



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

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August 3, 2010

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

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

SUBJECT: **SINGLE AUDIT REPORT FOR FISCAL YEAR 2008-2009**

Attached is the County's Single Audit Report (Report) for Fiscal Year 2008-2009. 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. The audit discloses expenditures of approximately \$3.808 billion.

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

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

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

WLW:MMO:JN:CY:RA:jm

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Attachment

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

**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, 2009

**COUNTY OF LOS ANGELES  
BASIC FINANCIAL STATEMENTS AND SINGLE AUDIT REPORTS  
FOR THE YEAR ENDED JUNE 30, 2009**

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**OAKLAND**

**WALNUT CREEK**

**NEWPORT BEACH**

**SAN DIEGO**

## INDEPENDENT AUDITOR'S REPORT

The Honorable Board of Supervisors  
County of Los Angeles, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County of Los Angeles, California (County), as of and for the year ended June 30, 2009, 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/fund balances, and revenues/additions of the following opinion units:

Opinion Unit	Assets	Net assets/ Fund Balances	Revenues/ Additions
Governmental Activities	1%	2%	1%
Business-type Activities	4%	8%	10%
Aggregate Remaining Fund Information	65%	66%	1%

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

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

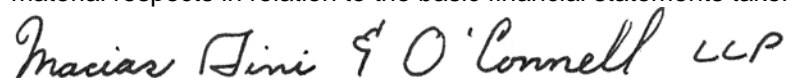
In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County as of June 30, 2009, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund, the Fire Protection District, the Flood Control District, the Public Library, and the Regional Park and Open Space District, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 2 and 18 to the basic financial statements, the County implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, and GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, effective July 1, 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2009, on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 21 and the schedules of funding progress on pages 105 and 106 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.



Certified Public Accountants

Los Angeles, California  
December 11, 2009

## **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, 2009. 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 \$16.129 billion. However, net assets are classified into three categories and the unrestricted component is negative \$2.006 billion. See further discussion on page 7.

During the current year, the County's net assets decreased by a total of \$1.152 billion. Net assets related to governmental activities decreased by \$787 million, while net assets related to business-type activities decreased by \$365 million. Governmental Accounting Standards Board Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" (GASB 45) was implemented in the prior year and continued to have a material effect on the County's changes in net assets during the current year. See further discussion on page 7.

At the end of the current year, the County's General Fund reported a total fund balance of \$3.167 billion. The amount of unreserved fund balance was \$2.627 billion. Of the unreserved total, \$972 million was designated.

The County's capital asset balances were \$17.735 billion at year-end and increased by \$210 million during the year.

During the current year, the County's total long-term debt decreased by \$334 million. Bond maturities of \$384 million exceeded the \$50 million of newly issued and accreted long-term debt.

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

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

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

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

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

### **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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

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

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

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

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

### **FUND FINANCIAL STATEMENTS**

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

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

### **FUND FINANCIAL STATEMENTS-Continued**

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

- **Governmental Funds** - These funds are used to account for essentially the same services that were previously described as governmental activities above. However, the fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the County's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. Governmental funds include the General Fund, as well as Special Revenue Funds, Debt Service Funds, Capital Project Funds, and Permanent Funds.
- **Proprietary Funds** - These funds are used to account for functions that were classified as "business type activities" in the government-wide financial statements. The County's Internal Service Funds are also reported within the proprietary fund section. The County's five Hospital Funds and Waterworks Funds are all considered major funds for presentation purposes. The remaining proprietary funds are combined in a single column, with individual fund details presented elsewhere in this report.
- **Fiduciary Funds** - These funds are used to report assets held in a trustee or agency capacity for others and cannot be used to support the County's programs. The Pension Trust Fund, the Investment Trust Funds, and Agency Funds are reported in this fund category, using the accrual basis of accounting.

### **NOTES TO THE BASIC FINANCIAL STATEMENTS**

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

### **REQUIRED SUPPLEMENTARY INFORMATION**

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



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

**Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the County, assets exceeded liabilities by \$16.129 billion at the close of the most recent fiscal year.

Summary of Net Assets  
As of June 30, 2009 and 2008 (in thousands)

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 7,981,471	\$ 8,052,812	\$ 730,736	\$ 994,087	\$ 8,712,207	\$ 9,046,899
Capital assets	<u>15,252,601</u>	<u>15,074,565</u>	<u>2,482,382</u>	<u>2,450,785</u>	<u>17,734,983</u>	<u>17,525,350</u>
Total assets	<u>23,234,072</u>	<u>23,127,377</u>	<u>3,213,118</u>	<u>3,444,872</u>	<u>26,447,190</u>	<u>26,572,249</u>
Current and other liabilities	1,472,639	1,377,389	203,922	218,966	1,676,561	1,596,355
Long-term liabilities	<u>7,009,138</u>	<u>6,179,573</u>	<u>1,631,997</u>	<u>1,483,193</u>	<u>8,641,135</u>	<u>7,662,766</u>
Total liabilities	<u>8,481,777</u>	<u>7,556,962</u>	<u>1,835,919</u>	<u>1,702,159</u>	<u>10,317,696</u>	<u>9,259,121</u>
Net assets:						
Invested in capital assets, net of related debt	14,081,048	13,913,070	2,217,449	2,259,617	16,298,497	16,172,687
Restricted net assets	1,644,109	1,605,763	192,427	307,985	1,836,536	1,913,748
Unrestricted net assets (deficit)	<u>(972,862)</u>	<u>51,582</u>	<u>(1,032,677)</u>	<u>(824,889)</u>	<u>(2,005,539)</u>	<u>(773,307)</u>
Total net assets	<u>14,752,295</u>	<u>15,570,415</u>	<u>1,377,199</u>	<u>1,742,713</u>	<u>16,129,494</u>	<u>17,313,128</u>
Total liabilities and net assets	<u>\$ 23,234,072</u>	<u>\$ 23,127,377</u>	<u>\$ 3,213,118</u>	<u>\$ 3,444,872</u>	<u>\$ 26,447,190</u>	<u>\$ 26,572,249</u>

Significant changes in assets and liabilities included the following:

Current and Other Assets

Current and other assets decreased for governmental activities by \$71 million. The total amount reported for "pooled cash and investments" and "other investments" decreased by \$365 million while "internal balances" (receivables from the business-type activities) rose by \$344 million. The economic downturn in the current period had a negative impact on overall cash flows. The internal balances predominately reflect short-term cash advances from the General Fund (a governmental activity) to hospital business-type activities, which required significantly higher (\$253 million) short-term cash flows and therefore reduced current and other assets for business-type activities. As described in Note 7 to the basic financial statements, the asset classified as "net pension obligation" continued to amortize downward, and was reduced by \$32 million for governmental activities during the current year.

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

Long-Term Liabilities

Long-term liabilities increased by \$830 million for governmental activities and by \$149 million for business-type activities. The County implemented GASB 45 in the prior year, which established new financial reporting requirements for other postemployment benefits (OPEB). OPEB continued to be funded on a pay-as-you-go basis in the current year and OPEB-related liabilities increased for both governmental and business-type activities by \$1.030 billion and \$201 million, respectively. Specific disclosures related to OPEB and other changes in long-term liabilities are discussed and referenced in Notes 8 and 10 to the basic financial statements.

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

Capital Assets, Net of Related Debt

The largest portion of the County's net assets (\$16.298 billion) represents its investment in capital assets (i.e., land, structures and improvements, infrastructure, and equipment, net of related depreciation), less any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted Net Assets

The County's restricted net assets at year-end were \$1.837 billion. Asset restrictions are primarily due to external restrictions imposed by State legislation and bond covenants. Net assets that pertain to the various separate legal entities included in the basic financial statements are also generally restricted because their funding sources require that funds be used for specific purposes.

Unrestricted Net Assets (Deficit)

The County's total unrestricted net assets are negative \$2.006 billion. Both governmental and business-type activities reported deficits in this category of \$973 million and \$1.033 billion, respectively. The deficits are primarily due to unfunded liabilities related to OPEB, 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. The current economic downturn and overall difficult budgetary environment has impaired the County's ability to implement a funding plan for OPEB liabilities. For the business-type activities, financial losses incurred by the County's healthcare business activities have limited the opportunities to accumulate reserves or incremental funding to address long-term accounting liabilities.

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

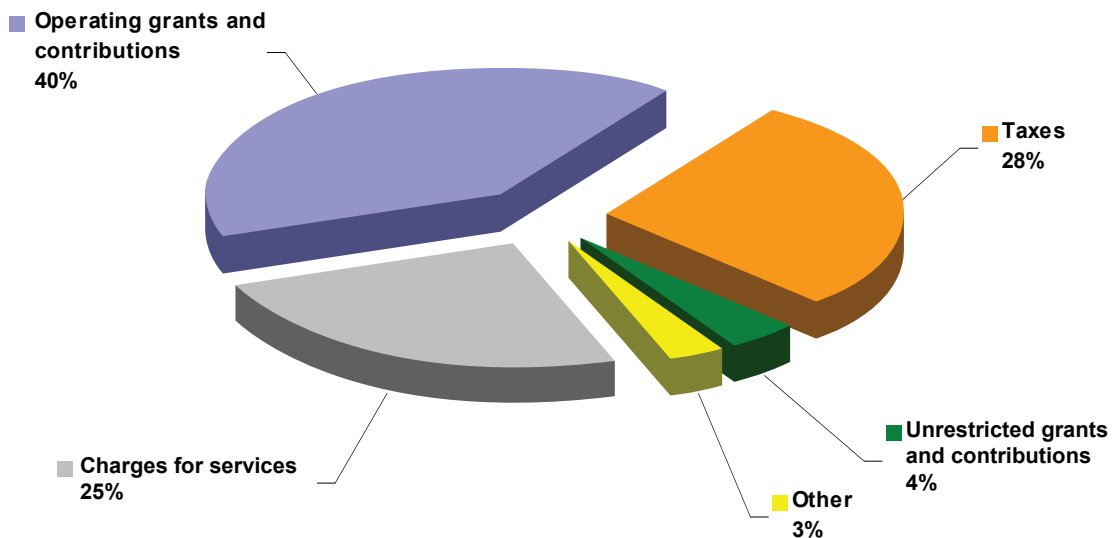
The following table indicates the changes in net assets for governmental and business-type activities:

Summary of Changes in Net Assets  
For the Years Ended June 30, 2009 and 2008  
(in thousands)

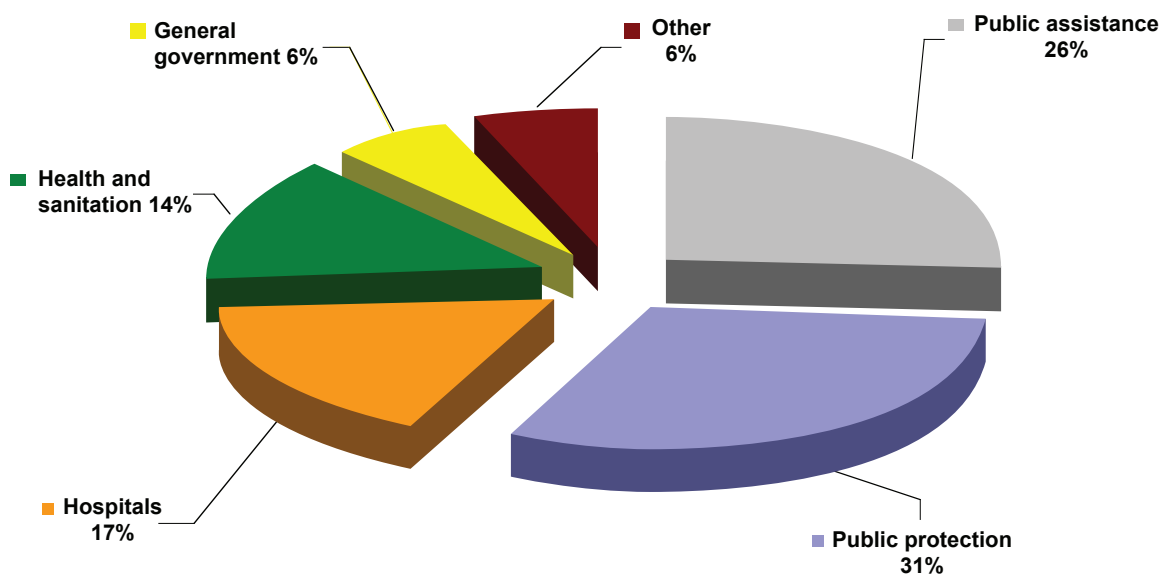
	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
<b>Revenues:</b>						
<b>Program revenues:</b>						
Charges for services	\$ 2,694,729	\$ 2,738,552	\$ 2,095,944	\$ 1,806,747	\$ 4,790,673	\$ 4,545,299
Operating grants and contributions	7,215,270	7,113,135	279,195	263,471	7,494,465	7,376,606
Capital grants and contributions	206,137	184,502	837	2,897	206,974	187,399
<b>General revenues:</b>						
Taxes	5,192,566	5,034,399	4,453	4,405	5,197,019	5,038,804
Unrestricted grants and contributions	756,417	778,936	37	37	756,454	778,973
Investment earnings	197,705	324,132	9,844	14,073	207,549	338,205
Miscellaneous	142,075	229,810	25,758	24,950	167,833	254,760
<b>Total revenues</b>	<b>16,404,899</b>	<b>16,403,466</b>	<b>2,416,068</b>	<b>2,116,580</b>	<b>18,820,967</b>	<b>18,520,046</b>
<b>Expenses:</b>						
General government	1,103,361	1,171,448			1,103,361	1,171,448
Public protection	6,125,158	5,799,593			6,125,158	5,799,593
Public ways and facilities	327,403	299,304			327,403	299,304
Health and sanitation	2,783,150	2,638,135			2,783,150	2,638,135
Public assistance	5,233,389	5,061,367			5,233,389	5,061,367
Education	109,910	112,035			109,910	112,035
Recreation and cultural services	331,726	290,669			331,726	290,669
Interest on long-term debt	165,782	191,551			165,782	191,551
Hospitals			3,443,266	3,092,682	3,443,266	3,092,682
Aviation			5,073	4,182	5,073	4,182
Waterworks			76,904	74,810	76,904	74,810
Community Development Commission			268,201	246,195	268,201	246,195
<b>Total expenses</b>	<b>16,179,879</b>	<b>15,564,102</b>	<b>3,793,444</b>	<b>3,417,869</b>	<b>19,973,323</b>	<b>18,981,971</b>
<b>Excess (deficiency) before transfers</b>	<b>225,020</b>	<b>839,364</b>	<b>(1,377,376)</b>	<b>(1,301,289)</b>	<b>(1,152,356)</b>	<b>(461,925)</b>
<b>Transfers</b>	<b>( 1,011,862)</b>	<b>(1,152,946)</b>	<b>1,011,862</b>	<b>1,152,946</b>		
<b>Changes in net assets</b>	<b>(786,842)</b>	<b>(313,582)</b>	<b>(365,514)</b>	<b>(148,343)</b>	<b>(1,152,356)</b>	<b>(461,925)</b>
<b>Net assets – beginning, as restated</b>	<b>15,539,137</b>	<b>15,883,997</b>	<b>1,742,713</b>	<b>1,891,056</b>	<b>17,281,850</b>	<b>17,775,053</b>
<b>Net assets – ending</b>	<b>\$ 14,752,295</b>	<b>\$ 15,570,415</b>	<b>\$ 1,377,199</b>	<b>\$ 1,742,713</b>	<b>\$ 16,129,494</b>	<b>\$ 17,313,128</b>

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

**REVENUES BY SOURCE – ALL ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2009**



**EXPENSES BY TYPE – ALL ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2009**



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

As discussed in Note 2 to the basic financial statements, the County restated beginning net asset balances in conjunction with implementing Governmental Accounting Standards Board Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations." The beginning net assets were reduced from the amounts previously reported for governmental activities by \$31 million. Prior year amounts were not restated as information was not available. During the current year, net assets decreased for both governmental activities (\$787 million) and business-type activities (\$365 million). Following are specific major factors that resulted in the net asset changes.

### Governmental Activities

Total current year revenues (\$16.405 billion) from governmental activities were nearly identical to the prior year total (\$16.403 billion). The most significant changes in specific revenue sources were experienced in the following areas:

- Taxes, the County's largest general revenue source, were \$158 million higher than the previous year. The additional growth in tax revenues was concentrated in property taxes (\$141 million). Voter approved taxes also increased by \$48 million, primarily due to an increase in the County's Measure B parcel tax, which provides funding for trauma centers and emergency medical services. However, documentary transfer taxes decreased by \$20 million as real estate transfer activity declined for the second consecutive year. The continued property tax growth was attributable to the early lien date (January 1, 2008), which preceded the start of the fiscal year by six months. This gap, combined with the stabilizing effect of Proposition 13, enabled the County to continue to experience growth in this area. The net decrease in other taxes was \$11 million in comparison to the prior year.
- Current year investment earnings decreased by \$126 million, or 39%. The yield from the County's treasury pool declined from 4.62% in the prior year to 2.57% in the current year.
- Program revenues recognized from operating grants and contributions increased by \$102 million. The largest source of this increase (\$93 million) was associated with health and sanitation programs and was concentrated in mental health services. In the current year, mental health revenues were augmented by the federal economic stimulus program known as the American Recovery and Reinvestment Act (ARRA). The federal Medical Assistance Percentage (FMAP) was increased and provided \$60 million of new mental health revenues in the current year. State mental health revenues derived from the Mental Health Services Act (Proposition 63) were \$39 million higher than the previous year.

Expenses related to governmental activities increased by \$616 million during the current year. The largest portion of the net increase was attributable to the public protection category, which grew by \$326 million. Salaries and employee benefits expenses increased in the public protection area by \$276 million, primarily due to previously negotiated increases that became effective in the current year.

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

### Governmental Activities-Continued

Public assistance expenses and health and sanitation expenses were higher by \$172 million and \$145 million, respectively, during the current year. Although year-over-year staffing levels in these areas were comparable, there were increased demands for services. The recessionary economic conditions were especially noticeable in the public assistance area and contributed to higher assistance expenses in the current year.

### Business-type Activities

Revenues from business-type activities increased in comparison to the prior year by \$299 million (14.1%). The most significant change was in the area of charges for services, which increased by \$289 million. As mentioned previously, the federal economic stimulus package increased the FMAP and also provided \$60 million of current year revenues to the business-type healthcare activities.

Expenses related to business-type activities increased from the previous year by \$376 million. The increased expenses were principally related to the Hospitals, where expenses were higher by \$351 million. Hospital cost increases were most prominent at the LAC+USC Medical Center, where expenses were higher by \$229 million. In November of the current year, LAC+USC began operating out of a new facility. For all facilities, the average patient census during the current year was very similar to the prior year, at approximately 1,300 patients per day.

## **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 \$5.892 billion, a decrease of \$111 million in comparison with the prior year. Of the total fund balances, \$1.443 billion is reserved to indicate the extent that funds have been committed or are otherwise unavailable for spending. An additional \$1.613 billion has been designated and set aside for intended spending purposes as indicated in the financial statements. The remaining \$2.836 billion of the balances are unreserved and undesignated.

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

Governmental Funds-Continued

Revenues from all governmental funds for the current year were \$16.240 billion, a decrease of \$33 million (0.2%) from the previous year. Expenditures for all governmental funds in the current year were \$15.345 billion, an increase of \$465 million (3.1%) from the previous year. In addition, other financing uses exceeded other financing sources by \$1.006 billion as compared to \$1.045 billion in the prior year.

The General Fund is the County's principal operating fund. During the current year, the fund balance in the General Fund decreased by \$208 million (6.2%). At the end of the current fiscal year, the General Fund's total fund balance was \$3.167 billion. Of this amount, \$540 million was reserved and therefore unavailable for spending. Of the unreserved total of \$2.627 billion, \$972 million has been designated (earmarked) and the remaining \$1.655 billion is considered both unreserved and undesignated.

General Fund revenues during the current year were \$13.538 billion, a decrease of \$90 million (0.7%) from the previous year. General Fund expenditures during the current year were \$13.135 billion, an increase of \$391 million (3.1%) from the previous year. Other financing sources/uses-net was negative \$611 million in the current year as compared to negative \$683 million in the prior year.

Following are significant changes in General Fund revenues and expenditures:

- Revenues from taxes increased by \$174 million (4.6%). Of this net increase, property taxes increased by \$201 million. However, documentary transfer taxes decreased by \$20 million as real estate activity declined for the second consecutive fiscal year. As previously mentioned, property tax revenues were not immediately impacted by the downturn in the housing market and provisions of Proposition 13 are also a stabilizing factor when housing prices decrease.
- Intergovernmental revenues recognized from the State decreased by \$177 million. The County receives certain revenues from the State which are derived from the State's share of sales taxes and vehicle license fees. State revenues directly funded by sales taxes were \$156 million lower than the previous year amount. The County relies on this revenue to augment funding for public safety programs (primarily the Sheriff's Department), health and mental health services, and public assistance programs. Revenues derived from State vehicle license fees also decreased in comparison with the prior year by \$45 million and these revenues provide supplemental funding for health, mental health, and social service programs.
- Investment income decreased by \$99 million, as current year revenues were \$125 million in comparison with the prior year amount of \$224 million. As previously mentioned, the yield on investments during the current year was considerably lower than the prior year's yield.



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

Governmental Funds-Continued

- Current expenditures increased by \$548 million (4.4%), and there were increases in all functional areas. The most significant increase was in the area of public protection, where expenditures were higher by \$198 million. Of this amount, salaries and employee benefits increased by \$164 million. These costs were notably higher in the Sheriff's Department (\$78 million) and Probation Department (\$37 million), and were largely due to negotiated salary and benefit increases, as there was limited program expansion in these areas. Expenditures also increased in the areas of public assistance (\$177 million) and health and sanitation (\$135 million).

The Fire Protection District reported a year-end fund balance of \$205 million, which represented an increase of \$35 million from the previous year. The increase in fund balance also provided additional liquidity to the District, as total pooled cash and investments also increased by \$35 million. Revenues increased by \$44 million, of which \$24 million was attributable to property taxes and the remaining increase was associated with a variety of other revenues. Expenditures were higher by \$35 million, of which \$31 million was related to salaries and benefits.

The Flood Control District reported a year-end fund balance of \$192 million, which was \$30 million higher than the previous year. The fund balance increase provided additional liquidity, as pooled cash and investments were \$26 million higher than the prior year. Revenues increased from a wide variety of sources and were \$18 million higher than the prior year. Expenditures were virtually unchanged from the prior year.

The Public Library Fund reported a year-end fund balance of \$27 million, which was \$2 million lower than the previous year. Although revenues were nearly \$4 million higher in the current year, expenditures increased by \$9 million, as salaries and employee benefits were \$5 million higher and there were increased operating costs.

The Regional Park and Open Space District year-end fund balance (\$288 million) remained nearly unchanged in comparison to the previous year balance of \$286 million. Current year revenues were \$6 million lower than the previous year, largely due to reduced investment income. Expenditures increased by \$19 million, as additional reimbursement claims were received from County agencies, various cities, and other agencies that are eligible for recreational funding from this District.



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

### Proprietary Funds

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

The County's principal proprietary funds consist of four hospital enterprise funds and an additional fund (Martin L. King Jr. Ambulatory Care Center) which was converted from a full-service hospital in 2007-2008 to a multi-service ambulatory care center. Each of these funds incurred a net loss prior to contributions and transfers.

The County is legally required to provide local matching funds to the health care system in order to remain eligible for federal and State assistance. Such funds were provided to the hospitals as operating subsidies from the County General Fund during the year. The amount of subsidy, per facility, ranged from \$60 million for M. L. King Ambulatory Care Center to \$414 million for the LAC+USC Medical Center. The total subsidy amount was \$803 million and is reflected in the Statement of Revenues, Expenses and Changes in Fund Net Assets as "transfers in." By comparison, the total General Fund subsidy in the prior year was \$1.001 billion.

An additional source of local funding for the Hospitals is the Health Services Measure B Special Revenue Fund ("Measure B Fund"). The Measure B Fund receives voter approved property taxes for trauma and emergency services. In the current year, the Measure B Fund provided transfers to the LAC+USC Medical Center (\$110 million), Harbor UCLA Medical Center (\$59 million), and Olive View UCLA Medical Center (\$42 million). The total amount of current year Measure B transfers (\$211 million) exceeded the prior year amount by \$64 million. The additional transfer amounts were funded by unspent prior year Measure B funds plus a Board-approved 24% increase in the current year Measure B Fund tax rate.

Waterworks Funds reported year-end net assets of \$884 million, an \$11 million reduction from the previous year. There was a \$4 million decrease in current year operating revenues, of which \$3 million was associated with water service charges to customers. In addition, there were current year cost increases of \$5 million for services, supplies, and other professional services.

### **General Fund Budgetary Highlights**

The accompanying basic financial statements include a Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual on Budgetary Basis for the County's General Fund. The County's budgetary basis of accounting is discussed in Notes 1 and 15 to the basic financial statements. There are approximately 100 separate budget units within the General Fund, excluding capital improvement projects, which are individually budgeted. 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 decrease of \$95 million in the General Fund's available (unreserved and undesignated) fund balance from the previous year.

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

Budgetary Summary - Revenues/Financing Sources

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

<u>Category</u>	<u>Increase (Decrease) From Original Budget</u>	<u>Final Budget Amount</u>	<u>Actual Amount</u>	<u>Variance- Positive (Negative)</u>
Taxes	\$ 12,372	\$ 4,030,607	\$ 3,938,502	\$ (92,105)
Intergovernmental revenues	82,346	7,922,721	7,196,242	(726,479)
Charges for services	(186,727)	1,607,359	1,504,841	(102,518)
All other revenues	120,297	689,829	733,383	43,554
Other sources and transfers	5,455	496,713	264,099	(232,614)
Total	<u>\$ 33,743</u>	<u>\$ 14,747,229</u>	<u>\$ 13,637,067</u>	<u>\$ (1,110,162)</u>

Changes from Amounts Originally Budgeted

During the year, net increases in budgeted revenues and other financing sources approximated \$34 million. The most significant changes occurred in the following areas:

- Estimated revenues from charges for services decreased by \$187 million. Nearly all (\$172 million) of the decrease was associated with reduced revenues from the Managed Care health services program. The budget for these revenues was modified in the current year as certain Managed Care revenues (\$170 million), initially budgeted in the General Fund, were recorded directly in the Hospital Enterprise Funds.
- The increase of \$120 million related to "all other revenues" was mostly attributable to tobacco settlement revenues of \$116 million. The County's policy is to budget tobacco settlement revenues after they have been received. Miscellaneous revenue increases accounted for the remaining \$4 million.
- The budget for intergovernmental revenues was increased by \$82 million. Of this amount, \$66 million was associated with caseload increases in the General Relief and CalWORKS public assistance programs. Additional net increases of \$16 million were associated with a variety of federal and State funded programs.

Actual Revenues/Financing Sources Compared with Final Budget Amounts

Actual revenues and other financing sources recognized by the General Fund were approximately \$1.110 billion, or 7.5%, lower than budget. As discussed below, most of this variance was concentrated in the areas of intergovernmental revenues, "other sources and transfers," and charges for services.

