payable	287,580		287,580	
Noncurrent liabilities: (Notes 6, 8, 9, 12 and 16)				
Due within one year	847,541	224,367	1,071,908	72
Due in more than one year	4,837,223	1,022,867	5,860,090	159
TOTAL LIABILITIES	7,006,727	1,445,724	8,452,451	29,674
NET ASSETS				
Invested in capital assets, net of related debt (Notes 5 and 9)	14,192,494	2,190,999	16,383,493	13,552
Restricted for:				
Capital projects	150,980		150,980	
Debt service	1,143	107,139	108,282	
Permanent trust	3,380		3,380	
Special purpose	1,287,580	79,127	1,366,707	846,935
Unrestricted (deficit)	(194,953)	(640,691)	(835,644)	
TOTAL NET ASSETS	$ 15,440,624	$ 1,736,574	$ 17,177,198	$ 860,487

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, 2007 (in thousands)

		PROGRAM REVENUE		
FUNCTIONS			OPERATING	CAPITAL
PRIMARY GOVERNMENT:	EXPENSES	CHARGES FOR SERVICES	GRANTS AND CONTRIBUTIONS	GRANTS AND CONTRIBUTIONS
Governmental activities:				
General government	$ 807,155	$ 451,050	$ 39,316	$ 7,697
Public protection	4,872,413	1,189,730	1,178,230	2,687
Public ways and facilities	282,827	31,390	217,637	
Health and sanitation	2,223,695	518,893	1,505,926	2,365
Public assistance	4,539,458	28,421	4,034,618	
Education	99,136	3,853	2,529	
Recreation and cultural services	266,967	173,531	2,293	12,386
Interest on long-term debt	239,608			
Total governmental activities	13,331,259	2,396,868	6,980,549	25,135
Business-type activities:				
Hospitals	2,894,493	1,864,209	71,636	12,911
Aviation	5,761	2,914	1,878	81
Waterworks	97,504	79,547	158	
Community Development Commission	211,077	11,309	231,048	
Total business-type activities	3,208,835	1,957,979	304,720	12,992
Total primary government	$ 16,540,094	$ 4,354,847	$ 7,285,269	$ 38,127
COMPONENT UNIT -				
First 5 LA	$ 137,489	$	$ 139,466	$

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
SPECIAL ITEM - Contribution of Disney Hall (Note 5)
TRANSFERS - NET
Total general revenues and transfers
CHANGE IN NET ASSETS
NET ASSETS, JULY 1, 2006
NET ASSETS, JUNE 30, 2007

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	FUNCTIONS
				PRIMARY GOVERNMENT:
				Governmental activities:
$ (309,092)	$	$ (309,092)		General government
(2,501,766)		(2,501,766)		Public protection
(33,800)		(33,800)		Public ways and facilities
(196,511)		(196,511)		Health and sanitation
(476,419)		(476,419)		Public assistance
(92,754)		(92,754)		Education
(78,757)		(78,757)		Recreation and cultural services
(239,608)		(239,608)		Interest on long-term debt
(3,928,707)		(3,928,707)		Total governmental activities
				Business-type activities:
	(945,737)	(945,737)		Hospitals
	(888)	(888)		Aviation
	(17,799)	(17,799)		Waterworks
	31,280	31,280		Community Development Commission
	(933,144)	(933,144)		Total business-type activities
(3,928,707)	(933,144)	(4,861,851)		Total primary government
				COMPONENT UNIT -
			$ 1,977	Total - First 5 LA
				GENERAL REVENUES:
				Taxes:
4,142,889	3,782	4,146,671		Property taxes
65,457		65,457		Utility users taxes
253,690		253,690		Voter approved taxes
87,930		87,930		Documentary transfer taxes
55,038		55,038		Other taxes
83,591		83,591		Sales and use taxes, levied by the State
761,705	35	761,740		Grants and contributions not restricted to special programs
335,851	18,043	353,894	42,823	Investment earnings
259,357	50,443	309,800	291	Miscellaneous
267,473		267,473		SPECIAL ITEM - Contribution of Disney Hall (Note 5)
(1,049,213)	1,049,213			TRANSFERS - NET
5,263,768	1,121,516	6,385,284	43,114	Total general revenues and transfers
1,335,061	188,372	1,523,433	45,091	CHANGE IN NET ASSETS
14,105,563	1,548,202	15,653,765	815,396	NET ASSETS, JULY 1, 2006
$ 15,440,624	$ 1,736,574	$ 17,177,198	$ 860,487	NET ASSETS, JUNE 30, 2007

COUNTY OF LOS ANGELES
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007 (in thousands)

	GENERAL FUND	FIRE PROTECTION DISTRICT	FLOOD CONTROL DISTRICT	PUBLIC LIBRARY
ASSETS:				
Pooled cash and investments: (Notes 1 and 4)				
Operating (Note 1)	$ 1,882,867	84,507	135,097	21,695
Other (Note 1)	785,987	55,626	8,781	3,556
Total pooled cash and investments	2,668,854	140,133	143,878	25,251
Other investments (Notes 3 and 4)	6,400			121
Taxes receivable	248,095	54,186	15,731	7,189
Interest receivable	33,096	697	990	210
Other receivables	1,324,587	27,006	10,863	248
Due from other funds (Note 13)	370,124	4,486	13,158	762
Advances to other funds (Note 13)	400,280		6,213	
Inventories	42,561	6,247		1,108
TOTAL ASSETS	$ 5,093,997	232,755	190,833	34,889
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	$ 300,087	7,242	2,871	2,912
Accrued payroll	392,779	37,171		4,184
Other payables	86,055	1,996		340
Due to other funds (Note 13)	602,358	6,064	25,285	2,056
Deferred revenue (Note 6)	338,714	38,341	15,059	5,184
Advances payable	278,023			
Third party payor liability (Notes 9 and 12)	15,537			
TOTAL LIABILITIES	2,013,553	90,814	43,215	14,676
FUND BALANCES:				
Reserved for:				
Encumbrances	415,001	18,421	100,464	7,846
Inventories	42,561	6,247		1,108
Housing programs				
Debt service				
Endowments and annuities				
Assets unavailable for appropriation	20,718	25	3,011	15
Unreserved, designated for:				
Budget uncertainties	338,192	54,000		
Program expansion	328,795	29,824		3,399
Health services	326,849			
Capital projects	241,489		33,814	
Special revenue funds - program expansion				
Unreserved, undesignated, reported in:				
General fund	1,366,839			
Special revenue funds		33,424	10,329	7,845
Capital projects funds				
TOTAL FUND BALANCES	3,080,444	141,941	147,618	20,213
TOTAL LIABILITIES AND FUND BALANCES	$ 5,093,997	232,755	190,833	34,889

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 3)	TOTAL GOVERNMENTAL FUNDS	
				ASSETS:
				Pooled cash and investments: (Notes 1 and 4)
$ 263,441	1,540,768		$ 3,928,375	Operating (Note 1)
3,540	40,795		898,285	Other (Note 1)
266,981	1,581,563		4,826,660	Total pooled cash and investments
	592,884	(304,235)	295,170	Other investments (Notes 3 and 4)
3,335	15,532		344,068	Taxes receivable
2,222	10,558		47,773	Interest receivable
4,013	93,791		1,460,508	Other receivables
9	311,189		699,728	Due from other funds (Note 13)
	11,034		417,527	Advances to other funds (Note 13)
	37,581		87,497	Inventories
$ 276,560	2,654,132	(304,235)	$ 8,178,931	TOTAL ASSETS
				LIABILITIES AND FUND BALANCES
				LIABILITIES:
$ 1,022	48,270		$ 362,404	Accounts payable
	465		434,599	Accrued payroll
85	18,285		106,761	Other payables
9,007	293,863		938,633	Due to other funds (Note 13)
5,234	74,854		477,386	Deferred revenue (Note 6)
	8,169		286,192	Advances payable
	1,630		17,167	Third party payor liability (Notes 9 and 12)
15,348	445,536		2,623,142	TOTAL LIABILITIES
				FUND BALANCES:
				Reserved for:
78,400	174,425		794,557	Encumbrances
	37,581		87,497	Inventories
	1,662		1,662	Housing programs
	771,679	(304,235)	467,444	Debt service
	3,380		3,380	Endowments and annuities
	29,587		53,356	Assets unavailable for appropriation
				Unreserved, designated for:
	86,182		478,374	Budget uncertainties
64,873			426,891	Program expansion
			326,849	Health services
			275,303	Capital projects
	169,104		169,104	Special revenue funds - program expansion
				Unreserved, undesignated, reported in:
			1,366,839	General fund
117,939	666,461		835,998	Special revenue funds
	268,535		268,535	Capital projects funds
261,212	2,208,596	(304,235)	5,555,789	TOTAL FUND BALANCES
$ 276,560	2,654,132	(304,235)	$ 8,178,931	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, 2007 (in thousands)

Fund balances - total governmental funds (page 27)		$ 5,555,789
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	$ 6,994,837	
Construction-in-progress	438,842	
Buildings and improvements - net	2,633,854	
Equipment - net	253,579	
Infrastructure - net	4,540,240	14,861,352
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	$ 244,587	
Long-term receivables	194,364	438,951
The net pension obligation (an asset) pertaining to governmental fund types is not recorded in governmental fund statements.		122,166
Accrued interest payable is not recognized in governmental funds.		(18,432)
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)	$ (1,659,220)	
Pension bonds payable	(820,621)	
Capital lease obligations	(98,245)	
Accrued vacation/sick leave	(662,360)	
Workers' compensation	(1,807,937)	
Litigation/self-insurance	(397,513)	
Third party payor liability	(400)	(5,446,296)
Assets and liabilities of the internal service funds are included in governmental activities in the accompanying statement of net assets.		(72,906)
Net assets of governmental activities (page 23)		$ 15,440,624

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, 2007 (in thousands)

	GENERAL FUND	FIRE PROTECTION DISTRICT	FLOOD CONTROL DISTRICT	PUBLIC LIBRARY
REVENUES:				
Taxes	$ 3,572,932	580,763	88,011	66,822
Licenses, permits and franchises	61,138	9,228	514	
Fines, forfeitures and penalties	234,747	3,041	1,059	477
Revenue from use of money and property:				
Investment income (Note 4)	226,247	2,555	6,113	822
Rents and concessions (Note 8)	67,984	80	6,995	19
Royalties	280		306	
Intergovernmental revenues:				
Federal	2,695,498	14,383	5,375	107
State	4,251,149	16,317	9,324	2,952
Other	103,474	29,810	4,824	1,263
Charges for services	1,467,608	166,120	112,524	2,372
Miscellaneous	189,636	133	11,875	562
TOTAL REVENUES	12,870,693	822,430	246,920	75,396
EXPENDITURES:				
Current:				
General government	854,052			
Public protection	3,855,819	788,880	214,526	
Public ways and facilities				
Health and sanitation	2,126,233			
Public assistance	4,410,224			
Education				98,626
Recreation and cultural services	217,221			
Debt service:				
Principal	124,234	6,125		1,360
Interest and other charges	144,131	6,149		1,366
Capital leases	25,936			
Capital outlay	818			
TOTAL EXPENDITURES	11,758,668	801,154	214,526	101,352
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,112,025	21,276	32,394	(25,956)
OTHER FINANCING SOURCES (USES):				
Transfers in (Note 13)	267,243			35,294
Transfers out (Note 13)	(1,039,031)	(31,487)	(21,065)	(3,844)
Issuance of debt (Note 9)				
Payment to refunded bonds escrow agent (Note 9)				
Bond premium proceeds (Note 9)				
Capital leases (Note 8)	818			
Sales of capital assets	1,111	287	599	3
TOTAL OTHER FINANCING SOURCES (USES)	(769,859)	(31,200)	(20,466)	31,453
NET CHANGE IN FUND BALANCES	342,166	(9,924)	11,928	5,497
FUND BALANCE, JULY 1, 2006	2,738,278	151,865	135,690	14,716
FUND BALANCE, JUNE 30, 2007	$ 3,080,444	141,941	147,618	20,213

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 3)	TOTAL GOVERNMENTAL FUNDS	
				REVENUES:
$	259,127		$ 4,567,655	Taxes
	6,810		77,690	Licenses, permits and franchises
792	76,058		316,174	Fines, forfeitures and penalties
				Revenue from use of money and property:
12,749	102,400	(16,021)	334,865	Investment income (Note 4)
	5,796		80,874	Rents and concessions (Note 8)
	8		594	Royalties
				Intergovernmental revenues:
	120,569		2,835,932	Federal
	333,450		4,613,192	State
	14,745		154,116	Other
77,709	139,391		1,965,724	Charges for services
	89,087		291,293	Miscellaneous
91,250	1,147,441	(16,021)	15,238,109	TOTAL REVENUES
				EXPENDITURES:
				Current:
	17,252		871,304	General government
	96,113		4,955,338	Public protection
	271,904		271,904	Public ways and facilities
	129,504		2,255,737	Health and sanitation
	128,968		4,539,192	Public assistance
	489		99,115	Education
42,417	5,391		265,029	Recreation and cultural services
				Debt service:
	194,644	(21,475)	304,888	Principal
	75,761	(16,021)	211,386	Interest and other charges
			25,936	Capital leases
	48,079		48,897	Capital outlay
42,417	968,105	(37,496)	13,848,726	TOTAL EXPENDITURES
48,833	179,336	21,475	1,389,383	EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES
				OTHER FINANCING SOURCES (USES):
	237,840		540,377	Transfers in (Note 13)
(33,710)	(463,204)		(1,592,341)	Transfers out (Note 13)
	326,245		326,245	Issuance of debt (Note 9)
	(320,995)		(320,995)	Payment to refunded bonds escrow agent (Note 9)
	14,566		14,566	Bond premium proceeds (Note 9)
			818	Capital leases (Note 8)
	1,816		3,816	Sales of capital assets
(33,710)	(203,732)		(1,027,514)	TOTAL OTHER FINANCING SOURCES (USES)
15,123	(24,396)	21,475	361,869	NET CHANGE IN FUND BALANCES
246,089	2,232,992	(325,710)	5,193,920	FUND BALANCE, JULY 1, 2006
$ 261,212	2,208,596	(304,235)	$ 5,555,789	FUND BALANCE, JUNE 30, 2007

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, 2007 (in thousands)

Net change in fund balances - total governmental funds (page 31)		$ 361,869
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	$ 400,933	
Less - current year depreciation expense	(265,097)	135,836
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.		(7,171)
Contribution of capital assets is not recognized in the governmental funds.		374,704
Revenue timing differences result in more revenue in government-wide statements.		80,104
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.		(19,816)
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	$ 131,719	
General obligation bonds	9,105	
Certificates of participation	138,230	
Assessment bonds	21,475	
Other long term notes and loans	27,328	327,857
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	$ 139,980	
Change in litigation/self-insurance	59,622	
Change in accrued vacation/sick leave	(66,268)	
Change in third party payor liability	577	
Change in accrued interest payable	(1,479)	
Accretion of tobacco settlement bonds	(18,495)	
Accretion of pension bonds	22,853	136,790
The change in the net pension obligation (an asset) is not recognized in governmental funds.		(63,039)
The portion of internal service funds that is reported with governmental activities.		7,927
Change in net assets of governmental activities (page 25)		$ 1,335,061

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, 2007 (in thousands)

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL ON BUDGETARY BASIS	VARIANCE FROM FINAL BUDGET OVER (UNDER)
REVENUES:				
Taxes	$ 3,434,093	3,526,669	3,563,294	36,625
Licenses, permits and franchises	54,364	55,954	61,138	5,184
Fines, forfeitures and penalties	200,190	201,696	234,748	33,052
Revenue from use of money and property:				
Investment income	78,412	160,653	220,977	60,324
Rents and concessions	50,559	50,559	67,984	17,425
Royalties	156	156	280	124
Intergovernmental revenues:				
Federal	3,027,325	3,047,620	2,690,846	(356,774)
State	4,377,133	4,489,944	4,333,052	(156,892)
Other	99,937	100,699	96,539	(4,160)
Charges for services	1,644,239	1,553,172	1,503,659	(49,513)
Miscellaneous	112,223	212,388	238,561	26,173
TOTAL REVENUES	13,078,631	13,399,510	13,011,078	(388,432)
EXPENDITURES:				
Current:				
General government	1,246,807	1,146,202	769,193	(377,009)
Public protection	4,073,853	4,170,369	4,040,507	(129,862)
Health and sanitation	2,371,347	2,389,938	2,192,620	(197,318)
Public assistance	4,748,212	4,813,492	4,497,898	(315,594)
Recreation and cultural services	232,983	236,272	223,823	(12,449)
Debt Service-				
Interest	17,682	17,682	17,682	
Capital Outlay	1,171,747	1,204,642	154,137	(1,050,505)
TOTAL EXPENDITURES	13,862,631	13,978,597	11,895,860	(2,082,737)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(784,000)	(579,087)	1,115,218	1,694,305
OTHER FINANCING SOURCES (USES):				
Sales of capital assets	704	704	1,110	406
Transfers in	366,832	391,427	185,138	(206,289)
Transfers out	(989,757)	(968,146)	(957,820)	10,326
Appropriation for contingencies		(130,337)		130,337
Changes in reserves and designations	336,393	215,611	292,883	77,272
OTHER FINANCING SOURCES (USES) - NET	(285,828)	(490,741)	(478,689)	12,052
NET CHANGE IN FUND BALANCE	(1,069,828)	(1,069,828)	636,529	1,706,357
FUND BALANCE, JULY 1, 2006 (Note 14)	1,069,828	1,069,828	1,069,828	
FUND BALANCE, JUNE 30, 2007 (Note 14)	$		1,706,357	1,706,357

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, 2007 (in thousands)

	FIRE PROTECTION DISTRICT			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL ON BUDGETARY BASIS	VARIANCE FROM FINAL BUDGET OVER (UNDER)
REVENUES:				
Taxes	$ 584,453	584,453	580,299	(4,154)
Licenses, permits and franchises	8,279	8,279	9,228	949
Fines, forfeitures and penalties	2,878	2,878	3,041	163
Revenue from use of money and property:				
Investment income	308	308	2,229	1,921
Rents and concessions	86	86	80	(6)
Intergovernmental revenues:				
Federal	13,124	13,204	14,383	1,179
State	14,891	15,561	16,317	756
Other	20,291	20,291	29,810	9,519
Charges for services	146,661	155,657	166,120	10,463
Miscellaneous	293	293	133	(160)
TOTAL REVENUES	791,264	801,010	821,640	20,630
EXPENDITURES:				
Current-Public protection:				
Salaries and employee benefits	647,095	654,622	644,851	(9,771)
Services and supplies	107,242	124,845	106,202	(18,643)
Other charges	1,093	1,093	865	(228)
Capital assets	19,390	26,461	24,191	(2,270)
TOTAL EXPENDITURES	774,820	807,021	776,109	(30,912)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	16,444	(6,011)	45,531	51,542
OTHER FINANCING SOURCES (USES):				
Sales of capital assets	47	47	287	240
Transfers out	(30,823)	(30,823)	(30,823)	
Appropriation for contingencies	(5,490)	(2,090)		2,090
Changes in reserves and designations	(38,880)	(19,825)	(17,070)	2,755
OTHER FINANCING SOURCES (USES) - NET	(75,146)	(52,691)	(47,606)	5,085
NET CHANGE IN FUND BALANCE	(58,702)	(58,702)	(2,075)	56,627
FUND BALANCE, JULY 1, 2006 (Note 14)	58,702	58,702	58,702	
FUND BALANCE, JUNE 30, 2007 (Note 14)	$		56,627	56,627

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, 2007 (in thousands)

	FLOOD CONTROL DISTRICT			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL ON BUDGETARY BASIS	VARIANCE FROM FINAL BUDGET OVER (UNDER)
REVENUES:				
Taxes	$ 85,568	87,941	87,912	(29)
Licenses, permits and franchises	501	501	514	13
Fines, forfeitures and penalties	1,150	1,150	1,059	(91)
Revenue from use of money and property:				
Investment income	2,305	3,814	6,070	2,256
Rents and concessions	8,305	8,305	6,995	(1,310)
Royalties	170	170	306	136
Intergovernmental revenues:				
Federal	8,350	8,350	5,375	(2,975)
State	7,516	7,516	9,324	1,808
Other	2,772	2,772	4,824	2,052
Charges for services	112,963	112,963	112,993	30
Miscellaneous	1,802	1,802	187	(1,615)
TOTAL REVENUES	231,402	235,284	235,559	275
EXPENDITURES:				
Current-Public protection:				
Services and supplies	189,953	207,438	207,437	(1)
Other charges	20,066	19,398	19,397	(1)
Capital assets	17,460	15,243	11,851	(3,392)
TOTAL EXPENDITURES	227,479	242,079	238,685	(3,394)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	3,923	(6,795)	(3,126)	3,669
OTHER FINANCING SOURCES (USES):				
Sales of capital assets			600	600
Transfers in	14,130	14,130	11,688	(2,442)
Transfers out	(942)	(2,026)	(2,026)	
Appropriation for contingencies	(2,787)	(5,185)		5,185
Changes in reserves and designations	(21,966)	(7,766)	1,527	9,293
OTHER FINANCING SOURCES (USES) - NET	(11,565)	(847)	11,789	12,636
NET CHANGE IN FUND BALANCE	(7,642)	(7,642)	8,663	16,305
FUND BALANCE, JULY 1, 2006 (Note 14)	7,642	7,642	7,642	
FUND BALANCE, JUNE 30, 2007 (Note 14)	$		16,305	16,305

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, 2007 (in thousands)

	PUBLIC LIBRARY			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL ON BUDGETARY BASIS	VARIANCE FROM FINAL BUDGET OVER (UNDER)
REVENUES:				
Taxes	$ 66,545	66,897	66,868	(29)
Fines, forfeitures and penalties			477	477
Revenue from use of money and property:				
Investment income	150	532	763	231
Rents and concessions	15	15	19	4
Intergovernmental revenues:				
Federal	73	73	107	34
State	2,682	2,682	2,951	269
Other	876	876	1,263	387
Charges for services	2,400	2,400	2,372	(28)
Miscellaneous	1,291	1,291	562	(729)
TOTAL REVENUES	74,032	74,766	75,382	616
EXPENDITURES:				
Current-Education:				
Salaries and employee benefits	70,874	70,874	63,269	(7,605)
Services and supplies	50,283	48,874	39,179	(9,695)
Other charges	840	840	732	(108)
Capital assets	390	640	598	(42)
TOTAL EXPENDITURES	122,387	121,228	103,778	(17,450)
DEFICIENCY OF REVENUES OVER EXPENDITURES	(48,355)	(46,462)	(28,396)	18,066
OTHER FINANCING SOURCES (USES):				
Sales of capital assets			4	4
Transfers in	45,332	44,173	35,294	(8,879)
Transfers out	(3,328)	(3,328)	(3,328)	
Appropriation for contingencies		(734)		734
Changes in reserves and designations	(1,691)	(1,691)	(821)	870
OTHER FINANCING SOURCES (USES) - NET	40,313	38,420	31,149	(7,271)
NET CHANGE IN FUND BALANCE	(8,042)	(8,042)	2,753	10,795
FUND BALANCE, JULY 1, 2006 (Note 14)	8,042	8,042	8,042	
FUND BALANCE, JUNE 30, 2007 (Note 14)	$		10,795	10,795

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, 2007 (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	$ 1,135	1,135	793	(342)
Revenue from use of money and property- Investment income	6,469	6,469	12,680	6,211
Charges for services	78,236	78,236	78,129	(107)
TOTAL REVENUES	85,840	85,840	91,602	5,762
EXPENDITURES:				
Current-Recreation and cultural services:				
Services and supplies	4,227	4,227	3,117	(1,110)
Other charges	145,163	129,755	39,954	(89,801)
TOTAL EXPENDITURES	149,390	133,982	43,071	(90,911)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(63,550)	(48,142)	48,531	96,673
OTHER FINANCING SOURCES (USES):				
Transfers in	61,530	61,530	65,453	3,923
Transfers out	(85,642)	(101,050)	(99,164)	1,886
Appropriation for contingencies	(12,374)	(12,374)		12,374
Changes in reserves and designations	(52,872)	(52,872)	(49,708)	3,164
OTHER FINANCING SOURCES (USES) - NET	(89,358)	(104,766)	(83,419)	21,347
NET CHANGE IN FUND BALANCE	(152,908)	(152,908)	(34,888)	118,020
FUND BALANCE, JULY 1, 2006 (Note 14)	154,588	154,588	154,588	
FUND BALANCE, JUNE 30, 2007 (Note 14)	$ 1,680	1,680	119,700	118,020