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

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

- Actual intergovernmental revenues were \$726 million lower than the amount budgeted. Social service programs, including children and family services, accounted for approximately \$249 million of this variance, which was mostly attributable to cost containment efforts that led to reduced reimbursable social service related expenditures. Approximately \$99 million (consisting of State assistance) was associated with mental health services, due to lower than expected revenues. There was \$85 million of unrealized intergovernmental assistance for Sheriff-related programs, most of which was associated with lower than anticipated State public safety augmentation funding. An additional \$187 million pertained to anticipated reimbursement of capital improvement, disaster recovery and homeland security projects and programs that were not completed prior to year-end. The remaining variance of \$106 million was related to a variety of other programs that received intergovernmental revenues.
- The actual amount of "other sources and transfers" was \$233 million lower than the amount budgeted. Of this amount, "transfers in" totaling \$106 million were assumed in the budget for capital improvements and extraordinary building maintenance projects which did not incur expected costs. Mental health programs funded by the Mental Health Services Act Fund (Proposition 63) did not fully materialize at the budgeted level and "transfers in" were \$61 million lower than budgeted. Programs operated by the Registrar-Recorder and the Sheriff did not realize budgeted "transfers in" of \$33 million and \$21 million, respectively, as reimbursable costs were lower than anticipated. There were various other sources and transfers that comprised the remaining variance of \$12 million.
- The amount budgeted for charges for services revenues exceeded actual revenues by \$103 million. Actual revenues for health administration and managed care programs were \$84 million lower than estimated revenues. Anticipated service levels for these programs did not materialize as assumed by the budget. The remaining variance of \$19 million was generated by a variety of service-related revenue sources.

Budgetary Summary - Expenditures/Other Financing Uses

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

<u>Category</u>	<u>Increase (Decrease) From Original Budget</u>	<u>Final Budget Amount</u>	<u>Actual Amount</u>	<u>Variance- Positive</u>
General government	\$ 23,545	\$ 1,618,898	\$ 870,481	\$ 748,417
Public protection	66,543	4,769,645	4,566,886	202,759
Health and sanitation	8,712	2,822,445	2,562,912	259,533
Public assistance	96,517	5,223,491	4,876,824	346,667
All other expenditures	(141,884)	1,478,499	358,384	1,120,115
Transfers out	(181,475)	693,253	669,236	24,017
Reserves/designations-net	161,785	(50,198)	(172,280)	122,082
Total	<u>\$ 33,743</u>	<u>\$ 16,556,033</u>	<u>\$ 13,732,443</u>	<u>\$ 2,823,590</u>

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

### Changes from Amounts Originally Budgeted

During the year, net increases in General Fund appropriations, reserves and designations were approximately \$34 million. As discussed below, the most significant increases and reductions occurred in the following areas:

- Appropriations for “transfers out” were reduced by \$181 million. Of this amount, General Fund operating subsidies to the Hospital Funds were reduced by \$170 million (from \$788 million originally budgeted to \$618 million). As previously mentioned, the original budget anticipated the recognition of certain Managed Care revenues in the General Fund. There was a related \$170 million amount originally appropriated to “transfer out” such revenues to the Hospital Enterprise Funds. The budget was subsequently amended to reduce the “transfer out” appropriations, consistent with the change in the budgeted revenues. The remaining \$11 million reduction was related to various transfers to Special Revenue Funds.
- Provisions for net reserves and designations were increased during the year by \$162 million. At the end of the fiscal year, the designation for health services, which is predominately funded by tobacco settlement revenues, was increased by \$157 million. This amount was comprised of tobacco settlement revenues recognized in the current year (\$116 million) plus prior year funds that were appropriated, but unexpended (\$41 million). Miscellaneous increases of \$5 million were made to reserves and other designations.
- Appropriations for “all other expenditures” were reduced by \$142 million. In January 2009, the Board reduced capital outlay appropriations by \$133 million. This action curtailed or postponed various capital improvement projects and was in response to worsening overall economic conditions and increased State budget uncertainties. Various other appropriation reductions of \$9 million comprised the remainder of this category.

### Actual Expenditures/Other Financing Uses Compared with Final Budget Amount

Actual expenditures/other financing uses for the current year were \$2.824 billion lower (approximately 17%) than the final total budget of \$16.556 billion. There were budgetary savings in all categories. Due to economic uncertainties, the County developed targeted savings goals for each department that were designed to avoid service curtailments and avoid impacts to high-priority programs. Savings were achieved through a variety of measures including departmental hiring freezes, reduction in purchases of services and supplies and capital assets, and development of efficiency initiatives. Following are the functional areas that recognized the largest variations from the final budget:

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

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

- The category referred to as “all other expenditures” reflected actual spending of \$1.120 billion less than the budgeted amount. Nearly all (\$1.106 billion) of this variance was related to the capital outlay category. There were many capital improvements anticipated in the budget that remained in the planning stages and did not incur expenditures during the year. Most of the unused balance has been reestablished in the following year's budget to ensure the continuity of the projects, many of which are multi-year in nature.
- The general government function reported actual expenditures that were \$748 million less than the amount budgeted. Of this amount, \$582 million represented budgetary savings for items that are not associated with specific County departments, such as provisional appropriations, central non-departmental appropriations, and extraordinary maintenance and repairs. The remaining \$166 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 \$347 million lower than the final budget. Of this amount, \$304 million was concentrated in social service, children, and family programs. Administrative costs were lower than anticipated due to overall cost containment efforts, vacant positions, and delays in hiring. The remaining variance amount of \$43 million was related to other public assistance programs.
- Overall expenditures for the health and sanitation category were \$260 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 and to a lesser extent, salary savings. The remaining variance was associated with a variety of health care programs administered by the Departments of Health Services (\$62 million) and Public Health Services (\$61 million).

**Capital Assets**

The County's capital assets for its governmental and business type activities as of June 30, 2009 were \$17.735 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. Specific disclosures related to Capital Assets and changes during the current year are discussed and referenced in Note 6 (Capital Assets) to the basic financial statements.

**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 \$210 million, as shown in the following table.

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

	<u>Current Year</u>	<u>Prior Year</u>	<u>Increase (Decrease)</u>
Land and easements	\$ 7,394,023	\$ 7,262,068	\$ 131,955
Buildings and improvements	4,065,790	3,059,365	1,006,425
Infrastructure	5,159,541	5,197,564	(38,023)
Equipment	481,895	437,770	44,125
Construction-in-progress	633,734	1,568,583	(934,849)
Total	<u>\$ 17,734,983</u>	<u>\$ 17,525,350</u>	<u>\$ 209,633</u>

The County's most significant capital asset activity during the current year was the opening of the new LAC+USC Medical Center in November 2008. There was a reclassification of \$912 million of construction-in-progress capital assets to buildings and improvements to reflect the completion of the new Hospital and its placement into service. There were also various building and improvement projects completed during the current year, of which \$41 million pertained to Sheriff's stations.

**Debt Administration**

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

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

	<u>Current Year</u>	<u>Prior Year</u>	<u>Decrease</u>
Bonds and Notes Payable	\$ 1,856,042	\$ 1,942,453	\$ 86,411
Pension Bonds Payable	653,634	900,824	247,190
Total	<u>\$ 2,509,676</u>	<u>\$ 2,843,277</u>	<u>\$ 333,601</u>

During the current year, the County's liabilities for long-term debt decreased by \$334 million, or 11.7%. Specific changes related to governmental and business-type activities are presented in Note 10 (Long-Term Obligations) to the basic financial statements. During the current year, significant long-term debt transactions were as follows:



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

- New debt of \$25 million was issued to finance the acquisition of equipment. Equipment debt totaling \$16 million was redeemed during the year in accordance with maturity schedules.
- Pension bonds totaling \$247 million were redeemed during the year.

In addition to the above borrowing, the County continued to finance General Fund cash flow shortages occurring periodically during the fiscal year by selling \$500 million in tax and revenue anticipation notes which reached maturity on June 30, 2009, 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:

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

During the current year, the County's bond ratings remained at the same level as the previous year.

**Economic Conditions and Outlook**

The Board of Supervisors adopted the County's 2009-2010 Budget on June 17, 2009. The Budget was adopted based on estimated fund balances that would be available at the end of 2008-2009. The Board updated the Budget on September 22, 2009 to reflect final 2008-2009 fund balances and other pertinent financial information. For the County's General Fund, the 2009-2010 Budget, as updated in September 2009, utilized \$1.713 billion of available fund balance, which exceeded the previously estimated fund balance of \$1.535 billion. Of the additional fund balance of \$178 million, \$151 million was used to carryover lapsed appropriations. Of the remaining \$27 million, \$15 million was set aside for budgetary uncertainties and \$12 million was provisionally appropriated for specific budgetary issues associated with the Sheriff's Department.

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

The County's 2009-2010 Budget is shaped largely by the impact of the current recession that the nation is enduring. The County continues to see erosion in a number of key revenue sources, including investment income, deed recording fees, documentary transfer taxes, and State assistance payments to the County which are funded by the State's share of sales taxes. In addition, for the first time since the mid-1990s, the County's assessed property values are projected to experience a year-to-year decline. The County Assessor has released the Net Local Property Tax Roll for 2009-2010 and it is 0.5% lower than the previous year. The resulting decrease to County General Fund property tax revenues is estimated at \$19 million. Property tax revenues are the County's single most important source of funding and are vital to programs which rely on discretionary funding sources. County management is closely monitoring changes in assessed property values and adjusting revenue estimates as new information becomes available.

The County's financial outlook continues to be affected by ongoing and severe budget problems at the State level. The State Legislative Analyst's Office (LAO) has estimated that the State's budget deficit will be approximately \$20.7 billion by the time the State Legislature enacts a 2010-2011 State budget plan. The budget problem consists of a \$6.3 billion projected deficit for 2009-2010 and a \$14.4 billion gap between projected revenues and spending in 2010-2011. Many County programs receive substantial State funding and the County is likely to be confronted with program curtailments and increased local funding requirements. The County is highly dependent upon cash receipts from the State and is closely monitoring the State's liquidity and ability to make timely cash remittances to the County.

**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, 2009 (in thousands)

	PRIMARY GOVERNMENT			COMPONENT UNIT
	GOVERNMENTAL	BUSINESS-TYPE		
	ACTIVITIES	ACTIVITIES	TOTAL	FIRST 5 LA
ASSETS				
Pooled cash and investments: (Notes 1 and 5)				
Operating (Note 1)	\$ 3,368,654	\$ 105,300	\$ 3,473,954	\$ 874,241
Other (Note 1)	858,182	116,285	974,467	
Total pooled cash and investments	4,226,836	221,585	4,448,421	874,241
Other investments (Note 5)	266,516	30,380	296,896	
Taxes receivable	423,422	950	424,372	
Accounts receivable - net		1,041,794	1,041,794	
Interest receivable	20,655	563	21,218	1,817
Other receivables	2,123,764	54,547	2,178,311	45,267
Internal balances (Note 14)	733,793	(733,793)		
Inventories	99,220	17,554	116,774	
Restricted assets (Note 5)	10,452	70,468	80,920	
Net pension obligation (Note 7)	76,813	26,688	103,501	
Capital assets: (Notes 6 and 9)				
Capital assets, not being depreciated	7,669,105	358,652	8,027,757	2,039
Capital assets, net of accumulated depreciation	7,583,496	2,123,730	9,707,226	11,834
Total capital assets	15,252,601	2,482,382	17,734,983	13,873
TOTAL ASSETS	23,234,072	3,213,118	26,447,190	935,198
LIABILITIES				
Accounts payable	318,188	66,092	384,280	37,944
Accrued payroll	583,772	120,075	703,847	
Other payables	148,527	14,637	163,164	
Accrued interest payable	14,680	610	15,290	
Unearned revenue	35,200	2,280	37,480	2,085
Advances payable	372,272	228	372,500	
Noncurrent liabilities: (Note 10)				
Due within one year	999,602	417,288	1,416,890	60
Due in more than one year	6,009,536	1,214,709	7,224,245	216
TOTAL LIABILITIES	8,481,777	1,835,919	10,317,696	40,305
NET ASSETS				
Invested in capital assets, net of related debt				
(Notes 6 and 10)	14,081,048	2,217,449	16,298,497	13,873
Restricted for:				
Capital projects	118,539		118,539	
Debt service	10,356	162,881	173,237	
Permanent trust	3,019		3,019	
Special purpose	1,512,195	29,546	1,541,741	881,020
Unrestricted (deficit)	(972,862)	(1,032,677)	(2,005,539)	
TOTAL NET ASSETS	\$ 14,752,295	\$ 1,377,199	\$ 16,129,494	\$ 894,893

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, 2009 (in thousands)

FUNCTIONS		PROGRAM REVENUE		
		CHARGES FOR	OPERATING	CAPITAL
PRIMARY GOVERNMENT:	EXPENSES	SERVICES	GRANTS AND	GRANTS AND
			CONTRIBUTIONS	CONTRIBUTIONS
Governmental activities:				
General government	\$ 1,103,361	\$ 634,153	\$ 50,579	\$ 54,278
Public protection	6,125,158	1,323,593	1,033,372	71,271
Public ways and facilities	327,403	35,113	200,571	78,089
Health and sanitation	2,783,150	484,240	1,614,646	1,299
Public assistance	5,233,389	42,120	4,313,788	
Education	109,910	2,611	1,452	
Recreation and cultural services	331,726	172,899	862	1,200
Interest on long-term debt	165,782			
Total governmental activities	16,179,879	2,694,729	7,215,270	206,137
Business-type activities:				
Hospitals	3,443,266	2,022,633	47,532	
Aviation	5,073	3,128	145	671
Waterworks	76,904	58,406	140	166
Community Development Commission	268,201	11,777	231,378	
Total business-type activities	3,793,444	2,095,944	279,195	837
Total primary government	\$ 19,973,323	\$ 4,790,673	\$ 7,494,465	\$ 206,974
COMPONENT UNIT -				
First 5 LA	\$ 171,191	\$	\$ 137,736	\$

GENERAL REVENUES:

Taxes:

Property taxes

Utility users taxes

Voter approved taxes

Documentary transfer taxes

Other taxes

Sales and use taxes, levied by the State

Grants and contributions not restricted  
to special programs

Investment earnings

Miscellaneous

TRANSFERS - NET

Total general revenues and transfers

CHANGE IN NET ASSETS

NET ASSETS, JULY 1, 2008, as restated (Note 2)

NET ASSETS, JUNE 30, 2009

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
\$ (364,351)	\$	\$ (364,351)	
(3,696,922)		(3,696,922)	
(13,630)		(13,630)	
(682,965)		(682,965)	
(877,481)		(877,481)	
(105,847)		(105,847)	
(156,765)		(156,765)	
(165,782)		(165,782)	
(6,063,743)		(6,063,743)	
	(1,373,101)	(1,373,101)	
	(1,129)	(1,129)	
	(18,192)	(18,192)	
	(25,046)	(25,046)	
	(1,417,468)	(1,417,468)	
(6,063,743)	(1,417,468)	(7,481,211)	
			\$ (33,455)
4,656,370	4,453	4,660,823	
63,947		63,947	
303,213		303,213	
36,522		36,522	
58,940		58,940	
73,574		73,574	
756,417	37	756,454	
197,705	9,844	207,549	28,103
142,075	25,758	167,833	453
(1,011,862)	1,011,862		
5,276,901	1,051,954	6,328,855	28,556
(786,842)	(365,514)	(1,152,356)	(4,899)
15,539,137	1,742,713	17,281,850	899,792
\$ 14,752,295	\$ 1,377,199	\$ 16,129,494	\$ 894,893

FUNCTIONS

PRIMARY GOVERNMENT:

Governmental activities:

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

Business-type activities:

Hospitals  
Aviation  
Waterworks  
Community Development Commission  
Total business-type activities

Total primary government

COMPONENT UNIT -

Total - First 5 LA

GENERAL REVENUES:

Taxes:

Property taxes  
Utility users taxes  
Voter approved taxes  
Documentary transfer taxes  
Other taxes  
Sales and use taxes, levied by the State  
Grants and contributions not restricted  
to special programs  
Investment earnings  
Miscellaneous

TRANSFERS - NET

Total general revenues and transfers

CHANGE IN NET ASSETS

NET ASSETS, JULY 1, 2008, as restated (Note 2)

NET ASSETS, JUNE 30, 2009

COUNTY OF LOS ANGELES  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2009 (in thousands)

	GENERAL FUND	FIRE PROTECTION DISTRICT	FLOOD CONTROL DISTRICT	PUBLIC LIBRARY
<b>ASSETS:</b>				
Pooled cash and investments: (Notes 1 and 5)				
Operating (Note 1)	\$ 1,107,989	154,635	173,805	30,501
Other (Note 1)	733,590	43,689	8,717	3,970
Total pooled cash and investments	<u>1,841,579</u>	<u>198,324</u>	<u>182,522</u>	<u>34,471</u>
Other investments (Notes 4 and 5)	6,099	31		120
Taxes receivable	301,269	68,437	19,616	9,103
Interest receivable	12,555	600	671	148
Other receivables	1,895,101	40,451	9,582	1,547
Due from other funds (Note 14)	326,379	3,516	20,013	423
Advances to other funds (Note 14)	825,017		6,213	
Inventories	46,486	7,084		588
<b>TOTAL ASSETS</b>	<u><u>\$ 5,254,485</u></u>	<u><u>318,443</u></u>	<u><u>238,617</u></u>	<u><u>46,400</u></u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Accounts payable	\$ 247,337	5,593	9,760	2,941
Accrued payroll	504,374	49,288		5,227
Other payables	121,665	2,069	370	366
Due to other funds (Note 14)	495,105	10,125	18,401	4,708
Deferred revenue	343,386	46,431	18,060	6,233
Advances payable	361,964			
Third party payor liability (Notes 10 and 13)	13,836			
<b>TOTAL LIABILITIES</b>	<u>2,087,667</u>	<u>113,506</u>	<u>46,591</u>	<u>19,475</u>
<b>FUND BALANCES:</b>				
Reserved for:				
Encumbrances	368,798	20,702	116,124	7,704
Inventories	46,486	7,084		588
Housing programs				
Debt service				
Endowments and annuities				
Assets unavailable for appropriation	124,567	25	3,011	16
Unreserved, designated for:				
Budget uncertainties		47,500		
Program expansion	464,395	25,423		6,797
Health services	228,229			
Capital projects	278,955	60,246	49,789	
Special revenue funds - program expansion				
Unreserved, undesignated, reported in:				
General fund	1,655,388			
Special revenue funds		43,957	23,102	11,820
Capital projects funds				
<b>TOTAL FUND BALANCES</b>	<u>3,166,818</u>	<u>204,937</u>	<u>192,026</u>	<u>26,925</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u><u>\$ 5,254,485</u></u>	<u><u>318,443</u></u>	<u><u>238,617</u></u>	<u><u>46,400</u></u>

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

REGIONAL PARK AND OPEN SPACE DISTRICT	NONMAJOR GOVERNMENTAL FUNDS	ELIMINATIONS (NOTE 4)	TOTAL GOVERNMENTAL FUNDS
\$ 286,387	1,567,932		\$ 3,321,249
2,753	56,188		848,907
<u>289,140</u>	<u>1,624,120</u>		<u>4,170,156</u>
	499,010	(246,875)	258,385
3,817	21,180		423,422
1,167	5,317		20,458
4,440	111,882		2,063,003
	330,739		681,070
	11,034		842,264
	35,293		89,451
<u>\$ 298,564</u>	<u>2,638,575</u>	<u>(246,875)</u>	<u>\$ 8,548,209</u>
\$ 1,653	45,449		\$ 312,733
	481		559,370
616	21,630		146,716
2,919	265,265		796,523
5,715	34,705		454,530
	10,051		372,015
	855		14,691
<u>10,903</u>	<u>378,436</u>		<u>2,656,578</u>
78,136	169,062		760,526
	35,293		89,451
	1,618		1,618
	694,741	(246,875)	447,866
	3,019		3,019
	13,100		140,719
	5,282		52,782
43,463			540,078
	60,897		228,229
	341,914		449,887
			341,914
			1,655,388
166,062	746,221		991,162
	188,992		188,992
<u>287,661</u>	<u>2,260,139</u>	<u>(246,875)</u>	<u>5,891,631</u>
<u>\$ 298,564</u>	<u>2,638,575</u>	<u>(246,875)</u>	<u>\$ 8,548,209</u>

## ASSETS:

Pooled cash and investments: (Notes 1 and 5)

Operating (Note 1)

Other (Note 1)

Total pooled cash and investments

Other investments (Notes 4 and 5)

Taxes receivable

Interest receivable

Other receivables

Due from other funds (Note 14)

Advances to other funds (Note 14)

Inventories

TOTAL ASSETS

## LIABILITIES AND FUND BALANCES

## LIABILITIES:

Accounts payable

Accrued payroll

Other payables

Due to other funds (Note 14)

Deferred revenue

Advances payable

Third party payor liability (Notes 10 and 13)

TOTAL LIABILITIES

## FUND BALANCES:

Reserved for:

Encumbrances

Inventories

Housing programs

Debt service

Endowments and annuities

Assets unavailable for appropriation

Unreserved, designated for:

Budget uncertainties

Program expansion

Health services

Capital projects

Special revenue funds - program expansion

Unreserved, undesignated, reported in:

General fund

Special revenue funds

Capital projects funds

TOTAL FUND BALANCES

TOTAL LIABILITIES AND FUND BALANCES

COUNTY OF LOS ANGELES  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2009 (in thousands)

Fund balances - total governmental funds (page 27)	\$	5,891,631
--	----	-----------

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 and easements	\$	7,147,049	
Construction-in-progress		522,056	
Buildings and improvements - net		2,772,919	
Equipment - net		278,116	
Infrastructure - net		4,438,662	15,158,802

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	\$	290,514	
Long-term receivables		183,278	473,792

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

71,663

Accrued interest payable is not recognized in governmental funds.

(14,525)

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)	\$	(1,492,994)	
Pension bonds payable		(452,572)	
Capital lease obligations		(157,794)	
Accrued vacation/sick leave		(768,186)	
Workers' compensation		(1,774,460)	
Litigation/self-insurance		(111,317)	
Pollution remediation obligations		(30,065)	
OPEB obligation		(1,959,360)	(6,746,748)

Assets and liabilities of certain internal service funds are included in governmental activities in the accompanying statement of net assets.

(82,320)

Net assets of governmental activities (page 23)

\$ 14,752,295

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, 2009 (in thousands)

	GENERAL FUND	FIRE PROTECTION DISTRICT	FLOOD CONTROL DISTRICT	PUBLIC LIBRARY
REVENUES:				
Taxes	\$ 3,970,566	635,783	100,612	74,249
Licenses, permits and franchises	54,877	15,392	606	
Fines, forfeitures and penalties	264,375	6,576	1,913	895
Revenue from use of money and property:				
Investment income (Note 5)	124,626	2,712	4,750	1,170
Rents and concessions (Note 9)	58,759	84	7,604	11
Royalties	387		678	
Intergovernmental revenues:				
Federal	3,062,976	4,598	2,086	105
State	4,029,726	15,558	8,515	1,890
Other	118,448	38,055	6,134	1,167
Charges for services	1,654,173	187,701	126,963	2,333
Miscellaneous	198,837	397	2,061	1,053
TOTAL REVENUES	13,537,750	906,856	261,922	82,873
EXPENDITURES:				
Current:				
General government	946,008			
Public protection	4,420,786	844,287	211,631	
Public ways and facilities				
Health and sanitation	2,480,693			
Public assistance	4,796,019			
Education				115,164
Recreation and cultural services	242,999			
Debt service:				
Principal	76,123	3,751		832
Interest and other charges	158,524	7,055		1,505
Capital leases	12,601	3,604		190
Capital outlay	772			108
TOTAL EXPENDITURES	13,134,525	858,697	211,631	117,799
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	403,225	48,159	50,291	(34,926)
OTHER FINANCING SOURCES (USES):				
Transfers in (Note 14)	299,247		32	39,665
Transfers out (Note 14)	(911,752)	(13,351)	(20,477)	(7,014)
Capital leases (Note 9)	772			108
Sales of capital assets	886	92	281	1
TOTAL OTHER FINANCING SOURCES (USES)	(610,847)	(13,259)	(20,164)	32,760
NET CHANGE IN FUND BALANCES	(207,622)	34,900	30,127	(2,166)
FUND BALANCE, JULY 1, 2008	3,374,440	170,037	161,899	29,091
FUND BALANCE, JUNE 30, 2009	\$ 3,166,818	204,937	192,026	26,925

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

REGIONAL PARK AND OPEN SPACE DISTRICT	NONMAJOR GOVERNMENTAL FUNDS	ELIMINATIONS (NOTE 4)	TOTAL GOVERNMENTAL FUNDS
\$	300,729		\$ 5,081,939
	9,948		80,823
915	89,373		364,047
6,818	69,321	(12,822)	196,575
	24,423		90,881
	8		1,073
	203,091		3,272,856
	390,728		4,446,417
	19,983		183,787
79,140	143,399		2,193,709
	125,414		327,762
86,873	1,376,417	(12,822)	16,239,869
	17,267		963,275
	84,872		5,561,576
	309,264		309,264
	164,337		2,645,030
	155,349		4,951,368
	151		115,315
51,937	8,052		302,988
	126,194	(23,120)	183,780
	66,205	(12,822)	220,467
			16,395
	74,614		75,494
51,937	1,006,305	(35,942)	15,344,952
34,936	370,112	23,120	894,917
	188,287		527,231
(33,280)	(554,759)		(1,540,633)
	4,885		880
(33,280)	(361,587)		6,145
1,656	8,525	23,120	(111,460)
286,005	2,251,614	(269,995)	6,003,091
\$ 287,661	2,260,139	(246,875)	\$ 5,891,631

## REVENUES:

Taxes  
 Licenses, permits and franchises  
 Fines, forfeitures and penalties  
 Revenue from use of money and property:  
     Investment income (Note 5)  
     Rents and concessions (Note 9)  
     Royalties

## Intergovernmental revenues:

Federal  
 State  
 Other  
 Charges for services  
 Miscellaneous

## TOTAL REVENUES

## EXPENDITURES:

## Current:

General government  
 Public protection  
 Public ways and facilities  
 Health and sanitation  
 Public assistance  
 Education  
 Recreation and cultural services

## Debt service:

Principal  
 Interest and other charges  
 Capital leases

## Capital outlay

## TOTAL EXPENDITURES

EXCESS (DEFICIENCY) OF REVENUES OVER  
EXPENDITURES

## OTHER FINANCING SOURCES (USES):

Transfers in (Note 14)  
 Transfers out (Note 14)  
 Capital leases (Note 9)  
 Sales of capital assets

## TOTAL OTHER FINANCING SOURCES (USES)

## NET CHANGE IN FUND BALANCES

FUND BALANCE, JULY 1, 2008

FUND BALANCE, JUNE 30, 2009

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, 2009 (in thousands)

Net change in fund balances - total governmental funds (page 31) \$ (111,460)

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	\$ 349,363	
Less - current year depreciation expense	<u>(311,823)</u>	37,540

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. (23,055)

Contribution of capital assets is not recognized in the governmental funds. 145,950

Revenue timing differences result in more revenue in government-wide  
 statements. (35,594)

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	\$ 80,706	
Certificates of participation	76,496	
Assessment bonds	23,120	
Other long term notes and loans	<u>19,131</u>	199,453