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, 2007 (in thousands)

	BUSINESS-TYPE ACTIVITIES -				
	Harbor UCLA Medical Center	Olive View UCLA Medical Center	LAC+USC Medical Center	Martin Luther King Jr. - Harbor Hospital	Rancho Los Amigos National Rehab Center
ASSETS					
Current assets:					
Pooled cash and investments: (Notes 1 and 4)					
Operating (Note 1)	$ 530	465	113,928	492	190
Other (Note 1)	9,808	12,620	23,632	7,428	2,772
Total pooled cash and investments	10,338	13,085	137,560	7,920	2,962
Other investments (Note 4)					
Taxes receivable					
Accounts receivable - net (Note 12)	114,933	76,515	184,363	118,391	76,860
Interest receivable	10	13	1,120	4	1
Other receivables	4,652	6,118	12,581	5,025	1,234
Due from other funds (Note 13)	69,682	71,520	275,053	24,407	19,899
Advances to other funds (Note 13)					
Inventories	3,860	4,086	13,039	3,281	1,193
Total current assets	203,475	171,337	623,716	159,028	102,149
Noncurrent assets:					
Restricted assets (Note 4)	3,325	6,892	6,322	160	589
Net pension obligation (Note 6)	7,190	6,238	18,880	8,012	5,176
Capital assets: (Notes 5 and 8)					
Land and easements	1,001	15,171	18,183	2,277	217
Buildings and improvements	77,672	152,939	164,112	195,357	187,179
Equipment	29,902	23,207	78,413	46,701	10,773
Infrastructure					
Construction in progress	21,313	69	827,697		6,550
Less accumulated depreciation	(68,113)	(95,933)	(192,019)	(135,088)	(97,187)
Total capital assets - net	61,775	95,453	896,386	109,247	107,532
Total noncurrent assets	72,290	108,583	921,588	117,419	113,297
TOTAL ASSETS	275,765	279,920	1,545,304	276,447	215,446
LIABILITIES					
Current liabilities:					
Accounts payable	10,361	10,490	39,209	9,733	2,363
Accrued payroll	22,543	17,140	41,982	13,195	7,358
Other payables	1,911	1,610	2,977	1,671	925
Accrued interest payable	94	50	90	218	232
Due to other funds (Note 13)	34,842	57,109	134,904	26,370	7,280
Advances from other funds (Note 13)	74,487	37,228	161,123	53,366	70,487
Unearned revenue (Note 6)	682	592	4,946	761	491
Current portion of long-term liabilities (Note 9)	34,421	34,654	82,473	41,657	21,475
Total current liabilities	179,341	158,873	467,704	146,971	110,611
Noncurrent liabilities:					
Accrued vacation and sick leave (Note 9)	25,086	23,665	44,764	12,942	2,841
Bonds and notes payable (Note 9)	11,487		15,939	42,976	40,105
Pension bonds payable (Notes 6 and 9)	32,675	28,349	85,798	36,412	23,521
Capital lease obligations (Notes 8 and 9)					273
Workers' compensation (Notes 9 and 16)	29,998	27,154	133,810	66,560	25,013
Litigation and self-insurance (Notes 9 and 16)	31,112	21,425	101,588	44,387	11,946
Third party payor liability (Notes 9 and 12)	14,040	7,759	43,784	18,557	2,528
Total noncurrent liabilities	144,398	108,352	425,683	221,834	106,227
TOTAL LIABILITIES	323,739	267,225	893,387	368,805	216,838
NET ASSETS					
Invested in capital assets, net of related debt (Notes 5 and 9)	47,682	90,162	880,736	65,429	65,703
Restricted:					
Debt service	3,231	6,842	6,232		357
Special purpose					
Unrestricted (deficit)	(98,887)	(84,309)	(235,051)	(157,787)	(67,452)
TOTAL NET ASSETS (DEFICIT) (Note 2)	$ (47,974)	12,695	651,917	(92,358)	(1,392)

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
ASSETS				
Current assets:				
Pooled cash and investments: (Notes 1 and 4)				
Operating (Note 1)	$ 84,194	3,725	$ 203,524	$ 39,767
Other (Note 1)	1,667	9	57,936	7,484
Total pooled cash and investments	85,861	3,734	261,460	47,251
Other investments (Note 4)		78,720	78,720	8,193
Taxes receivable	731		731	
Accounts receivable - net (Note 12)			571,062	
Interest receivable	643	10	1,801	394
Other receivables	8,847	4,857	43,314	170
Due from other funds (Note 13)	1,769	58	462,388	76,510
Advances to other funds (Note 13)	1,164		1,164	
Inventories			25,459	7,950
Total current assets	99,015	87,379	1,446,099	140,468
Noncurrent assets:				
Restricted assets (Note 4)			17,288	15,708
Net pension obligation (Note 6)			45,496	8,778
Capital assets: (Notes 5 and 8)				
Land and easements	9,441	199,160	245,450	
Buildings and improvements	117,000	176,785	1,071,044	1,734
Equipment	225	2,992	192,213	196,163
Infrastructure	1,094,778	40,240	1,135,018	
Construction in progress	16,853	378	872,860	
Less accumulated depreciation	(432,472)	(182,794)	(1,203,606)	(114,137)
Total capital assets - net	805,825	236,761	2,312,979	83,760
Total noncurrent assets	805,825	236,761	2,375,763	108,246
TOTAL ASSETS	904,840	324,140	3,821,862	248,714
LIABILITIES				
Current liabilities:				
Accounts payable	1,040	2,671	75,867	4,537
Accrued payroll			102,218	19,989
Other payables		1,700	10,794	1,581
Accrued interest payable			684	860
Due to other funds (Note 13)	6,081	304	266,890	33,103
Advances from other funds (Note 13)			396,691	22,000
Unearned revenue (Note 6)	140	308	7,920	990
Current portion of long-term liabilities (Note 9)	17	1,109	215,806	51,572
Total current liabilities	7,278	6,092	1,076,870	134,632
Noncurrent liabilities:				
Accrued vacation and sick leave (Note 9)		133	109,431	34,667
Bonds and notes payable (Note 9)	104	4,498	115,109	28,385
Pension bonds payable (Notes 6 and 9)			206,755	39,891
Capital lease obligations (Notes 8 and 9)			273	60
Workers' compensation (Notes 9 and 16)			282,535	60,395
Litigation and self-insurance (Notes 9 and 16)			210,458	20,779
Third party payor liability (Notes 9 and 12)			86,668	
Total noncurrent liabilities	104	4,631	1,011,229	184,177
TOTAL LIABILITIES	7,382	10,723	2,088,099	318,809
NET ASSETS				
Invested in capital assets, net of related debt (Notes 5 and 9)	805,704	231,553	2,186,969	56,464
Restricted:				
Debt service	91,754		108,416	2,380
Special purpose		79,127	79,127	
Unrestricted (deficit)		2,737	(640,749)	(128,939)
TOTAL NET ASSETS (DEFICIT) (Note 2)	$ 897,458	313,417	1,733,763	$ (70,095)
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			2,811	
NET ASSETS OF BUSINESS-TYPE ACTIVITIES (PAGE 23)			$ 1,736,574	

COUNTY OF LOS ANGELES
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2007 (in thousands)

	BUSINESS-TYPE ACTIVITIES -				
	Harbor UCLA Medical Center	Olive View UCLA Medical Center	LAC+USC Medical Center	Martin Luther King Jr. - Harbor Hospital	Rancho Los Amigos National Rehab Center
OPERATING REVENUES:					
Net patient service revenues (Note 12)	$ 413,089	343,464	701,964	308,494	123,827
Rentals					
Charges for services					
Other	17,463	15,195	45,977	11,970	3,923
TOTAL OPERATING REVENUES	430,552	358,659	747,941	320,464	127,750
OPERATING EXPENSES:					
Salaries and employee benefits	300,491	238,739	582,583	195,825	95,470
Services and supplies	82,816	85,672	205,177	58,882	23,724
Other professional services	103,352	100,868	283,396	124,693	29,576
Depreciation and amortization (Note 5)	2,692	2,975	2,136	3,398	2,342
Medical malpractice	1,700	1,339	7,851		
Rent	4,048	3,368	12,781	2,763	1,979
TOTAL OPERATING EXPENSES	495,099	432,961	1,093,924	385,561	153,091
OPERATING INCOME (LOSS)	(64,547)	(74,302)	(345,983)	(65,097)	(25,341)
NONOPERATING REVENUES (EXPENSES):					
Taxes					
Interest income	425	419	7,281	1,296	243
Interest expense	(10,508)	(8,817)	(23,238)	(11,482)	(9,170)
Intergovernmental transfers expense (Note 12)	(50,412)	(37,890)	(118,946)	(54,944)	(6,323)
Intergovernmental revenues:					
State					
Federal					
TOTAL NONOPERATING REVENUES (EXPENSES)	(60,495)	(46,288)	(134,903)	(65,130)	(15,250)
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	(125,042)	(120,590)	(480,886)	(130,227)	(40,591)
Capital contributions			12,911		
Transfers in (Note 13)	154,098	191,220	586,610	129,269	47,386
Transfers out (Note 13)	(36)	(464)	(54,642)	(16)	(1)
CHANGE IN NET ASSETS	29,020	70,166	63,993	(974)	6,794
TOTAL NET ASSETS (DEFICIT), JULY 1, 2006	(76,994)	(57,471)	587,924	(91,384)	(8,186)
TOTAL NET ASSETS (DEFICIT), JUNE 30, 2007	$ (47,974)	12,695	651,917	(92,358)	(1,392)

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	
				OPERATING REVENUES:
$		$ 1,890,838	$	Net patient service revenues (Note 12)
	13,769	13,769	23,081	Rentals
79,547	452	79,999	373,662	Charges for services
610	879	96,017		Other
80,157	15,100	2,080,623	396,743	TOTAL OPERATING REVENUES
				OPERATING EXPENSES:
		1,413,108	284,521	Salaries and employee benefits
73,492	212,701	742,464	54,982	Services and supplies
1,518	237	643,640	11,316	Other professional services
22,482	2,943	38,968	34,726	Depreciation and amortization (Note 5)
		10,890		Medical malpractice
		24,939		Rent
97,492	215,881	2,874,009	385,545	TOTAL OPERATING EXPENSES
(17,335)	(200,781)	(793,386)	11,198	OPERATING INCOME (LOSS)
				NONOPERATING REVENUES (EXPENSES):
3,782		3,782		Taxes
4,217	4,196	18,077	1,266	Interest income
(12)	(319)	(63,546)	(10,026)	Interest expense
		(268,515)		Intergovernmental transfers expense (Note 12)
				Intergovernmental revenues:
108	10	118		State
85	232,120	232,205	251	Federal
8,180	236,007	(77,879)	(8,509)	TOTAL NONOPERATING REVENUES (EXPENSES)
(9,155)	35,226	(871,265)	2,689	INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS
		12,911		Capital contributions
		1,108,583	3,384	Transfers in (Note 13)
(391)	(4,232)	(59,782)	(221)	Transfers out (Note 13)
(9,546)	30,994	190,447	5,852	CHANGE IN NET ASSETS
907,004	282,423		(75,947)	TOTAL NET ASSETS (DEFICIT), JULY 1, 2006
$ 897,458	313,417		$ (70,095)	TOTAL NET ASSETS (DEFICIT), JUNE 30, 2007
		(2,075)		Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds
		$ 188,372		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, 2007 (in thousands)

				BUSINESS-TYPE ACTIVITIES -	
	Harbor UCLA Medical Center	Olive View UCLA Medical Center	LAC+USC Medical Center	Martin Luther King Jr. - Harbor Hospital	Rancho Los Amigos National Rehab Center
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from patient services	$ 391,451	311,920	841,230	365,642	113,891
Rentals received					
Cash received from charges for services					
Other operating revenues	17,468	15,201	45,981	11,970	3,929
Cash received for services provided to other funds	11,995	15,959	25,550	10,728	124
Cash paid for salaries and employee benefits	(299,081)	(234,599)	(590,733)	(211,055)	(104,981)
Cash paid for services and supplies	(34,557)	(23,794)	(157,188)	(21,564)	(24,427)
Other operating expenses	(110,987)	(105,329)	(306,462)	(132,546)	(32,499)
Cash paid for services from other funds	(36,274)	(30,817)	(98,429)	(40,707)	(17,316)
Net cash provided by (required for) operating activities	(59,985)	(51,459)	(240,051)	(17,532)	(61,279)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Cash advances received from other funds	155,252	65,832	373,280	143,583	105,691
Cash advances paid/returned to other funds	(180,362)	(141,017)	(415,112)	(178,143)	(71,094)
Interest paid on pension bonds	(6,437)	(5,585)	(16,904)	(7,174)	(4,635)
Interest paid on advances	(2,384)	(2,399)	(5,325)	(1,859)	(1,932)
Intergovernmental transfers	(50,412)	(37,890)	(118,946)	(54,944)	(6,323)
Intergovernmental receipts					
Transfers in	154,098	191,220	586,610	129,269	47,386
Transfers out	(36)	(464)	(54,642)	(16)	(1)
Net cash provided by (required for) noncapital financing activities	69,719	69,697	348,961	30,716	69,092
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Proceeds from taxes					
Capital contributions			12,911		
Proceeds from bonds and notes					
Interest paid on capital borrowing	(1,806)	(880)	(1,149)	(2,784)	(2,891)
Principal payments on bonds and notes	(1,576)	(9,440)	(2,094)	(4,979)	(3,868)
Principal payments on capital leases	(148)	(16)			(114)
Acquisition and construction of capital assets	(5,681)	(3,851)	(148,644)	(4,660)	(369)
Net cash required for capital and related financing activities	(9,211)	(14,187)	(138,976)	(12,423)	(7,242)
CASH FLOWS FROM INVESTING ACTIVITIES - Interest income received	127	157	6,307	967	33
Net increase (decrease) in cash and cash equivalents	650	4,208	(23,759)	1,728	604
Cash and cash equivalents, July 1, 2006	13,013	15,769	167,641	6,352	2,947
Cash and cash equivalents, June 30, 2007	$ 13,663	19,977	143,882	8,080	3,551

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

ENTERPRISE FUNDS Waterworks Funds	Nonmajor Enterprise Funds	Total	GOVERNMENTAL ACTIVITIES Internal Service Funds	
				CASH FLOWS FROM OPERATING ACTIVITIES:
$		$ 2,024,134	$	Cash received from patient services
	11,557	11,557	23,376	Rentals received
76,973	633	77,606	354,922	Cash received from charges for services
610	879	96,038		Other operating revenues
		64,356		Cash received for services provided to other funds
	(116)	(1,440,565)	(287,724)	Cash paid for salaries and employee benefits
(47,820)	(212,262)	(521,612)	(46,866)	Cash paid for services and supplies
(1,518)	(237)	(689,578)	(11,316)	Other operating expenses
		(223,543)		Cash paid for services from other funds
28,245	(199,546)	(601,607)	32,392	Net cash provided by (required for) operating activities
				CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:
		843,638		Cash advances received from other funds
		(985,728)		Cash advances paid/returned to other funds
		(40,735)	(7,860)	Interest paid on pension bonds
		(13,899)		Interest paid on advances
		(268,515)		Intergovernmental transfers
193	232,130	232,323	251	Intergovernmental receipts
		1,108,583	3,384	Transfers in
(391)	(4,232)	(59,782)	(221)	Transfers out
(198)	227,898	815,885	(4,446)	Net cash provided by (required for) noncapital financing activities
				CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:
3,768		3,768		Proceeds from taxes
		12,911		Capital contributions
	6	6	20,000	Proceeds from bonds and notes
(12)	(319)	(9,841)	(1,532)	Interest paid on capital borrowing
(15)	(660)	(22,632)	(14,520)	Principal payments on bonds and notes
		(278)	(108)	Principal payments on capital leases
(15,693)	(1,375)	(180,273)	(22,402)	Acquisition and construction of capital assets
(11,952)	(2,348)	(196,339)	(18,562)	Net cash required for capital and related financing activities
				CASH FLOWS FROM INVESTING ACTIVITIES -
3,963	4,186	15,740	956	Interest income received
20,058	30,190	33,679	10,340	Net increase (decrease) in cash and cash equivalents
65,803	52,264	323,789	60,812	Cash and cash equivalents, July 1, 2006
$ 85,861	82,454	$ 357,468	$ 71,152	Cash and cash equivalents, June 30, 2007

Continued...

COUNTY OF LOS ANGELES
STATEMENT OF CASH FLOWS - Continued
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2007 (in thousands)

	BUSINESS-TYPE ACTIVITIES -				
	Harbor UCLA Medical Center	Olive View UCLA Medical Center	LAC+USC Medical Center	Martin Luther King Jr. - Harbor Hospital	Rancho Los Amigos National Rehab Center
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (REQUIRED FOR) OPERATING ACTIVITIES:					
Operating income (loss)	$ (64,547)	(74,302)	(345,983)	(65,097)	(25,341)
Adjustments to reconcile operating income (loss) to net cash provided by (required for) operating activities:					
Depreciation and amortization	2,692	2,975	2,136	3,398	2,342
Other charges - net	(5,293)	511	(842)	316	81
(Increase) decrease in:					
Accounts receivable - net	(23,027)	(436)	29,253	(2,853)	(7,358)
Interest receivable					
Other receivables	(873)	(1,447)	(1,858)	(1,287)	150
Due from other funds	43,683	73,791	100,243	68,656	(4,552)
Inventories	(420)	460	(555)	1,129	(237)
Net pension obligation	3,710	3,219	9,742	4,135	2,670
Increase (decrease) in:					
Accounts payable	(538)	3,251	(8,696)	(8,468)	190
Accrued payroll	4,183	2,707	5,235	(1,100)	1,063
Other payables	718	571	1,010	487	303
Accrued vacation and sick leave	3,393	8,295	5,830	(3,347)	(5,271)
Due to other funds	18,558	26,990	(39,827)	3,293	(18,013)
Unearned revenue			2,559		
Pension bonds payable	(9,098)	(7,893)	(23,888)	(10,139)	(6,547)
Workers' compensation liability	(3,883)	(2,752)	(9,932)	(6,764)	(845)
Litigation and self-insurance liability	183	94	903	(3,251)	(1,862)
Third party payor liability	(29,426)	(87,493)	34,619	3,360	1,948
TOTAL ADJUSTMENTS	4,562	22,843	105,932	47,565	(35,938)
NET CASH PROVIDED BY (REQUIRED FOR) OPERATING ACTIVITIES	$ (59,985)	(51,459)	(240,051)	(17,532)	(61,279)
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS:					
Pooled cash and investments	$ 10,338	13,085	137,560	7,920	2,962
Other investments					
Restricted assets	3,325	6,892	6,322	160	589
TOTAL	$ 13,663	19,977	143,882	8,080	3,551

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	
				RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (REQUIRED FOR) OPERATING ACTIVITIES:
$ (17,335)	(200,781)	$ (793,386)	$ 11,198	Operating income (loss)
				Adjustments to reconcile operating income (loss) to net cash provided by (required for) operating activities:
22,482	2,943	38,968	34,726	Depreciation and amortization
27,509	125	22,407	(454)	Other charges - net
				(Increase) decrease in:
		(4,421)		Accounts receivable - net
			(136)	Interest receivable
(1,603)	(1,862)	(8,780)	(10)	Other receivables
(971)	(57)	280,793	(18,298)	Due from other funds
		377	(428)	Inventories
		23,476	4,530	Net pension obligation
				Increase (decrease) in:
(3,161)	341	(17,081)	(1,245)	Accounts payable
		12,088	1,718	Accrued payroll
	(128)	2,961	588	Other payables
	(116)	8,784	3,262	Accrued vacation and sick leave
1,324	101	(7,574)	10,276	Due to other funds
	(112)	2,447	(1)	Unearned revenue
		(57,565)	(11,107)	Pension bonds payable
		(24,176)	(3,293)	Workers' compensation liability
		(3,933)	1,066	Litigation and self-insurance liability
		(76,992)		Third party payor liability
45,580	1,235	191,779	21,194	TOTAL ADJUSTMENTS
$ 28,245	(199,546)	$ (601,607)	$ 32,392	NET CASH PROVIDED BY (REQUIRED FOR) OPERATING ACTIVITIES
				RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS:
$ 85,861	3,734	$ 261,460	$ 47,251	Pooled cash and investments
	78,720	78,720	8,193	Other investments
		17,288	15,708	Restricted assets
$ 85,861	82,454	$ 357,468	$ 71,152	TOTAL

COUNTY OF LOS ANGELES
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2007 (in thousands)

	PENSION TRUST FUND	INVESTMENT TRUST FUNDS	AGENCY FUNDS
ASSETS			
Pooled cash and investments (Note 4)	$ 27,789	$ 11,555,116	$ 1,105,091
Other investments: (Note 4)		1,246,716	14,714
Stocks	21,955,745		
Bonds	10,388,361		
Short-term investments	1,418,843		
Commodities	410,932		
Real estate	4,126,103		
Mortgages	256,791		
Alternative assets	2,791,924		
Cash collateral on loaned securities	3,126,337		
Taxes receivable			222,286
Interest receivable	137,271	180,017	3,995
Other receivables	450,483		
TOTAL ASSETS	45,090,579	12,981,849	$ 1,346,086
LIABILITIES			
Accounts payable	988,225		
Other payables (Note 4)	3,194,248		
Due to other governments			1,346,086
TOTAL LIABILITIES	4,182,473		$ 1,346,086
NET ASSETS			
Held in trust for pension benefits and investment trust participants	$ 40,908,106	$ 12,981,849	

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, 2007 (in thousands)

	PENSION TRUST FUND	INVESTMENT TRUST FUNDS
ADDITIONS:		
Contributions:		
Pension trust contributions:		
Employer	$ 751,928	$
Member	347,701	
Contributions to investment trust funds		40,069,963
Total contributions	1,099,629	40,069,963
Investment earnings:		
Investment income	3,794,202	657,217
Net increase in the fair value of investments	2,760,428	
Securities lending income (Note 4)	149,925	
Total investment earnings	6,704,555	657,217
Less - Investment expenses:		
Expense from investing activities	75,922	
Expense from securities lending activities (Note 4)	141,449	
Total net investment expense	217,371	
Net investment earnings	6,487,184	657,217
Miscellaneous	1,803	
TOTAL ADDITIONS	7,588,616	40,727,180
DEDUCTIONS:		
Salaries and employee benefits	30,358	
Services and supplies	13,522	
Benefit payments	1,803,984	
Distribution from investment trust funds		38,335,395
Miscellaneous	18,235	
TOTAL DEDUCTIONS	1,866,099	38,335,395
CHANGE IN NET ASSETS	5,722,517	2,391,785
NET ASSETS HELD IN TRUST, JULY 1, 2006	35,185,589	10,590,064
NET ASSETS HELD IN TRUST, JUNE 30, 2007	$ 40,908,106	$ 12,981,849

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

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.

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 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, 2007, the restricted net assets balances were $1.4 billion and $186.3 million for governmental activities and business-type activities, respectively. For governmental activities, $114.3 million was restricted by enabling legislation.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Government-wide Financial Statements-Continued

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.

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:

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Fund Financial Statements-Continued

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.

Martin Luther King, Jr.-Harbor Hospital
The Martin Luther King, Jr.-Harbor Hospital (MLK/H), formerly known as Martin Luther King, Jr./Charles R. Drew Medical Center, began the 2006-07 fiscal year providing acute and intensive care unit medical/surgical inpatient and outpatient services, emergency room services, psychiatric services, dental services, pediatric and obstetric services. The Department implemented the MetroCare Plan and transformed the hospital to a non-teaching facility which provides general adult medical, surgical and low-risk obstetrical and gynecological care with a basic emergency room.

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.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Fund Financial Statements-Continued

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.

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 12, intergovernmental transfer payments are recorded in the Hospitals and this item is classified as a nonoperating expense.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Basis of Accounting-Continued

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.

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 Registrar-Recorder Improvement special revenue funds, 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 $ 23 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, 2007. 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 14 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 XIIIA of the California State Constitution and statutory provisions by the County Assessor and State Board of Equalization. The total 2006-2007 assessed valuation of the County of Los Angeles was $925.5 billion.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Property Taxes-Continued

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.

The County is divided into 11,048 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 4.

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:

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Deposits and Investments-Continued

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.

Other Pooled Cash and Investments

This account represents amounts identified in various agency funds as of June 30, 2007 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 4. 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, $37,581,000 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Capital Assets-Continued

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.

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 5.

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. 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. 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).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

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).

2. NET ASSET DEFICITS

The following funds had net asset deficits at June 30, 2007 (in thousands):

	Accumulated Deficit
Enterprise Funds:	
Harbor-UCLA Medical Center	$ 47,974
M. L. King, Jr.,-Harbor Hospital	92,358
Rancho Los Amigos National Rehab Center	1,392
Internal Service Fund-	
Public Works	79,791

The Enterprise and Internal Service Funds' deficits result primarily from the recognition of certain liabilities including accrued vacation and sick leave, 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. Enterprise funds' deficits are further explained in Note 12.

3. 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 transactions between the two component units have been accounted for as follows:

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

3. ELIMINATIONS-Continued

Fund Financial Statements

At June 30, 2007, the governmental fund financial statements reflect an investment asset (referred to as "Other Investments") held by the JPAs of $304,235,000 that has been recorded in the Nonmajor Governmental Funds. The governmental fund financial statements do not reflect a liability for the related bonds payable ($304,235,000), 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.

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 ($304,235,000) and investment earnings and interest expense ($16,021,000 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 $304,235,000 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 9 and are captioned "Assessment Bonds."

4. 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, 2007 (in thousands):

			Restricted Assets		
	Pooled Cash and Investments	Other Investments	Pooled Cash and Investments	Other Investments	Total
Governmental Funds	$ 4,826,660	$ 295,170			$ 5,121,830
Proprietary Funds	308,711	86,913	$ 24,455	$ 8,541	428,620
Fiduciary Funds (excluding Pension Trust Fund)	12,660,207	1,261,430			13,921,637
Pension Trust Fund	27,789	44,475,036			44,502,825
Component Unit	163,111	679,422			842,533
Total	$ 17,986,478	$ 46,797,971	$ 24,455	$ 8,541	$ 64,817,445

4. CASH AND INVESTMENTS-Continued

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, 2007, the carrying amount of the County's deposits was $112,114,000 and the balance per various financial institutions was $111,212,000. 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, 2007, the carrying amount of Pension Trust Fund deposits was $19,833,000. 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.

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, the function of the County Treasury Oversight Committee is to review and monitor the County's investment policy. The committee membership includes the Treasurer and Tax Collector, the Auditor-Controller, Superintendent of Schools, Chief Administrative Officer, and a non-County representative.

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.

4. CASH AND INVESTMENTS-Continued

Investments-Continued

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, 2007.

The School Districts and the Superior Court are required by legal provisions to participate in the County's investment pool. Eighty-three percent (83%) 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 Treasury Oversight Committee set forth the various investment policies that the County Treasurer must follow.

County pooled and other investments (excluding Pension Trust Fund other investments) at June 30, 2007 (in thousands) are as follows:

	Fair Value
U.S. Government securities	$ 9,534,409
Negotiable certificates of deposit	2,997,778
Commercial paper	5,873,996
Corporate and deposit notes	714,640
Municipal bonds	5,410
Investment agreements	18,100
Los Angeles County securities	30,000
Guaranteed investment contracts	833,011
Investment in money market funds	123,578
Investment in State and local agency investment funds	98,383
1st and 2nd mortgages	990
Total	$ 20,230,295

Pension Trust Fund investments are reported in the basic financial statements at fair value at June 30, 2007 (in thousands) and are as follows:

	Fair Value
Domestic and international equity	$ 25,062,249
Fixed income	12,063,995
Real estate	4,126,103
Private equity	2,791,924
Commodities	410,932
Total	$ 44,455,203

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

4. CASH AND INVESTMENTS-Continued

Investments-Continued

The Pension Trust Fund also had deposits with the Los Angeles County Treasury Pool at June 30, 2007 totaling $27,789,000. 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, 2007 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.

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

	Fair Value	Principal	Interest Rate % Range	Maturity Range	Weighted Average Maturity (Years)
U. S. Government securities	$ 8,661,217	$ 8,689,678	3.65% - 9.25%	7/3/07 - 6/6/12	2.93
Negotiable certificates of deposit	2,779,874	2,780,414	5.25% - 5.44%	7/2/07 - 9/19/08	0.26
Commercial paper	5,767,991	5,769,894	5.20% - 5.36%	7/2/07 - 10/5/07	0.03
Corporate and deposit notes	679,850	680,042	5.12% - 5.406%	7/10/07 - 12/28/09	0.59
Los Angeles County securities	30,000	30,000	5.04% - 5.557%	6/30/08 - 6/30/09	1.67
Money market mutual funds	10,623	10,623			0.50
Deposits	81,378	81,378			
	$ 18,010,933	$18,042,029			1.49

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

	Fair Value	Principal	Interest Rate % Range	Maturity Range	Weighted Average Maturity (Years)
Local Agency Investment Fund	$ 98,383	$ 98,412			0.50
Commercial paper	106,005	106,022	5.13% - 5.20%	7/9/07 - 10/2/07	0.10
Corporate and deposit notes	34,790	34,794	3.50% - 5.33%	8/2/07 - 8/3/09	0.11
Mortgage trust deeds	990	990	4.50% - 5.50%	8/1/12 - 4/1/17	7.28
Municipal bonds	5,410	5,410	5.00%	9/2/21	14.19
Negotiable certificates of deposit	217,904	218,005	5.05% - 5.35%	7/9/07 - 3/16/09	0.38
Guaranteed investment contract	833,011	833,011	4.75% - 5.25%	10/1/07 - 3/15/10	1.02
U.S. agency securities	525,920	526,368	3.57% - 5.60%	8/3/07 - 8/11/11	1.21
U.S treasury securities	302,165	302,179	2.63% - 11.25%	7/5/07 - 5/15/16	.66
U.S. treasury bills	45,107	44,278	4.77% - 4.95%	7/5/07 - 12/13/07	0.20
Investment agreements	18,100	18,100	4.65%	1/6/09	1.52
Money market mutual funds	112,955	112,955	4.57% - 5.14%	7/1/07	
Deposits	30,736	30,736			
	$ 2,331,476	$ 2,331,260			0.90

4. CASH AND INVESTMENTS-Continued

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, 2007, over 50% have a maturity of six months or less. Of the remainder, less than 39% have a maturity of more than one year.

As of June 30, 2007, variable-rate notes comprised 3.53% 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, 2007, 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, 2007, the County was invested in the 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 $500 million, approximately 2.7% of the investment pool's daily investment balance. For commercial paper, the highest issuer limit was $750 million, or 3.9% of the investment pool's daily investment balance.

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

4. CASH AND INVESTMENTS-Continued

Credit Risk and Concentration of Credit Risk-Continued

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, 2007:

	S & P	Moody's	% of Portfolio
Pooled Cash and Investments:			
Commercial paper	A-1	P-1	32.17%
Corporate and deposit notes	A-1	P-1	3.79%
Los Angeles County securities	AAA	Aaa	0.17%
Negotiable certificates of deposit	A-1	P-1	15.50%
U.S. agency securities	AAA	Aaa	48.03%
U.S. treasury securities	AAA	Aaa	0.28%
Other (Cal Trust short-term account)	A-1	P-1	0.06%
			100.00%
Other Investments:			
Local agency investment fund	Not rated	Not rated	3.39%
Commercial paper	A-1+	P-1	4.09%
Corporate and deposit notes	A-1+	P-1	1.83%
Mortgage trust deeds	AAA	Aaa	0.05%
Municipal bonds	AAA	Aaa	0.28%
Negotiable certificates of deposit	A-1+	P-1	11.45%
Guaranteed investment contracts	Not rated	Not rated	43.76%
U.S. agency securities	AAA	Aaa	19.24%
U.S. treasury securities	AAA	Aaa	15.91%
			100.00%

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, 2007 was 5.25%.

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, 2007 (in thousands):

Statement of Net Assets	
Net assets held in trust for all pool participants	$ 18,010,933
Equity of internal pool participants	$ 6,296,333
Equity of external pool participants	11,714,600
Total equity	$ 18,010,933
Statement of Changes in Net Assets	
Net assets at July 1, 2006	$ 16,120,978
Net change in investments by pool participants	1,889,955
Net assets at June 30, 2007	$ 18,010,933

4. CASH AND INVESTMENTS-Continued

Credit Risk and Concentration of Credit Risk-Continued

The unrealized loss on investments held in the Treasurer's Pool was $31,096,000 as of June 30, 2007. 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.

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, 2007, there were approximately $635,000,000 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, 2007, forward currency contracts receivable and payable totaled $51,160,000 and $50,989,000, 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.

4. CASH AND INVESTMENTS-Continued

Securities Lending Transactions-Continued

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, 2007, 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, 2007. 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, 2007, the fair value of securities on loan was $3.02 billion. The value of the cash collateral received for those securities was $3.13 billion and the non-cash collateral was $0.13 million. Securities lending assets (Other Investments) and liabilities (Other Payables) of $3.1 billion are recorded in the Pension Trust Fund. Pension Trust Fund income, net of expenses, from securities lending was $8.48 million for the year ended June 30, 2007.

For the year ended June 30, 2007 the Los Angeles County Treasury Pool did not enter into any securities lending transactions.

Summary of Deposits and Investments

Following is a summary of the carrying amount of deposits and investments at June 30, 2007 (in thousands):

	County	Pension Trust Fund	Total
Deposits	$ 112,114	$ 19,833	$ 131,947
Investments	20,230,295	44,455,203	64,685,498
	$ 20,342,409	$ 44,475,036	$ 64,817,445

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

5. CAPITAL ASSETS

Capital assets activity of the primary government for the year ended June 30, 2007 is as follows (in thousands):

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
Governmental Activities				
Capital assets, not depreciated:				
Land	$ 2,175,836	183,104	(19,483)	$ 2,339,457
Easements	4,660,118	80,922	(85,660)	4,655,380
Construction in progress-buildings and improvements	146,544	77,510	(40)	224,014
Construction in progress-infrastructure	195,869	84,050	(65,091)	214,828
Subtotal	7,178,367	425,586	(170,274)	7,433,679
Capital assets, depreciated:				
Buildings and improvements	3,715,185	271,571	(23,275)	3,963,481
Equipment	893,316	130,067	(45,119)	978,264
Infrastructure	6,814,310	149,517	(5,068)	6,958,759
Subtotal	11,422,811	551,155	(73,462)	11,900,504
Less accumulated depreciation for:				
Buildings and improvements	(1,268,082)	(65,941)	5,494	(1,328,529)
Equipment	(617,139)	(85,630)	45,609	(657,160)
Infrastructure	(2,282,963)	(137,723)	2,167	(2,418,519)
Subtotal	(4,168,184)	(289,294)	53,270	(4,404,208)
Total capital assets, being depreciated, net	7,254,627	261,861	(20,192)	7,496,296
Governmental activities capital assets, net	$14,432,994	687,447	(190,466)	$14,929,975
Business-type Activities				
Capital assets, not depreciated:				
Land	$ 216,753		(425)	$ 216,328
Easements	27,762	1,525	(165)	29,122
Construction in progress-buildings and improvements	707,794	152,074	(1,911)	857,957
Construction in progress-infrastructure	6,440	12,438	(3,975)	14,903
Subtotal	958,749	166,037	(6,476)	1,118,310
Capital assets, being depreciated:				
Buildings and improvements	1,097,500	379	(26,835)	1,071,044
Equipment	225,776	25,975	(28,727)	223,024
Infrastructure	1,130,801	4,800	(583)	1,135,018
Subtotal	2,454,077	31,154	(56,145)	2,429,086
Less accumulated depreciation for:				
Buildings and improvements	(652,242)	(11,111)	1,473	(661,880)
Equipment	(184,504)	(16,938)	27,511	(173,931)
Infrastructure	(362,536)	(21,510)	577	(383,469)
Subtotal	(1,199,282)	(49,559)	29,561	(1,219,280)
Total capital assets, being depreciated, net	1,254,795	(18,405)	(26,584)	1,209,806
Business-type activities capital assets, net	2,213,544	147,632	(33,060)	2,328,116
Total Capital Assets, net	$16,646,538	835,079	(223,526)	$17,258,091

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

5. CAPITAL ASSETS-Continued

Depreciation Expense

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

Governmental activities:	
General government	$ 12,599
Public protection	133,952
Public ways and facilities	82,755
Health and sanitation	11,950
Public assistance	6,446
Education	1,413
Recreation and cultural services	16,044
Capital assets held by the County's internal service funds are charged to the various functions based on their usage of the assets	24,135
Total depreciation expense, governmental activities	$ 289,294
Business-type activities:	
Hospitals	$ 13,543
Aviation	1,663
Waterworks	22,482
Community Development Commission	1,280
Capital assets held by the County's internal service funds are charged to the various functions based on their usage of the assets	10,591
Total depreciation expense, business-type activities	$ 49,559

Special Item - Contribution of Disney Hall

The Walt Disney Concert Hall began with a gift from Mrs. Lillian Disney in 1987 and was also funded through private contributions. The County entered into a master lease agreement with the Walt Disney Concert Hall Inc., a non-profit California corporation, whereby the County would acquire the ownership of the Disney Concert Hall upon the project completion. The County accepted title of the Walt Disney Concert Hall on January 9, 2007. The Walt Disney Concert Hall was a significant transaction that was within the control of management and unusual in nature. A Special Item is reported on the Statement of Activities to reflect a contribution of this significant capital asset, the Walt Disney Concert Hall, in the amount of $267,473,000.

Discretely Presented Component Unit

Capital assets activity for the First 5 LA component unit for the year ended June 30, 2007 was as follows (in thousands):

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
Capital assets, not depreciated:				
Land	$ 2,039	$	$	$ 2,039
Capital assets, depreciated:				
Buildings and improvements	16,673	201		16,874
Equipment	1,185	28		1,213
Subtotal	17,858	229		18,087

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

5. CAPITAL ASSETS-Continued

Discretely Presented Component Unit-Continued

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
Less accumulated depreciation for:				
Buildings and improvements	(5,646)	(230)		(5,876)
Equipment	(456)	(242)		(698)
Subtotal	(6,102)	(472)		(6,574)
Total capital assets being depreciated, net	11,756	(243)		11,513
Component unit capital assets, net	$ 13,795	$ (243)	$	$ 13,552

6. 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.

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 only eligible for 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.

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

6. PENSION PLAN-Continued

Funding Policy-Continued

The following employer rates were in effect for 2006-2007:

	A	B	C	D	E
General Members	20.17%	13.31%	13.02%	13.16%	13.32%
Safety Members	28.05%	22.70%			

The rates were determined by the actuarial valuation performed as of June 30, 2005 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 2006-2007, the County did not pay LACERA the full amount of the ARC. LACERA applied $111,775,000 in excess earnings reserves towards the County's required contribution.

Annual Pension Cost and Net Pension Obligation

The County's annual pension cost and net pension obligation, computed in accordance with GASB 27, for 2006-2007 were as follows (in thousands):

Annual required contribution (ARC):	
County	$ 863,502
Non County entities	124
Total ARC	863,626
Interest on net pension obligation	(20,730)
Annual pension cost	842,896
Contributions made:	
County	751,727
Non County entities	124
Total contributions	751,851
Cost in excess of contributions	91,045
Net pension obligation (asset), July 1, 2006	(267,485)
Net pension obligation (asset), June 30, 2007	$ (176,440)

Trend Information (in thousands)

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
June 30, 2005	$ 703,254	75.1%	$ (413,286)
June 30, 2006	822,468	82.3%	(267,485)
June 30, 2007	842,896	89.2%	(176,440)

6. PENSION PLAN-Continued

Annual Pension Cost and Net Pension Obligation-Continued

The annual required contribution was calculated based upon an actuarial valuation performed as of June 30, 2005 using the entry age normal method. The valuation assumed an annual investment rate of return of 7.75%, and projected salary increases ranging from 4.01% to 9.98%, with both assumptions including a 3.5% inflation factor. The valuation also 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 June 30, 2006 valuation determined the funded ratio to be 90.5% and recognized an unfunded actuarial accrued liability (UAAL) of $3.44 billion. The County contribution rate (effective for the 2006-2007 fiscal year) was, therefore, equal to 3.49% of payroll (using the level percentage of payroll amortization method, over a 30-year open period) plus the normal cost rate of 9.42%, for a total rate of 12.91% 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 and are being amortized over the life of the bonds on the basis of annual debt service requirements. As of June 30, 2007, the unamortized balance was $16,746,000.

The outstanding principal balance of the bonds (including accreted interest on deep discount bonds) as of June 30, 2007 was $1,104,457,000. The bonds have interest rates varying from 6.97% to 9.19%.

In 1986, the County issued $461,493,000 in fixed rate pension obligation certificates to purchase annuity contracts to provide pension benefits to a specified group of LACERA members. Variable rate bonds totaling $327,400,000 were issued in May 1996 to advance refund $327,405,000 of the certificates. These refunding bonds matured on June 30, 2007. The fixed rate certificates which remain outstanding have a rate of 6.9%. At June 30, 2007, the total outstanding principal (including accreted interest) for the remaining fixed rate certificates was $80,740,000 and has been included in the financial statements as pension bonds payable.

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

6. PENSION PLAN-Continued

Pension Obligation Bonds and Certificates-Continued

For the year ended June 30, 2007, the combined principal and interest payments for both the bonds and certificates were $300,316,000 and $80,907,000, respectively. For governmental activities, the total debt service was $282,923,000. For business-type activities, the total debt service was $98,300,000. At June 30, 2007, the total outstanding principal, including accreted interest of $676,855,000 on both bonds and certificates, was $1,185,197,000.

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

Year Ending June 30	Governmental Activities Principal	Governmental Activities Interest	Business-type Activities Principal	Business-type Activities Interest
2008	$ 116,233	$ 167,121	$ 39,853	$ 58,407
2009	86,377	151,001	30,188	52,773
2010	86,851	178,557	30,354	62,403
2011	87,801	187,956	30,685	65,688
Total	377,262	$ 684,635	131,080	$ 239,271
Accretions	502,323		174,532	
Total Pension Bonds Payable	$ 879,585		$ 305,612	

Swap Transaction Related to Pension Bonds

In conjunction with the issuance of $327,400,000 of variable pension refunding bonds in 1996, the County entered into a swap transaction to create a synthetic fixed interest rate. The County also received an up-front payment of $19,036,000 from the counterparty. The County and the counterparty have fulfilled their obligations under the swap agreement. The bonds and the related swap agreement matured on June 30, 2007.

7. POSTEMPLOYMENT BENEFITS

In addition to providing pension benefits, the County provides funding for certain health care benefits for all retired employees and their eligible dependents or survivors. There are approximately 59,000 retirees presently eligible to receive such benefits. LACERA is acting as the benefits coordinator for the health care plan.

The amount of funding required for health care benefits is 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. This funding ranges 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.

In April 1982, the County 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 agreement to continue to support LACERA's retiree insurance benefits program regardless of the status of active member insurance.

7. POSTEMPLOYMENT BENEFITS-Continued

In 1996-97, the County entered into an agreement with LACERA to establish an Internal Revenue Code Section 401(h) Account for use in connection with the County's payment of retiree health care costs. This agreement, which remains effective until terminated by either party or in the event excess earnings cease to be available, permits the use of LACERA excess earnings reserves to reduce the County's funding requirement for these benefits.

The cost of retiree health care is recognized when the County makes payments to LACERA. For the year ended June 30, 2007, the amounts of such payments were approximately $227,395,000, for governmental activities, and $49,164,000, for business-type activities. These amounts exclude $40,546,000 of LACERA excess earnings reserves, which were utilized to offset a portion of the total funding requirements.

GASB Statement No. 45

The GASB has issued Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." GASB 45 establishes financial reporting standards designed to measure, recognize, and display OPEB costs. The County intends to implement GASB 45 in FY 2007-2008 (financial reporting period ending June 30, 2008).

In addition to the retiree health care benefits , the County provides long-term disability benefits to employees that have been determined to fall within the definition of OPEB. The County currently finances all OPEB benefits on a pay-as-you-go basis. The establishment of a qualifying trust for retirement health care is in a formative stage at this time. However, a trust fund has not been established for the retiree health benefits or the long-term disability benefits.

In preparing to implement GASB 45, the County requested LACERA to conduct an actuarial valuation of the retiree health benefits. The valuation, which was conducted as of July 1, 2006, identified the County's share of the actuarial accrued liability as $20.302 billion. The County has also undertaken an actuarial valuation of the long-term disability programs as of July 1, 2007 and such valuation identified actuarial accrued liabilities of $987 million.

8. 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, 2007 (in thousands):

Year Ending June 30	Governmental Activities
2008	$ 68,517
2009	57,311
2010	37,169
2011	26,464
2012	19,336
2013-2017	53,426
2018-2022	12,396
2023-2027	19
Total	$ 274,638

Rent expenditures related to operating leases were $76,364,000 for the year ended June 30, 2007.

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

8. LEASES-Continued

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, 2007 (in thousands):

Year Ending June 30	Governmental Activities	Business-type Activities
2008	$ 27,989	$ 149
2009	23,956	145
2010	19,403	148
2011	13,370	
2012	6,154	
2013-2017	39,855	
2018-2022	29,755	
2023-2027	29,756	
2028-2032	29,103	
2033-2037	163	
Total	$ 219,504	$ 442
Less: Amount representing interest	121,054	44
Present value of future minimum lease payments	$ 98,450	$ 398

The following is a schedule of property under capital leases by major classes at June 30, 2007 (in thousands):

	Governmental Activities	Business-type Activities
Land	$ 5,710	
Buildings and improvements	119,448	$ 1,200
Equipment	59,407	393
Accumulated depreciation	(60,574)	(928)
Total	$ 123,991	$ 665

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 90 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 28 years and are also accounted for in the General Fund. The Marina del Rey leases cover remaining periods ranging from 1 to 60 years and are accounted for in the Debt Service Funds as a result of the issuance of certificates of participation related to the Marina del Rey Project area.

8. 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 $400,534,000. The carrying value of the golf course and regional park operating leases is not determinable due to the nature of these leases.

The following is a schedule of future minimum rental receipts on noncancelable leases as of June 30, 2007 (in thousands):

Year Ending June 30	Governmental Activities
2008	$ 36,440
2009	36,581
2010	36,609
2011	36,456
2012	35,825
Thereafter	1,276,054
Total	$ 1,457,965

The following is a schedule of rental income for these operating leases for the year ended June 30, 2007 (in thousands):

	Governmental Activities
Minimum rentals	$ 37,097
Contingent rentals	22,991
Total	$ 60,088

9. LONG-TERM OBLIGATIONS

Long-term obligations of the County consist of bonds, notes and loans payable, pension bonds payable (see Note 6), capital lease obligations (see Note 8) and other liabilities which are payable from the General, Special Revenue, Debt Service, Enterprise and Internal Service Funds.