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	\$ (29,214)	
Change in litigation/self-insurance	28,323	
Change in pollution remediation obligations	1,213	
Change in accrued vacation/sick leave	(58,331)	
Change in OPEB liability	(985,024)	
Change in accrued interest payable	754	
Change in accretion of tobacco settlement bonds	(20,666)	
Change in accretion of pension bonds	90,442	
Transfer of capital assets from governmental fund to enterprise fund	<u>(131)</u>	(972,634)

The change in the net pension obligation (an asset) is not recognized in  
 governmental funds. (29,926)

The portion of internal service funds that is reported with governmental activities. 2,884

Change in net assets of governmental activities (page 25) \$ (786,842)

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, 2009 (in thousands)

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL ON BUDGETARY BASIS	VARIANCE FROM FINAL BUDGET OVER (UNDER)
REVENUES:				
Taxes	\$ 4,018,235	4,030,607	3,938,502	(92,105)
Licenses, permits and franchises	56,826	59,223	54,877	(4,346)
Fines, forfeitures and penalties	217,469	217,469	264,375	46,906
Revenue from use of money and property:				
Investment income	103,014	102,887	112,602	9,715
Rents and concessions	56,569	55,738	58,758	3,020
Royalties	156	156	387	231
Intergovernmental revenues:				
Federal	3,270,698	3,419,375	3,058,947	(360,428)
State	4,442,714	4,368,409	4,019,006	(349,403)
Other	126,963	134,937	118,289	(16,648)
Charges for services	1,794,086	1,607,359	1,504,841	(102,518)
Miscellaneous	135,498	254,356	242,384	(11,972)
TOTAL REVENUES	14,222,228	14,250,516	13,372,968	(877,548)
EXPENDITURES:				
Current:				
General government	1,595,353	1,618,898	870,481	(748,417)
Public protection	4,703,102	4,769,645	4,566,886	(202,759)
Health and sanitation	2,813,733	2,822,445	2,562,912	(259,533)
Public assistance	5,126,974	5,223,491	4,876,824	(346,667)
Recreation and cultural services	261,006	262,081	248,026	(14,055)
Debt Service-				
Interest	9,104	9,104	9,104	
Capital Outlay	1,350,273	1,207,314	101,254	(1,106,060)
TOTAL EXPENDITURES	15,859,545	15,912,978	13,235,487	(2,677,491)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,637,317)	(1,662,462)	137,481	1,799,943
OTHER FINANCING SOURCES (USES):				
Sales of capital assets	715	715	886	171
Transfers in	490,543	495,998	263,213	(232,785)
Transfers out	(874,728)	(693,253)	(669,236)	24,017
Changes in reserves and designations	211,983	50,198	172,280	122,082
OTHER FINANCING SOURCES (USES) - NET	(171,487)	(146,342)	(232,857)	(86,515)
NET CHANGE IN FUND BALANCE	(1,808,804)	(1,808,804)	(95,376)	1,713,428
FUND BALANCE, JULY 1, 2008 (Note 15)	1,808,804	1,808,804	1,808,804	
FUND BALANCE, JUNE 30, 2009 (Note 15)	\$		1,713,428	1,713,428

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, 2009 (in thousands)

	FIRE PROTECTION DISTRICT			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL ON BUDGETARY BASIS	VARIANCE FROM FINAL BUDGET OVER (UNDER)
REVENUES:				
Taxes	\$ 642,453	642,453	629,671	(12,782)
Licenses, permits and franchises	9,231	9,231	15,392	6,161
Fines, forfeitures and penalties	3,727	3,727	6,576	2,849
Revenue from use of money and property:				
Investment income	1,000	1,000	1,616	616
Rents and concessions	114	114	84	(30)
Intergovernmental revenues:				
Federal	15,084	19,108	4,598	(14,510)
State	15,829	16,300	15,558	(742)
Other	29,407	29,407	38,054	8,647
Charges for services	178,049	178,049	187,701	9,652
Miscellaneous	672	887	397	(490)
TOTAL REVENUES	895,566	900,276	899,647	(629)
EXPENDITURES:				
Current-Public protection:				
Salaries and employee benefits	767,203	767,739	747,146	(20,593)
Services and supplies	119,754	132,514	107,076	(25,438)
Other charges	1,069	1,160	535	(625)
Capital assets	26,860	21,939	11,706	(10,233)
TOTAL EXPENDITURES	914,886	923,352	866,463	(56,889)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(19,320)	(23,076)	33,184	56,260
OTHER FINANCING SOURCES (USES):				
Sales of capital assets	103	103	92	(11)
Transfers out	(10,951)	(13,351)	(13,351)	
Changes in reserves and designations	(13,180)	(7,024)	(5,025)	1,999
OTHER FINANCING SOURCES (USES) - NET	(24,028)	(20,272)	(18,284)	1,988
NET CHANGE IN FUND BALANCE	(43,348)	(43,348)	14,900	58,248
FUND BALANCE, JULY 1, 2008 (Note 15)	43,348	43,348	43,348	
FUND BALANCE, JUNE 30, 2009 (Note 15)	\$		58,248	58,248

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, 2009 (in thousands)

	FLOOD CONTROL DISTRICT			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL ON BUDGETARY BASIS	VARIANCE FROM FINAL BUDGET OVER (UNDER)
REVENUES:				
Taxes	\$ 93,744	98,625	99,459	834
Licenses, permits and franchises	1,300	1,300	606	(694)
Fines, forfeitures and penalties	1,000	1,000	1,913	913
Revenue from use of money and property:				
Investment income	6,849	6,849	3,792	(3,057)
Rents and concessions	6,934	6,934	7,603	669
Royalties	200	200	678	478
Intergovernmental revenues:				
Federal	4,119	4,119	2,086	(2,033)
State	9,227	9,227	8,515	(712)
Other	6,199	6,199	6,134	(65)
Charges for services	122,697	142,361	126,679	(15,682)
Miscellaneous	717	717	2,013	1,296
TOTAL REVENUES	252,986	277,531	259,478	(18,053)
EXPENDITURES:				
Current-Public protection:				
Services and supplies	264,934	250,326	220,435	(29,891)
Other charges	20,006	20,246	19,820	(426)
Capital assets	156	256	177	(79)
Capital Outlay	1,725	1,725	937	(788)
TOTAL EXPENDITURES	286,821	272,553	241,369	(31,184)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(33,835)	4,978	18,109	13,131
OTHER FINANCING SOURCES (USES):				
Sales of capital assets	900	900	281	(619)
Transfers in	12,964	32	32	
Transfers out	(1,954)	(1,954)	(1,425)	529
Long-term debt proceeds			49	49
Appropriation for contingencies	(3,005)	(7,886)		7,886
Changes in reserves and designations	(6,475)	(27,475)	(20,065)	7,410
OTHER FINANCING SOURCES (USES) - NET	2,430	(36,383)	(21,128)	15,255
NET CHANGE IN FUND BALANCE	(31,405)	(31,405)	(3,019)	28,386
FUND BALANCE, JULY 1, 2008 (Note 15)	31,405	31,405	31,405	
FUND BALANCE, JUNE 30, 2009 (Note 15)	\$		28,386	28,386

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, 2009 (in thousands)

	PUBLIC LIBRARY			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL ON BUDGETARY BASIS	VARIANCE FROM FINAL BUDGET OVER (UNDER)
REVENUES:				
Taxes	\$ 75,881	75,881	73,541	(2,340)
Fines, forfeitures and penalties			895	895
Revenue from use of money and property:				
Investment income	700	700	943	243
Rents and concessions	16	16	11	(5)
Intergovernmental revenues:				
Federal	16	16	105	89
State	2,054	1,874	1,890	16
Other	1,255	1,255	1,167	(88)
Charges for services	2,300	2,300	2,333	33
Miscellaneous	1,192	1,192	1,053	(139)
TOTAL REVENUES	83,414	83,234	81,938	(1,296)
EXPENDITURES:				
Current-Education:				
Salaries and employee benefits	80,826	80,826	75,085	(5,741)
Services and supplies	57,622	57,335	40,902	(16,433)
Other charges	680	680	540	(140)
Capital assets	892	1,472	1,302	(170)
TOTAL EXPENDITURES	140,020	140,313	117,829	(22,484)
DEFICIENCY OF REVENUES OVER EXPENDITURES	(56,606)	(57,079)	(35,891)	21,188
OTHER FINANCING SOURCES (USES):				
Sales of capital assets			1	1
Transfers in	47,123	48,496	39,664	(8,832)
Transfers out	(3,079)	(6,625)	(6,625)	
Changes in reserves and designations	(4,064)	(1,418)	(468)	950
OTHER FINANCING SOURCES (USES) - NET	39,980	40,453	32,572	(7,881)
NET CHANGE IN FUND BALANCE	(16,626)	(16,626)	(3,319)	13,307
FUND BALANCE, JULY 1, 2008 (Note 15)	16,626	16,626	16,626	
FUND BALANCE, JUNE 30, 2009 (Note 15)	\$		13,307	13,307

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, 2009 (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	\$ 826	826	915	89
Revenue from use of money and property-				
Investment income	8,123	8,123	5,344	(2,779)
Charges for services	78,387	78,387	79,245	858
TOTAL REVENUES	87,336	87,336	85,504	(1,832)
EXPENDITURES:				
Current-Recreation and cultural services:				
Services and supplies	4,965	4,965	4,029	(936)
Other charges	186,049	186,049	44,098	(141,951)
TOTAL EXPENDITURES	191,014	191,014	48,127	(142,887)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(103,678)	(103,678)	37,377	141,055
OTHER FINANCING SOURCES (USES):				
Transfers in	72,891	72,891	71,651	(1,240)
Transfers out	(109,036)	(109,036)	(104,931)	4,105
Appropriation for contingencies	(17,325)	(17,325)		17,325
Changes in reserves and designations	(3,981)	(3,981)	(1,470)	2,511
OTHER FINANCING SOURCES (USES) - NET	(57,451)	(57,451)	(34,750)	22,701
NET CHANGE IN FUND BALANCE	(161,129)	(161,129)	2,627	163,756
FUND BALANCE, JULY 1, 2008 (Note 15)	164,013	164,013	164,013	
FUND BALANCE, JUNE 30, 2009 (Note 15)	\$ 2,884	2,884	166,640	163,756

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, 2009 (in thousands)

	BUSINESS-TYPE ACTIVITIES -				
	Harbor UCLA Medical Center	Olive View UCLA Medical Center	LAC+USC Medical Center	Martin Luther King Jr. Ambulatory Care Center	Rancho Los Amigos National Rehab Center
<b>ASSETS</b>					
Current assets:					
Pooled cash and investments: (Notes 1 and 5)					
Operating (Note 1)	\$ 650	708	10,990	285	240
Other (Note 1)	15,869	14,128	27,512	53,752	4,131
Total pooled cash and investments	16,519	14,836	38,502	54,037	4,371
Other investments (Note 5)					
Taxes receivable					
Accounts receivable - net (Note 13)	179,036	199,616	350,104	181,137	114,961
Interest receivable	2	55	134		
Other receivables	11,611	12,180	23,444	3,515	3,797
Due from other funds (Note 14)	40,438	65,610	179,931	4,714	27,645
Advances to other funds (Note 14)					
Inventories	2,762	3,582	7,857	1,931	1,411
Total current assets	250,368	295,879	599,972	245,334	152,185
Noncurrent assets:					
Restricted assets (Note 5)	9,166	26,800	22,473	1,083	7,274
Net pension obligation (Note 7)	4,218	3,659	11,075	4,700	3,036
Capital assets: (Notes 6 and 9)					
Land and easements	1,001	15,171	18,183	2,277	217
Buildings and improvements	77,672	152,939	1,075,313	194,951	187,179
Equipment	36,475	33,661	145,309	50,681	13,409
Infrastructure					
Construction in progress	49,013	13,959			12,080
Less accumulated depreciation	(71,904)	(105,181)	(215,835)	(143,581)	(102,919)
Total capital assets - net	92,257	110,549	1,022,970	104,328	109,966
Total noncurrent assets	105,641	141,008	1,056,518	110,111	120,276
<b>TOTAL ASSETS</b>	<b>356,009</b>	<b>436,887</b>	<b>1,656,490</b>	<b>355,445</b>	<b>272,461</b>
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable	12,716	6,646	29,147	7,702	3,529
Accrued payroll	29,563	21,263	52,466	7,054	9,729
Other payables	2,256	2,028	3,179	3,142	1,005
Accrued interest payable	83		79	191	203
Due to other funds (Note 14)	32,478	36,607	79,946	44,288	33,921
Advances from other funds (Note 14)	134,597	200,128	275,238	154,996	56,469
Advances payable			228		
Unearned revenue	71	61	1,013	79	51
Current portion of long-term liabilities (Note 10)	106,262	62,664	177,835	34,271	28,725
Total current liabilities	318,026	329,397	619,131	251,723	133,632
Noncurrent liabilities:					
Accrued vacation and sick leave (Note 10)	32,869	22,516	53,142	9,397	10,461
Bonds and notes payable (Note 10)	7,737		12,383	34,317	30,910
Pension bonds payable (Notes 7 and 10)	13,104	11,366	34,407	14,603	9,431
Workers' compensation (Notes 10 and 17)	27,625	24,969	121,700	56,778	22,661
Litigation and self-insurance (Notes 10 and 17)	13,165	4,923	55,896	13,825	196
OPEB obligation (Notes 8 and 10)	83,415	71,705	174,490	25,225	33,714
Third party payor liability (Notes 10 and 13)	23,609	18,220	102,521	17,747	14,158
Total noncurrent liabilities	201,524	153,699	554,539	171,892	121,531
<b>TOTAL LIABILITIES</b>	<b>519,550</b>	<b>483,096</b>	<b>1,173,670</b>	<b>423,615</b>	<b>255,163</b>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt (Notes 6 and 10)	20,411	104,366	918,372	68,248	77,359
Restricted:					
Debt service	9,083	26,800	22,394	892	7,071
Special purpose					
Unrestricted (deficit)	(193,035)	(177,375)	(457,946)	(137,310)	(67,132)
<b>TOTAL NET ASSETS (DEFICIT) (Note 3)</b>	<b>\$ (163,541)</b>	<b>(46,209)</b>	<b>482,820</b>	<b>(68,170)</b>	<b>17,298</b>

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

ENTERPRISE FUNDS			GOVERNMENTAL
Waterworks Funds	Nonmajor Enterprise Funds	Total	ACTIVITIES Internal Service Funds
\$ 86,393	4,863	\$ 104,129	\$ 48,576
881	6	116,279	9,281
87,274	4,869	220,408	57,857
950	30,380	30,380	8,131
349	13	1,024,854	207
8,484	8,456	553	6,789
1,821	53	71,487	65,910
1,164		320,212	
	11	1,164	
100,042	43,782	17,554	9,769
		1,687,562	148,663
		66,796	14,124
		26,688	5,150
10,965	199,160	246,974	
119,091	179,967	1,987,112	1,734
535	3,175	283,245	217,720
1,108,349	41,505	1,149,854	
35,368	1,258	111,678	
(480,038)	(188,274)	(1,307,732)	(114,404)
794,270	236,791	2,471,131	105,050
794,270	236,791	2,564,615	124,324
894,312	280,573	4,252,177	272,987
3,231	3,074	66,045	5,539
19	3,007	120,075	24,402
6,263	249	14,636	1,811
		556	209
475	530	233,752	36,917
19	987	821,428	22,000
10,007	7,847	228	
		2,280	711
		410,763	77,667
		1,669,763	169,256
	211	128,596	37,657
67	3,324	88,738	30,470
		82,911	15,998
		253,733	14,531
		88,005	1,341
		388,549	84,482
		176,255	
67	3,535	1,206,787	184,479
10,074	11,382	2,876,550	353,735
794,184	233,111	2,216,051	67,154
90,054	2,969	159,263	13,915
	29,546	29,546	3,042
	3,565	(1,029,233)	(164,859)
\$ 884,238	269,191	1,375,627	\$ (80,748)
		1,572	
		\$ 1,377,199	

## ASSETS

## Current assets:

Pooled cash and investments: (Notes 1 and 5)

Operating (Note 1)

Other (Note 1)

Total pooled cash and investments

Other investments (Note 5)

Taxes receivable

Accounts receivable - net (Note 13)

Interest receivable

Other receivables

Due from other funds (Note 14)

Advances to other funds (Note 14)

Inventories

Total current assets

## Noncurrent assets:

Restricted assets (Note 5)

Net pension obligation (Note 7)

Capital assets: (Notes 6 and 9)

Land and easements

Buildings and improvements

Equipment

Infrastructure

Construction in progress

Less accumulated depreciation

Total capital assets - net

Total noncurrent assets

## TOTAL ASSETS

## LIABILITIES

## Current liabilities:

Accounts payable

Accrued payroll

Other payables

Accrued interest payable

Due to other funds (Note 14)

Advances from other funds (Note 14)

Advances payable

Unearned revenue

Current portion of long-term liabilities (Note 10)

Total current liabilities

## Noncurrent liabilities:

Accrued vacation and sick leave (Note 10)

Bonds and notes payable (Note 10)

Pension bonds payable (Notes 7 and 10)

Workers' compensation (Notes 10 and 17)

Litigation and self-insurance (Notes 10 and 17)

OPEB obligation (Notes 8 and 10)

Third party payor liability (Notes 10 and 13)

Total noncurrent liabilities

## TOTAL LIABILITIES

## NET ASSETS

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

## Restricted:

Debt service

Special purpose

## Unrestricted (deficit)

## TOTAL NET ASSETS (DEFICIT) (Note 3)

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

NET ASSETS OF BUSINESS-TYPE ACTIVITIES (PAGE 23)

COUNTY OF LOS ANGELES  
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2009 (in thousands)

	BUSINESS-TYPE ACTIVITIES -				
	Harbor UCLA Medical Center	Olive View UCLA Medical Center	LAC+USC Medical Center	Martin Luther King Jr. Ambulatory Care Center	Rancho Los Amigos National Rehab Center
OPERATING REVENUES:					
Net patient service revenues (Note 13)	\$ 434,892	354,299	871,124	186,128	172,338
Rentals					
Charges for services					
Other	14,080	10,957	44,036	2,892	4,850
TOTAL OPERATING REVENUES	448,972	365,256	915,160	189,020	177,188
OPERATING EXPENSES:					
Salaries and employee benefits	431,305	318,068	800,632	110,688	147,932
Services and supplies	119,743	88,772	282,434	47,405	28,355
Other professional services	129,617	124,417	338,001	76,035	35,645
Depreciation and amortization (Note 6)	2,756	3,220	18,631	3,585	2,559
Medical malpractice	4,602	8,603	8,106	1,359	408
Rent	3,859	2,143	10,412	1,952	1,846
TOTAL OPERATING EXPENSES	691,882	545,223	1,458,216	241,024	216,745
OPERATING INCOME (LOSS)	(242,910)	(179,967)	(543,056)	(52,004)	(39,557)
NONOPERATING REVENUES (EXPENSES):					
Taxes					
Interest income	556	822	3,059	421	295
Interest expense	(5,900)	(4,368)	(13,055)	(8,178)	(3,526)
Intergovernmental transfers expense (Note 13)	(50,346)	(57,857)	(132,128)	(4,373)	(10,016)
Intergovernmental revenues:					
State					
Federal					
TOTAL NONOPERATING REVENUES (EXPENSES)	(55,690)	(61,403)	(142,124)	(12,130)	(13,247)
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	(298,600)	(241,370)	(685,180)	(64,134)	(52,804)
Capital contributions				46	85
Transfers in (Note 14)	221,748	186,267	524,871	60,646	70,430
Transfers out (Note 14)	(17,571)	(5,231)	(30,308)		(1,554)
CHANGE IN NET ASSETS	(94,423)	(60,334)	(190,617)	(3,442)	16,157
TOTAL NET ASSETS (DEFICIT), JULY 1, 2008	(69,118)	14,125	673,437	(64,728)	1,141
TOTAL NET ASSETS (DEFICIT), JUNE 30, 2009	\$ (163,541)	(46,209)	482,820	(68,170)	17,298

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	
\$		\$ 2,018,781	\$	OPERATING REVENUES:
	14,582	14,582	25,731	Net patient service revenues (Note 13)
58,406	323	58,729	433,605	Rentals
1	888	77,704		Charges for services
				Other
58,407	15,793	2,169,796	459,336	TOTAL OPERATING REVENUES
		1,808,625	348,699	OPERATING EXPENSES:
50,996	269,401	887,106	43,725	Salaries and employee benefits
3,594	840	708,149	32,672	Services and supplies
22,305	2,810	55,866	30,262	Other professional services
		23,078		Depreciation and amortization (Note 6)
		20,212		Medical malpractice
				Rent
76,895	273,051	3,503,036	455,358	TOTAL OPERATING EXPENSES
(18,488)	(257,258)	(1,333,240)	3,978	OPERATING INCOME (LOSS)
				NONOPERATING REVENUES (EXPENSES):
4,453		4,453		Taxes
2,915	1,777	9,845	1,216	Interest income
(9)	(223)	(35,259)	(4,869)	Interest expense
		(254,720)		Intergovernmental transfers expense (Note 13)
				Intergovernmental revenues:
97	25	122		State
79	230,610	230,689	785	Federal
				TOTAL NONOPERATING REVENUES (EXPENSES)
7,535	232,189	(44,870)	(2,868)	
(10,953)	(25,069)	(1,378,110)	1,110	INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS
166	671	968		Capital contributions
	2,980	1,066,942	4,362	Transfers in (Note 14)
(349)		(55,013)	(2,889)	Transfers out (Note 14)
(11,136)	(21,418)	(365,213)	2,583	CHANGE IN NET ASSETS
895,374	290,609		(83,331)	TOTAL NET ASSETS (DEFICIT), JULY 1, 2008
\$ 884,238	269,191		\$ (80,748)	TOTAL NET ASSETS (DEFICIT), JUNE 30, 2009
		(301)		Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds
		\$ (365,514)		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, 2009 (in thousands)

	BUSINESS-TYPE ACTIVITIES -				
	Harbor UCLA Medical Center	Olive View UCLA Medical Center	LAC+USC Medical Center	Martin Luther King Jr. Ambulatory Care Center	Rancho Los Amigos National Rehab Center
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from patient services	\$ 384,217	283,653	761,855	205,985	121,908
Rentals received					
Cash received from charges for services					
Other operating revenues	14,096	10,958	44,040	2,893	4,853
Cash received for services provided to other funds	16,536	16,473	31,667	7,112	288
Cash paid for salaries and employee benefits	(388,083)	(286,807)	(726,937)	(116,438)	(134,412)
Cash paid for services and supplies	(58,297)	(77,626)	(152,756)	(11,333)	(7,632)
Other operating expenses	(137,700)	(132,640)	(355,591)	(83,065)	(37,524)
Cash paid for services from other funds	(30,612)	(23,726)	(114,133)	(34,877)	(20,065)
Net cash provided by (required for) operating activities	(199,843)	(209,715)	(511,855)	(29,723)	(72,584)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Cash advances received from other funds	263,508	251,597	470,436	134,196	78,926
Cash advances paid/returned to other funds	(226,732)	(123,443)	(403,645)	(125,928)	(76,278)
Interest paid on pension bonds	(2,981)	(2,586)	(7,828)	(3,321)	(2,144)
Interest paid on advances	(1,231)	(1,426)	(2,380)	(2,754)	(572)
Intergovernmental transfers	(50,346)	(57,857)	(132,128)	(4,373)	(10,016)
Intergovernmental receipts					
Transfers in	220,799	144,872	529,694	84,848	91,092
Transfers out		(5,231)			(1,554)
Net cash provided by (required for) noncapital financing activities	203,017	205,926	454,149	82,668	79,454
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Proceeds from taxes					
Capital contributions					
Proceeds from bonds and notes					
Interest paid on capital borrowing	(1,816)	(356)	(2,969)	(2,400)	(1,125)
Principal payments on bonds and notes	(1,710)		(1,621)	(3,947)	(4,193)
Principal payments on capital leases					(130)
Acquisition and construction of capital assets	(32,977)	(4,376)	(85,257)	(1,713)	(881)
Net cash required for capital and related financing activities	(36,503)	(4,732)	(89,847)	(8,060)	(6,329)
CASH FLOWS FROM INVESTING ACTIVITIES -					
Interest income received	236	489	2,617	65	65
Net increase (decrease) in cash and cash equivalents	(33,093)	(8,032)	(144,936)	44,950	606
Cash and cash equivalents, July 1, 2008	58,778	49,668	205,911	10,170	11,039
Cash and cash equivalents, June 30, 2009	\$ 25,685	41,636	60,975	55,120	11,645

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

ENTERPRISE FUNDS			GOVERNMENTAL
Waterworks Funds	Nonmajor Enterprise Funds	Total	ACTIVITIES Internal Service Funds
\$		\$ 1,757,618	\$
	11,761	11,761	25,781
59,462	2,747	62,209	427,472
1	888	77,729	
		72,076	
	26	(1,652,651)	(334,601)
(49,024)	(270,071)	(626,739)	(65,527)
(3,669)	(840)	(751,029)	(32,672)
		(223,413)	
6,770	(255,489)	(1,272,439)	20,453
		1,198,663	
		(956,026)	
		(18,860)	(3,639)
		(8,363)	
		(254,720)	
176	230,635	230,811	785
	2,980	1,074,285	4,362
(349)		(7,134)	(2,889)
(173)	233,615	1,258,656	(1,381)
4,418		4,418	
	671	671	
	5	5	25,000
(9)	(223)	(8,898)	(1,190)
(18)	(830)	(12,319)	(15,815)
		(130)	(60)
(19,391)	(4,216)	(148,811)	(34,426)
(15,000)	(4,593)	(165,064)	(26,491)
2,992	1,767	8,231	801
(5,411)	(24,700)	(170,616)	(6,618)
92,685	59,949	488,200	86,730
\$ 87,274	35,249	\$ 317,584	\$ 80,112

## CASH FLOWS FROM OPERATING

## ACTIVITIES:

Cash received from patient services  
Rentals received  
Cash received from charges for services  
Other operating revenues  
Cash received for services provided to other funds  
Cash paid for salaries and employee benefits  
Cash paid for services and supplies  
Other operating expenses  
Cash paid for services from other funds  
Net cash provided by (required for) operating activities

## CASH FLOWS FROM NONCAPITAL

## FINANCING ACTIVITIES:

Cash advances received from other funds  
Cash advances paid/returned to other funds  
Interest paid on pension bonds  
Interest paid on advances  
Intergovernmental transfers  
Intergovernmental receipts  
Transfers in  
Transfers out  
Net cash provided by (required for) noncapital financing activities

## CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Proceeds from taxes  
Capital contributions  
Proceeds from bonds and notes  
Interest paid on capital borrowing  
Principal payments on bonds and notes  
Principal payments on capital leases  
Acquisition and construction of capital assets  
Net cash required for capital and related financing activities

## CASH FLOWS FROM INVESTING ACTIVITIES -

Interest income received

Net increase (decrease) in cash and cash equivalents

Cash and cash equivalents, July 1, 2008

Cash and cash equivalents, June 30, 2009

Continued...