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

	Original Par Amount of Debt	Balance June 30, 2007
Los Angeles County Flood Control District Storm Drain General Obligation Bonds, 4.9% to 5.1%	$ 14,000	$ 370
Los Angeles County Flood Control District Refunding Bonds 2.5% to 5.0%	143,195	94,280
Los Angeles County Flood Control District Revenue Bonds 4.0% to 4.12%	20,540	18,910

9. LONG TERM OBLIGATIONS-Continued

Regional Park and Open Space District Bonds (issued by Public Works Financing Authority), 3% to 6%	349,690	323,396
Community Development Commission (CDC) Notes Payable, 2.31% to 7.91%	66,295	44,793
NPC Bond Anticipation Notes, 5.04% to 5.56%	17,700	17,700
NPC Bonds 2.5% to 4.0%	24,140	11,366
Marina del Rey Loans Payable, 4.5% to 4.7%	23,500	21,302
Public Buildings Certificates of Participation, 2.8% to 7.75%	944,106	812,247
Los Angeles County Securitization Corporation Tobacco Settlement Asset-Backed Bonds 5.25% to 6.65%	319,827	343,922
Total	$ 1,922,993	$ 1,688,286

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

	Original Par Amount of Debt	Balance June 30, 2006
NPC Bond Anticipation Notes, 5.04% to 5.56%	$ 12,300	$ 12,300
NPC Bonds 2.5% to 4.0%	16,775	7,899
Public Buildings Certificates of Participation, 2.8% to 7.0%	245,529	132,316
Commercial Paper, 3.65% to 3.7%	2,500	2,500
Waterworks District Bonds, 3.3% to 8.0%	280	121
Community Development Commission Mortgage Notes, 0.00% to 7.3%	11,390	5,208
Total	$ 288,774	$ 160,344

General Obligation Bonds

The County issued general obligation bonds in 1986 to finance detention facilities. The Flood Control District issued general obligation bonds to finance flood control projects. 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) Flood Control Storm Drain bonds for Governmental Activities and Waterworks District bonds for Business-type Activities) are as follows (in thousands):

Year Ending June 30	Governmental Activities Principal	Governmental Activities Interest	Business-type Activities Principal	Business-type Activities Interest
2008	$ 370	$ 9	$ 17	$ 11
2009			18	9
2010			19	7
2011			21	5
2012			22	4
2013-17			24	1
Total	$ 370	$ 9	$ 121	$ 37

9. LONG TERM OBLIGATIONS-Continued

Assessment Bonds

The Regional Park and Open Space District issued voter approved assessment bonds in 1997, some of which were advance refunded in 2005, to fund the acquisition, restoration, improvement and preservation of beach, park, wildlife and open space resources within the District. As discussed in Note 3, 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):

Year Ending June 30	Governmental Activities Principal	Governmental Activities Interest
2008	$ 22,630	$ 14,835
2009	23,670	13,644
2010	24,835	12,441
2011	26,075	11,185
2012	27,345	9,855
2013-2017	136,965	26,872
2018-2022	42,715	3,376
Subtotal	304,235	$ 92,208
Add: Unamortized Bond Premiums	19,161	
Total Assessment Bonds	$ 323,396	

Certificates of Participation

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):

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

9. LONG-TERM OBLIGATIONS-Continued

Certificates of Participation-Continued

Year Ending June 30	Governmental Activities Principal	Governmental Activities Interest	Business-type Activities Principal	Business-type Activities Interest
2008	$ 78,609	$ 43,982	$ 25,485	$ 7,966
2009	81,153	38,314	13,779	7,044
2010	78,664	35,773	13,141	6,421
2011	68,798	33,526	12,586	5,823
2012	71,026	31,096	13,164	5,236
2013-2017	226,217	128,912	53,907	16,564
2018-2022	112,039	106,589		
2023-2027	86,595	26,749		
2028-2032	59,835	9,735		
2033-2037	13,170	667		
Subtotal	876,106	$ 455,343	132,062	$ 49,054
Accretions	70,597			
Unamortized Bond Premiums	30,918		8,153	
Unamortized Loss	(40,818)			
Total Certificates of Participation	$ 936,803		$ 140,215	

Tobacco Settlement Asset-Backed Bonds

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.

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

9. LONG-TERM OBLIGATIONS-Continued

Tobacco Settlement Asset-Backed Bonds-Continued

Year Ending June 30	Governmental Activities Principal	Interest
2011	$	$ 21,197
2012		21,197
2013-2017		105,987
2018-2022	60,280	101,926
2023-2027		85,680
2028-2032	46,370	72,585
2033-2037	62,196	64,767
2038-2042	53,157	42,665
2043-2047	97,824	21,564
Subtotal	319,827	$ 537,568
Accretions	24,095	
Total Tobacco Settlement Asset-Backed Bonds	$ 343,922	

Notes, Loans, and Commercial Paper

Bond Anticipation Notes (BANS) are issued by the Los Angeles County Capital Assets Leasing Corporation (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.

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 2006-07 fiscal year, CDC issued additional notes payable in the amount of $5,250,000 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.

Tax-exempt commercial paper notes (TECP) are issued by the County to pay for the construction costs for the Harbor-UCLA Medical Center SB1953 seismic retrofit project. 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.

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

9. LONG-TERM OBLIGATIONS-Continued

Notes, Loans, and Commercial Paper-Continued

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	Governmental Activities Principal	Governmental Activities Interest	Business-type Activities Principal	Business-type Activities Interest
2008	$ 13,444	$ 3,213	$ 7,310	$ 151
2009	14,535	3,086	9,030	98
2010	2,606	2,950	355	45
2011	2,760	2,811	350	13
2012	3,423	2,648		
2013-2017	17,357	10,431	972	
2018-2022	17,341	5,544		
2023-2027	9,439	1,846		
2028-2032	2,890	199		
Indeterminate maturity			1,991	
Total	$ 83,795	$ 32,728	$ 20,008	$ 307

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):

Debt Type	Governmental Activities Principal	Governmental Activities Interest	Business-type Activities Principal	Business-type Activities Interest
General Obligation Bonds	$ 370	$ 9	$ 121	$ 37
Assessment Bonds	304,235	92,208		
Certificates of Participation	876,106	455,343	132,062	49,054
Tobacco Settlement Asset-Backed Bonds	319,827	537,568		
Notes, Loans, and Commercial Paper	83,795	32,728	20,008	307
Subtotal	1,584,333	$1,117,856	152,191	$ 49,398
Add: Accretions	94,692			
Unamortized Bond Premiums	50,079		8,153	
Less: Unamortized Loss on Advance Refunding of Debt	(40,818)			
Total Bonds and Notes Payable	$ 1,688,286		$ 160,344	

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

9. 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 December 1, 2006, the County issued $217,585,000 of Public Buildings lease revenue refunding bonds (2006 Master Refunding Project) Series A, with an average interest rate of 3.68%, and $103,410,000 of Public Buildings lease revenue refunding bonds (2006 Master Refunding Project) Series B, with an average interest rate 4.34%. The 2006 Series A Bonds were issued to refund the outstanding principal of $272,000,000 of bonds issued in 1996 and 1997 with an average interest rate of 5.22%. The 2006 Series B Bonds were issued to refund the outstanding principal amount of $110,105,000 of bonds issued in 2000 with an average interest rate of 5.31%.

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 each refunding issue are as follows (in thousands):

	Series 2006A	Series 2006B
Proceeds of refunding bonds issued	$ 217,585	$ 103,410
Prior years' bond reserves and/or premiums	64,951	12,928
Deposit to escrow	$ 282,536	$ 116,338
Future years' aggregate debt service payment reduction	$ 54,610	$ 20,735
Present value savings (economic gain)	$ 8,550	$ 7,312

For each of the two advance refunding transactions, the carrying amount of the refunded debt was less than the reacquisition price. These differences were $11,865,000 and $6,233,000 for the December 2006 Series 2006A and Series 2006B bonds, respectively. These amounts have been reported as reductions 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, 2007, the amount of outstanding bonds and certificates of participation considered defeased was $552,015,000. All of this amount was related to governmental activities.

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

9. 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, 2007 (in thousands):

	Balance July 1, 2006	Additions/ Accretions	Transfers/ Maturities	Balance June 30, 2007	Due Within One Year
Governmental activities:					
Bonds and notes payable	$ 1,815,744	$ 375,967	$ 503,425	$ 1,688,286	$ 119,472
Pension bonds payable (Note 6)	1,045,264		165,679	879,585	284,522
Capital lease obligations (Note 8)	123,676	818	26,044	98,450	15,738
Accrued vacation and sick leave	630,670	115,772	46,242	700,200	45,229
Workers' compensation liability (Note 16)	2,018,407	128,200	271,473	1,875,134	292,378
Litigation and self-insurance liability (Note 16)	483,097		57,556	425,541	73,034
Third party payor liability	22,344	977	5,753	17,568	17,168
Total governmental activities	$ 6,139,202	$ 621,734	$1,076,172	$ 5,684,764	$ 847,541
Business-type activities:					
Bonds and notes payable	$ 182,355	8,006	30,017	160,344	33,597
Pension bonds payable (Note 6)	363,177		57,565	305,612	98,857
Capital lease obligations (Note 8)	675		277	398	125
Accrued vacation and sick leave	110,367	19,216	10,432	119,151	9,720
Workers' compensation liability (Note 16)	352,295	15,393	39,569	328,119	45,584
Litigation and self-insurance liability (Note 16)	239,323	24,458	28,391	235,390	24,932
Third party payor liability (Note 12)	175,213	37,961	114,954	98,220	11,552
Total business-type activities	$ 1,423,405	$ 105,034	$ 281,205	$ 1,247,234	$ 224,367

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 2006-2007, thereby increasing liabilities for Bonds and Notes Payable by $21,501,000 for governmental activities. Amounts accreted for Pension Bonds in previous years were paid during 2006-2007 thereby decreasing liabilities for Pension Bonds Payable for governmental and business-type activities by $24,495,000 and $8,511,000, respectively, for interest accretions. Note 16 contains information about changes in the combined current and long-term liabilities for workers' compensation and litigation and self-insurance liabilities.

10. SHORT-TERM DEBT

On July 3, 2006, the County issued $500,000,000 of short-term Tax and Revenue Anticipation Notes at an effective interest rate of 3.50%. 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 2006. The notes matured and were redeemed on June 29, 2007.

11. CONDUIT DEBT OBLIGATIONS

Community Facilities and Improvement District Bonds

As of June 30, 2007, various community facilities and improvement districts established by the County had outstanding special tax bonds payable totaling $87,254,000 and limited obligation improvement bonds totaling $15,549,000. 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 issued since inception of the programs approximates $1,306,172,000. The amount of bonds outstanding as of June 30, 2007 was not determinable.

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.

11. 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, 2007, the amount of industrial development and other conduit bonds outstanding was $14,815,000.

12. 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 includes 23 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 nonfederal share of the inpatient FFS per diems was funded with State general funds, while the nonfederal share of the supplemental contract payments and DSH payments was provided in the form of intergovernmental transfers of funds (IGTs) made by the public entities that operated public hospitals.

12. 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 (exclusive of physician component); 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 2006-07. 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 (nonfederal 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 are referred to as IGTs and are used by the State to draw down federal matching funds. The IGT funds transferred to the State by each hospital Enterprise Fund and the matching federal funds are utilized by the State to provide supplemental funding to these funds for Health Care Expenditures.

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, 2007, the cost of the IGTs and the related revenues recognized are as follows (in thousands):

Program	Intergovernmental Transfers Expense	Revenues
Medicaid Demonstration Project	$ 268,515	$ 893,400

12. HOSPITAL AND OTHER PROGRAM REVENUES-Continued

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 2006-07 fiscal year is established at each hospital's total net Medi-Cal inpatient payments for 2005-06. The State DHS estimates the aggregate baseline funding for the 23 Statewide designated public hospitals to be $2.225 billion. The FY 2006-07 baseline for Los Angeles County hospitals is as follows (in thousands):

Hospital Name	Baseline Amount
LAC+USC Medical Center	$ 339,702
Harbor-UCLA Medical Center	160,380
MLK, Jr.-Harbor Hospital	159,418
Rancho Los Amigos National Rehabilitation Center	76,074
Olive View -UCLA Medical Center	105,811
Total	$ 841,385

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, including undocumented immigrants, as well as shortfalls between Medi-Cal psychiatric and Medi-Cal managed care payments and the cost of care delivered. The non-federal share of these funds will be a combination of CPEs for these services and IGTs and as such 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 $1.023 billion as of June 30, 2007.)

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 and as such are subject to interim and final cost settlement.

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 of stabilization 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 services and as such are subject to interim and final cost settlement.

12. HOSPITAL AND OTHER PROGRAM REVENUES-Continued

Stabilization Payments-Continued

SB 1100 requires the Department of Health Services (DHS) 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 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.

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.

Medi-Cal and Medicare Programs

Services to inpatient Medicare program beneficiaries are primarily paid under prospectively determined rates-per-discharge based upon diagnostic related groups (DRGs). Cost Based Reimbursement Clinics (CBRC) funding became effective on July 1, 2000, as part of the 1115 Waiver Extension, and was scheduled to expire on June 30, 2005. A new State Plan Amendment to extend CBRC to be effective on July 1, 2005 is pending with the federal government. CBRC reimburses at 100 percent of reasonable costs for Medi-Cal outpatient services provided to Medi-Cal beneficiaries at hospital-based clinics and health centers (excluding clinics that provide predominately public health services). Certain other services to Medicare beneficiaries are reimbursed based on a fee schedule or other rates. Revenues from Medi-Cal and Medicare programs represent approximately 78% and 7%, respectively, of net patient care revenue for the year ended June 30, 2007.

Medi-Cal field audits have been completed and audit reports have been issued for FY 2003-04 for all hospitals and health centers with the exception of MLK, Jr.-Harbor Hospital (MLK/H) formerly known as Martin Luther King, Jr./Drew Medical Center. FY 2004-05 Medi-Cal audits are in progress.

The Medicare audits have been completed for FYs 1998-99 through 2000-01 at all hospitals. The notices of program reimbursement have been received for all hospitals. For FY 2001-02, Medicare audits have been completed for all hospitals except for LAC+USC Medical Center (LAC+USC). The audit for LAC+USC has not been scheduled for FY 2001-02. For FY 2002-03, the audits for Olive View-UCLA Medical Center (OV/UCLA), Rancho Los Amigos National Rehabilitation Center (Rancho) and High Desert Hospital (HD) have been completed and the notices of program reimbursement have been issued. The audit for MLK/H is in progress. The audits for LAC+USC and Harbor-UCLA Medical Center (H/UCLA) have not been scheduled for FY 2002-03.

For FY 2003-04, the audit for OV/UCLA has been completed and the notice of program reimbursement has been issued. The MLK/H audit is in progress. The audits for LAC+USC, H/UCLA, and Rancho have not been scheduled.

12. HOSPITAL AND OTHER PROGRAM REVENUES-Continued

Medi-Cal and Medicare Programs-Continued

For FY 2004-05, the audit for OV/UCLA has been completed and the notice of program reimbursement has been issued. MLK/H and Rancho audits are in progress. The audits for LAC+USC and H/UCLA have not been scheduled.

For FY 2005-06, the audit for OV/UCLA has been completed and the notice of program reimbursement has been issued. Rancho's audit is in progress. The audits for LAC+USC, H/UCLA, and MLK/H have not been scheduled.

The hospitals have various outstanding appeals pertaining to Medi-Cal and Medicare audit settlements. The Medi-Cal FY 2001-02 informal level appeals have been resolved and $2.4 million will be paid to the County as a result of the resolution of those appeals.

Martin Luther King, Jr.- Harbor Hospital Extension Agreement

CMS provided notice to MLK/H that its Medicare provider agreement would be terminated on November 30, 2006 due to the hospital's non-compliance of Medicare Conditions of Participation (CoPs). At the hospital's request, CMS extended the effective date of termination from November 30, 2006 to March 31, 2007.

On March 30, 2007, the County entered into an agreement with SDHS and CMS further to extend the termination date to August 15, 2007 subject to limitations on reimbursements. Under this agreement, MLK/H agrees not to seek reimbursement at any time from Medicare or Medicaid, nor submit claims to CMS or the Single State Medicaid Agency for reimbursement or payment (including but not limited to costs under DSH and SNCP provisions) for services, except for certain emergency services, provided to Medicare or Medicaid beneficiaries, or to uninsured individuals between May 1, 2007 and either August 15, 2007 or the date CMS makes a determination that MLK/H is in full compliance with the Medicare CoPs.

The agreement resulted in a decrease of $7.99 million in revenues to MLK/H.

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 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, 2007 was $11.5 million.

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.

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

12. HOSPITAL AND OTHER PROGRAM REVENUES-Continued

Accounts Receivable-net

The following is a summary by hospital of accounts receivable and allowances for uncollectible amounts for the year ended June 30, 2007 (in thousands):

	H/UCLA	OV/UCLA	LAC+USC	MLK/H	Rancho	Total
Accounts receivable	$ 526,985	248,167	804,744	264,600	167,240	$2,011,736
Less: Allowance for uncollectible amounts	412,052	171,652	620,381	146,209	90,380	1,440,674
Accounts Receivable – net	$ 114,933	76,515	184,363	118,391	76,860	$ 571,062

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, 2007, based on established rates, is as follows (in thousands):

Charges forgone	$1,353,319
Less: Federal and State subventions	11,471
Net charges forgone	$1,341,848

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

13. 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, 2007.

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, 2007 are as follows (in thousands):

Receivable Fund	Payable Fund	Amount
General Fund	Fire Protection District	$ 5,923
	Flood Control District	6,920
	Public Library	2,042
	Regional Park and Open Space District	9,007
	Internal Service Funds	9,193
	Waterworks Enterprise	28
	Harbor-UCLA Medical Center	22,033
	Olive View-UCLA Medical Center	36,255
	LAC+USC Medical Center	79,404
	M.L. King-Harbor Hospital	18,390
	Rancho Los Amigos Nat'l Rehab Center	6,411
	Nonmajor Enterprise Funds	54
	Nonmajor Governmental Funds	174,464
		370,124
Fire Protection District	General Fund	3,650
	Flood Control District	11
	Internal Service Funds	4
	LAC+USC Medical Center	5
	Nonmajor Governmental Funds	816
		4,486
Flood Control District	General Fund	2,109
	Internal Service Funds	10,307
	Waterworks Enterprise	15
	Nonmajor Enterprise Funds	8
	Nonmajor Governmental Funds	719
		13,158
Public Library	General Fund	105
	Nonmajor Governmental Funds	657
		762
Regional Park and Open Space Dist	General Fund	9

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

13. INTERFUND TRANSACTIONS-Continued

Interfund Receivables/Payables-Continued

Receivable Fund	Payable Fund	Amount
Internal Service Funds	General Fund	14,141
	Fire Protection District	73
	Flood Control District	18,133
	Public Library	14
	Waterworks Enterprise	6,037
	Harbor-UCLA Medical Center	2
	LAC+USC Medical Center	4
	M. L. King-Harbor Hospital	22
	Rancho Los Amigos Nat'l Rehab Center	58
	Nonmajor Enterprise Funds	235
	Nonmajor Governmental Funds	37,791
		76,510
Waterworks Enterprise	General Fund	3
	Internal Service Funds	1,751
	Nonmajor Governmental Funds	15
		1,769
Harbor-UCLA Medical Center	General Fund	28,957
	Fire Protection District	17
	Olive View-UCLA Medical Center	16,354
	LAC+USC Medical Center	16,195
	M.L. King-Harbor Hospital	146
	Rancho Los Amigos Nat'l Rehab Center	20
	Nonmajor Governmental Funds	7,993
		69,682
Olive View-UCLA Medical Center	General Fund	25,608
	Harbor-UCLA Medical Center	32
	LAC+USC Medical Center	28,048
	M.L. King-Harbor Hospital	61
	Nonmajor Governmental Funds	17,771
		71,520
LAC+USC Medical Center	General Fund	203,832
	Fire Protection District	17
	Harbor-UCLA Medical Center	12,699
	Olive View-UCLA Medical Center	4,035
	M.L. King-Harbor Hospital	7,733
	Rancho Los Amigos Nat'l Rehab Center	790
	Nonmajor Governmental Funds	45,947
		275,053
M. L. King, Jr.-Harbor Hospital	General Fund	23,813
	Fire Protection District	20
	LAC+USC Medical Center	573
	Rancho Los Amigos Nat'l Rehab Center	1
		24,407

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

13. INTERFUND TRANSACTIONS-Continued

Interfund Receivables/Payables-Continued

Receivable Fund	Payable Fund	Amount
Rancho Los Amigos Nat'l Rehab Center	General Fund	9,130
	Harbor-UCLA Medical Center	76
	LAC+USC Medical Center	10,675
	M.L. King-Harbor Hospital	18
		19,899
Nonmajor Enterprise Funds	Internal Service Funds	58
Nonmajor Governmental Funds	General Fund	291,001
	Fire Protection District	14
	Flood Control District	221
	Internal Service Funds	11,790
	Waterworks Enterprise	1
	Olive View-UCLA Medical Center	465
	Nonmajor Enterprise Funds	7
	Nonmajor Governmental Funds	7,690
		311,189
Total Interfund Receivables/Payables		$ 1,238,626

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, 2007 are as follows (in thousands):

Transfer From	Transfer To	Amount
General Fund	Public Library	$ 34,784
	Internal Service Funds	192
	Harbor-UCLA Medical Center	114,141
	Olive View-UCLA Medical Center	133,282
	LAC+USC Medical Center	487,385
	M.L. King-Harbor Hospital	118,418
	Rancho Los Amigos Nat'l Rehab Center	36,723
	Nonmajor Governmental Funds	114,106
		1,039,031
Fire Protection District	Nonmajor Governmental Funds	31,487

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

13. INTERFUND TRANSACTIONS-Continued

Interfund Transfers-Continued

Transfer From	Transfer To	Amount
Flood Control District	General Fund	1,484
	Internal Service Funds	542
	Nonmajor Governmental Funds	19,039
		21,065
Public Library	General Fund	2,828
	Nonmajor Governmental Funds	1,016
		3,844
Regional Park and Open Space District	Nonmajor Governmental Funds	33,710
Internal Service Funds	Internal Service Funds	221
Waterworks Enterprise	Internal Service Funds	391
Harbor-UCLA Medical Center	Nonmajor Governmental Funds	36
Olive View-UCLA Medical Center	Nonmajor Governmental Funds	464
LAC+USC Medical Center	Harbor-UCLA Medical Center	15,891
	Olive View-UCLA Medical Center	28,043
	Rancho Los Amigos Nat'l Rehab Center	10,663
	Nonmajor Governmental Funds	45
		54,642
M. L. King-Harbor Hospital	Nonmajor Governmental Funds	16
Rancho Los Amigos Nat'l Rehab Center	Nonmajor Governmental Funds	1
Nonmajor Enterprise Funds	Nonmajor Governmental Funds	4,232
Nonmajor Governmental Funds	General Fund	262,931
	Public Library	510
	Internal Service Funds	2,038
	Harbor-UCLA Medical Center	24,066
	Olive View-UCLA Medical Center	29,895
	LAC+USC Medical Center	99,225
	M.L. King-Harbor Hospital	10,851
	Nonmajor Governmental Funds	33,688
		463,204
Total Interfund Transfers		$1,652,344

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

13. INTERFUND TRANSACTIONS-Continued

Interfund Transfers-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, 2007 are as follows (in thousands):

Receivable Fund	Payable Fund	Amount
General Fund	Internal Service Funds	$ 3,589
	Harbor-UCLA Medical Center	74,487
	Olive View-UCLA Medical Center	37,228
	LAC+USC Medical Center	161,123
	M.L. King-Harbor Hospital	53,366
	Rancho Los Amigos Nat'l Rehab Center	70,487
		400,280
Flood Control District	Internal Service Funds	6,213
Waterworks Enterprise Funds	Internal Service Funds	1,164
Nonmajor Governmental Funds	Internal Service Funds	11,034
Total Short-term Advances		$ 418,691

14. 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, 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.

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

- 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 Tobacco Settlement Asset-Backed bonds, the County sold 25.9% of its future tobacco settlement revenues. Under the budgetary basis, the proceeds are recognized as revenues. Under the modified accrual basis, the proceeds are recorded as a sale of future revenues and are being recognized over the duration of the sale agreement, in accordance with GASB Statement No. 48. This matter is also discussed in Note 9, under the caption, "Tobacco Settlement Asset-Backed Bonds."

- 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 6.

- 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.

- 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.

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

14. 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	$ 1,706,357	$ 56,627	$ 16,305	$ 10,795	$ 119,700
Reserves and designations	1,713,605	108,517	137,289	12,368	143,273
Subtotal	3,419,962	165,144	153,594	23,163	262,973
Adjustments:					
Accrual of estimated liability for litigation and self-insurance claims	51,619	(963)		(54)	
Accrual of vacation and sick leave benefits	36,916				
Deferral of unearned investment income	(10,936)	(539)		(120)	
Deferral of sale of tobacco settlement revenue	(278,260)				
Change in revenue accruals	(138,857)	(21,701)	(5,976)	(2,776)	(1,761)
Subtotal	(339,518)	(23,203)	(5,976)	(2,950)	(1,761)
Fund balance - GAAP basis	$ 3,080,444	$ 141,941	$ 147,618	$ 20,213	$ 261,212

15. OTHER COMMITMENTS

Construction Commitments

At June 30, 2007, the LAC+USC Medical Center Hospital Enterprise Fund had contractual commitments of approximately $65,709,000 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.