COUNTY OF LOS ANGELES  
STATEMENT OF CASH FLOWS - Continued  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2009 (in thousands)

	BUSINESS-TYPE ACTIVITIES -				
	Harbor UCLA Medical Center	Olive View UCLA Medical Center	LAC+USC Medical Center	Martin Luther King Jr. Ambulatory Care Center	Rancho Los Amigos National Rehab Center
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (REQUIRED FOR) OPERATING ACTIVITIES:					
Operating income (loss)	\$ (242,910)	(179,967)	(543,056)	(52,004)	(39,557)
Adjustments to reconcile operating income (loss) to net cash provided by (required for) operating activities:					
Depreciation and amortization	2,756	3,220	18,631	3,585	2,559
Other charges - net	15,226	(180)	43,071	154	(205)
(Increase) decrease in:					
Accounts receivable - net	(49,444)	(73,395)	(94,165)	(352)	(49,606)
Interest receivable					
Other receivables	(833)	(1,891)	1,041	1,251	(170)
Due from other funds	7,914	19,880	13,037	14,934	(6,905)
Inventories	608	580	4,439	82	(4)
Net pension obligation	1,761	1,529	4,625	1,963	1,268
Increase (decrease) in:					
Accounts payable	1,129	(4,135)	(12,366)	2,751	(227)
Accrued payroll	2,066	1,000	2,490	(684)	449
Other payables	146	258	(64)	1,397	5
Accrued vacation and sick leave	4,192	3,243	5,049	(271)	606
Due to other funds	14,846	(8,185)	(18,442)	(1,983)	1,410
Unearned revenue			119		
Pension bonds payable	(10,073)	(8,741)	(26,449)	(11,226)	(7,254)
Workers' compensation liability	275	(3,251)	(3,311)	(5,482)	523
Litigation and self-insurance liability	378	2,221	928	(4,069)	375
OPEB obligation	44,855	37,570	91,981	9,095	17,980
Third party payor liability	7,265	529	587	11,136	6,169
TOTAL ADJUSTMENTS	43,067	(29,748)	31,201	22,281	(33,027)
NET CASH PROVIDED BY (REQUIRED FOR) OPERATING ACTIVITIES	<u>\$ (199,843)</u>	<u>(209,715)</u>	<u>(511,855)</u>	<u>(29,723)</u>	<u>(72,584)</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES-					
Capital contributions	<u>\$</u>	<u></u>	<u></u>	<u>46</u>	<u>85</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS:					
Pooled cash and investments	\$ 16,519	14,836	38,502	54,037	4,371
Other investments					
Restricted assets	9,166	26,800	22,473	1,083	7,274
TOTAL	<u>\$ 25,685</u>	<u>41,636</u>	<u>60,975</u>	<u>55,120</u>	<u>11,645</u>

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



ENTERPRISE FUNDS			GOVERNMENTAL	
Waterworks Funds	Nonmajor Enterprise Funds	Total	Internal Service Funds	
\$ (18,488)	(257,258)	\$ (1,333,240)	\$ 3,978	RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (REQUIRED FOR) OPERATING ACTIVITIES:
				Operating income (loss)
				Adjustments to reconcile operating income (loss) to net cash provided by (required for)
22,305	2,810	55,866	30,262	operating activities:
1	9	58,076	(13,118)	Depreciation and amortization
		(266,962)		Other charges - net
			90	(Increase) decrease in:
408	(1,756)	(1,950)	(1,030)	Accounts receivable - net
648	(5)	49,503	(6,552)	Interest receivable
	(11)	5,694	(2,093)	Other receivables
		11,146	2,150	Due from other funds
				Inventories
				Net pension obligation
711	(921)	(13,058)	1,475	Increase (decrease) in:
		5,321	957	Accounts payable
19	1,314	3,075	71	Accrued payroll
	26	12,845	1,113	Other payables
1,241	87	(11,026)	(7,390)	Accrued vacation and sick leave
	216	335	524	Due to other funds
		(63,743)	(12,299)	Unearned revenue
		(11,246)	(22,415)	Pension bonds payable
(75)		(242)		Workers' compensation liability
		201,481	44,730	Litigation and self-insurance liability
		25,686		OPEB obligation
				Third party payor liability
25,258	1,769	60,801	16,475	TOTAL ADJUSTMENTS
\$ 6,770	(255,489)	\$ (1,272,439)	\$ 20,453	NET CASH PROVIDED BY (REQUIRED FOR) OPERATING ACTIVITIES
\$ 166		\$ 297		NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES-
				Capital contributions
\$ 87,274	4,869	\$ 220,408	\$ 57,857	RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS:
	30,380	30,380	8,131	Pooled cash and investments
		66,796	14,124	Other investments
				Restricted assets
\$ 87,274	35,249	\$ 317,584	\$ 80,112	TOTAL

COUNTY OF LOS ANGELES  
 STATEMENT OF FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
 JUNE 30, 2009 (in thousands)

	PENSION TRUST FUND	INVESTMENT TRUST FUNDS	AGENCY FUNDS
ASSETS			
Pooled cash and investments (Note 5)	\$ 114,155	\$ 13,329,209	\$ 1,163,812
Other investments: (Note 5)		269,057	301
Stocks	14,886,158		
Bonds	8,776,703		
Short-term investments	786,691		
Commodities	389,940		
Real estate	3,057,774		
Mortgages	237,041		
Alternative assets	2,815,826		
Cash collateral on loaned securities	1,219,067		
Taxes receivable			448,507
Interest receivable	103,110	95,471	4,739
Other receivables	813,714		
TOTAL ASSETS	33,200,179	13,693,737	\$ 1,617,359
LIABILITIES			
Accounts payable	1,433,312		
Other payables (Note 5)	1,267,886		
Due to other governments			1,617,359
TOTAL LIABILITIES	2,701,198		\$ 1,617,359
NET ASSETS			
Held in trust for pension benefits and investment trust participants	\$ 30,498,981	\$ 13,693,737	

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, 2009 (in thousands)

	PENSION TRUST FUND	INVESTMENT TRUST FUNDS
ADDITIONS:		
Contributions:		
Pension trust contributions:		
Employer	\$ 831,671	\$
Member	415,545	
Contributions to investment trust funds		41,476,476
Total contributions	1,247,216	41,476,476
Investment earnings:		
Investment income	1,073,730	373,706
Net decrease in the fair value of investments	(8,393,120)	
Securities lending income (Note 5)	38,753	
Total investment earnings (losses)	(7,280,637)	373,706
Less - Investment expenses:		
Expense from investing activities	104,603	
Expense from securities lending activities (Note 5)	22,550	
Total net investment expense	127,153	
Net investment earnings (losses)	(7,407,790)	373,706
Miscellaneous	1,221	
NET INCREASE (DECREASE) IN ADDITIONS	(6,159,353)	41,850,182
DEDUCTIONS:		
Salaries and employee benefits	35,843	
Services and supplies	13,887	
Benefit payments	1,996,008	
Distribution from investment trust funds		42,045,082
Miscellaneous	20,599	
TOTAL DEDUCTIONS	2,066,337	42,045,082
CHANGE IN NET ASSETS	(8,225,690)	(194,900)
NET ASSETS HELD IN TRUST, JULY 1, 2008	38,724,671	13,888,637
NET ASSETS HELD IN TRUST, JUNE 30, 2009	\$ 30,498,981	\$ 13,693,737

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

COUNTY OF LOS ANGELES  
NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

Blended Component Units

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

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

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

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

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

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 (Public 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.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Government-wide Financial Statements-Continued

Net assets are classified into the following three categories: 1) invested in capital assets, net of related debt; 2) restricted and 3) unrestricted. Net assets are reported as restricted when they have external restrictions imposed by creditors, grantors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. At June 30, 2009, the restricted net assets balances were \$1.644 billion and \$192.4 million for governmental activities and business-type activities, respectively. For governmental activities, \$84 million was restricted by enabling legislation.

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

Fund Financial Statements

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

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, voter-approved taxes 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 and voter-approved taxes.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Fund Financial Statements-Continued

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, charges for services and long-term debt proceeds.

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

Harbor-UCLA Medical Center

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

Olive View-UCLA Medical Center

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

LAC+USC Medical Center

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

Martin Luther King, Jr. Ambulatory Care Center

The Martin Luther King, Jr. Multi-Service Ambulatory Care Center (MLK-MACC) was formerly known as Martin Luther King, Jr.-Harbor Hospital, until its loss of the hospital's licensing/accreditation on August 25, 2007. At that time, inpatient and emergency services were closed and the facility was re-organized as MLK-MACC. The MLK-MACC provides urgent care services, comprehensive outpatient services, including, primary, specialty and subspecialty services in surgery, medicine, pediatrics, obstetrics, HIV/AIDS, and dental services.

Rancho Los Amigos National Rehabilitation Center

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Fund Financial Statements-Continued

Waterworks Funds

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

The following fund types have also been reported:

Internal Service Funds

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

Fiduciary Fund Types

Pension Trust Fund

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

Investment Trust Funds

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

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

Agency Funds

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

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.



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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Basis of Accounting-Continued

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

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

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

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

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.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Budgetary Data

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

The County budget is organized by budget unit and by expenditure object. Budget units are established at the discretion of the Board of Supervisors. Within the General Fund (with certain exceptions), budget units are generally defined as individual departments. For other funds, each individual fund constitutes a budget unit. Expenditures are controlled on the object level for all budget units within the County, except for capital asset expenditures, which are controlled on the sub-object level. The total budget exceeds \$25 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, 2009. 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 Executive Office, depending upon the amount transferred. The original and final budget amounts are reported in the accompanying basic financial statements. Any excess of budgetary expenditures and other financing uses over revenues and other financing sources is financed by beginning available fund balances as provided for in the County Budget Act.

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

Property Taxes

All jurisdictions within California derive their taxing authority from the State Constitution and various legislative provisions contained in the Government Code and Revenue and Taxation Code. Property is assessed at 100% of full cash or market value (with some exceptions) pursuant to Article XIII A of the California State Constitution and statutory provisions by the County Assessor and State Board of Equalization. The total 2008-2009 assessed valuation of the County of Los Angeles approximated \$1.081 trillion.

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Property Taxes-Continued

The County is divided into 11,372 tax rate areas, which are unique combinations of various jurisdictions servicing a specific geographic area. The rates levied within each tax rate area vary only in relation to levies assessed as a result of voter-approved taxes or indebtedness.

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

Deposits and Investments

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

Deposits and investments are reflected in the following asset accounts:

Pooled Cash and Investments

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

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

Operating Pooled Cash and Investments

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Deposits and Investments-Continued

Other Pooled Cash and Investments

This account represents amounts identified in various agency funds as of June 30, 2009 that were owed to or were more appropriately classified in County operating funds. Accordingly, certain cash balances have been reclassified from the agency funds as required by GASB Statement No. 34.

Other Investments

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

Restricted Assets

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

Inventories

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

Of the amounts reported as inventories in the governmental activities, \$35,293,000 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 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.

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

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 6.

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

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

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

Advances Payable

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

Vacation and Sick Leave Benefits

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Long-term-Debt

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

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

Cash Flows

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

Use of Estimates

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

2. ACCOUNTING CHANGES AND RESTATEMENT OF NET ASSETS

As discussed below, the County implemented the following GASB Statements in the 2008-2009 fiscal year:

Governmental Accounting Standards Board Statement No. 49

For the fiscal year ended June 30, 2009, the County implemented GASB Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations." This Statement provides specific accounting and reporting guidance for pollution remediation obligations, including disclosure requirements. These obligations address the current and potential detrimental effects of existing pollution by participating in pollution remediation activities. This matter is further discussed in Note 18.



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

2. ACCOUNTING CHANGES AND RESTATEMENT OF NET ASSETS-Continued

Governmental Accounting Standards Board Statement No. 52

GASB Statement No. 52, "Land, and Other Real Estate Held as Investments by Endowments," was implemented by the County for the fiscal year ended June 30, 2009. GASB 52 establishes standards for accounting and financial reporting for land and other real estate held as investments by endowments. For the fiscal year ended June 30, 2009, no County endowment held land or real estate as investments. While GASB No. 52 is not applicable for the current period, the County will apply the Statement as appropriate in the future.

Restatement of Net Assets

In order to meet the guidelines in GASB Statement 49, the County restated its beginning government-wide/governmental activities' balances to reflect the inclusion of its pollution remediation obligations. The effects of the changes are as follows (in thousands):

	Net Assets July 1, 2008 as <u>previously reported</u>	Effect of Including Remediation <u>Obligations</u>	Net Assets July 1, 2008 <u>as restated</u>
Government-wide:			
Governmental activities	\$ 15,570,415	\$ (31,278)	\$ 15,539,137

3. NET ASSET DEFICITS

The following funds had net asset deficits at June 30, 2009 (in thousands):

	<u>Accumulated Deficit</u>
Enterprise Funds:	
Harbor/UCLA Medical Center	\$ 163,541
Olive View/UCLA Medical Center	46,209
M. L. King, Jr. Ambulatory Care Center	68,170
Internal Service Fund-	
Public Works	90,462

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

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

4. ELIMINATIONS

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

Fund Financial Statements

At June 30, 2009, the governmental fund financial statements reflect an investment asset (referred to as "Other Investments") held by the JPAs of \$246,875,000 that has been recorded in the Nonmajor Governmental Funds. The governmental fund financial statements do not reflect a liability for the related bonds payable (\$246,875,000), 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 (\$246,875,000) and investment earnings and interest expense (\$12,822,000 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 \$246,875,000, that were publicly issued, are included among the liabilities presented in the Government-wide Financial Statements. Disclosures related to those outstanding bonds appear in Note 10 and are captioned "Assessment Bonds."



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

## 5. CASH AND INVESTMENTS

Investments in the County's cash and investment pool, other cash and investments, and Pension Trust Fund investments, are stated at fair value. Aggregate pooled cash and investments and other cash and investments are as follows at June 30, 2009 (in thousands):

	Pooled Cash and Investments	Other Investments	<u>Restricted Assets</u>		Total
			Pooled Cash and Investments	Other Investments	
Governmental Funds	\$ 4,170,156	\$ 258,385	\$	\$	\$ 4,428,541
Proprietary Funds	278,265	38,511	32,891	48,029	397,696
Fiduciary Funds (excluding Pension Trust Fund)	14,493,021	269,358			14,762,379
Pension Trust Fund	114,155	32,169,200			32,283,355
Component Unit	874,241				874,241
Total	<u>\$ 19,929,838</u>	<u>\$32,735,454</u>	<u>\$ 32,891</u>	<u>\$48,029</u>	<u>\$52,746,212</u>

### Deposits-Custodial Credit Risk

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

At June 30, 2009, the carrying amount of the County's deposits was \$106,709,000 and the balance per various financial institutions was \$106,091,000. The County's deposits are not exposed to custodial credit risk since all of 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, 2009, the carrying amount of Pension Trust Fund deposits was \$32,076,000. 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, Treasury investment activity is subject to an annual investment policy review, compliance oversight, quarterly financial reviews, and annual financial reporting.

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

5. CASH AND INVESTMENTS-Continued

Investments-Continued

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 method used to determine the value of participants' equity withdrawn is based on the book value, which is amortized cost, of the participants' percentage participation at the date of such withdrawals.

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

The interest rate risk, foreign currency risk, credit risk, concentration of credit risk, and custodial credit risk related to Pension Trust Fund investments are different than the corresponding risk on investments held by the County Treasurer. Detailed deposit and investment risk disclosures are included in Note G of LACERA's Report on Audited Financial Statements for the year ended June 30, 2009.

The School Districts and the Superior Court are required by legal provisions to participate in the County's investment pool. Eighty percent (80%) of the Treasurer's external investment pool consists of these involuntary participants. Voluntary participants in the County's external investment pool include the Sanitation Districts, Metropolitan Transportation Authority, the South Coast Air Quality Management District and other special districts with independent governing boards. The deposits held for both involuntary and voluntary entities are included in the External Pooled Investment Trust Fund. Certain specific investments have been made by the County, as directed by external depositors. This investment activity occurs separately from the County's investment pool and is reported in the Specific Investment Trust Fund. The pool is not registered as an investment company with the Securities and Exchange Commission (SEC) nor is it an SEC Rule 2a7-like pool. California Government Code statutes and the County Board of Supervisors set forth the various investment policies that the County Treasurer must follow.

County pooled and other investments (excluding Pension Trust Fund other investments) at June 30, 2009 (in thousands) are as follows:

	<u>Fair Value</u>
U.S. Government securities	\$ 8,922,471
Negotiable certificates of deposit	3,080,420
Commercial paper	7,218,659
Corporate and deposit notes	814,954

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

5. CASH AND INVESTMENTS-Continued

Investments-Continued

	Fair Value
Municipal bonds	5,315
Los Angeles County securities	40,000
Guaranteed investment contracts	135,300
Money market mutual funds	142,603
State and Local Agency Investment Funds	109,797
Mortgage trust deeds	784
Total	<u>\$ 20,470,303</u>

Pension Trust Fund investments are reported in the basic financial statements at fair value at June 30, 2009 (in thousands) and are as follows:

	Fair Value
Domestic and international equity	\$ 16,073,149
Fixed income	9,800,435
Real estate	3,057,774
Private equity	2,815,826
Commodities	389,940
Total	<u>\$ 32,137,124</u>

The Pension Trust Fund also had deposits with the Los Angeles County Treasury Pool at June 30, 2009 totaling \$114,155,000. 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, 2009 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	\$ 8,720,913	\$ 8,644,805	1.85% - 7.20%	9/15/09 – 5/19/14	2.92
Negotiable certificates of deposit	3,080,420	3,080,126	0.20% - 2.55%	7/1/09 – 3/9/10	0.08
Commercial paper	7,218,659	7,218,783	0.18% - 0.82%	7/1/09 - 8/28/09	0.05
Corporate and deposit notes	812,481	801,257	0.62% - 7.38%	7/6/09 – 3/3/12	1.01
Los Angeles County securities	40,000	40,000	0.51% - 0.88%	6/30/10 – 6/30/11	1.63
Deposits	90,256	90,256			
	<u>\$ 19,962,729</u>	<u>\$19,875,227</u>			1.36

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

5. CASH AND INVESTMENTS-Continued

Investments-Continued

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

	<u>Fair Value</u>	<u>Principal</u>	<u>Interest Rate %</u> <u>Range</u>	<u>Maturity Range</u>	<u>Weighted</u> <u>Average</u> <u>Maturity</u> <u>(Years)</u>
Local Agency Investment Fund	\$ 109,797	\$ 109,706		07/01/09-06/15/12	0.64
Corporate and deposit notes	2,473	2,540	1.48% - 5.33%	08/03/09-02/01/11	1.46
Mortgage trust deeds	784	784	4.50% - 5.50%	08/01/12-04/01/17	5.28
Municipal bonds	5,315	5,315	5.00%	09/02/21	12.18
Guaranteed investment contracts	135,300	135,300	4.87%	03/15/10	0.71
U.S. agency securities	180,853	179,360	3.38% - 5.59%	09/18/09-06/25/14	2.90
U.S. treasury bonds	107	86	7.25%	05/15/16	6.88
U.S. treasury notes	20,296	20,027	3.38% - 4.88%	10/15/09-07/31/11	0.30
U.S. treasury bills	302	302	0.35%	12/10/09	0.45
Money market mutual funds	142,603	142,603	0.01% - 0.26%	07/01/09-07/31/10	0.20
Deposits	<u>16,453</u>	<u>16,453</u>			
	<u>\$ 614,283</u>	<u>\$ 612,476</u>			1.09

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 a target of less than 1.5 years. Of the Pooled Cash and Investments and Other Investments at June 30, 2009, 53.97% have a maturity of six months or less, 2.23% have a maturity of between six and twelve months and 43.80% have a maturity of more than one year.

As of June 30, 2009, variable-rate notes comprised 3.56% 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 Agency 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, 2009, 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.

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

5. CASH AND INVESTMENTS-Continued

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 (NRSROs). 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." All investments purchased in the fiscal year met the credit rating criteria in the Investment Policy, at the issuer level. While the NRSROs rated the issuer of the investments purchased, it did not in all instances rate the investment itself (e.g. commercial paper, corporate and deposit notes, and negotiable certificates of deposit). For purposes of reporting credit quality distribution of investments in the following table, some investments are reported as not rated. At June 30, 2009, a portion of the County's other investments was invested in the State of California's Local Agency Investment Fund which is unrated as to credit quality.

The County's Investment Policy, approved annually by the Board of Supervisors, limits the maximum total par value for each permissible security type (e.g., commercial paper and certificates of deposit) to a certain percentage of the investment pool. Exceptions to this are obligations of the United States government and United States government agencies or government-sponsored enterprises, which do not have limits. Further, the County restricts investments in any one issuer based on the issuer's Nationally Recognized Statistical Rating Organization (NRSRO) ratings. For bankers acceptances, certificates of deposit, corporate notes and floating rate notes, the highest issuer limit was \$500 million, approximately 2.54% of the investment pool's daily investment balance. For commercial paper, the highest issuer limit was \$750 million, or 3.82% of the investment pool's daily investment balance.

The Pool and SPI had the following U.S. Agency securities in a single issuer that represent 5 percent or more of total investments at June 30, 2009 (in thousands):

<u>Issuer</u>	<u>Pool</u>	<u>SPI</u>
Federal Farm Credit Bank	\$ 2,121,656	\$ 36,186
Federal Home Loan Bank	2,951,637	66,978
Federal Home Loan Mortgage Corp	3,601,532	25,699

Non-Pooled Investments had a total of \$135,300,000 invested in guaranteed investment contracts (GIC) with FSA Capital Management Services.

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

5. 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, 2009:

	<u>S &amp; P</u>	<u>Moody's</u>	<u>% of Portfolio</u>
Pooled Cash and Investments:			
Commercial paper	Not Rated	Not Rated	36.32%
Corporate and deposit notes	A	A2	0.25%
	A	A3	0.25%
	A+	Aa2	0.04%
	A+	Aa3	0.88%
	AA	Aa1	1.14%
	AA-	A1	0.10%
	AA+	Aa2	1.04%
	Not Rated	Aa2	0.13%
	Not Rated	Aa3	0.25%
	Not Rated	Not Rated	0.01%
Los Angeles County securities	AA-	Aa2	0.20%
Negotiable certificates of deposit	Not Rated	Not Rated	15.15%
	Not Rated	Aa1	0.35%
U.S. Government securities	AAA	Aaa	43.65%
	Not Rated	Not Rated	0.24%
			<u>100.00%</u>
Other Investments:			
Local Agency Investment Fund	Not Rated	Not Rated	18.37%
Corporate and deposit notes	AA	Aa1	0.04%
	AA+	Aa2	0.38%
Mortgage trust deeds	AA-	Aa3	0.13%
Municipal bonds	AA	Aa3	0.89%
Guaranteed investment contracts	Not Rated	Not Rated	22.63%
U.S. agency securities	AAA	Aaa	7.35%
	AAA/Stable	Not Rated	8.37%
	Not Rated	Not Rated	14.53%
U.S. treasury notes	AAA	Aaa	3.39%
U.S. treasury bonds	AAA	Aaa	0.02%
U.S. treasury bills	AAA	Aaa	0.05%
Money market mutual funds	Not Rated	Not Rated	23.85%
			<u>100.00%</u>

The earned yield, which includes net gains on investments sold, on all investments held by the Treasurer's Pool for the fiscal year ended June 30, 2009 was 2.57%.



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

5. CASH AND INVESTMENTS-Continued

Credit Risk and Concentration of Credit Risk-Continued

A separate financial report is issued for the Treasurer's Pool. The most current report, as of June 30, 2008, is available on the Treasurer's website, and the report as of June 30, 2009, is in progress. The following represents a condensed statement of net assets and changes in net assets for the Treasurer's Pool as of June 30, 2009 (in thousands):

Statement of Net Assets	
Net assets held in trust for all pool participants	<u>\$ 19,962,729</u>
Equity of internal pool participants	\$ 6,556,452
Equity of external pool participants	<u>13,406,277</u>
Total equity	<u>\$ 19,962,729</u>
Statement of Changes in Net Assets	
Net assets at July 1, 2008	\$ 20,341,707
Net change in investments by pool participants	<u>(378,978)</u>
Net assets at June 30, 2009	<u>\$ 19,962,729</u>

The unrealized gain on investments held in the Treasurer's Pool was \$91,302,000 as of June 30, 2009. 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, 2009, there were approximately \$700,000,000 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, 2009, forward currency contracts receivable and payable totaled \$96,571,000 and \$97,991,000, respectively.

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

5. CASH AND INVESTMENTS-Continued

Securities Lending Transactions

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

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

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

At year end, LACERA had no credit risk exposure to borrowers because the collateral exceeded the amount borrowed. As of June 30, 2009, 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, 2009. 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, 2009, the fair value of securities on loan was \$1.17 billion. The value of the cash collateral received for those securities was \$1.22 billion and there was no non-cash collateral. Securities lending assets (Other Investments) and liabilities (Other Payables) of \$1.27 billion are recorded in the Pension Trust Fund. Pension Trust Fund income, net of expenses, from securities lending was \$16.2 million for the year ended June 30, 2009.