LACERA Capital Commitments

At June 30, 2007, LACERA had outstanding capital commitments to various investment managers, approximating $2,390,000,000. Subsequent to June 30, 2007, LACERA funded $299,000,000 of these capital commitments.

Investment Purchase Commitments

At June 30, 2007, the County did not have any open trade commitments with brokers to purchase investments.

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

16. 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 2005-2006 or 2006-2007.

The County retains the risk for all other loss exposures. Major areas of risk include workers' compensation and long-term disability, 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, 2007 were approximately $2.203 billion. This amount is undiscounted and is based on an actuarial study of the County's self-insured program as of June 30, 2007. Approximately $177,980,000 of the total liabilities pertain to salary continuation payments and other related costs mandated by the State Labor Code.

As of June 30, 2007, the County's best estimate of these liabilities is $2.864 billion. Changes in the reported liability since July 1, 2005 resulted from the following (in thousands):

	Beginning of Fiscal Year Liability	Current Year Claims and Changes In Estimates	Claim Payments	Balance At Fiscal Year-End
2005-2006				
Workers' Compensation	$ 2,487,718	$ 178,797	$(295,813)	$ 2,370,702
Other	627,362	170,838	(75,780)	722,420
Total 2005-2006	$ 3,115,080	$ 349,635	$(371,593)	$ 3,093,122
2006-2007				
Workers' Compensation	$ 2,370,702	$ 143,593	$(311,042)	$ 2,203,253
Other	722,420	24,458	(85,947)	660,931
Total 2006-2007	$ 3,093,122	$ 168,051	$(396,989)	$ 2,864,184

In addition to the above estimated liabilities, the County has determined that claims seeking damages of approximately $776.2 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.

17. 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. Accordingly, there is uncertainty about the validity of taxes currently being collected and as of June 30, 2007, a portion ($234.6 million) of the General Fund's designation for budgetary uncertainties pertained to such collections.

18. SUBSEQUENT EVENTS

Tax and Revenue Anticipation Notes ("TRANS")

On July 2, 2007, the County issued $500,000,000 in 2007-08 TRANS which will mature on June 30, 2008. The TRANS are collateralized by taxes and other revenues attributable to the 2007-08 fiscal year and were issued in the form of Fixed Rate Notes at an effective interest rate of 3.62%.

Regional Park and Open Space District Refunding Revenue Bonds

On July 5, 2007, the County issued $94,315,000 of Regional Park and Open Space District refunding revenue bonds, maturing from 2007 to 2019, with yields ranging from 3.52% to 3.94%. Proceeds from the sale of the bonds together with other monies of the District were used to redeem all of the outstanding Series 1997A District revenue bonds, fund a reserve account, and pay issuance costs.

Martin Luther King, Jr.-Harbor Hospital Closure

In August 2007, the Federal Centers for Medicare and Medicaid Services (CMS) provided its final determination based on its review at Martin Luther King, Jr.-Harbor Hospital (MLK/H). CMS determined that MLK/H was not in compliance with a number of Medicare Conditions of Participation and terminated the hospital's contract as of August 15, 2007. This determination aggravated staffing issues already existing at the facility, jeopardizing patient safety. The County responded by immediately implementing its contingency plan to close MLK/H. MLK/H was officially closed on August 25, 2007. The County has converted MLK/H into a Multi-Specialty Ambulatory Care Center (MACC) and is in the process of obtaining a license for an Outpatient Surgical Clinic on the site. In addition, the County has engaged a consulting firm to identify and review potential operators, as the County moves forward in pursing the reopening of MLK/H.

18. SUBSEQUENT EVENTS-Continued

Tax-Exempt Commercial Paper

On October 10, 2007, the Los Angeles County Capital Asset Leasing Corporation issued an additional $75,000,000 in tax-exempt commercial paper. The proceeds are being used to fund capital requirements of various high priority health facilities projects. The commercial paper, which was originally issued at an average rate of 3.46% is secured by a long-term lease of County real estate and a letter of credit.

Capital Asset Leasing Corporation Bond Anticipation Notes

On November 14, 2007, the Corporation issued a $10,000,000 Bond Anticipation Note with an initial interest rate of 4.769%. The rate is adjustable on January 2 and July 1 of each year. The note was purchased by the Los Angeles County Treasury Pool and is due on June 30, 2009. Proceeds of the note are being used to purchase equipment. The note is to be repaid from the proceeds of lease revenue bonds.

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

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

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)
06/30/04	$27,089,440	$32,700,505	$5,611,065	82.8%	$4,919,531	114.1%
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%

COUNTY OF LOS ANGELES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

Federal Grantor/Pass Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number (CFDA#)	Federal Expenditures
U.S. Election Assistance Commission		
Passed Through the California Secretary of State		
Help America Vote Act Section 301 Voting Systems Program	90.401	$ 11,568,524
Total U.S. Election Assistance Commission		11,568,524
U.S. Environmental Protection Agency		
Direct Program		
Voluntary Diesel Retrofit	66.034	8,305
Total U.S. Environmental Protection Agency		8,305
U.S. General Services Administration		
Passed Through the California Secretary of State		
Help America Vote Act 102 Punch Card Buyout	39.011	11,182,908
Total U.S. General Services Administration		11,182,908
U.S. National Endowment for the Arts		
Passed Through the Arts Midwest		
The Big Read Grant	45.024	20,000
Total U.S. National Endowment for the Arts		20,000
U.S. Agency for International Development		
Direct Program		
International Search and Rescue Operations	98.001	487,805
Total U.S. Agency for International Development		487,805
U.S. Department of Agriculture		
Passed Through the California Department of Aging		
Senior Farmer's Market Program	10.576	101,044
Passed Through the California Department of Education		
Child Nutrition Program - School Lunch	10.555	4,082,501
Child Nutrition Program - School Breakfast	10.556	2,695,684
Summer Food Service Program for Children	10.559	676,756
Subtotal Child Nutrition Cluster (10.555, 10.556, 10.559)		7,454,941

(Continued)

COUNTY OF LOS ANGELES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

Federal Grantor/Pass Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number (CFDA#)			Federal Expenditures
Passed Through the California Department of Social Services				
Dollar Value of Food Stamps Issued	10.551		$	750,212,916
Food Stamp Program Administration - NAFS	10.561			117,849,115
Subtotal Food Stamp Cluster (10.551, 10.561)				868,062,031
Total U.S. Department of Agriculture				875,618,016
U.S. Department of Commerce				
Direct Program				
Coastal Impact Assistance Program	11.419			25,425
Total U.S. Department of Commerce				25,425
U.S. Department of Defense				
Direct Program				
Procurement Technical Assistance	12.002			217,968
Total U.S. Department of Defense				217,968
U.S. Department of Education				
Direct Program				
Supplemental Education Opportunity	84.007	(1)		12,850
Pell Grants	84.063	(1)		134,158
Passed Through the California Department of Alcohol and Drugs				
Drug Free Schools and Communities (DFSC) - Friday Night Live	84.186			94,048
Drug Free Schools and Communities - School Based	84.186			724,331
Drug Free Schools and Communities - Club Live	84.186			94,048
Subtotal 84.186				912,427
Passed Through the Los Angeles County Office of Education				
Federal - Educational Aid Disabled Student (Special Education Cluster (IDEA))	84.027			13,832,574
Total U.S. Department of Education				14,892,009
U.S. Department of Health and Human Services				
Direct Program				
Child Mental Health Initiative Grant	93.104			924,089
Tuberculosis/Centers for Disease Control Cooperative Agreement	93.116			5,153,432
Active Varicella Surveillance and Epidemic Studies	93.185			332,929
Childhood Lead Poisoning Case Management	93.197			564,125
Families Coming Together To Fight Substance Abuse	93.243			425,188
State Epidemiology and Lab Surveillance Responses	93.283			880,368
Public Health Preparedness and Response for Bioterrorism	93.283			25,800,482
Subtotal 93.283				26,680,850

(Continued)

Federal Grantor/Pass Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number (CFDA#)			Federal Expenditures
Rapid Testing Algorithms	93.491		$	168,105
Child Health and Disability Program	93.778	(2)		5,159,516
Bioterrorism Hospital Preparedness Program	93.889			13,515,133
HIV Emergency Relief Project Grant	93.914			34,459,686
Scholarships for Disadvantaged Students	93.925	(1)		27,942
Special Projects of National Significance/PHC	93.928			326,104
Special Projects of National Significance/IT	93.928			105,851
Special Projects of National Significance MSM Youth	93.928			357,778
Subtotal 93.928				789,733
HIV Prevention Project	93.940			14,128,163
Epidemiology HIV/AIDS Res African-American and Hispanic	93.943			75,337
HIV Risk Behavior Surveillance MSM	93.943			86,989
Rapid Testing	93.943			73,690
STD-Test HIV Seronegative	93.943			125,654
Subtotal 93.943				361,670
HIV AIDS Surveillance and Seroprevalence	93.944			2,370,842
Morbidity and Risk Behavior Surveillance	93.944			662,087
Monitoring Atypical HIV Strains in Los Angeles County	93.944			92,126
Subtotal 93.944				3,125,055
Comprehensive STD Preventions Systems	93.977			4,392,794
Refugee Preventive Health Services	93.978			1,237,705
Passed Through the California Department of Aging				
Title VII: Elder Abuse Prevention	93.041			82,177
Title VII - Ombudsman	93.042			171,612
Area Agency on Aging - III D	93.043			392,610
Area Agency on Aging III B	93.044			5,407,561
Area Agency on Aging III C-I	93.045			5,116,282
Area Agency on Aging III C-II	93.045			3,553,701
Area Agency on Aging III USDA CI	93.053			863,155
Area Agency on Aging III USDA CII	93.053			578,597
Subtotal Aging Cluster (93.044, 93.045, 93.053)				15,519,296
Area Agency on Aging Title III E	93.052			2,567,467
Area Agency on Aging Health Insurance Counseling and Advocacy Program	93.779			279,125
Passed Through the California Department of Alcohol and Drugs				
Alcohol Block Grant	93.959			41,579,326
Federal Female Offender	93.959			547,233
New Prenatal Set - Aside	93.959			3,704,357
Substance Abuse Block Grant New HIV Set - Aside	93.959			3,802,243

(Continued)

COUNTY OF LOS ANGELES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

Federal Grantor/Pass Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number (CFDA#)		Federal Expenditures
Substance Abuse Prevention and Treatment Projects	93.959		$ 187,500
Substance Abuse Prevention and Treatment Block Grant Adolescent Treatment	93.959		1,617,975
Substance Abuse Prevention and Treatment Prevention Set -Aside	93.959		14,826,329
Subtotal 93.959			66,264,963
Federal Drug Medi-Cal (Prenatal and Drug)	93.778	(2)	30,679,599
Passed Through the California Department of Community Services and Development			
Community Services Block Grant 06F-4722	93.569		6,090,206
Community Services Block Grant American Indian 06F - 4760	93.569		199,312
Community Services Block Grant American Indian 06F - 4760 (CY 2006)	93.569		54
Subtotal 93.569			6,289,572
Passed Through the California Department of Education			
Child Day Care Program (Block Grant)	93.575		2,520,527
Child Day Care Program	93.596		7,373,524
Subtotal Childcare and Development Funds Cluster (93.575 and 93.596)			9,894,051
Passed Through the California Department of Health Services			
Family Planning	93.217		813,795
Immunization Calendar Year	93.568		4,406,811
Immunization Supplemental Fund	93.568		222,667
Immunization Tracking	93.568		171,649
Subtotal 93.568			4,801,127
Health Care Program Children In Foster Care	93.658	(4)	6,877,737
Health Facilities Inspection	93.777	(2)	9,908,927
Medi-Cal Administrative Activities (MAA)	93.778	(2)	9,280,581
Targeted Case Management (TCM)	93.778	(2)	3,043,118
Medi-Cal Eligibility Determination	93.778	(2)	182,399,044
In Home Supportive Services - Personal Care Services Program Health Related	93.778	(2)	57,024,960
Subtotal 93.778			251,747,703
Comprehensive AIDS Resources Emergency Act Title II	93.917		3,466,763
Maternal and Child Health	93.994		2,873,186
Passed Through the California Department of Child Support Services			
Child Support Enforcement Title IV D	93.563		118,795,286
Passed Through the California Department of Mental Health			
McKinney Homeless Act Program	93.150		1,760,129
Mental Health Services: Block Grant	93.958		14,846,147

(Continued)

Federal Grantor/Pass Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number (CFDA#)		Federal Expenditures
Passed Through the California Secretary of State			
Help America Vote Act Elections Assistance for Individuals with Disabilities	93.617		$ 204,331
Passed Through the California Department of Social Services			
Promoting Safe and Stable Families (PSSF)	93.556		11,824,631
CALWORKS - FG/U Assistance	93.558		310,686,389
Adult Protective Services	93.558		9,546,806
CALWORKS Legal Immigrants (MC)	93.558		11,393,352
CALWORKS Diversion - Federal	93.558		10,453
CALWORKS Fraud Incentives	93.558		5,367,924
CALWORKS Single	93.558		478,110,125
CALWORKS Temporary Assistance for Needy Families Time-Out Assistance	93.558		29,855,266
EA Foster Care Admin and Assistance (Title IV-A)	93.558		36,884,008
Subtotal 93.558			881,854,323
Refugee Resettlement	93.566		4,330,563
Refugee Employment Social Services	93.566		2,703,331
Subtotal 93.566			7,033,894
Refugee Targeted Assistance Program	93.584		2,366,147
Children's Welfare Services IV B (Dir Cost)	93.645		8,987,479
Probation IVE Administration and Assistance	93.658		320,000
Aid to Families with Dependent Children - FC - Administration and Assistance	93.658		113,079,085
Children's Welfare Services Title IVE	93.658		183,146,671
Foster Parent Training	93.658		870,592
Foster Family Licensing	93.658		759,929
Group Home Month Visits / CWD	93.658		996,687
Cohort 1	93.658		590,860
Subtotal 93.658		(4)	299,763,824
Adoptions - Administration and Assistance	93.659		114,003,325
Children's Welfare Services Title XX	93.667		21,876,758
Independent Living Skills - Children's Services	93.674		9,363,088
Children's Welfare Services XIX (HLTH REEL)	93.778	(2)	24,307,786
Total U.S. Department of Health and Human Services			2,041,062,973
U.S. Department of Homeland Security			
Direct Program			
Terrorism Early Warning (TEW) Resource Center	97.007		136,974
Terrorism Early Warning Expansion Project	97.008		245,277
Public Assistance Grants	97.036	(5)	103,822

(Continued)

Federal Grantor/Pass Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number (CFDA#)		Federal Expenditures
Urban Search and Rescue EMW-2004-CA-0450	97.025	$	238,484
Urban Search and Rescue EMW-2005-CA-0260	97.025		570,303
Urban Search and Rescue EMW-2003-CA-0101	97.025		55,302
Urban Search and Rescue EMW-2006-CA-0196	97.025		168,482
Subtotal 97.025			1,032,571
Passed Through the California Office of Emergency Services			
State Homeland Security Program 04	97.004		28,785,664
State Homeland Security Program 05	97.067		9,937,492
State Homeland Security Program 06	97.067		2,723,138
State Homeland Security Program 03	97.067		10,517,061
Subtotal Homeland Security Cluster (97.004 and 97.067)			51,963,355
Urban Area Security Initiative 04	97.008		99,560
Urban Area Security Initiative 05	97.008		604,504
Subtotal 97.008			704,064
Earthquake (Northridge)	97.036		1,303,887
2005 Winterstorms	97.036		7,762,549
2005 Winterstorms #2	97.036		495,826
Subtotal 97.036		(5)	9,562,262
Hazard Mitigation Grant	97.039		1,771,917
Fire Management Assistant Grant - Topanga Fire	97.046		21,278
Buffer Zone Protection Program 05	97.078		16,315
Total U.S. Department of Homeland Security			65,557,835
U.S. Department of Housing and Urban Development (HUD)			
Direct Program			
Homeless Foster Youth Program (HFYP)	14.235		2,109,175
Passed Through the Los Angeles County Community Development Commission			
Code Enforcement Team (Second District) Community Development Block Grant (CDBG)	14.218		12,937
Community Development Block Grant - Santa Clarita Service Center	14.218		9,982
Project Star (Studying, Tutoring, and Reading)	14.218		25,000
Project Star (La Puente/Graham Library)	14.218		65,521
Hacienda Heights Community Recreation Program	14.218		27,027
Burke's Club Drug Prevention and Gang Intervention	14.218		49,946
Adventure Park Recreation Program	14.218		67,994
Amigo Park Mobile Recreation Program	14.218		26,307
Pathfinder Senior Recreation Program	14.218		7,995
Stephen Sorensen Park Community Building Project	14.218		91,010
Loma Alta Park Recreation Program	14.218		18,883
Pamela Park Recreation Program	14.218		20,871
Pearblossom Park Recreation Program	14.218		20,938

(Continued)

COUNTY OF LOS ANGELES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

Federal Grantor/Pass Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number (CFDA#)		Federal Expenditures
Community Development Block Grant	14.218	$	287,862
CCE East Los Angeles - 1st District	14.218		268,959
CCE 4th District	14.218		28,966
Homeowners Fraud Prevention Program	14.218		28,995
Success Through Awareness and Resistance (STAR)	14.218		23,359
Lennox Station Community Youth Center	14.218		20,009
Rowland Heights Youth Athletic League Program	14.218		33,441
Century Sher Youth Activity League Center Firestone	14.218		10,414
Century Station Code Enforcement Project	14.218		36,959
Subtotal Community Development Block Grant Entitlement and (HUD-Administered) Small Cities Cluster 14.218			1,183,375
Total U.S. Department of HUD			3,292,550
U.S. Department of Justice			
Direct Program			
Asset Forfeiture	16.UNKNOWN		398,752
Asset Seizure and Forfeiture	16.UNKNOWN		80,061
Asset Forfeiture	16.UNKNOWN		3,073,883
Subtotal 16.UNKNOWN			3,552,696
Drug Enforcement Administration	16.001		63,594
NU Sciences and Technology (2003-IJ-CX-K008)	16.560		104,005
2004 Solving Cold Cases with DNA-384 (2005-DN-BX-K)	16.560		123,903
DNA Capacity Enhancement Program (2005-DA-BX-K035)	16.560		428,993
Subtotal 16.560			656,901
DNA Capacity Enhancement	16.564		6,356
DNA Forensic Casework Backlog Red Program (2004-DN-BX-)	16.564		244,625
Subtotal 16.564			250,981
Community Law Enforcement and Recovery (CLEAR) DIR	16.592		100,000
Abolish Chronic Truancy (ACT)	16.592		190,000
Strategies Against Gang Environments (SAGE)	16.592		326,500
Community Resources Against Street Hoodlums (Local Law Enforcement Block Grant)	16.592		114,000
Community Law Enforcement and Recovery (CLEAR) (Local Law Enforcement Block Grant)	16.592		81,000
L.A. Bridges (Local Law Enforcement Block Grant)	16.592		116,000
Local Law Enforcement Block Grant (LLEBG)	16.592		208,000
Local Law Enforcement Block Grant	16.592		382,376
Subtotal 16.592			1,517,876
State Criminal Alien Assistance Program	16.606		10,541,093
Bulletproof Vest Reimbursement	16.607		7,426

(Continued)

COUNTY OF LOS ANGELES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

Federal Grantor/Pass Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number (CFDA#)	Federal Expenditures
Cops 2002 Cops Technology Grant	16.710	$ 18,801
Cops Creating A Culture of Integrity	16.710	11,590
Mobile Command Trailers	16.710	989,477
RCPI 2004 Integrity Initiative	16.710	80,349
Cops Technology Grant-CF28 (2003-CK-WX-0281)	16.710	297,551
RCPI Integrity/Public Trust Initiative (2005-CK-WX)	16.710	281,864
Subtotal 16.710		1,679,632
Passed Through the California Office of Emergency Services		
Elder Abuse Advocacy and Outreach Program (EAAOP-BYR)	16.575	52,869
Special Emphasis Victim Assistance Program (SEVAP)	16.575	110,000
Victim Witness Assistance Program (VWAP)	16.575	1,286,932
Subtotal 16.575		1,449,801
Elder Abuse Advocacy and Outreach Program (EAAOP-VOC)	16.579	127,256
Stalking and Threat Assessment Team (STAT)	16.588	180,000
Victim Witness Assistance Program (VWAP)	16.588	300,000
Subtotal 16.588		480,000
Project Safe Neighborhoods	16.609	124,468
Project Safe Neighborhoods	16.609	42,746
Project Safe Neighborhoods (US05S20190)	16.609	64,075
Subtotal 16.609		231,289
Clearinghouse Electronic Surveillance System (CHES)	16.738	260,000
Coverdell Forensic Sciences Improvement Act Program	16.742	162,096
Project Safe Neighborhoods	16.744	12,559
Passed Through the City of Los Angeles		
City Clear (Justice Assistance Grant)	16.738	422,532
Passed Through the Corrections Standards Authority		
Juvenile Accountability Block Grant	16.523	248,427
Title II: ACT Long Beach Paramount	16.540	190,582
Disproportionate Minority Contact	16.542	16,478
Passed Through the Office For Victims of Crime		
Urban High Crime Neighborhood Initiative (Office for Victims of Crime)	16.582	102,080
Total U.S. Department of Justice		21,973,299
U.S. Department of Labor		
Passed Through the California Department of Aging		
Older American Title V Project	17.235	1,618,351

Federal Grantor/Pass Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number (CFDA#)		Federal Expenditures
Passed Through the California Employment Development Department			
Workforce Investment Act (WIA) Adult	17.258		$ 9,646,554
Workforce Investment Act Rapid Response	17.258		886,357
Workforce Investment Act Adult R692479	17.258		1,009,029
Workforce Investment Act Youth	17.259		8,456,135
Workforce Investment Act Youth - R692479	17.259		2,952,542
Workforce Investment Act Dislocated Worker	17.260		8,382,547
Workforce Investment Act 15% Title I-D Incentive Funds	17.260		49,000
Workforce Investment Act Dislocated Worker - Reallot	17.260		3,693
Workforce Investment Act Dislocated Worker - R692479	17.260		834,755
Subtotal WIA Cluster (17.258, 17.259, and 17.260)			32,220,612
National Emergency Grant (NEG) Storm	17.261		11,817
Total U.S. Department of Labor			33,850,780
U.S. Department of the Interior			
Passed Through the California Department of Parks and Recreation			
Helen Keller Park Development	15.916		59,597
Total U.S. Department of the Interior			59,597
U.S. Department of Transportation			
Direct Program			
Airport Improvement Program	20.106		1,821,955
Job Access and Reverse Commute	20.516		14,167
Traffic Safety Program	20.600	(3)	106,385
Passed Through the California Department of Transportation			
Bridge Retrofit Program	20.205		810,764
Surface Transportation Program (STP)	20.205		9,616,033
Highway Bridge Rehabilitation	20.205		5,680,308
Hazard Elimination Safety	20.205		187,114
1998/1999 Demonstration	20.205		90,560
Transportation Enhancement Activities	20.205		680,169
Regional Surface Transportation Program	20.205		173,114
Emergency Relief Program	20.205		85,069
Transportation, Community, and System Preservation Program	20.205		92,043
Los Angeles County Subregional Planning	20.205		14,071
Subtotal 20.205			17,429,245
Los Angeles County Subregional Planning	20.505		2,407
Public Transportation for Non Urbanized Areas	20.509		7,999
Passed Through the California Office of Traffic Safety			
Traffic Safety CB0213	20.600		277,862
Office of Traffic and Safety Program Driving Under the Influence	20.600		371,006
DUI Enforcement and Education for Contract Cities	20.600		1,620,780
Subtotal Highway Safety Cluster (20.600)		(3)	2,269,648
Total U.S. Department of Transportation			21,651,806

(Continued)

COUNTY OF LOS ANGELES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

Federal Grantor/Pass Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number (CFDA#)	Federal Expenditures
U.S. Department of Treasury		
Direct Program		
Gang Resistance, Education and Training	21.052	$ 45,671
Total U.S. Department of the Treasury		45,671
U.S. Federal Emergency Management Agency (FEMA)		
Passed Through the California Department of Economic Opportunity		
Food Basket Distribution	83.523	10,374
Food Basket Distribution, (11/1/05-10/31/06)	83.523	12,967
Subtotal 83.523		23,341
Total U.S. Federal Emergency Management Agency		23,341
U.S. Office of Library Services		
Passed Through the California State Library		
Public Library Staff Education Program	45.310	9,039
Total U.S. Office of Library Services		9,039
U.S. Office of the President		
Direct Program		
High Intensity Drug Traffic (HIDTA)	99.027	111,426
Total U.S. Office of the President		111,426
Total Federal Expenditures		$ 3,101,659,277

Legend

(1) This amount is part of the Student Financial Assistance Cluster. The subtotal for the Student Financial Assistance Cluster is $174,950.

(2) This amount is part of the Medicaid Cluster. The subtotal for the Medicaid Cluster is $321,803,531.

(3) This amount is part of the Highway Safety Cluster. The subtotal for the Highway Safety cluster is $2,376,033.

(4) Total for 93.658 is $306,641,561.

(5) Total for 97.036 is $9,666,084.

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, 2007

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 $270,142,276 in federal awards, which are not included in the accompanying schedule of expenditures of federal awards for the year ended June 30, 2007. 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.

Additionally, 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)
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
93.575	Child Day Care Program (Block Grant)
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
93.658	Foster Family Licensing
93.658	Group Home Month Visits/ CWD
93.658	Cohort 1
93.659	Adoptions- Administration and Assistance
93.667	Children's Welfare Services Title XX
93.674	Independent Living Skills – Children's Services

Catalog of Federal Domestic Assistance Number (CFDA#)	Program Name
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

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

The following summarizes the federal expenditures 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, 2007.

Program Name	Grant No.	Expenditure Amount
CSBG	06F-4722	$ 6,090,206
CSBG - American Indian	06F-4760	199,366
		$ 6,289,572

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.

County Program Title	CFDA #	Amount Provided to Subrecipients
Food Stamp Program Administration – NAFS	10.561	$ 344,230
Workforce Investment Act (WIA) Adult	17.258	8,098,830
Workforce Investment Act Rapid Response	17.258	520,289
Workforce Investment Act Adult - R692479	17.258	986,049
Workforce Investment Act Youth	17.259	7,477,835
Workforce Investment Act Youth -R692479	17.259	2,519,772
Workforce Investment Act Dislocated Worker Reallot	17.260	3,693
Workforce Investment Act Dislocated Worker - R692479	17.260	734,251
Workforce Investment Act Dislocated Worker	17.260	7,022,776
Subtotal WIA Cluster (17.258, 17.259, and 17.260)		27,363,495
National Emergency Grant (NEG) Storm	17.261	11,817
Traffic Safety Program	20.600	115,818
Food Basket Distribution	83.523	10,374
Food Basket Distribution, (11/1/05-10/31/06)	83.523	12,967
Subtotal 83.523		23,341

(Continued)

COUNTY OF LOS ANGELES
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

County Program Title	CFDA #	Amount Provided to Subrecipients
Federal Educational Aid Disabled Student	84.027	$ 10,796,573
Drug Free Schools and Communities (DFSC) - Friday Night Live	84.186	94,048
Drug Free Schools and Communities - Club Live	84.186	94,048
Drug Free Schools and Communities - School Based	84.186	689,331
Subtotal 84.186		877,427
Title VII: Elder Abuse Prevention	93.041	82,177
Title VII: Ombudsman	93.042	171,612
Area Agency on Aging III D	93.043	392,610
Area Agency on Aging III B	93.044	4,204,001
Area Agency on Aging III C II	93.045	3,304,444
Area Agency on Aging III C I	93.045	4,656,147
Area Agency on Aging III USDA CII	93.053	578,597
Area Agency on Aging III USDA CI	93.053	863,155
Subtotal Aging Cluster 93.044, 93.045, 93.053		13,606,344
Area Agency on Aging Title III E	93.052	2,121,916
Child Mental Health Initiative Grant	93.104	805,116
Tuberculosis/Centers for Disease Control Cooperative Agreement	93.116	59,994
McKinney Homeless Act Program	93.150	1,147,715
Childhood Lead Poisoning Case Management	93.197	60,000
Families Coming Together to Fight Substance Abuse	93.243	425,188
Public Health Preparedness and Response for Bioterrorism	93.283	5,827,262
CalWORKs Single	93.558	181,132,026
Refugee Employment Social Services	93.566	2,344,535
Immunization Tracking	93.568	82,381
Immunization Supplemental Fund	93.568	189,697
Subtotal 93.568		272,078
Community Services Block Grant American Indian 06F-4760	93.569	135,896
Community Services Block Grant (CSBG) 06F-4722	93.569	4,701,476
CSBG American Indian 06F-4760 (CY 2006)	93.569	54
Subtotal 93.569		4,837,426
Refugee Targeted Assistance Program	93.584	2,061,940
Independent Living Skills - Children's Services	93.674	4,623,558

(Continued)

COUNTY OF LOS ANGELES
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

County Program Title	CFDA #	Amount Provided to Subrecipients
Federal Drug Medi-Cal (Prenatal and Drug)	93.778	$ 27,611,626
Medi-Cal Administrative Activities (MAA)	93.778	1,008,506
Subtotal Medicaid Cluster 93.778		28,620,132
Area Agency on Aging Health Insurance Counseling and Advocacy Program	93.779	265,170
Bioterrorism Hospital Preparedness Program	93.889	10,586,325
HIV Emergency Relief Project Grant	93.914	31,531,029
Comprehensive AIDS Resources Emergency ACT Title II	93.917	3,143,524
Special Project of National Significance MSM Youth	93.928	208,407
Special Projects of National Significance / PHC	93.928	193,085
Subtotal 93.928		401,492
HIV Prevention Project	93.940	8,984,209
HIV AIDS Surveillance and Seroprevalence	93.944	351,820
Mental Health Services: Block Grant	93.958	2,007,925
Substance Abuse Block Grant New HIV Set - Aside	93.959	3,802,243
New Prenatal Set – Aside	93.959	3,267,497
Substance Abuse Prevention and Treatment Block Grant Adolescent Treatment	93.959	1,458,229
Federal Female Offender	93.959	547,233
Alcohol Block Grant	93.959	34,947,975
Substance Abuse Prevention and Treatment Projects	93.959	168,750
Substance Abuse Prevention and Treatment - Prevention Set Aside	93.959	14,826,329
Subtotal 93.959		59,018,256
State Homeland Security Program 04	97.004	16,043,589
State Homeland Security Program 03	97.067	6,910,590
State Homeland Security Program 05	97.067	4,491,652
State Homeland Security Program 06	97.067	1,214,115
Subtotal Homeland Security Cluster (97.004 and 97.067)		28,659,946
Total Amount Provided to Subrecipients:		$ 433,074,026

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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, 2007, which collectively comprise the County's basic financial statements and have issued our report thereon dated December 13, 2007. Our report was modified to include a reference to 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. 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 that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 deficiencies described in the accompanying schedule of findings and questioned costs as items 07-01 and 07-02 to be significant deficiencies 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 County'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 that none of the significant deficiencies described above is 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 findings 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, 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 Gini & O'Connell LLP

Los Angeles, California
December 13, 2007

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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, 2007. 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 $270,142,276 in federal awards, which are not included in the schedule of expenditures of federal awards for the year ended June 30, 2007. 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 07-05, 07-06, 07-09, 07-10, 07-11, 07-12, 07-13, 07-14, 07-16, 07-17, 07-18, 07-22, and 07-23 in the accompanying schedule of findings and questioned costs, the County did not comply with requirements regarding activities allowed or unallowed (findings 07-10 and 07-23), cash management (findings 07-05 and 07-23), eligibility (finding 07-06), reporting (finding 07-23), subrecipient monitoring (findings 07-09, 07-11 through 07-14, 07-16, 07-17 and 07-22) special tests and provisions (finding 07-18) and earmarking (finding 07-23) that are applicable to the Independent Living Skills – Children's Services, Health Care Program Children in Foster Care, Adoptions – Administration and Assistance, Medicaid Cluster, Homeland Security Cluster, Temporary Assistance for Needy Families, Bioterrorism Hospital Preparedness Program, Alcohol Block Grant, Help America Vote Act (HAVA) 102, HIV Emergency Relief Projects Grants and Public Health Preparedness and Response for Bioterrorism. 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, 2007. 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 07-03, 07-07, 07-08, 07-15, 07-19, 07-20 and 07-21.

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 07-04, 07-06, 07-09 through 07-14, 07-16 through 07-18, and 07-23 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 07-04, 07-06, 07-09, 07-10, 07-16, 07-18 and 07-23 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 Gini & O'Connell LLP

Los Angeles, California
March 26, 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: **None Noted**.
- 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: **None Noted.**

(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:

- Food Stamp Cluster – Unqualified
- Workforce Investment Act (WIA) Cluster – Unqualified
- Election Reform Payments – Unqualified
- Help America Vote Act Requirements Payments – Qualified
- Public Health Preparedness and Response for Bioterrorism – Qualified
- Temporary Assistance for Needy Families (TANF) – Qualified
- Child Support Enforcement - Unqualified
- Foster Care Title IV-E – Qualified
- Adoption Assistance – Qualified
- Chafee Foster Care Independence Program - Qualified
- Medicaid Cluster – Qualified
- National Bioterrorism Hospital Preparedness Program - Qualified
- HIV Emergency Relief Projects Grants - Qualified
- Block Grants for Prevention and Treatment of Substance Abuse - Qualified
- Homeland Security Cluster - Qualified

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

Identification of major program:

CFDA Number	Name of Federal Program or Cluster
10.551,10.561	Food Stamp Cluster
17.258, 17.259, 17.260	Workforce Investment Act (WIA) Cluster
39.011	Election Reform Payments
90.401	Help America Vote Act Requirements Payments
93.283	Public Health Preparedness and Response for Bioterrorism
93.558	Temporary Assistance for Needy Families (TANF)
93.563	Child Support Enforcement
93.658	Foster Care Title IV-E
93.659	Adoption Assistance
93.674	Chafee Foster Care Independence Program
93.777, 93.778	Medicaid Cluster
93.889	National Bioterrorism Hospital Preparedness Program
93.914	HIV Emergency Relief Projects Grants
93.959	Block Grants for Prevention and Treatment of Substance Abuse
97.004, 97.067	Homeland Security Cluster

Dollar threshold used to distinguish between Type A and Type B programs: **$9,304,978**

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

Section II – Financial Statement Findings

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.

(Continued)

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.

Views of Responsible Officials and Planned Corrective Action

The County concurs with the recommendation. There were transitional circumstances which arose in converting capital asset records with a book value in excess of $17 billion. We believe the following issues were primarily attributable to the conversion and are largely non-recurring in nature:

- There were errors detected in certain reports which indicate the cost of the asset that was recorded in CAS. This is expected to be resolved by June 30, 2008.

- For infrastructure assets, there was unanticipated transaction volume that resulted in manual adjustments to arrive at CAFR balances. For FY2008, the County plans to use a different method of entering infrastructure improvements in CAS, whereby outside calculations would be required, but it would avoid material manual adjustments during the CAFR process.

- During the transitional process, there were certain problems noted with the workflow and approval process. These conditions were attributable to the manner in which transaction security was set up. The problems have been subsequently diagnosed and resolved.

- The County determined that certain corrections were required to adjust the downloaded summary report, because some capital assets were converted or cross-walked to an incorrect Activity Group. Therefore the summary report total for the Activity Group did not agree to the CAS system detail reports. This issue will be corrected in CAS by June 30, 2008. However, there are internal sales documents (transfer of assets from one County department to another) that report additions and deletions, gains and losses that will continue to require manual adjustments.

The County will continue to evaluate the sufficiency of internal controls. We will also review 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. However, due to system restrictions, there are certain situations (e.g., internal transfers) where manual adjustments will continue to be required.

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.

Views of Responsible Officials and Planned Corrective Action

Primary oversight of the County's Information Technology (IT) controls resides with the County's Internal Services Department and the Chief Information Officer. The County will review the recommended action and evaluate its controls to determine if they comply with the COSO requirements. The County will take the appropriate course of action to ensure implementation of the COSO framework.

Section III – Federal Award Findings and Questioned Costs

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.

Criteria

"For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included." (OMB Circular A-133 §._310(b)(2))

Questioned Costs: N/A

Systemic or Isolated: Systemic

Effect

Failure to include the identifying number assigned by the pass-through entities resulted in noncompliance with federal guidelines on SEFA reporting.

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.

Views of Responsible Officials and Planned Corrective Action

The County agrees with the recommendation. We will work with the County departments to obtain the identifying numbers assigned by the pass-through entities for each applicable federal program. Additionally, we will work to modify the Grant System to include the numbers and reflect them in the appropriate SEFA reports.

(Continued)

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:

Fiscal Year	CFDA 93.778	CFDA 39.011	CFDA 90.401	Total
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

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 controls over the SEFA reporting process led to inaccurate Federal program expenditures reported on prior years' SEFA.

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 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.

(Continued)

c. Evaluate the prior year expenditures to determine whether additional reporting requirements are necessary.

Views of Responsible Officials and Planned Corrective Action

The County received conflicting information regarding the appropriateness of including the MAA and TCM programs in the Single Audit. Sources indicated that these programs were subject to separate State audits. This conflict continues relative to the MAA program. However, the TCM program agreement does call for an OMB Circular A-133 audit. We will include both programs in the Single Audit pending additional information from the funding sources.

The County department that received the HAVA programs' funds had no background in grants or grant management, and was unaware of reporting requirements. While the County does have procedures in place for reporting on federal grant expenditures, we will expand these procedures to include communicating with all departments about federal grant expenditure reporting requirements. Also, the County will evaluate the prior year expenditures and determine if any additional reporting requirements are necessary.

Finding# 07-05 - Cash Management –Interest Earned Not Remitted to Federal Agency

CFDA Title and Number:	**Help America Vote Act (HAVA) 102 Punch Card Buyout #39.011**
Federal Agency:	**General Services Administration**
Pass- Through Agency:	**California Secretary of State**
Award Year:	**June 30, 2007**

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.

Criteria

Per OMB A-102 Common Rule, when funds are advanced, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement. Interest earned on advances by local government grantees and subgrantees is required to be submitted promptly, but at least quarterly, to the federal agency. Up to $100 per year may be kept for administrative expenses.

Questioned Costs: Approximately $828,000 (Questioned costs represent an estimate of interest earned for entire grant period estimated by using County investment pool average annual interest rate, 2.47%, in the prior three years.)

Systemic or Isolated: Isolated

Effect

Failure to remit interest earnings on the advanced funds back to the funding agency resulted in noncompliance with federal grant guidelines within cash management requirements.

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.

Views of Responsible Officials and Planned Corrective Action

As stated above by the auditors, County policy dictates that supporting documentation or information is required to support the payment of interest earnings. Otherwise those earnings are retained by the County. When the trust fund for the HAVA advances was established, due diligence was performed to determine the proper handling of interest earnings.

It should be noted that in December 2004, the California State Auditor issued Report 2004-139, “Office of Secretary of State: Clear and Appropriate Direction is Lacking in Its Implementation of the Federal Help America Vote Act.” This report cited the Secretary of State as having “failed to disburse HAVA funds for replacing voting machines within the time frames outlined in its grant application package, internal procedures, and contracts with counties, causing some to lose interest income they could have used to replace their voting equipment.” The County will renew its efforts to approach the responsible State and Federal agencies to determine if interest earnings are required to be repaid or whether they may be eligible to pay for voting equipment.

Finding# 07-06 – Eligibility – Lack of Beneficiary Certification

CFDA Title and Number:	**Independent Living Skills – Children’s Services Program #93.674**
Federal Agency:	**U.S. Department of Health and Human Services**
Pass- Through Agency:	**California Department of Social Services**
Award Year:	**June 30, 2007**

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).

Criteria

Per the California Government Code posted on the California Department of Social Services website, the following was noted:

Per Code 30-504, "Independent Living Services shall be provided to all eligible youth, based on the needs, services and goals identified in the most recently completed TILP." Per review of the TILP form, it requires the signature of the youth for completeness.

Questioned Costs: $8,772 (total payments made to 4 beneficiaries with findings described above).

Systemic or Isolated: Systemic

(Continued)

Effect

Failure to maintain a signed TILP on file resulted in noncompliance with California Government Code 30-504 and may lead to inappropriate distribution of funds to ineligible youth.

Recommendation

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

Views of Responsible Officials and Planned Corrective Action

Youth Development Services Division will ensure that all files contain a signed TILP form.

Finding# 07-07 – Activities Allowed or Unallowed – Controls Over Documentation for Supporting the Use of Funds

CFDA Title and Number:	**Independent Living Skills – Children's Services Program #93.674**
Federal Agency:	**U.S. Department of Health and Human Services**
Pass- Through Agency:	**California Department of Social Services**
Award Year:	**June 30, 2007**

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.

Criteria

Per the County's Internal Controls Policy and Procedure Manual dated April 13, 2007, and Policy Guidelines for Distribution of Emancipation Services Division (ESD) Benefits dated August 2006, the following items are noted:

a. Transition coordinators are required to include specific language in a letter sent to the youth/vendors instructing them to return receipts for the funding requested;

b. Funds that are not used by the youth (and vendors) must be returned to ESD;

c. Request for funds is the ordinary procedure for accessing funds under the Independent Living Program (ILP). The ILP Coordinator completes a Request for Funds, signs, and submits the form to the Second Level of Authority (Internal Controls Policy and Procedure Manual, page 1). Furthermore, for resources in which warrants (checks) are not issued and gift certificates are utilized, the Request for Funds form must be completed by an authorized person;

(Continued)

d. All requests for funds must be accompanied by a signed letter from the youth stating the needs for the funding.

Questioned Costs: N/A

Systemic or Isolated: Systemic

Effect

Failure to enforce the County's internal control procedures over disbursements to beneficiaries may result in disbursement of unallowable costs.

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.

Views of Responsible Officials and Planned Corrective Action

The County agrees with the recommendations.

a. Youth Development Services Division will continue to request a copy of receipts from the youth to verify the amount of benefits used and will keep a copy of the letter with the specific language sent the youth on file as evidence.

b. Youth Development Services Division staff will revise policies and procedures to reflect a 30-day timeline for return of receipts.

c. Youth Development Services Division will ensure that warrant disbursements are accompanied by a Request for Funds form. Also, Youth Development Services Division will ensure that gift certificate disbursements are accompanied by a completed print out of the "Request for Gift Certificate" section of the ESILP Services Tracking Application.

d. Youth Development Services Division will ensure that all Requests for Funds are accompanied by a signed letter from the youth stating the needs for the funding.

Finding# 07-08 – Reporting - Late Submission of Report

CFDA Title and Number:	**Independent Living Skills – Children's Services Program #93.674**
Federal Agency:	**U.S. Department of Health and Human Services**
Pass- Through Agency:	**California Department of Social Services**
Award Year:	**June 30, 2007**

Condition

The Annual Statistical Report (SOC 405A) was filed with the State of California, Health and Human Services Agency one day late.

Criteria

Per County Fiscal Letter 06-43 dated September 22, 2006, the County must file the Independent Living Program (ILP) Annual Statistical Report (SOC 405A) for the federal fiscal year 2006 by November 15, 2006.

Questioned Costs: N/A

Systemic or Isolated: Isolated

Effect

Failure to file the Annual Statistical Report on a timely basis resulted in noncompliance with State grant guideline under County Fiscal Letter 06-43.

Recommendation

We recommend that the County establish procedures to ensure that the Annual Statistical Report (SOC 405A) is filed in a timely manner.

Views of Responsible Officials and Planned Corrective Action

The Department of Children and Family Services (DCFS) ILP concurs with the Letter of Recommendation Single Audit-Reporting Compliance of the Annual Report (SOC 405A) Filing Recommendation. DCFS' ILP staff will develop procedures to ensure the annual statistical report is filed timely.

Finding# 07-09– Subrecipient Monitoring – During the Award Monitoring and Identification of Federal Award Information

CFDA Title and Number:	**Independent Living Skills – Children's Services Program #93.674**
Federal Agency:	**U.S. Department of Health and Human Services**
Pass- Through Agency:	**California Department of Social Services**
Award Year:	**June 30, 2007**

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.

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: $4,623,263 (total payments to 2 subrecipients reviewed)

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

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.

Views of Responsible Officials and Planned Corrective Action

DCFS' ILP concurs with the single audit-subrecipient monitoring compliance recommendation. ILP staff will develop procedures to ensure all single audit reports are reviewed, follow-up is conducted and the award letter contains all appropriate contract information.

(Continued)

Finding# 07-10 – Activities Allowed or Unallowed - Lack of Supporting Documents and Controls over Payroll Transactions

CFDA#	CFDA Title	Federal Agency	Pass- Through Agency	Award Year
93.674	Independent Living Skills – Children's Services	U.S. Department of Health & Human Services	California Department of Social Services	June 30, 2007
93.658	Health Care Program Children in Foster Care	U.S. Department of Health & Human Services	California Department of Social Services	June 30, 2007
93.659	Adoptions - Administration and Assistance	U.S. Department of Health & Human Services	California Department of Social Services	June 30, 2007
93.777 & 93.778	Medicaid Cluster (Children's Welfare Services)	U.S. Department of Health & Human Services	California Department of Social Services	June 30, 2007

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.

Criteria

Per County Payroll Policies and Procedures, the following was noted:

a. The default hours are required to be documented in the timesheet. If an employee works any variance of the default hours, they are also required to be documented in the timesheet;

b. 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.

Questioned Costs: $164,527 (total payroll transactions amount based on findings described above)

Systemic or Isolated: Systemic

Effect

Failure to properly document the employee's time and bonus entries to the County time keeping system, and absence of supervisory review, may result in the submission of unallowable costs and activities causing noncompliance with federal grant guidelines.

(Continued)

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;

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.

Views of Responsible Officials and Planned Corrective Action

a. Procedures for processing timecards have been posted on the Department's internal website. Additionally, a monthly quality assurance process conducted by a person outside of the Human Resources (HR) operation is being implemented which will identify non-compliance immediately. With implementation of the Electronic Countywide Accounting and Purchasing Payroll System (eCAPS) Time Collection System, this issue will not exist;

b. A monthly quality assurance process conducted by a person outside of the HR operations is being implemented that will identify non-compliance immediately. With implementation of the eCAPS Time Collection System, this issue will not exist;

c. A memo is being prepared to provide to all DCFS managers/supervisors reminding them of the requirement to maintain time records for at least 5 years. With implementation of the eCAPS Time Collection System, this issue will not exist;

d. The classification/compensation staff has been reminded to ensure documentation is on file. A quarterly review will be conducted to ensure compliance;

e. The department will take this under advisement. With implementation of the eCAPS Time Collection System, this issue will not exist.

Finding# 07-11 – Subrecipient Monitoring – Lack of Controls over Fiscal Monitoring Process

CFDA Title and Number: **HIV Emergency Relief Project Grants #93.914**
Federal Agency: **U.S. Department of Health and Human Services**
Award Year: **June 30, 2007**

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;

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).

Criteria

a. Under an unofficial department policy, the Department of Public Health performs a desk review on its subrecipient every year and conducts a fiscal audit every three years. The fiscal audit or desk review is scheduled to be conducted after the fiscal year end of each subrecipient.
b. Per OMB Circular A-133§___.400(d)(5), *Pass-through entity responsibilities.* A pass-through entity shall 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.

Questioned Costs: $7,911,177 (total payments made to all subrecipients reviewed with findings described in a and b above)

Systemic or Isolated: Systemic

Effect

Failure to properly monitor subrecipient activities 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

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.

Views of Responsible Officials and Planned Corrective Action

The Department of Public Health's Contract Monitoring Division (CMD) will make every effort to ensure both fiscal audits and desk reviews are conducted and completed as well as audit findings are followed up in a timely manner. Currently, the CMD is addressing a large backlog of audits that have not been finalized due to its staffing shortages. The CMD is in the process of issuing these reports while at the same time issuing the reports for the current audits. Once this backlog is exhausted and required staffing to perform the audits are recruited, audits and reports will be issued timely.