For the year ended June 30, 2009, 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, 2009 (in thousands):

	<u>County</u>	<u>Pension Trust Fund</u>	<u>Total</u>
Deposits	\$ 106,709	\$ 32,076	\$ 138,785
Investments	<u>20,470,303</u>	<u>32,137,124</u>	<u>52,607,427</u>
	<u>\$20,577,012</u>	<u>\$ 32,169,200</u>	<u>\$52,746,212</u>



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

6. CAPITAL ASSETS

Capital assets activity of the primary government for the year ended June 30, 2009 is as follows (in thousands):

	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009
<u>Governmental Activities</u>				
Capital assets, not depreciated:				
Land	\$ 2,350,698	17,258	(199)	\$ 2,367,757
Easements	4,664,562	114,732	(2)	4,779,292
Construction in progress-buildings and improvements	255,267	84,461	(178,383)	161,345
Construction in progress-infrastructure	323,841	130,330	(93,460)	360,711
Subtotal	<u>7,594,368</u>	<u>346,781</u>	<u>(272,044)</u>	<u>7,669,105</u>
Capital assets, depreciated:				
Buildings and improvements	4,045,330	189,462	(2,677)	4,232,115
Equipment	1,092,873	123,011	(40,341)	1,175,543
Infrastructure	7,052,454	119,989	(75)	7,172,368
Subtotal	<u>12,190,657</u>	<u>432,462</u>	<u>(43,093)</u>	<u>12,580,026</u>
Less accumulated depreciation for:				
Buildings and improvements	(1,384,461)	(74,791)	1,091	(1,458,161)
Equipment	(744,121)	(108,894)	48,352	(804,663)
Infrastructure	(2,581,878)	(151,854)	26	(2,733,706)
Subtotal	<u>(4,710,460)</u>	<u>(335,539)</u>	<u>49,469</u>	<u>(4,996,530)</u>
Total capital assets, being depreciated, net	<u>7,480,197</u>	<u>96,923</u>	<u>6,376</u>	<u>7,583,496</u>
Governmental activities capital assets, net	<u>\$15,074,565</u>	<u>443,704</u>	<u>(265,668)</u>	<u>\$ 15,252,601</u>
<u>Business-type Activities</u>				
Capital assets, not depreciated:				
Land	\$ 216,273			\$ 216,273
Easements	30,535	166		30,701
Construction in progress-buildings and improvements	958,635	83,692	(966,783)	75,544
Construction in progress-infrastructure	30,840	20,868	(15,574)	36,134
Subtotal	<u>1,236,283</u>	<u>104,726</u>	<u>(982,357)</u>	<u>358,652</u>
Capital assets, being depreciated:				
Buildings and improvements	1,070,651	916,461		1,987,112
Equipment	273,934	47,981	(11,210)	310,705
Infrastructure	1,134,743	15,111		1,149,854
Subtotal	<u>2,479,328</u>	<u>979,553</u>	<u>(11,210)</u>	<u>3,447,671</u>
Less accumulated depreciation for:				
Buildings and improvements	(672,155)	(23,121)		( 695,276)
Equipment	(184,916)	(18,071)	3,297	(199,690)
Infrastructure	(407,755)	(21,220)		(428,975)
Subtotal	<u>(1,264,826)</u>	<u>(62,412)</u>	<u>3,297</u>	<u>(1,323,941)</u>
Total capital assets, being depreciated, net	<u>1,214,502</u>	<u>917,141</u>	<u>(7,913)</u>	<u>2,123,730</u>
Business-type activities capital assets, net	<u>\$ 2,450,785</u>	<u>1,021,867</u>	<u>(990,270)</u>	<u>\$ 2,482,382</u>
Total Capital Assets, net	<u>\$17,525,350</u>	<u>\$1,465,571</u>	<u>\$ (1,255,938)</u>	<u>\$ 17,734,983</u>

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

6. CAPITAL ASSETS-Continued

Depreciation Expense

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

Governmental activities:

General government	\$ 16,229
Public protection	160,570
Public ways and facilities	86,227
Health and sanitation	17,106
Public assistance	9,990
Education	1,782
Recreation and cultural services	19,919
Capital assets held by the County's internal service funds are charged to the various functions based on their usage of the assets	<u>23,716</u>
Total depreciation expense, governmental activities	<u>\$ 335,539</u>

Business-type activities:

Hospitals	\$ 30,751
Aviation	1,651
Waterworks	22,305
Community Development Commission	1,159
Capital assets held by the County's internal service funds are charged to the various functions based on their usage of the assets	<u>6,546</u>
Total depreciation expense, business-type activities	<u>\$ 62,412</u>

Discretely Presented Component Unit

Capital assets activity for the First 5 LA component unit for the year ended June 30, 2009 was as follows (in thousands):

	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009
Capital assets, not depreciated-				
Land	\$ 2,039	\$	\$	\$ 2,039
Capital assets, depreciated:				
Buildings and improvements	17,290		(5,368)	11,922
Equipment	<u>1,669</u>	<u>602</u>	<u>(144)</u>	<u>2,127</u>
Subtotal	<u>18,959</u>	<u>602</u>	<u>(5,512)</u>	<u>14,049</u>
Less accumulated depreciation for:				
Buildings and improvements	(6,115)	(240)	5,368	(987)
Equipment	<u>(1,035)</u>	<u>(337)</u>	<u>144</u>	<u>(1,228)</u>
Subtotal	<u>(7,150)</u>	<u>(577)</u>	<u>5,512</u>	<u>(2,215)</u>
Total capital assets being depreciated, net	<u>11,809</u>	<u>25</u>		<u>11,834</u>
Component unit capital assets, net	<u>\$ 13,848</u>	<u>\$ 25</u>	<u>\$</u>	<u>\$ 13,873</u>

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

## 7. PENSION PLAN

### Plan Description

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

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

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

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

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

### Funding Policy

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

The following employer rates were in effect for 2008-2009:

	<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>	<u>E</u>
General Members	17.64%	10.79%	10.22%	10.79%	10.67%
Safety Members	28.16%	20.54%			

The rates were determined by the actuarial valuation performed as of June 30, 2007 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 2008-2009, the County contributed the full amount of the ARC.

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

7. PENSION PLAN-Continued

Annual Pension Cost and Net Pension Obligation

The County's annual pension cost and net pension obligation for 2008-2009, computed in accordance with GASB 27, were as follows (in thousands):

Annual required contribution (ARC):	
County	\$ 847,055
Non County entities	<u>116</u>
Total ARC	847,171
Interest on net pension obligation (asset)	(5,686)
Adjustment to ARC	<u>48,908</u>
Annual pension cost	<u>890,393</u>
Contributions made:	
County	847,055
Non County entities	<u>116</u>
Total contributions	847,171
Cost in excess of contributions	43,222
Net pension obligation (asset), July 1, 2008	<u>(146,723)</u>
Net pension obligation (asset), June 30, 2009	<u><u>\$ (103,501)</u></u>

Fiscal Year Ended	<u>Trend Information (in thousands)</u>		Net Pension Obligation (Asset)
	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	
June 30, 2007	\$ 842,896	89.2%	\$ (176,440)
June 30, 2008	858,347	96.5%	(146,723)
June 30, 2009	890,393	95.1%	(103,501)

Funded Status and Funding Progress

As of June 30, 2008, the most recent actuarial valuation date, the funded ratio was determined to be 94.5%. The actuarial value of assets was \$39.7 billion, and the actuarial accrued liability (AAL) was \$42.0 billion, resulting in an unfunded AAL of \$2.3 billion. The covered payroll was \$6.1 billion and the ratio of the unfunded AAL to the covered payroll was 37.8%.

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

Actuarial Methods and Assumptions

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

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

7. PENSION PLAN-Continued

Actuarial Methods and Assumptions-Continued

The County contribution rate (effective for the 2008-2009 fiscal year, as determined by the June 30, 2007, actuarial valuation) was equal to 1.99% of payroll (using the level percentage of payroll amortization method, over a 30-year open period) plus the normal cost rate of 10.09%, for a total rate of 12.08% of payroll.

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

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

Pension Obligation Bonds and Certificates

During 1994-95 the County sold approximately \$1,965,230,000 in par value pension bonds and utilized the proceeds to fund LACERA. A portion of the bonds (\$1,365,230,000) were fixed rate. The remaining \$600,000,000 were variable rate bonds, which were restructured into fixed rate bonds during 1995-96. In conjunction with the 1994-95 issuance of the pension bonds, the County entered into debt service advance agreements. Under the agreements, the County received \$79,022,000 in exchange for future interest that the County would have earned on deposits with the trustee between the time the County is required to pay debt service payments to the trustee and the time the trustee pays the bondholders. These proceeds have been recorded as unearned revenue on the government-wide statements and deferred revenue on the fund-based statements, and are being amortized over the life of the bonds on the basis of annual debt service requirements. As of June 30, 2009, the unamortized balance was \$1,748,000.

For the year ended June 30, 2009, the combined principal and interest payments for the bonds were \$320,338,000. For governmental activities, the total debt service was \$237,735,000. For business-type activities, the total debt service was \$82,603,000. At June 30, 2009, the total outstanding principal on bonds was \$653,634,000, including accretions of \$417,943,000 on deep discount bonds. The bonds have interest rates varying from 7.40 % to 9.19%.

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

Year Ending June 30	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 87,116	\$ 178,557	\$ 30,089	\$ 62,403
2011	<u>87,801</u>	<u>187,956</u>	<u>30,685</u>	<u>65,688</u>
Total	<u>174,917</u>	<u>\$ 366,513</u>	<u>60,774</u>	<u>\$ 128,091</u>
Accretions	<u>310,175</u>		<u>107,768</u>	
Total Pension Bonds Payable	<u>\$ 485,092</u>		<u>\$ 168,542</u>	

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

8. OTHER POSTEMPLOYMENT BENEFITS

Plan Description

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

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

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

Funding Policy

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

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

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

A trust fund has not been established for the retiree health benefits or the long-term disability benefits. The County's contribution is on a pay-as-you-go basis. During the 2008-2009 fiscal year, the County made payments to LACERA totaling \$365 million for retiree health care benefits. Included in this amount was, \$31.6 million for Medicare Part B reimbursements and \$7 million in death benefits. Additionally, \$35.6 million was paid by member participants. The County also made payments of \$32 million for long-term disability benefits.

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

8. OTHER POSTEMPLOYMENT BENEFITS-Continued

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

The County's Annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The OPEB cost and OPEB obligation were determined by the OPEB health care actuarial valuation as of July 1, 2006, and the OPEB long-term disability actuarial valuation as of July 1, 2007. The following table shows the ARC, the amount actually contributed and the net OPEB Obligation (in thousands):

Annual OPEB required contribution (ARC)	\$ 1,615,272
Interest on Net OPEB obligation	61,707
Adjustment to ARC	<u>(48,485)</u>
Annual OPEB cost (expense)	1,628,494
Less: Contributions made (pay-as-you-go)	<u>397,259</u>
Increase in Net OPEB Obligation	1,231,235
Net OPEB obligation, July 1, 2008	<u>1,234,148</u>
Net OPEB obligation, June 30, 2009	<u><u>\$ 2,465,383</u></u>

<u>Fiscal Year Ended</u>	<u>Trend Information (in thousands)</u>		<u>Net OPEB Obligation</u>
	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	
June 30, 2008	\$ 1,615,272	23.6%	\$ 1,234,148
June 30, 2009	1,628,494	24.4%	2,465,383

Funded Status and Funding Progress

As of July 1, 2008, the most recent actuarial valuation date for OPEB health care benefits, the funded ratio was 0%. The actuarial value of assets was zero. The actuarial accrued liability (AAL) was \$20.9 billion, resulting in an unfunded AAL of \$20.9 billion. The covered payroll was \$6.1 billion and the ratio of the unfunded AAL to the covered payroll was 341.31%.

As of July 1, 2009, the most recent actuarial valuation date for OPEB long-term disability benefits, the funded ratio was 0%. The actuarial value of assets was zero. The actuarial accrued liability (AAL) was \$951.8 million, resulting in an unfunded AAL of \$951.8 million. The covered payroll was \$6.1 billion and the ratio of the unfunded AAL to the covered payroll was 15.54%.

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



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

8. OTHER POSTEMPLOYMENT BENEFITS-Continued

Actuarial Methods and Assumptions

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

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

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

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

While the actuarial valuations for OPEB health care and OPEB long-term disability benefits were prepared by two different firms, they both used the same methods and assumptions, with one exception noted below. The projected unit credit cost method was used. Both valuations assumed an annual investment rate of return of 5%, an inflation rate of 3.5% per annum and projected general wage increases of 4%. The increases in salary due to promotions and longevity do not affect the amount of the OPEB program benefits. An actuarial asset valuation was not performed. Finally, the OPEB valuation report used the level percentage of projected payroll over a rolling (open) 30-year amortization period. The OPEB Long Term Disability valuation report used the level dollar of projected payroll over a rolling (open) 30-year amortization period. The most recent actuarial valuations for OPEB health care benefits (July 1, 2008) and OPEB long-term disability benefits (July 1, 2009) were each adjusted to reflect projected salary increases of 4%, from the former actuarial assumption of 3.75%.

The healthcare cost trend initial and ultimate rates, based on the June 30, 2006 actuarial valuation, are as follows:

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



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

9. LEASES

Operating Leases

The following is a schedule of future minimum rental payments required under operating leases entered into by the County that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2009 (in thousands):

<u>Year Ending June 30</u>	<u>Governmental Activities</u>
2010	\$ 74,095
2011	58,913
2012	45,404
2013	36,994
2014	23,674
2015-2019	44,607
2020-2024	<u>4,786</u>
Total	<u>\$ 288,473</u>

Rent expenditures related to operating leases were \$92,131,000 for the year ended June 30, 2009.

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, 2009 (in thousands):

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2010	\$ 28,567	\$ 147
2011	22,438	
2012	19,035	
2013	18,757	
2014	17,745	
2015-2019	72,654	
2020-2024	71,515	
2025-2029	71,765	
2030-2034	56,162	
2035-2039	<u>26,060</u>	
Total	<u>\$ 404,698</u>	<u>\$ 147</u>
Less: Amount representing interest	<u>246,904</u>	<u>4</u>
Present value of future minimum lease payments	<u>\$ 157,794</u>	<u>\$ 143</u>

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

9. LEASES-Continued

Capital Leases-Continued

The following is a schedule of property under capital leases by major classes at June 30, 2009 (in thousands):

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Land	\$ 17,279	\$
Buildings and improvements	152,893	1,200
Equipment	61,795	393
Accumulated depreciation	(66,460)	(988)
Total	<u>\$ 165,507</u>	<u>\$ 605</u>

Future rent revenues to be received from noncancelable subleases are \$1,298,000 as of June 30, 2009.

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 88 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 26 years and are also accounted for in the General Fund. The Marina del Rey leases cover remaining periods ranging from 1 to 58 years and are accounted for in the General Fund.

The land carrying value of the Asset Development Project ground leases and the Marina del Rey Project area leases is \$504,770,000. The carrying value of the capital assets associated with the golf course and regional park operating leases is not determinable.

The following is a schedule of future minimum rental receipts on noncancelable leases as of June 30, 2009 (in thousands):

<u>Year Ending June 30</u>	<u>Governmental Activities</u>
2010	\$ 40,938
2011	41,036
2012	40,511
2013	37,926
2014	36,162
Thereafter	<u>1,318,516</u>
Total	<u>\$ 1,515,089</u>

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

9. LEASES-Continued

Leases of County-Owned Property- Continued

The following is a schedule of rental income for these operating leases for the year ended June 30, 2009 (in thousands):

	<u>Governmental Activities</u>
Minimum rentals	\$ 40,010
Contingent rentals	<u>22,156</u>
Total	<u>\$ 62,166</u>

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

10. LONG-TERM OBLIGATIONS

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

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

	<u>Original Par Amount of Debt</u>	<u>Balance June 30, 2009</u>
Los Angeles County Flood Control District Refunding Bonds 2.5% to 5.0%	\$ 143,195	\$ 67,295
Los Angeles County Flood Control District Revenue Bonds 4.0% to 4.12%	20,540	17,410
Regional Park and Open Space District Bonds (issued by Public Works Financing Authority), 3.0% to 5.25%	275,535	264,399
Community Development Commission (CDC) Notes Payable, 2.31% to 7.91%	69,295	43,733
NPC Bond Anticipation Notes, 0.510% to 0.879%	29,600	29,600
NPC Bonds 3.0% to 4.0%	39,986	11,518
Marina del Rey Loans Payable, 4.5% to 4.7%	23,500	20,092
Public Buildings Certificates of Participation, 2.8% to 7.75%	944,106	695,923
Los Angeles County Securitization Corporation Tobacco Settlement Asset-Backed Bonds 5.25% to 6.65%	<u>319,827</u>	<u>384,142</u>
Total	<u>\$ 1,865,584</u>	<u>\$ 1,534,112</u>

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

10. LONG-TERM OBLIGATIONS-Continued

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

	Original Par Amount of Debt	Balance June 30, 2009
NPC Bond Anticipation Notes, 0.510% to 0.879%	\$ 10,400	\$ 10,400
NPC Bonds 3.0% to 4.0%	14,049	4,047
Public Buildings Certificates of Participation, 2.8% to 7.0%	140,064	98,217
Commercial Paper, 0.20% to 0.75%	205,500	205,500
Waterworks District Bonds, 3.3% to 8.0%	280	86
Community Development Commission Mortgage Notes, 0.00% to 7.3%	11,401	3,680
Total	<u>\$ 381,694</u>	<u>\$ 321,930</u>

General Obligation Bonds

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 for Waterworks District bonds are as follows (in thousands):

Year Ending June 30	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2010	\$ 19	\$ 7
2011	21	6
2012	22	3
2013	<u>24</u>	<u>1</u>
Total	<u>\$ 86</u>	<u>\$ 17</u>

Assessment Bonds

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

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

10. LONG-TERM OBLIGATIONS-Continued

Assessment Bonds-Continued

The bonds mature in fiscal year 2019-2020. Annual principal and interest payments of the bonds are expected to require less than 50% of annual assessment revenues. Total principal and interest remaining on the bonds is \$306,589,000, not including unamortized bond premiums. Principal and interest for the current year and assessment revenues were \$35,942,000 and \$79,140,000, respectively.

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

<u>Year Ending</u> <u>June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2010	\$ 24,215	\$ 11,692
2011	25,375	10,515
2012	26,560	9,270
2013	27,855	7,925
2014	29,255	6,497
2015-2019	99,995	13,463
2020-2024	<u>13,620</u>	<u>352</u>
Subtotal	246,875	<u>\$ 59,714</u>
Add: Unamortized Bond Premiums	<u>17,524</u>	
Total Assessment Bonds	<u>\$ 264,399</u>	

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.

The County has pledged net revenues from the Calabasas Landfill for the payment of the Calabasas Landfill Project Revenue bonds, included here in the Public Buildings COPS, issued in 2005 and maturing in 2022. To the extent that the net revenues are insufficient to cover the debt payments in any fiscal year, the County has covenanted to make the debt payments from any source of legally available funds. The County paid \$1,808,000 of the current fiscal year debt payment of \$3,037,000, due to the shortfall of net landfill revenues. Total principal and interest remaining on the bonds is \$45,432,000.

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

10. LONG-TERM OBLIGATIONS-Continued

Certificates of Participation-Continued

Principal and interest requirements on COPs (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):

<u>Year Ending June 30</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 84,509	\$ 36,045	\$ 14,636	\$ 6,503
2011	72,846	33,626	14,008	5,858
2012	71,026	31,096	13,164	5,236
2013	64,440	28,889	12,610	4,488
2014	51,489	26,680	13,201	3,898
2015-2019	142,570	125,768	28,096	8,179
2020-2024	127,716	67,267		
2025-2029	66,675	19,418		
2030-2034	44,965	4,630		
Subtotal	726,236	<u>\$ 373,419</u>	95,715	<u>\$ 34,162</u>
Accretions	74,161			
Unamortized Bond Premiums	26,597		6,549	
Unamortized Loss	<u>(34,848)</u>			
Total Certificates of Participation	<u>\$ 792,146</u>		<u>\$ 102,264</u>	

Tobacco Settlement Asset-Backed Bonds

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

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

10. LONG-TERM OBLIGATIONS-Continued

Tobacco Settlement Asset-Backed Bonds-Continued

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

Year Ending June 30	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2011	\$	\$ 21,198
2012		21,197
2013		21,197
2014		21,197
2015-2019		105,987
2020-2024	60,280	93,803
2025-2029	46,370	82,407
2030-2034		69,311
2035-2039	62,196	55,680
2040-2044	53,157	34,810
2045-2049	<u>97,824</u>	<u>10,782</u>
Subtotal	319,827	<u>\$ 537,569</u>
Accretions	<u>64,315</u>	
Total Tobacco Settlement Asset-Backed Bonds	<u>\$ 384,142</u>	

Notes, Loans, and Commercial Paper

Bond Anticipation Notes (BANS) are issued by the Los Angeles County Capital Assets Leasing Corporation (LACCAL Equipment Acquisition Internal Service Fund) to provide interim financing for equipment purchases. BANS are purchased by the County Treasury Pool and are payable within five years. In addition, the BANS are issued with a formal agreement that, in the event they are not liquidated within the five-year period, they convert to capital leases with a three-year term secured by County real property. During the 2008-2009 fiscal year, LACCAL issued additional BANS in the amount of \$25,000,000.

CDC notes are secured by annual contributions from the United States Department of Housing and Urban Development (HUD) and housing units constructed with the note proceeds. Commission mortgage notes are secured by revenues from the operation of housing projects and from housing assistance payments from HUD.

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 various hospital construction projects. Repayment of the TECP is secured by a letter of credit and a sublease of twenty-one County-owned properties. The letter of credit has a termination date of December 15, 2015, with an optional termination date of May 1, 2010. 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

10. 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	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 14,178	\$ 3,296	\$ 209,757	\$ 44
2011	21,732	3,144	6,849	13
2012	3,895	2,965		
2013	4,009	2,759		
2014	3,691	2,556		
2015-2019	20,109	9,614	977	
2020-2024	16,378	4,354		
2025-2029	9,433	1,041		
Indeterminate maturity			1,997	
Total	<u>\$ 93,425</u>	<u>\$ 29,729</u>	<u>\$ 219,580</u>	<u>\$ 57</u>

Summary-All Future Principal, Interest and Accretions

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

<u>Debt Type</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
General Obligation Bonds	\$	\$	\$ 86	\$ 17
Assessment Bonds	246,875	59,714		
Certificates of Participation	726,236	373,419	95,715	34,162
Tobacco Settlement Asset-Backed Bonds	319,827	537,569		
Notes, Loans, and Commercial Paper	93,425	29,729	219,580	57
Subtotal	1,386,363	<u>\$1,000,431</u>	315,381	<u>\$ 34,236</u>
Add: Accretions	138,476			
Unamortized Bond Premiums	44,121		6,549	
Less: Unamortized Loss on Advance Refunding of Debt	(34,848)			
Total Bonds and Notes Payable	<u>\$1,534,112</u>		<u>\$ 321,930</u>	

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.



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

10. LONG-TERM OBLIGATIONS-Continued

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, 2009, the amount of outstanding bonds and certificates of participation considered defeased was \$220,865,000. All of this amount was related to governmental activities.

Changes in Long-term Liabilities

The following is a summary of long-term liabilities and corresponding activity for the year ended June 30, 2009 (in thousands):

	<u>Balance July 1, 2008</u>	<u>Additions/ Accretions</u>	<u>Transfers/ Maturities</u>	<u>Balance June 30, 2009</u>	<u>Due Within One Year</u>
Governmental activities:					
Bonds and notes payable	\$ 1,604,677	\$ 45,288	\$ 115,853	\$ 1,534,112	\$ 130,567
Pension bonds payable (Note 7)	668,539		183,447	485,092	246,457
Capital lease obligations (Note 9)	173,369	880	16,455	157,794	13,218
Accrued vacation and sick leave	749,208	113,326	53,882	808,652	54,977
Workers' compensation liability (Note 17)	1,809,463	284,321	277,522	1,816,262	310,160
Litigation and self-insurance liability (Note 17)	141,059	16,084	44,407	112,736	93,370
Pollution remediation obligation, as restated (Note 18)	31,278		1,213	30,065	2,521
OPEB obligation (Note 8)	1,019,980	1,029,754		2,049,734	133,641
Third party payor liability	<u>13,278</u>	<u>16,267</u>	<u>14,854</u>	<u>14,691</u>	<u>14,691</u>
Total governmental activities	<u>\$ 6,210,851</u>	<u>\$ 1,505,920</u>	<u>\$ 707,633</u>	<u>\$ 7,009,138</u>	<u>\$ 999,602</u>
Business-type activities:					
Bonds and notes payable	\$ 337,776	\$ 4,856	\$ 20,702	\$ 321,930	\$ 225,270
Pension bonds payable (Note 7)	232,285		63,743	168,542	85,631
Capital lease obligations (Note 9)	273		130	143	143
Accrued vacation and sick leave	124,808	21,910	9,066	137,652	9,056
Workers' compensation liability (Note 17)	310,965	28,769	40,015	299,719	45,986
Litigation and self-insurance liability (Note 17)	106,330	23,239	23,481	106,088	18,083
OPEB obligation (Note 8)	214,168	201,481		415,649	27,100
Third party payor liability (Note 13)	<u>156,588</u>	<u>48,806</u>	<u>23,120</u>	<u>182,274</u>	<u>6,019</u>
Total business-type activities	<u>\$ 1,483,193</u>	<u>\$ 329,061</u>	<u>\$ 180,257</u>	<u>\$ 1,631,997</u>	<u>\$ 417,288</u>

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

10. LONG-TERM OBLIGATIONS-Continued

Changes in Long-term Liabilities-Continued

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 2008-2009, thereby increasing liabilities for Bonds and Notes Payable by \$22,001,000 for governmental activities. Amounts accreted for Pension Bonds in previous years were paid during 2008-2009 thereby decreasing liabilities for Pension Bonds Payable for governmental and business-type activities by \$96,941,000 and \$33,685,000, respectively, for interest accretions. Note 17 contains information about changes in the combined current and long-term liabilities for workers' compensation and litigation and self-insurance liabilities.

11. SHORT-TERM DEBT

On July 1, 2008, the County issued \$500,000,000 of short-term Tax and Revenue Anticipation Notes at an effective interest rate of 1.58%. 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 2008. The notes matured and were redeemed on June 30, 2009.

12. CONDUIT DEBT OBLIGATIONS

Community Facilities and Improvement District Bonds

As of June 30, 2009, various community facilities and improvement districts established by the County had outstanding special tax bonds payable totaling \$78,136,000 and limited obligation improvement bonds totaling \$10,910,000. 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.

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

12. CONDUIT DEBT OBLIGATIONS-Continued

Residential Mortgage Revenue Bonds

Residential Mortgage Revenue Bonds have been issued to provide funds to purchase mortgage loans secured by first trust deeds on newly constructed and existing single family residences in the County. The purpose of this program is to provide low interest rate home mortgage loans to persons who are unable to qualify for conventional mortgages at market rates. Multi-Family Mortgage Revenue Bonds have been issued to provide permanent financing for apartment projects located in the County to be partially occupied by persons of low or moderate income. The amount of Mortgage Revenue Bonds outstanding as of June 30, 2009, was \$739,951,000.

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

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, 2009, the amount of industrial development and other conduit bonds outstanding was \$1,610,000.

13. HOSPITAL AND OTHER PROGRAM REVENUES

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

Medi-Cal Hospital / Uninsured Care Demonstration Project

The Medicaid Demonstration Project, 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.

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

13. HOSPITAL AND OTHER PROGRAM REVENUES-Continued

Medi-Cal Hospital / Uninsured Care Demonstration Project-Continued

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

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

Under the Demonstration Project, payments for the public hospitals are comprised of: 1) FFS cost-based reimbursement for inpatient hospital services; 2) DSH payments and 3) distribution from a newly created pool of federal funding for uninsured care, known as the Safety Net Care Pool (SNCP), which was capped Statewide at \$586 million for FY 2008-09. The non-federal share of these three types of payments is 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). The FFP for the FFS cost based reimbursement is provided at 50% match for July through September 30, 2008 and at 61.59% beginning October 1, 2008. The FFP for DSH remains at 50%. For the inpatient hospital cost-based reimbursement, each hospital provides its own CPE and receives all of the resulting federal match. For the DSH and SNCP distributions, the CPEs of all the public hospitals are used in the aggregate to draw down the federal match. It is therefore possible for one hospital to receive the federal match that results from another hospital's CPE. In this situation, the first hospital is referred to as a "recipient" hospital, while the second is referred to as a "donor" hospital. A recipient hospital is required to "retain" the FFP amounts resulting from donated CPEs.

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

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

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

13. HOSPITAL AND OTHER PROGRAM REVENUES-Continued

Medi-Cal Hospital / Uninsured Care Demonstration Project-Continued

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 IGTs are reflected as non-operating expenses by each Hospital in the Statement of Revenues, Expenses, and Changes in Fund Net Assets. The IGTs paid during FY 2008-09 include payments for FYs 2007-08 and 2008-09. The estimated revenues include amounts collected and accrued for FY 2008-09 and over/under-realization of revenues for FY 2005-06 through FY 2007-08. The amounts below are in thousands:

<u>Program</u>	<u>Intergovernmental Transfers Expense</u>	<u>Revenues</u>
Medicaid Demonstration Project	\$221,038	\$811,230

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 2008-09 program year is established at each hospital's total net Medi-Cal inpatient payments for 2007-08. DHCS estimates the aggregate baseline funding for the Statewide designated public hospitals to be \$2.366 billion.

The estimated FY 2008-09 baseline for Los Angeles County hospitals is as follows (in thousands):

<u>Hospital Name</u>	<u>Baseline Amount</u>
LAC+USC Medical Center	\$ 381,082
Harbor-UCLA Medical Center	177,628
Rancho Los Amigos National Rehabilitation Center	90,330
Olive View -UCLA Medical Center	113,004
Total	<u>\$ 762,044</u>

The three funding components 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 are adjusted on an interim and final basis.
- 2) DSH funds: These payments are made to hospitals to take into account the uncompensated costs of care delivered to the uninsured, undocumented immigrants and shortfalls between Medi-Cal psychiatric and Medi-Cal managed care payments. The non-federal share of these funds will be a combination of CPEs for these services and IGTs that are subject to interim and final cost settlement. There is an annual fixed allotment of federal DSH funds. The waiver allocates almost all of these funds to public hospitals. (DHCS estimates the aggregate value of federal DSH funds for the Statewide designated public hospitals to be \$1.091 billion as of June 30, 2009, which includes a 2.5% DSH allotment increase that the State received as part of the American Recovery and Reinvestment Act of 2009.)

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

13. HOSPITAL AND OTHER PROGRAM REVENUES-Continued

Baseline Payments-Continued

- 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 are based on CPEs for these services.

Stabilization Payments

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

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

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 Physician State Plan Amendment (Physician SPA)

Prior to July 1, 2005, Medi-Cal inpatient physician professional services (including non-physician practitioners) were reimbursed as part of an all-inclusive fixed contract rate per-diem. Effective July 1, 2005, public hospitals were no longer paid a fixed rate but were reimbursed under the Demonstration Project. The Demonstration Project is under State Plan Amendment 05-21, and excluded professional services. However, in December 2007, CMS approved California State Plan Amendment 05-23 which allowed professional services to be paid similarly to the inpatient hospital services under the Demonstration Project. Hospitals were allowed to claim unreimbursed Medi-Cal professional services (Hospital Inpatient, Emergency Room, and Psychiatric services) and were paid the Federal Medical Assistance Percentage (FMAP) share, currently at 61.59%.

Physician payments of \$8.85 million and \$20.51 million were received for 2006-07 and 2007-08, respectively, in FY 2008-09, based on filed cost report information. Amounts claimed for 2005-06 and 2008-09 have not yet been paid.



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

13. HOSPITAL AND OTHER PROGRAM REVENUES-Continued

State Senate Bill 474 (SB 474)

South Los Angeles Medical Services Preservation Fund

On October 12, 2007, SB 474 established an annual fund to stabilize health services for low-income, underserved populations of South Los Angeles. The "South Los Angeles Medical Services Preservation Fund" is intended to address the regional impact of the closure of the MLK-Harbor Hospital (currently MLK-MACC) and will help defray the County's costs for treating uninsured patients in the South Los Angeles area. In FY 2008-09, MLK-MACC received \$87.7 million for FY 2007-08 and an estimated amount of \$100.0 million was recorded for FY 2008-09.

Intergovernmental Transfers for Private Hospital Supplemental Fund

SB 474 also requires the County to make intergovernmental transfers (IGT) to the State to fund the non-federal share of increased Medi-Cal payments to those private hospitals that serve the South Los Angeles population formerly served by MLK-Harbor Hospital. An IGT expense of \$5.0 million was recorded as health care expenditures in the County's General Fund.

Other Medi-Cal Programs

Cost Based Reimbursement Clinics (CBRC)

A State Plan Amendment to extend CBRC funding has been approved by the federal government. The Amendment is effective July 1, 2005 through June 30, 2010. CBRC reimburses at 100 percent of reasonable costs for Medi-Cal outpatient services provided to Medi-Cal beneficiaries at hospital-based clinics, Multi-Ambulatory Care Centers (MACC) and health centers (excluding clinics that provide predominately public health services). The Department-wide CBRC revenues collected and accrued in FY 2008-09 were \$284.6 million.

Medi-Cal Cost Report Settlements

All field audits for FY 2005-06 have been completed. Due to their workload deadlines, the Medi-Cal auditors issued separate audit reports for hospital inpatient costs and CBRC costs. All audit reports for hospital inpatient costs were issued by May 30, 2009. Of the CBRC audit reports, Rancho Los Amigos National Rehabilitation Center's audit report has been issued and an audit settlement of \$9.3 million will be paid to the County. The remaining FY 2005-06 CBRC audit reports have yet to be issued. FY 2006-07 Medi-Cal field audits are in progress.

The FY 2004-05 informal level appeal hearing was held during June 2009. The resolution of these appeal issues are contingent upon the Report of Findings to be issued by the Administrative Appeals Hearing Officer.

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

13. HOSPITAL AND OTHER PROGRAM REVENUES-Continued

Other Medi-Cal Programs-Continued

Medi-Cal Managed Care Rate Supplement

The State received permission from CMS to supplement the Medi-Cal Managed Care rates paid to L.A. Care for the period October 1, 2006 through September 1, 2008. The supplement is funded by an intergovernmental transfer (IGT) by the County, and CMS understood that the supplemental payment was to be passed through to DHS. The County does not receive managed care payment directly from the State; rather, the State contracts with L.A. Care, which then subcontracts for services with various provider networks, including DHS' Community Health Plan. DHS received gross payments in FY 2008-09 for this entire period in the amount of \$149.3 million, based on a \$74.7 million IGT.

The State made a proposal to CMS to extend this program to period October 1, 2008 through September 30, 2009, and to include supplemental payments to L.A. Care, as well as Health Net. CMS is still considering this proposal. Assuming the program as it relates to L.A. Care will be approved, an estimated \$62.3 million was accrued for FY 2008-09 and an IGT expenditure in the amount of \$23.8 million was recorded.

The total estimated IGTs and the related estimated revenues recorded in FY 2008-09, less prior year accruals, are as follows (in thousands):

<u>Program</u>	<u>Intergovernmental Transfers Expense</u>	<u>Revenues</u>
Medi-Cal Managed Care Rate Supplement	\$33,682	\$82,141

Coverage Initiative

On April 10, 2007, DHCS awarded LA County DHS an allocation of federal funding to implement its Healthy Way LA Program under the Health Care Coverage Initiative (CI). In addition to patient care services, LA County DHS is to claim administrative and case management costs associated with the CI program. In FY 2008-09, an estimated \$53.9 million of CI revenues and \$7.6 million of CI administrative costs were recorded.

Revenues from the various Medi-Cal programs (i.e., FFS, DSH, SNCP, CBRC, AB 915, SB 1732, etc.) represent approximately 75% of the hospitals' patient care revenue for the year ended June 30, 2009.

Medicare Program

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



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

13. HOSPITAL AND OTHER PROGRAM REVENUES-Continued

Medicare Program-Continued

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

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

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

For FY 2007-08, the Medicare audits for LAC+USC, Harbor/UCLA, Rancho, and OV/UCLA have not been scheduled. As of mid August 2007, MLK ceased hospital operation and will not undergo a hospital Medicare audit due to low Medicare utilization.

Revenues from the Medicare program represent approximately 7% of patient care revenue for the year ended June 30, 2009.

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

Accounts Receivable-net

The following is a summary, by hospital, of accounts receivable and allowances for uncollectible amounts as of June 30, 2009 (in thousands):

	<u>H/UCLA</u>	<u>OV/UCLA</u>	<u>LAC+USC</u>	<u>MLK-MACC</u>	<u>Rancho</u>	<u>Total</u>
Accounts receivable	\$ 824,606	560,616	1,275,400	225,966	310,548	\$ 3,197,136
Less: Allowance for uncollectible amounts	<u>645,570</u>	<u>361,000</u>	<u>925,296</u>	<u>44,829</u>	<u>195,587</u>	<u>2,172,282</u>
Accounts Receivable - net	<u>\$ 179,036</u>	<u>199,616</u>	<u>350,104</u>	<u>181,137</u>	<u>114,961</u>	<u>\$ 1,024,854</u>

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

13. HOSPITAL AND OTHER PROGRAM REVENUES-Continued

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, 2009, based on established rates, is as follows (in thousands):

Charges forgone	\$1,470,327
Less: Federal and State subventions	<u>0</u>
Net charges forgone	<u>\$1,470,327</u>

Litigation Regarding Reduction in Health Services

In March 2003, two lawsuits were filed in Federal District Court against the County challenging health care reductions approved by the Board. The lawsuits challenged the closure of Rancho Los Amigos National Rehabilitation Center as well as the reduction of the 100 beds at LAC+USC Medical Center.

Negotiated settlements in both cases were approved by the Board of Supervisors in August 2005 and became final in December 2005 and March 2006, respectively. Pursuant to the settlement agreements, the County agreed to keep Rancho open through March 9, 2009 at a specified level of service. The settlement agreement expired on March 10, 2009, but the County has continued its efforts to identify and negotiate with an organization to assume the future operation of Rancho as was originally required by the settlement agreement. In the meantime, the facility is open and operating. With respect to LAC+USC, the settlement allows for the graduated reduction of beds contingent upon the County providing additional outpatient care on the facility's campus and the facility reaching certain targets showing the efficiency of, and decreased demand on, the hospital.

14. INTERFUND TRANSACTIONS

Interfund Receivables/Payables

Interfund receivables and payables have been eliminated in the government-wide financial statements, except for "internal balances" that are reflected between the governmental and business-type activities. Interfund receivables and payables have been recorded in the fund financial statements. Such amounts arise due to the exchange of goods or services (or subsidy transfers) between funds that were pending the transfer of cash as of June 30, 2009.

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

14. INTERFUND TRANSACTIONS-Continued

Interfund Receivables/Payables-Continued

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, 2009 are as follows (in thousands):

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Fire Protection District	\$ 7,306
	Flood Control District	4,571
	Public Library	4,691
	Regional Park and Open Space District	2,858
	Internal Service Funds	6,271
	Waterworks Enterprise Funds	90
	Harbor-UCLA Medical Center	27,299
	Olive View-UCLA Medical Center	33,082
	LAC+USC Medical Center	46,647
	M.L. King Ambulatory Care Center	42,503
	Rancho Los Amigos Nat'l Rehab Center	32,931
	Nonmajor Enterprise Funds	17
	Nonmajor Governmental Funds	118,113
		<u>326,379</u>
Fire Protection District	General Fund	3,065
	Internal Service Funds	1
	Nonmajor Governmental Funds	450
		<u>3,516</u>
Flood Control District	General Fund	4,513
	Internal Service Funds	15,096
	Waterworks Enterprise Funds	22
	Nonmajor Enterprise Funds	2
	Nonmajor Governmental Funds	380
		<u>20,013</u>
Public Library	General Fund	273
	Nonmajor Governmental Funds	150
		<u>423</u>

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

14. INTERFUND TRANSACTIONS-Continued

Interfund Receivables/Payables-Continued

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Internal Service Funds	General Fund	\$ 17,450
	Fire Protection District	46
	Flood Control District	13,394
	Public Library	3
	Waterworks Enterprise Funds	5,100
	Harbor-UCLA Medical Center	70
	Olive View-UCLA Medical Center	539
	LAC+USC Medical Center	1,217
	M.L. King Ambulatory Care Center	9
	Rancho Los Amigos Nat'l Rehab Center	26
	Nonmajor Enterprise Funds	230
	Nonmajor Governmental Funds	<u>27,826</u>
		<u>65,910</u>
Waterworks Enterprise Funds	General Fund	2
	Internal Service Funds	<u>1,819</u>
		<u>1,821</u>
Harbor-UCLA Medical Center	General Fund	9,181
	Fire Protection District	30
	Olive View-UCLA Medical Center	82
	LAC+USC Medical Center	1,040
	M.L. King Ambulatory Care Center	492
	Rancho Los Amigos Nat'l Rehab Center	29
	Nonmajor Governmental Funds	<u>29,584</u>
		<u>40,438</u>
Olive View-UCLA Medical Center	General Fund	14,233
	Fire Protection District	122
	Harbor-UCLA Medical Center	12
	LAC+USC Medical Center	29,387
	M.L. King Ambulatory Care Center	17
	Rancho Los Amigos Nat'l Rehab Center	8
	Nonmajor Governmental Funds	<u>21,831</u>
		<u>65,610</u>
LAC+USC Medical Center	General Fund	115,430
	Fire Protection District	65
	Harbor-UCLA Medical Center	4,988
	Olive View-UCLA Medical Center	2,883
	M.L. King Ambulatory Care Center	1,267
	Rancho Los Amigos Nat'l Rehab Center	927
	Nonmajor Governmental Funds	<u>54,371</u>
		<u>179,931</u>

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

14. INTERFUND TRANSACTIONS-Continued

Interfund Receivables/Payables-Continued

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
M.L. King Ambulatory Care Center	General Fund	\$ 3,149
	LAC+USC Medical Center	1,559
	Nonmajor Governmental Funds	<u>6</u>
		<u>4,714</u>
Rancho Los Amigos Nat'l Rehab Center	General Fund	27,424
	Fire Protection District	16
	Harbor-UCLA Medical Center	109
	LAC+USC Medical Center	<u>96</u>
		<u>27,645</u>
Nonmajor Enterprise Funds	Internal Service Funds	<u>53</u>
Nonmajor Governmental Funds	General Fund	300,385
	Fire Protection District	2,540
	Flood Control District	436
	Public Library	14
	Regional Park and Open Space District	61
	Internal Service Funds	13,677
	Waterworks Enterprise Funds	1,051
	Olive View-UCLA Medical Center	21
	Nonmajor Governmental Funds	<u>12,554</u>
		<u>330,739</u>
Total Interfund Receivables/Payables		<u>\$ 1,067,192</u>

Interfund Transfers

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

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

14. INTERFUND TRANSACTIONS-Continued

Interfund Transfers-Continued

Interfund transfers to/from other funds for the year ended June 30, 2009 are as follows (in thousands):

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>
General Fund	Public Library	\$ 39,665
	Internal Service Funds	69
	Harbor-UCLA Medical Center	161,540
	Olive View-UCLA Medical Center	102,420
	LAC+USC Medical Center	413,838
	M.L. King Ambulatory Care Center	60,328
	Rancho Los Amigos Nat'l Rehab Center	64,719
	Nonmajor Governmental Funds	<u>69,173</u>
		<u>911,752</u>
Fire Protection District	Nonmajor Governmental Funds	<u>13,351</u>
Flood Control District	Internal Service Funds	1,425
	Nonmajor Governmental Funds	<u>19,052</u>
		<u>20,477</u>
Public Library	General Fund	3,479
	Nonmajor Governmental Funds	<u>3,535</u>
		<u>7,014</u>
Regional Park and Open Space District	Nonmajor Governmental Funds	<u>33,280</u>
Internal Service Funds	General Fund	2,624
	Nonmajor Governmental Funds	<u>265</u>
		<u>2,889</u>
Waterworks Enterprise Funds	General Fund	5
	Internal Service Funds	<u>344</u>
		<u>349</u>
Harbor-UCLA Medical Center	Olive View-UCLA Medical Center	12,036
	M.L. King Ambulatory Care Center	5
	Rancho Los Amigos Nat'l Rehab Center	<u>5,530</u>
		<u>17,571</u>
Olive View-UCLA Medical Center	Nonmajor Governmental Funds	<u>5,231</u>
LAC+USC Medical Center	Harbor-UCLA Medical Center	948
	Olive View-UCLA Medical Center	<u>29,360</u>
		<u>30,308</u>
Rancho Los Amigos Nat'l Rehab Center	LAC+USC Medical Center	<u>1,554</u>

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

14. INTERFUND TRANSACTIONS-Continued

Interfund Transfers-Continued

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>
Nonmajor Governmental Funds	General Fund	\$ 293,139
	Flood Control District	32
	Internal Service Funds	2,524
	Harbor-UCLA Medical Center	59,260
	Olive View-UCLA Medical Center	42,451
	LAC+USC Medical Center	109,479
	M.L. King Ambulatory Care Center	313
	Rancho Los Amigos Nat'l Rehab Center	181
	Nonmajor Enterprise Funds	2,980
	Nonmajor Governmental Funds	<u>44,400</u>
		<u>554,759</u>
Total Interfund Transfers		<u>\$1,598,535</u>

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, 2009 are as follows (in thousands):

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Internal Service Funds	\$ 3,589
	Harbor-UCLA Medical Center	134,597
	Olive View-UCLA Medical Center	200,128
	LAC+USC Medical Center	275,238
	M.L. King Ambulatory Care Center	154,996
	Rancho Los Amigos Nat'l Rehab Center	<u>56,469</u>
		<u>825,017</u>
Flood Control District	Internal Service Funds	<u>6,213</u>
Waterworks Enterprise Funds	Internal Service Funds	<u>1,164</u>
Nonmajor Governmental Funds	Internal Service Funds	<u>11,034</u>
Total Short-term Advances		<u>\$ 843,428</u>

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

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

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

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

- For budgetary purposes, reserves and designations are recorded as other financing uses at the time they are established. Although designations are not legal commitments, the County recognizes them as uses of budgetary fund balance. Designations that are subsequently cancelled or otherwise made available for appropriation are recorded as other financing sources.
- Under the budgetary basis, revenues (primarily intergovernmental) are recognized at the time encumbrances are established for certain programs and capital improvements. The intent of the budgetary policy is to match the use of budgetary resources (for amounts encumbered, but not yet expended) with funding sources that will materialize as revenues when actual expenditures are incurred. Under the modified accrual basis, revenues are not recognized until the qualifying expenditures are incurred.
- For the General Fund, obligations for accrued vacation and sick leave and estimated liabilities for litigation and self-insurance are recorded as budgetary expenditures to the extent that they are estimated to be payable within one year after year-end. Under the modified accrual basis of accounting, such expenditures are not recognized until they become due and payable in accordance with GASB Interpretation No. 6.
- In conjunction with the sale of pension obligation bonds in 1994-95, the County sold the right to future investment income on debt service deposits. Under the budgetary basis, the proceeds were included in 1994-95 revenues. Under the modified accrual basis, the proceeds were recorded as deferred revenue (unearned) and are being amortized over the life of the bonds. This matter is also discussed in Note 7.
- In conjunction with the sale of Tobacco Settlement Asset-Backed bonds in 2005-06, the County sold 25.9% of its future tobacco settlement revenues. Under the budgetary basis, the proceeds were recognized as revenues. Under the modified accrual basis, the proceeds were recorded as a sale of future revenues and were being recognized over the duration of the sale agreement, in accordance with GASB Statement No. 48. This matter is also discussed in Note 10, under the caption, "Tobacco Settlement Asset-Backed Bonds."
- Under the budgetary basis, property tax revenues are recognized to the extent that they are collectible within one year after year-end. Under the modified accrual basis, property tax revenues are recognized only to the extent that they are collectible within 60 days.
- For budgetary purposes, investment income is recognized prior to the effect of changes in the fair value of investments. Under the modified accrual basis, the effects of such fair value changes have been recognized.



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

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

- In conjunction with implementing GASB 45, the County determined that certain assets were held by LACERA (the OPEB administrator) in an OPEB Agency Fund. For budgetary purposes, any excess payments (beyond the pay-as-you-go amount) are recognized as expenditures. Under the modified accrual basis, the expenditures are adjusted to recognize the OPEB Agency assets at June 30, 2009.

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

	<u>General Fund</u>	<u>Fire Protection District</u>	<u>Flood Control District</u>	<u>Public Library</u>	<u>Regional Park and Open Space District</u>
Fund balance - budgetary basis	\$ 1,713,428	\$ 58,248	\$ 28,386	\$ 13,307	\$ 166,640
Reserves and designations	<u>1,511,430</u>	<u>161,794</u>	<u>168,925</u>	<u>15,105</u>	<u>121,599</u>
Subtotal	3,224,858	220,042	197,311	28,412	288,239
Adjustments:					
Accrual of estimated liability for litigation and self-insurance claims	154,664	(708)		(1)	
Accrual of vacation and sick leave benefits	46,797				
Deferral of unearned investment income	(1,143)	(56)		(13)	
Deferral of sale of tobacco settlement revenue	(266,794)				
Change in revenue accruals	<u>8,436</u>	<u>(14,341)</u>	<u>(5,285)</u>	<u>(1,473)</u>	<u>(578)</u>
Subtotal	<u>(58,040)</u>	<u>(15,105)</u>	<u>(5,285)</u>	<u>(1,487)</u>	<u>(578)</u>
Fund balance - GAAP basis	<u>\$ 3,166,818</u>	<u>\$ 204,937</u>	<u>\$ 192,026</u>	<u>\$ 26,925</u>	<u>\$ 287,661</u>

16. OTHER COMMITMENTS

Construction Commitments

At June 30, 2009, the LAC+USC Medical Center Hospital Enterprise Fund no longer had contractual commitments to provide for the construction of the LAC+USC Medical Center replacement facility, which was completed during FY 2008-2009. However, there were contractual commitments of approximately \$1,492,000 for various hospital construction projects that were financed by commercial paper.

LACERA Capital Commitments

At June 30, 2009, LACERA had outstanding capital commitments to various investment managers, approximating \$2,580,000,000. Subsequent to June 30, 2009, LACERA funded \$129,000,000 of these capital commitments.

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

16. OTHER COMMITMENTS-Continued

Investment Purchase Commitments

At June 30, 2009, the County had open trade commitments with various brokers to purchase investments approximating \$251,533,000 with settlement dates subsequent to year end. These investment transactions had not been recorded as of June 30, 2009, since the County neither takes delivery of the securities nor earns interest on the investments until the settlement date. By July 1, 2009, the County had purchased such investments.

17. RISK MANAGEMENT

The County purchases insurance for certain risk exposures such as aviation, employee fidelity, boiler and machinery in certain structures, art objects, catastrophic hospital general liability, volunteer, special events, public official bond, crime, safety reserve employee death and disability, and fiduciary liability for the deferred compensation plans. There have been no settlements related to these programs that exceeded insurance coverage in the last three years. The County also has insurance on most major structures. Losses did not exceed coverage in 2007-2008 or 2008-2009.

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

As indicated in the following table, the County's workers' compensation liabilities as of June 30, 2009 were approximately \$2.116 billion. This amount is undiscounted and is based on an actuarial study of the County's self-insured program as of June 30, 2009. Approximately \$158,556,000 of the total liabilities pertain to salary continuation payments and other related costs mandated by the State Labor Code.

As of June 30, 2009, the County's best estimate of these liabilities is \$ 2.335 billion. Changes in the reported liability since July 1, 2007 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
<u>2007-2008</u>				
Workers' Compensation	\$ 2,203,253	\$ 231,480	\$(314,305)	\$ 2,120,428
Other	189,414	114,355	(56,380)	247,389
Total 2007-2008	<u>\$ 2,392,667</u>	<u>\$ 345,835</u>	<u>\$(370,685)</u>	<u>\$ 2,367,817</u>
<u>2008-2009</u>				
Workers' Compensation	\$ 2,120,428	\$ 313,090	\$(317,537)	\$ 2,115,981
Other	247,389	39,323	(67,888)	218,824
Total 2008-2009	<u>\$ 2,367,817</u>	<u>\$ 352,413</u>	<u>\$(385,425)</u>	<u>\$ 2,334,805</u>

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

17. RISK MANAGEMENT-Continued

In addition to the above estimated liabilities, the County has determined that claims seeking damages of approximately \$ 235.1 million are reasonably possible of creating adverse judgments against the County. Because of the uncertainty of their outcome, no loss has been accrued for these claims.

18. POLLUTION REMEDIATION

As discussed in Note 2, the County implemented GASB Statement No. 49 for the fiscal year ended June 30, 2009. GASB 49 establishes accounting and reporting guidelines for the recognition and measurement of pollution remediation obligations (liabilities).

The County is involved in several remediation actions to clean up pollution sites within its boundaries. These matters generally coincide with the County's ownership of land, buildings and infrastructure assets. In some cases, regulatory agencies (e.g., Regional Water Quality Board, State Department of Toxic Control, California Coastal Commission) notified the County of the need for remedial action. In addition, the County conducts its own environmental monitoring and this activity identifies pollution sites and matters requiring further investigation and possible remediation. Once the County is aware of these conditions, it commences monitoring, assessment, testing and/or clean up activities, and recognizes pollution remediation obligations when estimates can reasonably be determined.

The types of pollution that have been identified include leaking underground storage tanks, water, groundwater and soil contamination, asbestos and lead paint contamination, methane gas detection and excessive levels of other contaminants. Remediation efforts include developing remediation and feasibility studies, source identification studies, site testing, sampling and analysis, ground water clean up, and removal of storage tanks, asbestos tiles and other hazardous materials.

As of June 30, 2009, the County's estimated pollution remediation obligations totaled \$30.065 million. These obligations were all associated with the County's government-wide governmental activities. Obligations of enterprise and internal service funds were immaterial. The estimated liabilities were determined by project managers, based on historical cost information for projects of the same type, size and complexity and measured at their current value. In subsequent periods, the County will adjust estimated obligations when new information indicates that such changes are required. At this time, the County has determined there are no estimated recoveries reducing the obligations.

19. PROPOSITION 62 - UNINCORPORATED LOS ANGELES COUNTY UTILITY USE TAX

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.

On November 4, 2008, the voters approved the Unincorporated Los Angeles County Utility Users' Tax Continuation Measure (Measure U) to validate and reduce the Los Angeles County's existing utility users' tax from 5 percent to 4.5 percent. The adoption of this measure prospectively addresses the validity of future taxes.

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

19. PROPOSITION 62 - UNINCORPORATED LOS ANGELES COUNTY UTILITY USE TAX-Continued

Prior to Measure U, a class action lawsuit was filed against the County in 2005, contending the County's utility taxes did not meet the requirements of Proposition 62 and were, therefore, invalid. After discussions and tentative agreement with the plaintiffs, the Board authorized a settlement in July 2008, which was finally approved by the Court in March 2009. The monetary provisions of the settlement are estimated at \$65 million and liabilities of this amount have been recognized in the government-wide financial statements (governmental activities). Implementation of the settlement agreement is in progress and provides for refunds to class members who filed claims. County management believes there is no additional material exposure for this matter.

20. SUBSEQUENT EVENTS

Tax and Revenue Anticipation Notes ("TRANS")

On July 1, 2009, the County issued \$1,300,000,000 in 2009-10 TRANS which will mature on June 30, 2010. The TRANS are collateralized by taxes and other revenues attributable to the 2009-10 fiscal year and were issued in the form of Fixed Rate Notes at an effective interest rate of 0.80%.

Capital Asset Leasing Corporation Lease Revenue Bonds

On November 24, 2009, the Corporation issued Lease Revenue Bonds in the aggregate principal amount of \$24,025,000, with an interest rate between 2% and 5%. The proceeds of the Bonds will be used to redeem certain bond anticipation notes, whose proceeds were originally used to finance the acquisition of equipment. The Bonds mature serially December 1<sup>st</sup> and June 1<sup>st</sup> each year, and interest is payable on December 1<sup>st</sup> and June 1<sup>st</sup>.