Finding# 07-12 – Subrecipient Monitoring - During the Award Monitoring and Identification of Federal Award Information

CFDA Title and Number:	**Public Health Bioterrorism Preparedness Program # 93.283**
Federal Agency:	**U.S. Department of Health and Human Services**
Award Year:	**June 30, 2007**

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.

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) 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.

(4) 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.

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

Questioned Costs: $5,221,099 (total payments made to 3 subrecipients reviewed)

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

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.

(Continued)

Views of Responsible Officials and Planned Corrective Action

The Department agrees with the recommendation. Procedures will be developed and implemented 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 subrecipient monitoring requirements. Department of Public Health Contracts & Grants (DPHLG) addressed the issue of contracts not containing CFDA title, number, and award name by recently revised contract language as recommended by County Counsel to comply with OMB Circular A-133, for Bioterrorism Preparedness and Response contracts. This is a pilot study, and once approved by the OMB, we will expand to other contracts in the system.

Finding# 07-13 – Subrecipient Monitoring - During the Award Monitoring and Identification of Federal Award Information

CFDA Title and Number:	**Alcohol Block Grant # 93.959**
Federal Agency:	**U.S. Department of Health and Human Services**
Pass- Through Agency:	**California Department of Alcohol and Drugs**
Award Year:	**June 30, 2007**

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.

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:

a. Subrecipients with no required information provided under $500,000 (22 subrecipients): $5,789,606
b. Subrecipient with no Contract Monitoring Report on file: $433,466

Systemic or Isolated: Systemic

Effect

Failure to properly monitor subrecipient activities resulted 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 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;

b. Enforce monitoring procedures to ensure that all subrecipient monitoring reports are completed timely.

Views of Responsible Officials and Planned Corrective Action

a. We agree with this recommendation. Currently, letters are being sent out to providers who are required to do a single audit based on the amount of federal funds ($500,000 or more) received from Alcohol and Drug Program Administration (ADPA). The audit reports are collected, and reviewed for findings in accordance with established procedures. Based on this recommendation, we will also send letters at year-end to all providers that received federal funds requesting a copy of their single audit report (if applicable) for review. We will ensure that these letters contain all the pertinent federal award information.

b. We agree with this recommendation. Procedures have been implemented to ensure that all subrecipient monitoring is conducted, and that the reports are completed timely.

(Continued)

Finding# 07-14 – Subrecipient Monitoring – During the Award Monitoring and Identification of Federal Award Information

CFDA Title and Number:	**Bioterrorism Hospital Preparedness Program #93.889**
Federal Agency:	**U.S Department of Health and Human Services**
Award Year:	**June 30, 2007**

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.

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: $6,421,435 (total payments made to 15 subrecipients reviewed)

Systemic or Isolated: Systemic

(Continued)

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

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.

Views of Responsible Officials and Planned Corrective Action

While the County had notified hospitals of the need to complete a Single Audit if they received $500,000 or greater in federal grant funding in any one year, the County had not requested that this information be submitted. To correct this, a letter will be sent out annually to all Hospital Preparedness Program participating hospitals requesting them to report whether they are subject to a Single Audit. If they meet the requirement, then they are also requested to submit a copy of the audit. The Emergency Medical Services (EMS) Agency will develop and enforce procedures to incorporate this information into the cover letters that are mailed out with the subrecipients check. In addition, there will be a letter sent out regarding the A-133 audit requirements and requesting hospitals to send in their compliance documentation.

Finding# 07-15 – Reporting – Late Submission of Report

CFDA Title and Number:	**Bioterrorism Hospital Preparedness Program #93.889**
Federal Agency:	**U.S Department of Health and Human Services**
Award Year:	**June 30, 2007**

Condition

The 2nd quarter Financial Status Quarterly Report 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.

Criteria

Per the Code of Federal Regulations (CFR), 45CFR92, (1) Grantees shall submit...quarterly reports..30 days after the reporting period.

Questioned Costs: N/A

Systemic or Isolated: Isolated

Effect

Failure to submit the reports on a timely basis resulted in noncompliance with grant requirements listed in the Code of Federal Regulations.

 (Continued)

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.

Views of Responsible Officials and Planned Corrective Action

The 2nd quarter report was late due to an oversight and other rush assignments. Procedures have been revised whereby the report is due to management two (2) weeks before the due date to ensure timely submission to the Federal Awarding Agency.

Finding# 07-16 – Subrecipient Monitoring - During the Award Monitoring and Identification of Federal Award Information

CFDA Title and Number:	**Medicaid Cluster Program #93.777 and 93.778**
Federal Agency:	**U.S. Department of Health and Human Services**
Pass- Through Agency:	**California Department of Alcohol and Drugs**
Award Year:	**June 30, 2007**

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);

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.

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.

(Continued)

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

Questioned Costs: $20,524,787 (payments made to subrecipients with findings described above)

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

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.

Views of Responsible Officials and Planned Corrective Action

The Department of Public Health Alcohol and Drug Program contacted the State to determine if the program was subject to a Single Audit. 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.

Finding# 07-17 – Subrecipient Monitoring - During the Award Monitoring and Lack of Program Monitoring Over Subrecipients.

CFDA Title and Number:	**Temporary Assistance for Needy Families #93.558**
Federal Agency:	**U.S. Department of Health and Human Services**
Pass- Through Agency:	**California Department of Social Services**
Award Year:	**June 30, 2007**

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.

Criteria

Per OMB Circular A-133§___.400(d)(3), *Pass-through entity responsibilities,* a pass-through entity shall 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.

Questioned Costs: $1,443,406 (payments made to subrecipients with findings described above)

Systemic or Isolated: Systemic

Effect

Failure to properly monitor subrecipient activities 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

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.

Views of Responsible Officials and Planned Corrective Action

The monitoring reports for all six subrecipients have been completed for Fiscal Year (FY) 2006-2007 and the first half of FY 2007-2008. To ensure that monitoring reports will be completed timely and kept on file for all 23 subrecipients that provide similar services, effective January 31, 2008, the Department implemented a new monitoring schedule to track each contract's: 1) monitoring periods, 2) frequency of monitoring, 3) date monitoring reports must be submitted, and 4) filing procedures. The new schedule will facilitate management's control for the timely submission of the monitoring reports for these subrecipients.

Finding# 07-18 – Income Eligibility and Verification System (IEVS) – Controls over Special Tests and Provisions

CFDA Title and Number:	**Temporary Assistance for Needy Families #93.558**
Federal Agency:	**U.S. Department of Health and Human Services**
Pass- Through Agency:	**California Department of Social Services**
Award Year:	**June 30, 2007**

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.

Criteria

Per California Department of Social Services manual, *20-006 Income and Eligibility Verification System (IEVS) requirements*, .3 Uses of IEVS Information, "The CWD shall use information obtained through the IEVS for the purposes of: .31 Verifying the applicant's/recipient's eligibility; .32 Verifying the proper amount of benefits; .33 Determining whether a recipient received benefits to which he/she was not entitled; .34 Conducting criminal or civil prosecutions."

Questioned Costs: Unknown

Systemic or Isolated: Systemic

(Continued)

Effect

Failure to properly review and compare the information obtained from Applicant IEVS against information contained in the case record may result in noncompliance with the federal grant guidelines.

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.

Views of Responsible Officials and Planned Corrective Action

DPSS agrees. The Department will implement corrective action in compliance with the recommendations.

Finding# 07-19 – Reporting – Late Submission of Reports

CFDA Title and Number:	**Child Support Enforcement # 93.563**
Federal Agency:	**U.S. Department of Health and Human Services**
Pass- Through Agency:	**California Department of Child Support Services**
Award Year:	**June 30, 2007**

Condition

During our review of the reports submitted to the California Department of Child Support Services, we noted the following:

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.

Criteria

Excerpt of Child Support Services (CSS) Letter 03-25 dated December 10, 2003, with subject *CS34/35 Reporting Instructions and Disbursement Policies* issued by the California Department of Child Support Services states the due date of the Monthly Report of Collections & Distributions report as:

a. Due Dates: This report must be electronically submitted and approved no later than the fifteenth calendar day of the month following the report month, e.g., the August report is sent no later than September 15.

Excerpt of CSS letter dated April 12, 2002, with subject *SFY2001/02 Non-EDP Administrative Expenditure Information Projections* issued by the California Department of Child Support Services states the due date of the quarterly Child Support Expenditure Schedule and Certification report as:

b. The third quarter (January – March) Child Support Expenditure Schedule and Certification (CS356 Series) must be submitted no later than the fifteenth day following the end of the reporting quarter.

Excerpt of CSS letter dated January 7, 2005, with subject *CS 1257 Monthly State Performance Report & CS 157 Child Support Services Federal Fiscal Year Annual Data & Accounts Receivable Report Updated Instructions* issued by the California Department of Child Support Services states the due date of the Monthly State Performance Report as:

c. Due Dates: This report must be electronically submitted and approved no later than the fifteenth calendar day of the month following the report month, e.g., the August report is sent no later than September 15.

Questioned Costs: N/A

Systemic or Isolated: Systemic

Effect

Failure to submit the reports on a timely basis resulted in noncompliance with grant reporting requirements.

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.

Views of Responsible Officials and Planned Corrective Action

We are in agreement with this recommendation. The Child Support Services Department (CSSD) has issued a draft on-line approval procedure to ensure that the back-up-on-line approver will perform the approval task when the designated staff is not available for review or approval to occur timely. In addition, Fiscal Services staff will continue to coordinate and work closely with all the appropriate department staff to ensure all reports are fully approved on or before statewide deadlines.

Finding# 07-20 – Reporting – Late Submission of Reports

CFDA Title and Number:	**Workforce Investment Act Cluster #17.258, #17.259, and #17.260**
Federal Agency:	**U.S. Department of Labor**
Pass- Through Agency:	**California Employment Development Department**
Award Year:	**June 30, 2007**

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.

Criteria

a. Per directive number WIADO6-4 issued by EDD on August 6 2006, "Monthly and quarterly financial reports are always due the 20th of the month following the report period. Note: When the reporting deadline falls on a weekend or holiday, all reports are due by COB the last working day prior to the reporting deadline."

b. Per directive number WIAB04-66 issued by EDD on January 4, 2005, "On the 20th of each month, all Workforce Investment Act (WIA) grantees transfer participant data using the Job Training Automation (JTA) system Extract WIA, XWID process."

Questioned Costs: N/A

Systemic or Isolated: Systemic

Effect

Failure to submit the Financial Status Quarterly Report and Program reports on a timely basis resulted in noncompliance with directive numbers WIADO6-4 and WIAB04-66 issued by the EDD.

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.

Views of Responsible Officials and Planned Corrective Action

The Workforce Investment Act (WIA) Planning Division Program Manager, Department of Community and Senior Services has established procedures to ensure the program reports are submitted to EDD on a timely basis. The standard operating procedures state that, by the 20^{th} of each month, the LA County WIA grantee transfers participant data using the Job Training Automation (JTA) system Extract WIA, XWID process.

Finding# 07-21 – Activities Allowed or Unallowed – Lack of Support on Cash Disbursement Transactions

CFDA Title and Number:	**Homeland Security Cluster #97.004 & #97.067**
Federal Agency:	**U.S. Department of Homeland Security**
Pass- Through Agency:	**California Office of Emergency Services**
Award Year:	**June 30, 2007**

Condition

Out of forty-one samples selected, one (2%) was not accompanied by proper supporting documentation.

Criteria

Per OMB A-87 costs must be properly supported (i.e., invoices)

Questioned Costs: $8,310

Systemic or Isolated: Isolated.

 (Continued)

Effect

Failure to collect and maintain proper supporting documentation (i.e., invoices) may result in improper expenditure of federal award.

Recommendation

We recommend the County develop policies and procedures to collect and maintain proper supporting documentation for all expenditures.

Views of Responsible Officials and Planned Corrective Action

There was documentation in the City of Pasadena's disbursement binder regarding the expenditures for 2004 State Homeland Security Grant Program (SHSGP). Some of the documents were not the actual invoices needed for audit purposes. OEM will continue to require complete records from the subrecipients and those records will kept at OEM's location. Those records will provide details of each significant step of the disbursement process.

For future grant year audits, OEM has arranged for the Auditor-Controller's Shared Services Division to collect and maintain proper supporting documentation for all SHSGP expenditures.

Finding# 07-22 – Subrecipient Monitoring- During the Award Monitoring and Identification of Federal Award Information

CFDA Title and Number:	**Homeland Security Cluster #97.004 and #97.067**
Federal Agency:	**U.S. Department of Homeland Security**
Pass- Through Agency:	**California Office of Emergency Services**
Award Year:	**June 30, 2007**

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.

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.

(Continued)

(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: $ 24,838,271 (total payments made to 36 subrecipients reviewed, 4 subrecipients are County departments and were therefore excluded from the computation)

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 resulted in noncompliance with the federal grant guidelines.

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.

Views of Responsible Officials and Planned Corrective Action

We have established a Compliance Unit for grants that will follow up on contract, subrecipient monitoring, and single audit report issues. OEM is in the process of having the subrecipients sign a contract that contains the CFDA title, number, and award name. The contract will also include language stating that the subrecipients shall comply with all applicable requirements of State, Federal and County of Los Angeles laws, executive orders, regulations, program and administrative requirements, policies and any other requirements. As part of the unit's duties, they will also monitor the subrecipient agreement.

OEM on an annual basis to ensure compliance with OHS grant program requirements will monitor subrecipients. Said monitoring will include, at a minimum, one on-site visit. As part of the monitoring process each subrecipient will be audited and a report generated to OEM by the contractor. The Compliance Unit will review and follow-up on audit findings presented by the subrecipient monitoring contractor in accordance with OMB Circular A-133. The Compliance Unit will collect and review all of the single audit reports from each subrecipient and perform appropriate follow-up on any findings reported.

(Continued)

Finding# 07-23 – Controls over Reporting, Cash Management, Earmarking and Activities Allowed or Unallowed

CFDA Title and Number:	**Homeland Security Cluster #97.004 and #97.067**
Federal Agency:	**U.S. Department of Homeland Security**
Pass- Through Agency:	**California Office of Emergency Services**
Award Year:	**June 30, 2007**

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 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.

Criteria

Per OMB Circular A-133§___.300(b), management 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 or grant agreements that could have a material effect on each of its Federal programs.

Questioned Costs: Questioned costs are unknown for BSIR Reporting, Cash Management and Earmarking.

Systemic or Isolated: Systemic

 (Continued)

Effect

Failure to establish and enforce internal control procedures over reporting, cash management, and cash disbursement processes may result in misuse of funds and noncompliance with the federal grant guidelines.

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.

Views of Responsible Officials and Planned Corrective Action

BSIR Reporting: During FY2006/2007, OEM had hired an outside contractor to compile, review, and submit the BISR reports. OEM could not find some of the supporting documentation for earlier reports. However, BSIR reports are sent electronically to the State for their review and acceptance. If the report is incorrectly filled out and the supporting documentation is not included, the State will not accept it. Currently OEM personnel are handling the BISR reporting and policies and procedures will be developed to ensure that all the information is properly filed and maintained.

Cash Reimbursements and Earmarking: OEM will develop policies and procedures to ensure that the reimbursements claims are supported by appropriate documentation and are properly filed and maintained.

During FY 2006/2007 OEM had hired an outside contractor to compile, review, submit and store the claim reimbursement information sent to the State. OEM could not find some of the supporting documentation for several of the claims for this audit. Currently, OEM personnel are handling the claim reimbursement, and policies and procedures will be developed to ensure that all of the information is properly filed and maintained.

Activities Allowed or Unallowed: During FY 2006/2007, the outside contractor monitored and kept the records for OEM. The Auditor-Controller Shared Services has taken on this responsibility and will do it in-house for future grant years. The Auditor-Controller Shared Services already has policies and procedures in place for cash disbursement and the keeping of those records.

Finding 06-01: Retroactive Recognition of Remaining Infrastructure and Easements

Observation

As required by Governmental Accounting Standards Board Statement Number 34, Basic Financial Statements - and Management's Discussion and Analysis – for State and Local Governments (GASB Statement No. 34), the County restated its July 1, 2005 balances to reflect the retroactive recognition of the remaining infrastructure assets and easements acquired prior to July 1, 2001. The total amount of this adjustment was approximately $13 billion. During our audit procedures related to this adjustment, we noted a variety of matters that indicated appropriate controls were not in place that would have ensured that this adjustment was recorded accurately.

These matters included a variety of clerical errors that resulted in significant adjustments to the amounts of assets recorded including double counting of fee interest for an airport; input errors on square footage of maps; measurement errors on maps; and errors in amounts inputted into databases used for recording the adjustment. In addition, we noted two fundamental issues in the approach used to determine the adjustment including no process for verification of the completeness of maps used to determine the adjustment and use of simple estimates of square footage on maps instead of engineers' calculations.

Each step in the process of auditing this adjustment uncovered another set of errors and required significant challenges to the basic approach taken by the County. Although we understand that the subject matter of this adjustment is very unique and not a part of the County's routine accounting processes, the audit process indicated that the County did not have adequate internal controls in place to ensure the accuracy of the infrastructure and easement adjustments.

Impact

The lack of adequate controls over the determination of the infrastructure and easement adjustments resulted in several revisions to the County's infrastructure and easement adjustments.

Recommendation

We recommend that the County strengthen its existing policies and procedures for implementing new accounting pronouncements. Should departments other than the Auditor-Controller be responsible for the gathering of data necessary to properly implement the accounting pronouncement, we recommend that the Auditor-Controller periodically review the underlying data collected by other departments to ensure the completeness, accuracy and presentation and disclosure of the information.

Current Year Management Response

We agree with, and have implemented, the recommendation. The Auditor-Controller will continue to monitor all new accounting standards and pronouncements to ensure that the County's financial statements remain compliant. In the future, special attention will be given where non-accounting expertise and reliance on other County departments is required to ensure the adequacy of planning time, the oversight of data collection and the review of account balances and/or disclosure requirements.

Current Status

Implemented

(Continued)

CFDA#s 10.561, 10.551 - Food Stamp Cluster

<u>Finding# 06-02 – Reporting</u>

Condition

In the course of our review of selected required reports, we noted that 1 out of the 12 required DFA-256 Reports and 1 out of the 4 FNS-209 Reports were submitted beyond the specified due dates.

Recommendation

The Department of Public Social Service (DPSS) should ensure that required reports are submitted timely and approvals for extensions, if necessary, are obtained.

Current Year Management Response

DPSS agrees with this recommendation.

DPSS developed an automated production system that quickly produces State reports once data is available. The Department reorganized and consolidated its reporting components, which has minimized data hand-offs and streamlined the past process.

Current Status

Implemented

CFDA#s 10.561, 10.551 - Food Stamp Cluster

<u>Finding# 06-03 – Eligibility</u>

Condition

Of the 40 participants selected for testing, three did not have documentation supporting their income.

Recommendation

DPSS should ensure adequate documentation supporting participant income is obtained and kept on file.

Current Year Management Response

DPSS agrees with the recommendation.

DPSS issued Administrative Memorandum (AM) 06-22 dated December 20, 2006, addressing the Food Stamp Case Review Checklist. The AM referenced BOOST Handbook procedures, DPSS policy and included a checklist for proper case documentation, review and filing to ensure correct eligibility determination.

Implemented December 20, 2006

Current Status

Implemented

CFDA# 84.027 - Special Education Cluster

Finding# 06-04 - Eligibility

Condition

One out of the 40 participant's Individualized Education Plan (IEP) files we reviewed was last updated in 2002.

Recommendation

To ensure that program beneficiaries are limited to eligible individuals and to facilitate monitoring of the needs and progress of participants under the County's special education program, the Department of Mental Health should ensure that IEPs are kept current for all participants.

Current Year Management Response

As we explained to the audit team repeatedly during the audit, the Department of Mental Health is acutely aware of the need for periodic reviews of each student's progress in residential placement and psychotherapy. We routinely request the IEP team meetings be convened in at least six month intervals in order to comply with this provision of the statute and regulations. However, the Department of Mental Health has no authority or responsibility over any of the 82 school districts to compel them to convene such meetings.

California Education Code 56340 specifically states, "Each district, special education local plan area, or county office shall initiate and conduct meetings for the purpose of developing, reviewing, and revising the individualized education program of each individual with exceptional needs in accordance with paragraph (2) of subsection (b) of Section 300.343 of Title 34 of the Code of Federal Regulations." The Department of Mental Health is neither a school district, nor a special education local planning area (SELPA) nor a county office of education.

Section 56341 of the California Education Code defines and describes the membership of the IEP team, all of whom are school district employees, except the parent of the student. Therefore, the Department of Mental Health can only request that the local school district convene the IEP team meetings at a time and place convenient to the parent and to the school district staff that are required to attend.

As a corrective measure resulting from the audit finding, the Department of Mental Health will document in the progress notes of every student, the attempts to communicate with the school district and the parent to convene necessary IEP meetings. In addition, we have prepared a form letter that will be sent to the school districts if they are unresponsive or untimely in their responses to our telephonic communications.

This letter will be another indicator in the medical records of the Department of Mental Health that will demonstrate our attempts to get the school districts to comply with their statutory requirement to convene IEP meetings timely.

Current Status

Implemented – July 2007

(Continued)

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) continues its efforts to ensure sufficient resources are provided to monitor department contracts. Currently, CMD has filled 5 of the 8 vacant items for fiscal monitors and is actively recruiting for the remaining 3 vacancies. These additional items will allow CMD in its efforts to comply and perform the fiscal reviews of programs on a triennial basis. Furthermore, the FY 07-08 budget request includes an item for an additional supervisor, which will permit the timelier issuance of final reports.

Current Status

Partially implemented (see current year finding# 07-11)

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.

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

 (Continued)

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) continues its efforts to ensure sufficient resources are provided to monitor department contracts. Currently, CMD has filled 5 of the 8 vacant items for fiscal monitors and is actively recruiting for the remaining 3 vacancies. These additional items will allow CMD in its efforts to comply and perform the fiscal reviews of programs on a triennial basis. Furthermore, the FY 07-08 budget request includes an item for an additional supervisor, which will permit the timelier issuance of final reports.

Current Status

Partially implemented.

CFDA# 93.959 - Block Grants for Prevention and Treatment of Substance Abuse

<u>Finding# 06-07 - Subrecipient Monitoring, During the Award Monitoring</u>

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. 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 Management Response

The Contract Monitoring Division (CMD) continues its efforts to ensure sufficient resources are provided to monitor department contracts. Currently, CMD has filled 5 of the 8 vacant items for fiscal monitors and is actively recruiting for the remaining 3 vacancies. These additional items will allow CMD in its efforts to comply and perform the fiscal reviews of programs on a triennial basis. Furthermore, the FY 07-08 budget request includes an item for an additional supervisor, which will permit the timelier issuance of final reports.

Current Status

Partially implemented

CFDA#s 93.575, 93.596 - Child Day Care Program Cluster

<u>Finding# 06-08 - Special Tests and Provisions</u>

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 Childcare Program was able to achieve our target implementation date and plan by 3/15/07. We have been consistent in our new monitoring and self evaluation/self auditing for this finding, and have come across no new findings since implementation on the above date.

Current Status

Not Implemented

CFDA# 93.563 - Child Support Enforcement Title IV-D

<u>Finding# 06-09 – Reporting</u>

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

CSSD continues to strengthen the internal coordination process among the Information Technology, Fiscal Management and Executive offices to expedite the reporting process in order to meet the submission deadlines. During each process, approval request and information are disseminated and submitted to not only the core but also the back-up personnel to ensure no lapses or delays in the process

(Continued)

Current Status

Not implemented (see current year finding# 07-19)

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.

Current Year Management Response

DCFS staff has taken the steps below to ensure we obtain single audit reports.

a) Institute for Black Parenting: A copy of the Financial Statement and Single Audit is on file for the period ending December 31, 2005.

b) Guidance Community Development Center: A copy of the Financial Statement and Single Audit is on file for the period ending June 30, 2005.