Martin Luther King, Jr. Medical Facility

As mentioned in Note 1, Martin Luther King, Jr.-Harbor Hospital was converted to an ambulatory care center in August 2007. A high priority of the Board is to restore inpatient hospital services at this facility's site. The County has entered negotiations with the University of California (UC) to establish a partnership that would result in a new hospital. On November 19, 2009, the UC Regents approved, in concept, a partnership with the County to reopen the Martin Luther King Jr. medical facility. On December 1, 2009, the Board ratified the conceptual partnership agreement. It is anticipated that inpatient services would commence in 2013.

The proposed partnership would require the County to provide the hospital building facilities, start-up funding, and certain annual operating funding. A new non-profit entity would be created to operate the hospital and its governance structure would consist of a seven-member board of directors. The County and UC would each appoint two directors and work together to jointly appoint the remaining three members.

A formal agreement is required to implement the intent of the County and UC. The legal process by which the new non-profit entity is established remains pending. Additional agreements between each party and the nonprofit entity are also contemplated. The County intends to evaluate the new entity as a future component unit for financial reporting purposes when all legal agreements have been executed.

REQUIRED SUPPLEMENTARY INFORMATION  
(Unaudited)

Los Angeles County Employees Retirement Association  
Schedule of Funding Progress-Pension Plan  
(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)
06/30/06	\$32,819,725	\$ 36,258,929	\$ 3,439,204	90.5%	\$5,205,804	66.1%
06/30/07	37,041,832	39,502,456	2,460,624	93.8%	5,615,736	43.8%
06/30/08	39,662,361	41,975,631	2,313,270	94.5%	6,123,888	37.8%

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

Retiree Health Care(1)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2006	\$ 0	\$ 20,301,800	\$ 20,301,800	0%	\$ 5,205,804	389.98%
July 1, 2008	0	20,901,600	20,901,600	0%	6,123,888	341.31%

Long-Term Disability(1)

July 1, 2007	\$ 0	\$ 929,265	\$ 929,265	0%	\$ 5,615,736	16.55%
July 1, 2009	0	951,797	951,797	0%	6,123,888	15.54%

(1) There was no data available prior to the first valuation.

# **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**





**COUNTY OF LOS ANGELES  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2009**

<b>Federal Grantor/Pass Through Grantor/Program Title</b>	<b>Catalog of Federal Domestic Assistance Number (CFDA#)</b>	<b>Pass-Through Entity ID No. (note 1)</b>	<b>Federal Expenditures</b>
<b><u>U.S. Agency for International Development</u></b>			
<i>Direct Program</i>			
International Search and Rescue Operations	98.001		\$ 1,102,322
<b>Total U.S. Agency for International Development</b>			<u>1,102,322</u>
<b><u>U.S. Department of Agriculture</u></b>			
<i>Passed Through the Calif Department of Aging</i>			
Senior Farmer's Market Program	10.576		111,040
<i>Passed Through the Calif Department of Education</i>			
Child Nutrition Program - School Breakfast	10.553 (2)	01519-SN-19R	1,866,107
Child Nutrition Program - School Lunch	10.555 (2)	01519-SN-19R	2,932,419
Summer Food Service Program for Children	10.559 (2)	CN088040	27,795
Summer Food Service Program for Children	10.559 (2)	19-86190V	557,969
<i>Subtotal Child Nutrition Cluster (10.553, 10.555, 10.559)</i>			<u>5,384,290</u>
<i>Passed Through the Calif Department of Social Services</i>			
Supplemental Nutrition Assistance Program (SNAP) - Dollar Value of Benefits Issued (See Notes 6 and 8)	10.551 (1)		1,135,150,775
Supplemental Nutrition Assistance Program (SNAP) - Administration	10.561 (1)		129,925,848
<i>Subtotal SNAP Cluster (10.551, 10.561)</i>			<u>1,265,076,623</u>
<b>Total U.S. Department of Agriculture</b>			<u>1,270,571,953</u>
<b><u>U.S. Department of Defense</u></b>			
<i>Direct Program</i>			
Procurement Technical Assistance	12.002		254,345
<b>Total U.S. Department of Defense</b>			<u>254,345</u>
<b><u>U.S. Department of Education</u></b>			
<i>Direct Program</i>			
Supplemental Educational Opportunity Grants	84.007 (18)		16,630
Pell Grants	84.063 (18)		195,887
<i>Passed Through the Calif Department of Alcohol and Drugs</i>			
Drug Free Schools and Communities (DFSC) - Friday Night Live	84.186	50b-09	75,000
Drug Free Schools and Communities - Club Live	84.186	50c-09	75,000
<i>Subtotal 84.186</i>			<u>150,000</u>
<i>Passed Through the California Department of Education</i>			
<i>Passed Through the Los Angeles County Office of Education</i>			
Individuals with Disabilities Education Act (IDEA)	84.027 (9)		13,832,574
<i>Subtotal Special Education Cluster (IDEA) (84.027)</i>			<u>13,832,574</u>
<b>Total U.S. Department of Education</b>			<u>14,195,091</u>
<b><u>U.S. Department of Health and Human Services</u></b>			
<i>Direct Program</i>			
Public Health Preparedness and Response for Bioterrorism	93.069		32,208,577
Child Mental Health Initiative Grant	93.104		1,622,637
Tuberculosis/Centers for Disease Control Cooperative Agreement	93.116		4,836,452
Active Varicella Surveillance and Epidemic Studies	93.185		277,458
Childhood Lead Poisoning Case Management	93.197		744,523
Families Coming Together to Fight Substance Abuse	93.243 (19)		119,206

**COUNTY OF LOS ANGELES  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2009**

<b>Federal Grantor/Pass Through Grantor/Program Title</b>	<b>Catalog of Federal Domestic Assistance Number (CFDA#)</b>	<b>Pass-Through Entity ID No. (note 1)</b>	<b>Federal Expenditures</b>
Adult Viral Hepatitis Prevention Coordinator	93.283		\$ 146,341
State Epidemiology and Lab Surveillance Responses	93.283		734,083
<i>Subtotal 93.283</i>			<u>880,424</u>
Bioterrorism Hospital Preparedness Program	93.889		13,575,783
HIV Emergency Relief Project Grant	93.914		34,757,937
Minority AIDS Initiative (MAI)	93.914		3,930,685
<i>Subtotal 93.914</i>			<u>38,688,622</u>
Scholarships for Disadvantaged Students	93.925 (18)		6,195
Special Projects of National Significance/MSM Youth	93.928		296,933
Expanded and Integrated HIV Testing for Populations	93.940		758,388
HIV Prevention Project	93.940		13,969,443
National HIV Behavioral Surveillance	93.940		390,964
<i>Subtotal 93.940</i>			<u>15,118,795</u>
Rapid Testing Algorithms	93.941		160,131
Enhanced HIV/AIDS Surveillance for Perinatal Prevention	93.941		114,727
<i>Subtotal 93.941</i>			<u>274,858</u>
HIV AIDS Surveillance and Seroprevalence	93.944		2,340,723
Monitoring Atypical HIV Strains in Los Angeles County	93.944		72,111
Morbidity and Risk Behavior Surveillance	93.944		526,328
<i>Subtotal 93.944</i>			<u>2,939,162</u>
Comprehensive STD Preventions Systems	93.977		3,818,040
<i>Passed Through the Calif Family Health Council</i>			
Family Planning	93.217		891,270
<i>Passed Through the Calif Department of Aging</i>			
Title VII - Elder Abuse Prevention	93.041	AP-0809-19	95,813
Title VII - Ombudsman	93.042	AP-0809-19	4,027
Area Agency on Aging III D	93.043	AP-0809-19	370,154
Area Agency on Aging III B	93.044 (10)	AP-0809-19	5,534,971
Area Agency on Aging III C-I	93.045 (10)	AP-0809-19	5,917,004
Area Agency on Aging III C-II	93.045 (10)	AP-0809-19	3,646,545
Area Agency on Aging III USDA CI	93.053 (10)	AP-0809-19	826,067
Area Agency on Aging III USDA CII	93.053 (10)	AP-0809-19	582,024
<i>Subtotal Aging Cluster (93.044, 93.045, 93.053)</i>			<u>16,506,611</u>
Area Agency on Aging Title III E	93.052	AP-0809-19	1,847,105
Area Agency on Aging Health Insurance Counseling and Advocacy Program (HICAP)	93.779	AP-0809-19	196,905
<i>Passed Through the Calif Department of Alcohol and Drugs</i>			
Co-Occurring Disorders Court Program Enhancement	93.243 (19)		162,735
Screening and Brief Intervention and Referral to Treatment (SBIRT)	93.243 (19)	T1015954	726,695
<i>Subtotal 93.243</i>			<u>889,430</u>
Federal Drug Medi-Cal (Prenatal and Drug) FMAP	93.778 (15)	40 & 40a	2,548,379

**COUNTY OF LOS ANGELES  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2009**

<b>Federal Grantor/Pass Through Grantor/Program Title</b>	<b>Catalog of Federal Domestic Assistance Number (CFDA#)</b>	<b>Pass-Through Entity ID No. (note 1)</b>	<b>Federal Expenditures</b>
Alcohol Block Grant	93.959	50-08	\$ 1,160,145
Alcohol Block Grant	93.959	50-09	38,463,266
Federal Female Offender	93.959	45-09	360,548
New Prenatal Set-Aside	93.959	52-09	3,431,208
Substance Abuse Block Grant New HIV Set-Aside	93.959	51-09	3,976,864
Substance Abuse Prevention and Treatment Block Grant Adolescent Treatment	93.959	50a-09	1,597,462
Substance Abuse Prevention and Treatment Projects	93.959	56-09	6,596
Substance Abuse Prevention and Treatment Set-Aside	93.959	50d-09	12,243,111
Substance Abuse Prevention and Treatment Set-Aside	93.959	PND 0005A	220,000
<i>Subtotal 93.959</i>			<u>61,459,200</u>
<i>Passed Through the Calif Department of Child Support Services</i>			
Child Support Enforcement Title IV D	93.563 (20)		105,881,615
<i>Passed Through the Calif Department of Community Services and Development</i>			
Community Services Block Grant (See Note 3)	93.569 (13)	08F-4921	6,932,389
Community Services Block Grant American Indian (See Note 3)	93.569 (13)	08F-4960	425,004
<i>Subtotal CSBG Cluster (93.569)</i>			<u>7,357,393</u>
<i>Passed Through the Calif Department of Education</i>			
Child Day Care Program	93.596 (14)	CAPP8030	9,456,094
<i>Subtotal CCDF Cluster (93.596)</i>			<u>9,456,094</u>
<i>Passed Through the Calif Department of Health Services</i>			
National Violent Death Reporting System Project	93.136	84-265A	17,388
Health Care Program Children in Foster Care	93.658 (6)	75-1545-0-1-609	6,960,034
Child Health and Disability Program	93.778 (15)	75-0512-0-1-551	5,510,639
In Home Supportive Services - Personal Care Services Program Health Related	93.778 (15)		59,415,447
Medi-Cal Administrative Activities (MAA)	93.778 (15)	04-35096	10,768,133
Medi-Cal Eligibility Determination	93.778 (15)		224,391,111
Targeted Case Management (TCM) FMAP	93.778 (15)	19-0712	5,071,227
<i>Subtotal 93.778</i>			<u>305,156,557</u>
Comprehensive AIDS Resources Emergency Act Title II	93.917	06-55756	4,875,082
<i>Passed Through the Calif Department of Mental Health</i>			
McKinney Homeless Act Program	93.150	1946001347J5	1,852,016
Mental Health Services - Block Grant	93.958	1946001347J5	14,333,922
<i>Passed Through the Calif Department of Public Health</i>			
Immunization Calendar Year	93.268 (11)	07-65838	4,835,472
Immunization Supplemental Fund	93.268 (11)	08-85302	69,690
Immunization Tracking	93.268 (11)	08-85356	238,664
<i>Subtotal Immunization Cluster (93.268)</i>			<u>5,143,826</u>
Health Facilities Inspection	93.777 (15)	08-85192	14,572,446
Refugee Preventive Health Services	93.978	08-70-90840	1,736,327
Maternal and Child Health	93.994	200819	2,744,981
<i>Passed Through the Calif Department of Social Services</i>			
Promoting Safe and Stable Families Program (PSSF)	93.556	CFL 08/09-04	9,244,413

**COUNTY OF LOS ANGELES  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2009**

<b>Federal Grantor/Pass Through Grantor/Program Title</b>	<b>Catalog of Federal Domestic Assistance Number (CFDA#)</b>	<b>Pass-Through Entity ID No. (note 1)</b>	<b>Federal Expenditures</b>
CalWORKs - FG/U Assistance	93.558 (12)		\$ 432,984,883
CalWORKs Diversion - Federal	93.558 (12)		14,517
CalWORKs Legal Immigrants (MC)	93.558 (12)		16,821,339
CalWORKs Single	93.558 (12)		528,473,632
CalWORKs Temporary Assistance for Needy Families Time-Out Assistance	93.558 (12)		30,447,593
Temporary Assistance for Needy Families (TANF)	93.558 (12)	CFL 08/09-30	40,698,910
<i>Subtotal TANF Cluster (93.558)</i>			<u>1,049,440,874</u>
Refugee Employment Social Services	93.566		3,843,139
Refugee Resettlement	93.566		6,591,848
<i>Subtotal 93.566</i>			<u>10,434,987</u>
Refugee Targeted Assistance Program	93.584		1,691,769
Children's Welfare Services IV B (Direct Cost)	93.645	CFL 08/09-30	8,452,175
Aid to Families with Dependent Children - FC - Administration and Assistance	93.658 (6)	CFL 08/09-30	128,305,880
Child Welfare Services Outcome Improvement Project (Cohort 1)	93.658 (6)	CFL 08/09-30	1,379,794
Children's Welfare Services Title IV-E	93.658 (6)	CFL 08/09-30	193,435,804
Foster Family Licensing	93.658 (6)	CFL 08/09-22	245,087
Foster Parent Training	93.658 (6)	CFL 08/09-30	48,936
Group Home Month Visits / CWD	93.658 (6)	CFL 08/09-30	1,341,354
Probation Title IV-E	93.658 (6)	CFL 08/09-30	56,552,937
<i>Subtotal 93.658</i>			<u>381,309,792</u>
Adoptions - Administration and Assistance	93.659 (21)	CFL 08/09-05	122,642,708
Children's Welfare Services Title XX	93.667	CFL 08/09-30	35,992,000
Independent Living Skills - Children's Services	93.674	CFL 08/09-03	7,761,225
Adult Protective Services/County Services Block Grant	93.778 (15)		16,312,148
Children's Welfare Services XIX (Hlth Reel)	93.778 (15)	CFL 08/09-30	32,373,696
<i>Subtotal 93.778</i>			<u>48,685,844</u>
<b>Total U.S. Department of Health and Human Services</b>			<u>2,355,960,027</u>
<b><u>U.S. Department of Homeland Security</u></b>			
<i>Direct Program</i>			
Urban Search and Rescue 2009-SR-24-K023	97.025		15,631
Urban Search and Rescue EMW-2003-CA-0101	97.025		23,266
Urban Search and Rescue EMW-2007-CA-0155	97.025		88,892
Urban Search and Rescue EMW-2008-CA-0508	97.025		581,730
Urban Search and Rescue EMW-2008-CA-1488	97.025		180,487
<i>Subtotal 97.025</i>			<u>890,006</u>
Port Security Grant Program 2007-GB-T7-K094	97.056		1,573,480
TSA National Explosives Detection Canine Team Program	97.072		358,153
<i>Passed Through the United Way</i>			
Emergency Food and Shelter National Board Program	97.024 (17)	26-069500-009	12,075
Emergency Food and Shelter National Board Program	97.024 (17)	27-069500-009	15,105
<i>Subtotal Emergency Food and Shelter Program Cluster (97.024)</i>			<u>27,180</u>

**COUNTY OF LOS ANGELES  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2009**

<b>Federal Grantor/Pass Through Grantor/Program Title</b>	<b>Catalog of Federal Domestic Assistance Number (CFDA#)</b>	<b>Pass-Through Entity ID No. (note 1)</b>	<b>Federal Expenditures</b>
<i>Passed Through the Calif Department of Boating and Waterways</i>			
Boating and Waterways - Marina Del Rey	97.012	07-204-779	\$ 137,154
Boating and Waterways - Santa Clarita Valley Station	97.012	07-204-780	9,998
Boating Safety Financial Assistance	97.012	08-204-770	80,000
<i>Subtotal 97.012</i>			<u>227,152</u>
<i>Passed Through the Calif Emergency Management Agency</i>			
2005 Winterstorms	97.036	ST DR 1577	4,404,274
2005 Winterstorms #2	97.036	ST DR 1585	364,936
2007 Wildfires (Santa Clarita Valley)	97.036	ST DR 1731	229,840
2008 Wildfires	97.036	ST DR 1810	28,066
Earthquake (Northridge)	97.036	ST DR 1008	2,469,944
<i>Subtotal 97.036</i>			<u>7,497,060</u>
Emergency Management Performance	97.042	2007-6	1,204,497
State Homeland Security Program 06	97.067 (16)	2006-0071	3,335,620
State Homeland Security Program 07	97.067 (16)	2007-0008	901,634
<i>Subtotal Homeland Security Cluster (97.067)</i>			<u>4,237,254</u>
Transit Security Grant Program Supplemental	97.075	2007-RL-T7-K111	462,669
Buffer Zone Protection Program 06	97.078	2006-0045	176,341
<i>Passed Through the Calif Emergency Management Agency</i>			
<i>Passed Through the City of Los Angeles</i>			
Urban Area Security Initiative 06	97.008		6,697,298
Urban Area Security Initiative 07	97.008		459,984
<i>Subtotal 97.008</i>			<u>7,157,282</u>
<b>Total U.S. Department of Homeland Security</b>			<u>23,811,074</u>
<b><u>U.S. Department of Housing and Urban Development (HUD)</u></b>			
<i>Direct Program</i>			
Homeless Foster Youth Program (HFYP) CA0500B9D*801	14.235		2,278,047
<i>Passed Through the Los Angeles County Community Development Commission</i>			
Adventure Park Recreation Program	14.218 (3)	F96410-08	68,988
Amigo Park Mobile Recreation Program	14.218 (3)	F96409-08	27,983
Burke's Club Drug Prevention and Gang Intervention	14.218 (3)	F96228-08	63,895
Century Sheriff Youth Activity League Center Firestone	14.218 (3)	F96234-08	10,500
Century Station Code Enforcement Project	14.218 (3)	F96232-08	196,301
Community Code Enforcement 4th District	14.218 (3)	600727-08	35,000
Community Code Enforcement East Los Angeles - 1st District	14.218 (3)	F96131-08	499,201
Community Development Block Grant	14.218 (3)		1,834,348
Community Development Block Grant - Santa Clarita Service Center	14.218 (3)	F96517-09	10,000
Fraud Prevention for Senior and Families	14.218 (3)	600978-08	94,492
Hacienda Heights Community Recreation Program	14.218 (3)	F96411-08	27,998
Homeowners Fraud Prevention Program	14.218 (3)	F96227-08	43,776
Lennox Station Community Youth Center	14.218 (3)	F96235-08	20,844
Loma Alta Park Recreation Program	14.218 (3)	600475-08	22,000
Pamela Park Recreation Program	14.218 (3)	600482-08	21,211
Pathfinder Senior Recreation Program	14.218 (3)	F98415-08	11,534
Pearblossom Park Recreation Program	14.218 (3)	600483-08	18,884

**COUNTY OF LOS ANGELES  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2009**

<b>Federal Grantor/Pass Through Grantor/Program Title</b>	<b>Catalog of Federal Domestic Assistance Number (CFDA#)</b>	<b>Pass-Through Entity ID No. (note 1)</b>	<b>Federal Expenditures</b>
Project Star (La Puente/Graham Library)	14.218 (3)	F98125-08/600908-08	\$ 49,183
Project Star (Studying, Tutoring, and Reading)	14.218 (3)	F96125-08	29,999
Rowland Heights Youth Athletic League Program - Carolyn Rosas Park	14.218 (3)	F96415-08	34,277
Success Through Awareness and Resistance (STAR)	14.218 (3)	F96233-08	25,000
<i>Subtotal CDBG - Entitlement Grants Cluster (14.218)</i>			<u>3,145,414</u>
<b>Total U.S. Department of Housing and Urban Development (HUD)</b>			<u>5,423,461</u>
<b><u>U.S. Department of Interior</u></b>			
<i>Passed Through the Calif Department of Parks and Recreation</i>			
Bassett Park Development	15.916	06-01560	71,615
Pamela Park Development	15.916	06-01552	57,722
<i>Subtotal 15.916</i>			<u>129,337</u>
<b>Total U.S. Department of Interior</b>			<u>129,337</u>
<b><u>U.S. Department of Justice</u></b>			
<i>Direct Program</i>			
Asset Forfeiture	16.Unknown		631,284
Asset Forfeiture (NARCO)	16.Unknown		3,643,311
Asset Seizure and Forfeiture	16.Unknown		191,916
Southwest Border Initiative	16.Unknown		4,049,192
<i>Subtotal 16.Unknown</i>			<u>8,515,703</u>
Drug Enforcement Administration	16.001		112,994
2004 Solving Cold Cases with DNA-384 2005-DN-BX-K019	16.560		103,597
DNA Forensic Casework Backlog Red Program 2005-DN-BX-K073	16.560		649,877
<i>Subtotal 16.560</i>			<u>753,474</u>
Gang and Narcotics Enforcement Team (GANET) 2007-DD-BX-0642	16.580		1,250,658
LASD Command and Control Personal Computer 2006-DD-BX-0161	16.580		784,854
<i>Subtotal 16.580</i>			<u>2,035,512</u>
State Criminal Alien Assistance Program 2008-AP-BX-1060 (See Note 5)	16.606		14,054,100
Bulletproof Vest Partnership Program	16.607		79,822
COPS 2003 Technology Program - CF28 2003-CK-WX-0281	16.710		8,391
COPS 2005 Technology Program 2005-CK-WX-0064	16.710		504,713
COPS Secure Our Schools Program 2007-CK-WX-0063	16.710		134,177
RCPI Integrity/Public Trust Initiative 2005-CK-WX-K038	16.710		45,075
<i>Subtotal 16.710</i>			<u>692,356</u>
Gang Resistance, Education and Training 2007-JV-FX-0216	16.737		23,457
Abolish Chronic Truancy (ACT) (JAG)	16.738		190,000
Alternative Sentencing Program (JAG)	16.738		208,000
At-Risk Youth (School Based Education Program) (JAG 2005)	16.738		364,549
At-Risk Youth (School Based Education Program) (JAG 2006)	16.738		451

**COUNTY OF LOS ANGELES  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2009**

<b>Federal Grantor/Pass Through Grantor/Program Title</b>	<b>Catalog of Federal Domestic Assistance Number (CFDA#)</b>	<b>Pass-Through Entity ID No. (note 1)</b>	<b>Federal Expenditures</b>
At-Risk Youth Countywide (JAG)	16.738		\$ 106,000
Community Law Enforcement and Recovery (CLEAR) (JAG)	16.738		239,052
JAG - Altadena YAL Program	16.738		35,000
JAG - Automatic License Plate Recognition System	16.738		152,419
JAG - COPS Countywide Off-Road Vehicle Enforcement Operation	16.738		35,000
JAG 2005 - Equipment	16.738		342,920
Special Enforcement Unit (CRASH) (JAG)	16.738		114,000
Strategies Against Gang Environments (SAGE) (JAG)	16.738		617,695
<i>Subtotal 16.738</i>			<u>2,405,086</u>
DNA Capacity Enhancement Program 2006-DN-BX-K184	16.741		397,461
Community Law Enforcement and Recovery (CITY)	16.744		475,000
<i>Passed Through the City of Los Angeles</i>			
City CLEAR (OJJDP)	16.541		92,560
City CLEAR (JAG)	16.738		861,439
<i>Passed Through the Calif Department of Alcohol and Drugs</i>			
Women's Re-Entry	16.585		64,024
<i>Passed Through the Calif Emergency Management Agency</i>			
Elder Abuse Advocacy and Outreach Program (EAAOP-VOC)	16.575	037-0000	153,000
Special Emphasis Victim Assistance Program (SEVAP)	16.575	037-0000	93,500
Victim Witness Assistance Program (VWAP)	16.575	037-0000	1,837,937
<i>Subtotal 16.575</i>			<u>2,084,437</u>
Anti-Gang Community Based Data System	16.580	RA 07 01 0190	2,349
Lancaster Domestic Violence Program	16.588	LE 07 05 0190	88,101
Stalking and Threat Assessment Team (STAT)	16.588	037-0000	180,000
<i>Subtotal 16.588</i>			<u>268,101</u>
Project Safe Neighborhoods	16.609	037-0000	79,159
Project Safe Neighborhoods	16.609	US07P30190	17,631
<i>Subtotal 16.609</i>			<u>96,790</u>
Clearinghouse Electronic Surveillance System	16.738	037-0000	297,765
2007 Paul Coverdell Forensic	16.742	CQ 07 06 0190	212,635
AGI Century Gang Suppression	16.744	AG 07 A1 0190	52,660
Anti Gang Initiative	16.744	UL07A10190	133,326
Project Safe Neighborhoods	16.744	037-0000	162,155
<i>Subtotal 16.744</i>			<u>348,141</u>
<i>Passed Through the Calif Department of Corrections and Rehabilitation</i>			
Juvenile Accountability Block Grant	16.523	037-0000	231,566
Disproportionate Minority Contact	16.540	CSA 338-07	94,994
Disproportionate Minority Contact	16.540	CSA 338-08	67,383
<i>Subtotal 16.540</i>			<u>162,377</u>
<b>Total U.S. Department of Justice</b>			<u>34,267,149</u>
<b><u>U.S. Department of Labor</u></b>			
<i>Passed Through the Calif Department of Aging</i>			
Older American Title V Project	17.235	TV-0809-19	2,175,509

**COUNTY OF LOS ANGELES  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2009**

<b>Federal Grantor/Pass Through Grantor/Program Title</b>	<b>Catalog of Federal Domestic Assistance Number (CFDA#)</b>	<b>Pass-Through Entity ID No. (note 1)</b>	<b>Federal Expenditures</b>
<i>Passed Through the Calif Employment Development Department</i>			
Workforce Investment Act Adult	17.258 (4)	R865463	\$ 1,623,326
Workforce Investment Act Youth	17.259 (4)	R865463	2,339,675
Workforce Investment Act (NEG) - Disaster	17.260 (4)	R970541	1,056,420
Workforce Investment Act (NEG) So. California Wildfire 2007	17.260 (4)	R865463	508,495
Workforce Investment Act (NEG) So. California Wildfire 2008	17.260 (4)	R970541	7,634
Workforce Investment Act 15% DW Augmentation	17.260 (4)	R970541	284,244
Workforce Investment Act 15% Incentive Award	17.260 (4)	R865463	49,000
Workforce Investment Act 25% DW Augmentation	17.260 (4)	R970541	111,497
Workforce Investment Act Adult	17.260 (4)	R970541	7,171,416
Workforce Investment Act Dislocated Worker	17.260 (4)	R865463	670,855
Workforce Investment Act Dislocated Worker	17.260 (4)	R970541	5,471,871
Workforce Investment Act Rapid Response	17.260 (4)	R970541	510,068
Workforce Investment Act Youth	17.260 (4)	R970541	7,281,139
<i>Subtotal 17.260</i>			<u>23,122,639</u>
<b>Total U.S. Department of Labor</b>			<u>29,261,149</u>
<b><u>U.S. Department of Transportation</u></b>			
<i>Direct Program</i>			
Airport Improvement Program	20.106		790,006
<i>Passed Through the Foothill Transit</i>			
Bus Stop Enhancement Program	20.205 (5)		105,000
<i>Passed Through the Los Angeles Metropolitan Transportation Authority</i>			
Job Access and Reverse Commute	20.516 (7)		82,169
<i>Subtotal Transit Services Programs Cluster (20.516)</i>			<u>82,169</u>
<i>Passed Through the Calif Department of Education</i>			
Sobriety Checkpoint Mini-Grant Program	20.600 (8)	SC 09 304	35,348
<i>Passed Through the Calif Department of Transportation</i>			
1998/1999 Demonstration	20.205 (5)		2,806,928
Bridge Retrofit Program	20.205 (5)		11,035,741
Emergency Relief Program	20.205 (5)		24,082
Hazard Elimination Safety	20.205 (5)		23,623
Highway Bridge Rehabilitation	20.205 (5)		1,379,454
Surface Transportation Program (STP)	20.205 (5)		14,651,736
Transportation, Community and System Preservation	20.205 (5)		312,244
<i>Subtotal 20.205</i>			<u>30,233,808</u>
Public Transportation for Non Urbanized Areas	20.509		439,000