Current Status

Partially implemented

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

This recommendation for FY2006-2007 was partially completed. Up until March 2007, there was adequate staffing to conduct the technical reviews on an annual basis but a staff shortage occurred in March that will keep the Division from completing all of the reviews. For FY2007-08, the staff shortage is expected to be abated, allowing the Division to meet the audit standard.

Current Status

Partially implemented

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.

Recommendation

DCFS should ensure that attendance sheets for the required monthly and quarterly meetings are kept on file.

Current Year Management Response

This has been completed for the CAPIT/Family Support agency quarterly meetings as well as the monthly Family Preservation Roundtable meetings. Individual sign-in sheets are used during each quarterly meeting for CAPIT and Family Support agencies. If a CAPIT agency also has a Family Support program contract, they sign in two times during the meeting, once for CAPIT meeting and the other for Family Support meeting.

For the Family Preservation monthly Roundtable meetings, the attendance sheets clearly details the date of the meeting as well as the agency attendees.

Current Status

Partially implemented

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

Our last response for Fiscal Year 2005-06 covered three quarters of actual expenditures and one quarter of estimates for Family Preservation, Family Support, APSS and Time Limited Family Reunification. Since that time, all four quarters of actuals have been submitted and DCFS is in compliance with the 20% minimum requirements with each of the PSSF programs, with the exception of APSS. As indicated in our previous response for that review period, the Community based organizations within APSS had delays in hiring professional staff with the appropriate requirements, and therefore, could not provide services. Please see detailed documentation for all four quarters of actual expenditures below.

PSSF Programs	**Claim Amount**	**%**
Family Preservation	$3,773,584	26%
Family Support	5,751,055	39%
Adoption Promotion & Support Services	2,112,844	14%
Time Limited Family Reunification	2,998,430	20%
Total Amount	**$14,635,913**	**100%**

For Fiscal Year 2006/2007, 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	$ 3,054,475	26%
Family Support	3,173,881	27%
Adoption Promotion & Support Services	3,001,990	25%
Time Limited Family Reunification	2,602,042	22%
Total Amount	**$11,832,389**	**100%**

The DCFS Fiscal Operations Accounting Services Section met with Program Managers in May 2007, to remind them of their responsibility to meet the 20% minimum requirement. They will provide the Program managers with reports and continue to meet with them quarterly to monitor for compliance with the requirements applicable to the programs.

Current Status

Not implemented

CFDA#93.558 – CalWORKS

Finding# 06-14 - Reporting

Condition

5 out of 40 program reports examined were submitted beyond the due date required. Reports that were submitted late were delinquent between 1 to 8 days.

Recommendation

We recommend that DPSS ensure that required reports are submitted within specified deadlines.

(Continued)

Current Year Management Response

DPSS agrees with this recommendation.

Our Bureau of Contract & Technical Services/Information Services Section now submits the following DPSS reports required by the State in a timely manner: CA-237 CW, CA-253 CW, CA-255 CW, WTW 25 & WTW 25A, and WTW 30.

Current Status

Implemented

CFDA#93.558 – CalWORKS

<u>Finding# 06-15 - Subrecipient Monitoring, During the Award Monitoring</u>

Condition

21 of the 40 monthly management reports required from subrecipients were not submitted within 15 days from the end of the reporting month end. Reports that were submitted late were delinquent between 2 to 29 days.

Recommendation

DPSS should ensure that required monthly management reports are obtained from subrecipients within the required period.

Current Year Management Response

DPSS agrees with this recommendation.

Corrective action was implemented with the release of BAS-CMD Contract Memo #06-15, dated September 18, 2006. The purpose of the release was to follow up on the required reports and to announce that contractors must submit Monthly Management and Single Audit reports in a timely manner to be in compliance with OMB A–133 requirements.

Implemented September 18, 2006

Current Status

Implemented

CFDA#93.558 – CalWORKS

<u>Finding# 06-16 - Special Tests and Provisions, DA Sanction</u>

Condition

For 13 out of the 40 participants selected, we noted that either the Form 594-G or the 2-way Gram or both were missing. We also noted that 2 out of the 40 participants tested who should have been sanctioned were erroneously aided 100%.

(Continued)

Recommendation

DPSS should ensure that uncooperative participants are properly sanctioned as required under existing federal requirements. The Department should also ensure that required forms are completed and kept on file to document compliance with these requirements.

Current Year Management Response

DPSS agrees with this recommendation.

DPSS issued Administrative Memorandum (AM) 06-22, dated December 20, 2006, addressing the Food Stamp Case Review Checklist. The AM referenced BOOST Handbook procedures, DPSS policy and included a checklist for proper case documentation, review and filing to ensure correct eligibility determination. In addition, Child Support Two-Way Gram training was jointly developed between DPSS and CSSD which covered policy, procedures and documentation relative to this specific audit area. Training roll-out was in December 2006 and included all CalWORKs and Food Stamps eligibility staff.

Implemented December 20, 2006

Current Status

Implemented

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

The one agency that was not in compliance has submitted the Audited Financial Statement/Single Audit for the period ending December 31, 2005. This report is on file.

Of the two agencies that were granted extensions, one submitted the Audited Financial Statement/Single Audit for the period ending November 30, 2005 and the other closed its agency. The closed agency did not submit its Audited Financial Statement/Single Audit prior to its closing.

Current Status

Partially Implemented

(Continued)

CFDA# 93.658 - Foster Care – Title IV-E

<u>Finding# 06-18 - Subrecipient Monitoring, During the Award Monitoring</u>

Condition

a. The required periodic Foster Family Agency/Group Home evaluation reviews conducted by the Out of Home Management Unit were not done for fiscal year ended June 30, 2006 for 2 out of 25 subrecipients tested.

b. Fiscal audits of foster care subrecipients are not done on cyclical basis by the Department. Out of the 25 subrecipients selected for testing, 22 did not have fiscal reviews during fiscal year ended June 30, 2006.

Recommendation

We understand that resource limitations make it difficult if not impossible to conduct periodic fiscal site reviews of subrecipients. 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. DCFS should consider implementing fiscal audits of all subrecipients, at least on a staggered basis instead of just basing audits purely on referrals.

DCFS should also ensure that required periodic evaluation reviews are conducted on all foster care subrecipients.

Current Year Management Response

Recommendation 1
DCFS staff will review all Foster Family Agencies (FFA)/Group Homes (GH) at least annually in the performance outcome areas. The scope of the reviews will consist of the following:

- Monitor site visits to Los Angeles County Group Home and FFA sites, and satellite offices;
- Review a sample of children's Needs and Services Plans;
- Review a sample of FFA certified home records;
- Site visits and interviews with FFA certified foster parents;
- Interviews with children in the sites visited; and
- Review GH staff personnel records (qualifications, background checks, health screens, training, etc).

Contractors will be required to develop a corrective action plan for any identified deficiencies and follow-up reviews will be conducted to ensure implementation of the corrective action plan or other recommendations. An annual calendar scorecard report will be generated for each agency.

The outcome-based performance review components will be based on the GH and FFA foster care agreements which include the statement of work, exhibits, and the agency's program statement(s). The agencies will also be held accountable for adherence to California Department of Social Services' Community Care Licensing Division regulations and departmental policies for quantity and quality of service delivery.

Recommendation 2
DCFS staff monitors the receipt of all required financial documents. DCFS may put agencies on "Do Not Refer" status until they comply with requirements and submit financial documents.

Current Status

Implemented

(Continued)

CFDA# 93.658 - Foster Care – Title IV-E

Finding# 06-19 - Special Tests and Provisions

Condition

During our review, 2 out of 25 cases did not have the signature of the eligibility worker on the Checklist of Health and Safety Standards for Approval of Family Caregiver Home (SOC 817) and Relative or Non Relative Extended Family Member Caregiver Assessment (SOC 818).

Recommendation

The signature of an authorized case social worker (CSW) supports the validity and propriety of assessments made. DCFS should therefore ensure that forms SOC 817 and 818 bear the signature of the CSW prior to filing of related claims for Title IV-E funds.

Current Year Management Response

The Kinship Division conducted training throughout the various regional offices regarding the assessment process. All regional staff has now been trained. Kinship staff is now collocated in the various regional offices where there is ongoing collaboration with the field social work staff and management staff.

Current Status

Implemented

CFDA# 16.606 – State Criminal Alien Assistance Program

Finding# 06-20 – Allowable Costs/Activities Allowed or Unallowed

Condition

We noted that 58 of the 395 daily timecards and 5 of the 75 weekly timecards that were selected for review were missing.

Recommendation

Noncompliance with program guidelines especially those pertaining to adequacy of supporting documents for otherwise reimbursable costs puts the validity and propriety of transactions in question. Since the entire SCAAP funding is currently being utilized to subsidize salaries and wages of correctional officers and other eligible personnel specified in the program guidelines, it is imperative that the Sheriff's Department ensure that effective attendance records filing and tracking system are put into place.

Current Year Management Response

Effective January 1, 2005, the Department's Pay and Leave Management Unit developed a filing process and an automated numerical tracking system to enhance the storage and retrieval of all time and attendance documents maintained by this unit. Storage and retrieval of time and attendance records has significantly improved from prior-year audit findings.

Current Status

Implemented

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 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

The Office of Emergency Management has retained a contractor that has been working with the Auditor-Controller, Contract Monitoring Division to address the subrecipient monitoring issue. An open bid process was conducted to select a private firm to conduct the monitoring. It is anticipated that the winning bid will be announced on August 21, 2007

Current Status

Not Implemented (See current year finding# 07-22)

CFDA# 97.036 - Public Assistance Grant

Finding# 06-22 - Allowable Costs/Activities Allowed or Unallowed

Condition

Based on our audit of the payroll expenses for Department of Public Work (DPW), we noted that 15 out of 20 employees selected for testing showed that rates billed were higher than the actual employee rate. Per inquiry with County employee, DPW provides Capital Project Management Services for LAC+USC Replacement Hospital Project and as such they use a standard billing rate based on the type and level of service they provide which is higher than the actual employee rate.

Recommendation

Unless specifically allowed by the granting agency, DPW should not use standard billing rates in lieu of employees' actual salary rates.

 (Continued)

Current Year Management Response

The LAC+USC Medical Center Replacement Project that used this type of billing has exhausted all FEMA funding. Therefore, there are no charges this fiscal year that would fall under this program. In addition, there will be no more FEMA funding for the Replacement Hospital. All other projects under the Public Assistance Grant are billed and request for reimbursement is based on actual salary costs of employees performing the work.

Current Status

N/A; the State pass through agency agrees with the County's practice.

CFDA# 93.044, 93.045 – Aging Cluster

Finding# 06-23 - Allowable Costs/Activities Allowed or Unallowed

Condition

In the course of our audit of the randomly selected timesheets for the Department of Community and Senior Services (DCSS), we noted that one out of the 40 timesheets reviewed was not signed by the employee nor was it approved by a supervisor as required by existing county policy.

Recommendation

DCSS should ensure that timesheets are properly signed by employees and approved by supervisors prior to processing of payroll to ensure that hours reported and charged to program are accurate and valid.

Current Year Management Response

Financial Management Division (FMD) continues to review timecards for signatures by both employee and supervisor. Employees whose timecards lack signature(s) are contacted and requested to attain signatures. FMD continues to work with Human Resources and the Information Technology Division to further strengthen internal controls.

Current Status

Implemented

CFDA# 93.044, 93.045 – Aging Cluster

Finding# 06-24 - Reporting

Condition

We noted that although reconciliation of amounts reported in the cost statements and those recorded in the County's general ledger system (e-Caps) is currently being done, there is no evidence that such reconciliations are being reviewed by an authorized officer of DCSS.

Recommendation

To further strengthen its existing controls, DCSS should consider requiring the officer in charge of reviewing and approving the reconciliation statements to document the review process either by affixing his/her signature on the statements or by some other means.

Current Year Management Response

As part of the reorganization of the Financial Management Division (FMD), a separate section within FMD was developed to focus on cost statements. This section's staff performs all scheduled reconciliations; the process and schedule are outlined in CSS's Cost Allocation Plan. Additionally, this staff submits each month's cost statements for review and approval to the Revenue Section supervisor and also the Budget section for review and signature within FMD.

Current Status

Implemented

CFDA# 17.258, 17.259, 17.260 – Workforce Investment Act

<u>Finding# 06-25 - Reporting</u>

Condition

We noted that although reconciliation of amounts reported in the cost statements and those recorded in the County's general ledger system (e-Caps) is currently being done, there is no evidence that such reconciliations are being reviewed by an authorized officer of DCSS.

Recommendation

To further strengthen its existing controls, DCSS should consider requiring the officer in charge of reviewing and approving the reconciliation statements to document the review process either by affixing his/her signature on the statements or by some other means.

Current Year Management Response

As part of the reorganization of the Financial Management Division (FMD), a separate section within FMD was developed to focus on cost statements. This section's staff performs all scheduled reconciliations; the process and schedule are outlined in CSS's Cost Allocation Plan. Additionally, this staff submits each month's cost statements for review and approval to the Revenue Section supervisor and also the Budget section for review and signature within FMD.

Current Status

Implemented

CFDA# 84.027 – Special Education Cluster

<u>Finding 05-02 - Subrecipient Monitoring</u>

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.

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 has been partially implemented.

Current Status

Partially implemented – Target completion 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 has continued to resolve some of the irreconcilable accounts. Consequently, the current outstanding balance from December 1, 1998 to December 31, 2004 was reduced to $661,882.52.

On April 11, 2007, we contacted the State seeking advice on the dissolution of the irreconcilable funds and were advised to escheat unclaimed funds held in the trust fund pursuant to State of California Government Code Section 50050:

> ". . . money, excluding restitution to victims, that is not the property of the local agency that remains unclaimed in its treasury or in the official custody of its officers for **three years** is the property of the local agency after notice if not claimed or if not verified complaint is filed and served."

This advisement is consistent with instructions outlined in the Child Support Services (CSS) Letter 04-22, Undistributed Collection Instructions and Disbursement Policies, that was published on November 1, 2004. CSS letters are instructions issued by the California Department of Child Support Services (DCSS).

On August 1, 2007, the Department filed the Phase 1 of the trust fund close-out report in which it was disclosed that funds are to be escheated when they reach the 3-year waiting period requirement.

Current Status

Partially implemented

CFDA #93.658 - Foster Care Program

<u>Finding 05-11 - Eligibility</u>

Condition

There were 6 of 36 case files selected for testing that were not available for review.

Recommendation

Management should adopt and maintain a systematic storage system so that case files can be readily located.

Current Year Management Response

The Department of Children and Family Services has negotiated a contract with the department's existing storage vendor to include Foster Care eligibility cases.

Current Status

Implemented

CFDA #93.914 - HIV Emergency Relief Project

<u>Finding 05-14 - Subrecipient Monitoring</u>

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.

(Continued)

Current Year Management Response

Since FY 04-05, the Contract Monitoring Division (CMD) has increased its performance of annual desk financial viability reviews of sub-recipients in an effort to supplement our monitoring efforts and ensure compliance with the triennial audit requirements. CMD has been short staffed since its inception. Therefore, the performance of annual Desk financial viability reviews has been a useful tool in identifying high-risk contractors and prioritizing fiscal monitoring activities.

In addition, CMD continues its efforts to ensure sufficient resources are provided to monitor department contracts. Currently, CMD is in the process of recruiting additional staff. The FY 07-08 budget request includes an item for an additional supervisor which will permit the timelier issuance of final reports. CMD has updated its filing system to ensure complete documentation is maintained in an orderly fashion to support all reviews performed.

CMD is also working to obtain the remaining outstanding CAPs. Once received, they will be assessed to determine if they adequately address the findings noted in the reports.

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

Partially Implemented (see current finding# 07-11)

CFDA #93.940 - HIV Prevention Project

<u>Finding 05-15 - Subrecipient Monitoring</u>

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.

(Continued)

Current Year Management Response

Currently, the Contract Monitoring Division (CMD) has filled 5 of the 8 vacant items for fiscal monitors and actively recruiting for the remaining 3 vacancies. Additionally, for FY 2007-08, the Board approved our request for another supervisory item and currently awaiting CAO's authorization to hire and fill the position. These additional items will allow CMD in its efforts to comply and perform the fiscal reviews of programs on a triennial basis and permit the timelier issuance of final reports.

CMD continues to accomplish the annual Desk financial viability reviews of sub-recipients to supplement our monitoring efforts and ensure compliance with the triennial audit requirements. The annual Desk financial viability reviews have been a useful tool in identifying high-risk contractors and prioritizing fiscal monitoring activities.

CMD is also working to collect the remaining outstanding Corrective Action Plans (CAP) due from contractors. CAPs will be assessed to determine if they adequately addresses the findings noted on the fiscal reviews.

CMD has updated its filing system to ensure complete documentation is maintained in an orderly fashion supporting all fiscal reviews completed.

Current Status

Partially Implemented

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

Since FY 04-05, CMD has increased its performance of annual Desk financial viability reviews of sub-recipients in order to supplement our monitoring efforts and ensure compliance with the triennial audit requirements. CMD has been short staffed since its inception. Therefore, the performance of annual Desk financial viability reviews has been a useful tool in identifying high-risk contractors and prioritizing fiscal monitoring activities.

In addition, CMD continues its efforts to ensure sufficient resources are provided to monitor department contracts. Currently, CMD has filled 5 of the 8 vacant items for fiscal monitors and is actively recruiting for the remaining 3 vacancies. These additional items will allow CMD in its efforts to comply and perform the fiscal reviews of programs on a triennial basis. Additionally, for FY 2007-08, the Board approved our request for another supervisory item and currently awaiting CAO's authorization to hire and fill the position. The hiring of an additional supervisor will permit the timelier issuance of final reports. CMD has updated its filing system to ensure complete documentation is maintained in an orderly fashion to support all reviews performed.

Current Status

Partially Implemented

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

Office of Emergency Management
The Office of Emergency Management has retained a contractor that has been working with the Auditor-Controller, Contract Monitoring Division to address the subrecipient monitoring issue. An open bid process was conducted to select a private firm to conduct the monitoring. It is anticipated that the winning bid will be announced on August 21, 2007.

Auditor-Controller Contract Monitoring
Working in collaboration with OEM, the A-C completed a solicitation to hire a Master Agreement accounting firm to conduct subrecipient monitoring. The accounting firm plans to begin their monitoring August 2007. In addition, in November 2007, the A-C will review OEM's compliance with the Office of Homeland Security sub-grantee requirements.

Current Status

Partially Implemented (See current year finding# 07-22)

CFDA #93.044,93.045 - Aging Cluster

Finding 05-23 – Reporting

Condition

Of the 34 reports remitted to the California Department of Aging that were reviewed, 22 monthly, 2 quarterly and 5 annual reports were noted to have been remitted late. Reports that were submitted late were delinquent between 3 - 27 days.

Recommendation

The County should implement controls to ensure the timely submission of all reports

Current Year Management Response

The reorganization of the Financial Management Division (FMD) set up the proper reporting structure to ensure that all program and fiscal reports are remitted in a timely manner. The FMD has submitted all reports on time since fiscal year 2006-2007.

Current Status

Implemented

CFDA #10.551, 10.561 – Food Stamp Cluster

Finding 05-27 - Eligibility

Condition

During procedures over 35 sample cases, the following exceptions were noted:

a. During the eligibility compliance testing, one instance of a participant reporting in a statement of facts, $11,000 of some form of grant or tuition aid with no corresponding supporting documentation in the case file was noted.

b. One case file was also noted to be missing a statement of facts for the 04-05 period during which they received food stamp benefits. Hence, there is no basis for determining participant eligibility.

c. Three cases where the information in the recipient's case file didn't match the information in the LEADER system were noted.

Recommendation

Eligibility determination workers should collect and retain supporting documentation to verify eligibility of food stamp applicants in accordance with applicable federal grant guidelines. Additionally, management should implement policies and procedures to ensure underlying eligibility data reconciles to the LEADER eligibility system.

Current Year Management Response

DPSS will implement corrective action to comply with the recommendation.

Current Status

Implemented

CFDA #97.036 - Public Assistance Cluster

Finding 05-29 - Allowable Costs and Activities

Condition

Of the 25 employees tested, management over-claimed reimbursement totaling $4,282 in overhead costs for 14 individuals.

(Continued)

Recommendation

Management should ensure that its billing process for payroll and employee benefits expenses does not include overhead. All additional billings beyond actual payroll and employee benefit expenses should be properly documented and approved by the federal cognizant agency.

Current Year Management Response

The LAC-USC Medical Center Replacement Project that used this type of billing has exhausted all FEMA funding. Therefore, there are no charges this fiscal year that would fall under this program. In addition, there will be no more FEMA funding for the Replacement Hospital. All other projects under the Public Assistance Grant are billed and request for reimbursement is based on actual salary costs of employees performing the work.

Current Status

N/A; the State pass-through agency agrees with the County's practice.

CFDA #93.596 - Child Day Care Program

<u>Finding 05-32 - Allowable Costs and Activities</u>

Condition

Based on the procedures performed, 2 of the 30 timesheets requested cannot be found.

Recommendation

Management should implement controls and retain documentation to support all hours worked for the program.

Current Year Management Response

The original plan was for the Department to be in full production for e-Time Collection Timesheets by the end of October 2007. That plan has been adjusted by the Auditor-Controller's Office. As of today, four (4) offices (BIS, Payroll, Glendora and El Monte) are using the electronic timesheets 100%. There is a rollout plan for the remaining offices, however, there is no overall completion due date at this time. This is due to unforeseen problems in the implementation of the e-Time Collection Timesheets.

Current Status

Partially Implemented

CFDA #93.558 - CAL Works

<u>Finding 05-33 - Allowable Costs and Activities</u>

Condition

Procedures were performed to verify whether the assistance payments were properly given to participants. Based on the testwork performed, the following were noted:

a. 9 out of 50 items selected did not have the case file folder or the folders provided do not contain the relevant information;

b. 2 out of 50 items selected pertain to participants who were paid in an amount that was different from what was recomputed.

(Continued)

Recommendation

The Department of Public and Social Services should retain adequate supporting documents and adhere to policies and procedures to make sure that aid is granted only to eligible individuals.

Current Year Management Response

DPSS does not agree with 8 of the 9 Eligibility findings. The Department provided documentation to refute 8 of the 9 audit findings. The Department will implement corrective action to comply with the recommendation.

Current Status

Implemented

CFDA #93.558 - CAL Works

<u>Finding 05-34 - Eligibility</u>

Condition

Procedures were performed to verify whether the assistance payments were made to eligible individuals. Based on the testwork performed, the following were noted:

a. 4 out of 50 items selected pertains to participants whose QR7s were not received, thus, assistance should not have been paid out;

b. 10 out of 50 items selected did not have the case file folder or the folders provided do not contain the relevant information;

c. 5 out of 50 items selected did not have school record information for children under 18;

d. 7 out of 50 items selected did not have the Home Interview files, so test on whether the children lives with the parent at the time of aid cannot be verified;

e. 4 out of 50 items selected did not have the birth certificates of the individuals claimed, so proof of citizenship cannot be verified;

f. 11 out of 50 items selected have no proof of earned or unearned income;

g. 1 out of 50 items selected did have a valid Social Security Number card on file.

Recommendation

The Department of Public and Social Services should retain adequate supporting documents and adhere to policies and procedures to make sure that aid is granted only to eligible individuals.

Current Year Management Response

DPSS will implement corrective action to comply with recommendation.

Current Status

Implemented

CFDA #93.558 - CAL Works

<u>Finding 05-37 - Special Tests and Provisions</u>

Condition

The results of the procedures performed related to each of the above requirements are as follows:

a. 22 out of 50 items selected did not have the required forms on file;

b. 7 out of 50 items did not have the Form 6050 on file;

c. 26 out of 50 items selected have the Form 6050 on file but not for the appropriate period and 2 out of 50 items selected did not have the Form 6050 on file. In addition, 21 out of 50 items selected are not adequately supported by required documentation.

Recommendation

DPSS management should adopt a checklist of required documents and have adequate review and approval procedures to ensure that proper documentation required in the case files is kept based on the program requirements.

Current Year Response

DPSS does not agree with 9 of 22 DA Sanction findings, all 7 GAIN and Sanction findings, all 28 GAIN Exemption findings and 6 of 21 Supporting Documents findings. The Department provided documentation to refute the audit findings. The Department will implement corrective action.

Current Status

Implemented