**COUNTY OF LOS ANGELES  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2009**

<b>Federal Grantor/Pass Through Grantor/Program Title</b>	<b>Catalog of Federal Domestic Assistance Number (CFDA#)</b>	<b>Pass-Through Entity ID No. (note 1)</b>	<b>Federal Expenditures</b>
<i>Passed Through the Calif Office of Traffic Safety</i>			
DUI Enforcement and Education for Contract Cities	20.600 (8)	AL0808	\$ 1,254,071
Office of Traffic and Safety Program Driving Under the Influence	20.600 (8)	AL0699 & AL0962	632,908
Safe Walks 4 Kids	20.600 (8)	05-45854	188,210
<i>Subtotal 20.600</i>			<u>2,075,189</u>
<b>Total U.S. Department of Transportation</b>			<u>33,760,520</u>
<b><u>U.S. Election Assistance Commission</u></b>			
<i>Passed Through the Calif Secretary of State</i>			
Help America Vote Act Section 301 Voting Systems Program	90.401		<u>1,005,820</u>
<b>Total U.S. Election Assistance Commission</b>			<u>1,005,820</u>
<b><u>U.S. Environmental Protection Agency</u></b>			
<i>Direct Program</i>			
Fish Contamination Inspection, Outreach and Education PS0806	66.802		<u>90,067</u>
<b>Total U.S. Environmental Protection Agency</b>			<u>90,067</u>
<b><u>U.S. Institute of Museum and Library Services</u></b>			
<i>Direct Program</i>			
Community and Family Place - San Gabriel Library CL-00-08-0030-08	45.312		49,909
Lifelong Learning Center at Pico Rivera Library CL-00-08-0029-08	45.312		<u>22,173</u>
<i>Subtotal 45.312</i>			<u>72,082</u>
<i>Passed Through the California State Library</i>			
California State Library's Family Place Initiative	45.310	40-7219	<u>13,109</u>
<b>Total U.S. Institute of Museum and Library Services</b>			<u>85,191</u>
<b><u>U.S. National Endowment for the Arts</u></b>			
<i>Passed Through the Arts Midwest</i>			
The Big Read Grant	45.024		<u>20,000</u>
<b>Total U.S. National Endowment for the Arts</b>			<u>20,000</u>
<b><u>U.S. Office of the President</u></b>			
<i>Direct Program</i>			
High Intensity Drug Traffic (HIDTA)	99.Unknown		<u>111,426</u>
<b>Total U.S. Office of the President</b>			<u>111,426</u>
<b>Subtotal Expenditures of Federal Awards</b>			<u>3,770,048,932</u>

**COUNTY OF LOS ANGELES  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2009**

<b>Federal Grantor/Pass Through Grantor/Program Title</b>	<b>Catalog of Federal Domestic Assistance Number (CFDA#)</b>	<b>Pass-Through Entity ID No. (note 1)</b>	<b>Federal Expenditures</b>
<b>SCHEDULE OF EXPENDITURES OF AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA)</b>			
<b><u>U.S. Department of Health and Human Services</u></b>			
<i>Passed Through the Calif Department of Alcohol and Drugs</i>			
ARRA-Federal Drug Medi-Cal (Prenatal and Drug) FMAP	93.778 (15)	40&40a	\$ 730,386
<i>Passed Through the Calif Department of Child Support Services</i>			
ARRA-Child Support Enforcement Title IV D	93.563 (20)	LCSA Letter 10-03	13,187,566
<i>Passed Through the Calif Department of Health Services</i>			
ARRA-Targeted Case Management (TCM) FMAP	93.778 (15)	19-0712	661,265
<i>Passed Through The Calif Department of Social Services</i>			
ARRA-Aid to Families with Dependent Children - FC - Administration and Assistance FMAP	93.658 (6)	CFL 08/09-30	14,212,469
ARRA-Adoptions-Administration and Assistance FMAP	93.659 (21)	CFL-08/09-05	9,361,202
<b>Total U.S. Department of Health and Human Services</b>			<u>38,152,888</u>
<b><u>U.S. Department of Labor</u></b>			
<i>Passed Through the Calif Employment Development Department</i>			
ARRA-Workforce Investment Act Adult (GC 102)	17.258 (4)	R970541	17,177
ARRA-Workforce Investment Act Youth (GC 103 & 107)	17.259 (4)	R970541	39,869
ARRA-Workforce Investment Act Dislocated Worker (GC 105)	17.260 (4)	R970541	29,759
ARRA-Workforce Investment Act Rapid Response (GC 106)	17.260 (4)	R971541	3,244
<i>Subtotal 17.260</i>			<u>33,003</u>
<b>Total U.S. Department of Labor</b>			<u>90,049</u>
<b><u>U.S. Department of Transportation</u></b>			
<i>Passed Through the Calif Department of Transportation</i>			
ARRA-Federal Aid Secondary Program	20.205 (5)		7,851
ARRA-Regional Surface Transportation Program	20.205 (5)		5,194
<i>Subtotal 20.205</i>			<u>13,045</u>
<b>Total U.S. Department of Transportation</b>			<u>13,045</u>
<b>Subtotal Expenditures of American Recovery and Reinvestment Act (ARRA) Awards</b>			<u>38,255,982</u>
<b>Total Federal and ARRA Expenditures</b>			<u>\$ 3,808,304,914</u>

**COUNTY OF LOS ANGELES  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2009**

<b>Federal Grantor/Pass Through Grantor/Program Title</b>	<b>Catalog of Federal Domestic Assistance Number (CFDA#)</b>	<b>Pass-Through Entity ID No. (note 1)</b>	<b>Federal Expenditures</b>
<u>Legend</u>			
(1) SNAP Cluster		\$	1,265,076,623
(2) Child Nutrition Cluster			5,384,290
(3) CDBG - Entitlement Grants Cluster			3,145,414
(4) WIA Cluster			27,175,689
(5) Highway Planning and Construction Cluster			30,351,853
(6) Total for CFDA# 93.658			402,482,295
(7) Transit Services Programs Cluster			82,169
(8) Highway Safety Cluster			2,110,537
(9) Special Education Cluster (IDEA)			13,832,574
(10) Aging Cluster			16,506,611
(11) Immunization Cluster			5,143,826
(12) TANF Cluster			1,049,440,874
(13) CSBG Cluster			7,357,393
(14) CCDF Cluster			9,456,094
(15) Medicaid Cluster			372,354,877
(16) Homeland Security Cluster			4,237,254
(17) Emergency Food and Shelter Program Cluster			27,180
(18) Student Financial Assistance Cluster			218,712
(19) Total for CFDA# 93.243			1,008,636
(20) Total for CFDA# 93.563			119,069,181
(21) Total for CFDA# 93.659			132,003,910

Note 1 - Certain awards do not have a pass-through entity ID number.

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, 2009**

**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 \$312,064,991 in federal awards, which are not included in the accompanying schedule of expenditures of federal awards for the year ended June 30, 2009. 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. 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. However, such differences between cash basis and modified accrual expenditures are immaterial. Listed below are the affected programs.

**Catalog of Federal  
Domestic Assistance**

**Number (CFDA#)**

**Program Name**

10.559	Summer Food Service Program for Children
10.561	Supplemental Nutrition Assistance Program Administration - NAFS
14.235	Homeless Foster Youth Program (HFYP)
93.556	Promoting Safe and Stable Families Program (PSSF)
93.558	CalWORKs - FG/U Assistance
93.558	CalWORKs Diversion - Federal
93.558	CalWORKs Legal Immigrants (MC)
93.558	CalWORKs Single
93.558	CalWORKs TANF Time-Out Assistance

**COUNTY OF LOS ANGELES  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2009**

**Catalog of Federal  
Domestic Assistance**

<u>Number (CFDA#)</u>	<u>Program Name</u>
93.558	Temporary Assistance for Needy Families (TANF)
93.563	ARRA-Child Support Enforcement Title IV D
93.563	Child Support Enforcement Title IV D
93.566	Refugee Employment Social Services
93.566	Refugee Resettlement
93.569	Community Services Block Grant 08F-4921
93.584	Refugee Targeted Assistance Program
93.596	Child Day Care Program
93.645	Children's Welfare Services IV B (Direct Cost)
93.658	AFDC - FC - Administration and Assistance
93.658	Children's Welfare Services Title IV-E
93.658	Child Welfare Services Outcome Improvement Project (Cohort 1)
93.658	Foster Family Licensing
93.658	Foster Parent Training
93.658	Group Home Month Visits / CWD
93.658	Probation Title IV-E
93.659	Adoptions - Administration and Assistance
93.667	Children's Welfare Services Title XX
93.674	Independent Living Skills - Children's Services
93.778	Adult Protective Services/County Services Block Grant
93.778	Children's Welfare Services XIX (Hlth Reel)
93.778	IHSS - PCSP Health Related
93.778	Medi-Cal Administrative Activities (MAA)
93.778	Medi-Cal Eligibility Determination

**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, 2009.

<u>Program Name</u>	<u>Grant No.</u>	<u>Expenditure Amount</u>
CSBG	08F-4921	\$ 6,932,389
CSBG - American Indian	08F-4960	425,004
		<u>\$ 7,357,393</u>

**COUNTY OF LOS ANGELES  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2009**

**NOTE 4 - SUBRECIPIENT AWARDS**

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

<u>County Program Title</u>	<u>CFDA #</u>	<u>Amount Provided to Subrecipients</u>
Victim Witness Assistance Program (VWAP)	16.575	\$ 442,753
Women's Re-Entry	16.585	64,024
Workforce Investment Act Adult – R865463	17.258	611,452
Workforce Investment Act Youth – R865463	17.259	1,396,903
Workforce Investment Act (NEG) – Disaster – R970541	17.260	1,010,235
Workforce Investment Act (NEG) So. California Wildfire 2007 – R865463	17.260	435,222
Workforce Investment Act 15% DW Augmentation – R970541	17.260	217,191
Workforce Investment Act 25% DW Augmentation – R970541	17.260	85,407
Workforce Investment Act Adult - R970541	17.260	6,202,791
Workforce Investment Act Dislocated Worker – R970541	17.260	4,655,094
Workforce Investment Act Youth – R970541	17.260	6,292,037
Workforce Investment Act Rapid Response - R970541	17.260	282,714
<i>Subtotal WIA Cluster (17.258, 17.259, and 17.260)</i>		<u>21,189,046</u>
Individuals with Disabilities Education ACT (IDEA)	84.027	13,832,574
<i>Subtotal Special Education Cluster (IDEA) (84.027)</i>		<u>13,832,574</u>
Drug Free Schools and Communities (DFSC) - Friday Night Live	84.186	75,000
Drug Free Schools and Communities - Club Live	84.186	75,000
<i>Subtotal 84.186</i>		<u>150,000</u>
Title VII: Elder Abuse Prevention	93.041	95,813
Title VII: Ombudsman	93.042	4,027
Area Agency on Aging III D	93.043	370,154
Area Agency on Aging III B	93.044	3,730,402
Area Agency on Aging III C-I	93.045	5,404,093
Area Agency on Aging III C-II	93.045	3,378,988
Area Agency on Aging III USDA CI	93.053	826,067
Area Agency on Aging III USDA CII	93.053	582,024
<i>Subtotal Aging Cluster (93.044, 93.045, and 93.053)</i>		<u>13,921,574</u>
Area Agency on Aging Title III E	93.052	1,376,964

**COUNTY OF LOS ANGELES**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2009**

<u>County Program Title</u>	<u>CFDA</u> <u>#</u>	<u>Amount</u> <u>Provided to</u> <u>Subrecipients</u>
Public Health Preparedness and Response for Bioterrorism	93.069	\$ 9,790,681
Child Mental Health Initiative Grant	93.104	1,502,276
Tuberculosis/Centers for Disease Control Cooperative Agreement	93.116	6,801
McKinney Homeless Act Program	93.150	1,241,165
Childhood Lead Poisoning Case Management	93.197	33,000
Co-Occurring Disorders Court Program Enhancement	93.243	117,735
Screening and Brief Intervention and Referral to Treatment (SBIRT)	93.243	598,540
Families Coming Together to Fight Substance Abuse	93.243	119,206
<i>Subtotal 93.243</i>		<u>835,481</u>
Immunization Supplemental Fund	93.268	60,311
Immunization Tracking	93.268	69,105
<i>Subtotal Immunization Cluster (93.268)</i>		<u>129,416</u>
Promoting Safe and Stable Families Program (PSSF)	93.556	9,244,413
CalWORKs Single	93.558	173,639,610
<i>Subtotal TANF Cluster (93.558)</i>		<u>173,639,610</u>
Refugee Employment Social Services	93.566	2,939,025
Community Services Block Grant American Indian 08F-4960	93.569	261,912
Community Services Block Grant 08F-4921	93.569	4,977,428
<i>Subtotal CSBG Cluster (93.569)</i>		<u>5,239,340</u>
Refugee Targeted Assistance Program	93.584	1,299,632
Independent Living Skills - Children's Services	93.674	5,765,786
Medi-Cal Administrative Activities (MAA)	93.778	840,051
<i>Subtotal Medicaid Cluster (93.778)</i>		<u>840,051</u>
Area Agency on Aging Health Insurance Counseling and Advocacy Program (HICAP)	93.779	151,397
Bioterrorism Hospital Preparedness Program	93.889	9,830,502
HIV Emergency Relief Project Grant	93.914	23,777,655
Minority AIDS Initiative (MAI)	93.914	3,743,712
<i>Subtotal 93.914</i>		<u>27,521,367</u>
Comprehensive AIDS Resources Emergency Act Title II	93.917	4,435,075

**COUNTY OF LOS ANGELES**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2009**

<u>County Program Title</u>	<u>CFDA</u> <u>#</u>	<u>Amount</u> <u>Provided to</u> <u>Subrecipients</u>
Special Projects of National Significance/MSM Youth	93.928	\$ 51,783
HIV Prevention Project	93.940	8,575,219
National HIV Behavioral Surveillance	93.940	115,235
Expanded and Integrated HIV Testing for Populations	93.940	5,000
<i>Subtotal 93.940</i>		<u>8,695,454</u>
Enhanced HIV/AIDS Surveillance for Perinatal Prevention	93.941	45,941
Rapid Testing Algorithms	93.941	1,404
<i>Subtotal 93.941</i>		<u>47,345</u>
Monitoring Atypical HIV Strains in Los Angeles County	93.944	18,260
HIV AIDS Surveillance and Seroprevalence	93.944	49,885
<i>Subtotal 93.944</i>		<u>68,145</u>
Mental Health Services: Block Grant	93.958	1,431,073
Alcohol Block Grant	93.959	34,211,588
Federal Female Offender	93.959	360,548
New Prenatal Set-Aside	93.959	3,088,087
Substance Abuse Block Grant New HIV Set-Aside	93.959	3,976,864
Substance Abuse Prevention and Treatment Block Grant	93.959	1,437,716
Adolescent Treatment		
Substance Abuse Prevention and Treatment Projects	93.959	5,936
Substance Abuse Prevention and Treatment Set-Aside	93.959	12,243,111
<i>Subtotal 93.959</i>		<u>55,323,850</u>
Comprehensive STD Preventions Systems	93.977	590,585
Urban Area Security Initiative 07	97.008	30,366
Emergency Food and Shelter National Board Program	97.024	27,180
<i>Subtotal Emergency Food and Shelter Program Cluster</i> <i>(97.024)</i>		<u>27,180</u>
Emergency Management Performance	97.042	803,404
State Homeland Security Program 06	97.067	2,489,243
<i>Subtotal Homeland Security Cluster (97.067)</i>		<u>2,489,243</u>
Total Amount Provided to Subrecipients		<u>\$ 375,450,375</u>



**COUNTY OF LOS ANGELES**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2009**

**NOTE 5 – STATE CRIMINAL ALIEN ASSISTANCE PROGRAM, CFDA #16.606**

The State Criminal Alien Assistance Program (SCAAP) is a payment program designed to provide federal assistance to states and localities that incur costs for incarcerating undocumented criminal aliens who are being held as a result of state and/or local charges or convictions. The County receives reimbursement two years after the expenditures occur based on an allocation of the available funding. Eligibility is determined for this program in arrears accordingly, the County reports actual revenues in the year that the funds are received since the County's eligible expenditures are not determinable until reimbursement is received. \$14,054,100 was received from SCAAP during FY 2008-2009 for expenditures incurred in FY 2006-2007.

**NOTE 6 – SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM BENEFITS (SNAP), CFDA # 10.551**

The County issued food stamp benefits valued at \$1,135,150,775 for the year ended June 30, 2009, which are included in the accompanying Schedule of Expenditures of Federal Awards. This amount is for information only as receipts and issuances of food stamp benefits are not recorded in the County's financial records. See also Note 8.

**NOTE 7 – MEDICAID CLUSTER**

Direct Medi-Cal and Medicare expenditures are excluded from the schedule of expenditures of federal awards. These expenditures represent fees for services and are not included in determining major programs. The County assists the State in determining eligibility and provides Medi-Cal and Medicare services through County-owned facilities. Administrative costs related to Medi-Cal and Medicare are, however, included in the schedule of expenditures of federal awards under the Medicaid Cluster.

**NOTE 8 – AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM BENEFITS (SNAP), CFDA # 10.551**

The reported expenditures for benefits under the SNAP program are supported by both regularly appropriated funds (see Note 6) and incremental funding made available under section 101 of the American Recovery and Reinvestment Act of 2009. The mechanism used by the United States Department of Agriculture (USDA) to make these funds available to States does not enable a State to validly disaggregate the regular and ARRA components of this figure. At the national aggregate level, however, the ARRA funds account for approximately 15 percent of USDA's total expenditures for SNAP benefits in the Federal fiscal year ended September 30, 2009.



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SACRAMENTO

OAKLAND

WALNUT CREEK

NEWPORT BEACH

SAN DIEGO

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

The Honorable Board of Supervisors  
County of Los Angeles, California

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County of Los Angeles, California (County), as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements and have issued our report thereon dated December 11, 2009. Our report was modified to include a reference to other auditors and also included an explanatory paragraph describing the implementation of Governmental Accounting Standards Board (GASB) Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, and GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Community Development Commission (CDC) and the Los Angeles County Employees Retirement Association (LACERA), as described in our report on the County's financial statements. This report does not include the results of the other auditors testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

**Internal Control Over Financial Reporting**

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or

material weaknesses. However, as discussed below, we identified 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 09-01, 09-02, 09-03 and 09-04 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 entity's internal control.

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

We also noted other matters that we reported to management of the County in a separate letter dated December 11, 2009.

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, 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 Fini & O'Connell LLP*

Certified Public Accountants

Los Angeles, California

December 11, 2009



**MACIAS GINI & O'CONNELL** LLP  
Certified Public Accountants & Management Consultants

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SACRAMENTO

OAKLAND

WALNUT CREEK

NEWPORT BEACH

SAN DIEGO

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

The Honorable Board of Supervisors  
County of Los Angeles, California

### **Compliance**

We have audited the compliance of the County of Los Angeles, California (County) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. 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 \$312,064,991 in federal awards, which are not included in the schedule of expenditures of federal awards for the year ended June 30, 2009. Our audit, described below, did not include the operations of CDC because 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 items 09-05, 09-06, 09-07, 09-08, 09-09, 09-10, 09-11, 09-12, 09-13, 09-14, 09-18, 09-19 and 09-20 in the accompanying schedule of findings and questioned costs, the County did not comply with requirements regarding activities allowed or unallowed (items 09-06, 09-10, 09-11 and 09-20), allowable costs/cost principles (item 09-05), eligibility (items 09-08, 09-09, 09-11 and 09-13), subrecipient monitoring (items 09-08, 09-12, 09-14 and 09-18), reporting (items 09-07 and 09-19) that are applicable to the Foster Care - Title IV-E (CFDA No. 93.658), Special Education Cluster (IDEA) (CFDA No. 84.027), Adoption Assistance (CFDA No. 93.659), Chafee Foster Care Independence Program (CFDA No. 93.674), Social Services Block Grant (CFDA No. 93.667), Promoting Safe and Stable Families (CFDA No. 93.556), Block Grants for Prevention and Treatment of Substance Abuse (CFDA No. 93.959) and State Criminal Alien Assistance Program (CFDA No. 16.606). 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, 2009. 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 items 09-15, 09-16 and 09-17.

### **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 09-05, 09-06, 09-07, 09-08, 09-09, 09-10, 09-11, 09-12, 09-13, 09-14, 09-18, 09-19 and 09-20 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 09-05, 09-06, 09-07, 09-08, 09-09, 09-10, 09-11, 09-12, 09-13, 09-14, 09-18, 09-19 and 09-20 to be material weaknesses.

The County's response 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.

A handwritten signature in black ink that reads "Macias Jini & O'Connell LLP". The signature is written in a cursive, flowing style.

Certified Public Accountants

Los Angeles, California  
July 23, 2010

**COUNTY OF LOS ANGELES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2009**

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**Section I - Summary of Auditor's Results**

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**(a) Financial Statements**

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

Internal control over financial reporting:

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

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

**(b) Federal Awards**

Internal control over major programs:

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

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

Unqualified for all major programs except for the following, which were qualified:

- Special Education Cluster (IDEA) – Qualified
- Block Grants for Prevention and Treatment of Substance Abuse – Qualified
- Foster Care -Title IV-E and Foster Care Title IV-E American Recovery and Reinvestment Act (ARRA)– Qualified
- Promoting Safe and Stable Families – Qualified
- Adoption Assistance and Adoption Assistance American Recovery and Reinvestment Act (ARRA) – Qualified
- Social Services Block Grant – Qualified
- Chafee Foster Care Independence Program – Qualified
- State Criminal Alien Assistance Program – Qualified

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



**COUNTY OF LOS ANGELES  
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FOR THE YEAR ENDED JUNE 30, 2009**

Identification of major programs:

<b><u>CFDA Number</u></b>	<b><u>Name of Federal Program or Cluster</u></b>
10.551/10.561	Supplemental Nutrition Assistance Program (SNAP) Cluster
84.027	Special Education Cluster (IDEA)
93.940	HIV Prevention Activities – Health Department Based
93.889	National Bioterrorism Hospital Preparedness Program
93.044/93.045/93.053	Aging Cluster
93.959	Block Grants for Prevention and Treatment of Substance Abuse
93.563	Child Support Enforcement and Child Support Enforcement American Recovery and Reinvestment Act (ARRA)
93.658	Foster Care - Title IV-E and Foster Care – Title IV-E American Recovery and Reinvestment Act (ARRA)
93.777/93.778	Medicaid Cluster and Medicaid Cluster American Recovery and Reinvestment Act (ARRA)
93.556	Promoting Safe and Stable Families
93.558	Temporary Assistance for Needy Families (TANF) Cluster
93.659	Adoption Assistance and Adoption Assistance American Recovery and Reinvestment Act (ARRA)
93.667	Social Services Block Grant
93.674	Chafee Foster Care Independence Program
16.606	State Criminal Alien Assistance Program
17.258/17.259/17.260	Workforce Investment Act (WIA) Cluster and Workforce Investment Act (WIA) Cluster American Recovery and Reinvestment Act (ARRA)
20.205	Highway Planning and Construction Cluster and Highway Planning and Construction Cluster American Recovery and Reinvestment Act (ARRA)

**COUNTY OF LOS ANGELES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2009**

Dollar threshold used to distinguish between Type A and Type B programs:  
**\$11,424,915**

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

**COUNTY OF LOS ANGELES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2009**

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**Section II – Financial Statement Findings**

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***Finding # 09-01 - Information Technology Environment – Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control Framework***

*Condition and Criteria*

During our audit of the County's basic financial statements for the year ended June 30, 2009, MGO and Macias Consulting Group reviewed the County's information technology (IT) environment and system controls and compared them against the framework established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The COSO framework provides the basis for an effective system of internal control over financial reporting, including the IT environment. Although the County completed the process of assessing and documenting the County's overall and centralized IT controls, we determined that assessments and documentation of IT controls over significant financial information systems at County departments have not been performed.

*Recommendation*

We recommend County Auditor-Controller collaborate with County departments in assessing and documenting departmental IT environments and internal controls over critical financial information systems and ensure these assessments and controls are in compliance with the County's overall centralized IT controls. The County Chief Information Officer through its Chief Information Security Officer should collaborate with Departmental Information Security Officers to ensure compliance on the IT controls.

*Views of Responsible Officials and Planned Corrective Action*

The County will review the recommendation and will take the appropriate course of action to ensure implementation of the COSO framework related to the critical financial information systems.

The County currently documents and assesses the control environment for critical information technology (IT) systems through the Auditor-Controller's (A-C) Internal Control Certification Program (ICCP). The ICCP requires departments to identify their critical IT systems on an annual or biennial basis. For each critical system, departments complete the A-C's IT control assessment worksheet and a summary of control weaknesses and improvement plans, and then report these results to their management/CIO and the A-C. This ICCP process allows the County to meet the IT risk assessment requirement in Board of Supervisors Policy 6.107 and determine whether County Fiscal Manual IT controls exist for critical IT systems.

**COUNTY OF LOS ANGELES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2009**

We will review the County's Internal Controls Certification Program (ICCP) and update the ICCP to include the COSO framework. The County Chief Information Officer through its County Information Security Officer will collaborate with the Departmental Information Security Officers to ensure compliance of the County's ICCP related to the critical financial information systems.

**COUNTY OF LOS ANGELES  
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During our audit we assessed general information systems controls over the County's Affinity system. This system captures and processes patient billing information used to support reimbursement claims to third party payors and annual cost reports, which directly relates to the net patient services revenue and related accounts receivable and third party payor liability balances for the County's five hospital enterprise funds: Harbor-UCLA Medical Center, Olive View-UCLA Medical Center, LAC+USC Medical Center, Martin Luther King Jr. Ambulatory Care Center, and Rancho Los Amigos National Rehabilitation Center. We observed and recommend the following as a result of our review:

***Finding # 09-02 - System Access (DHS)***

*Condition*

During our review we noted the following:

- a. Procedures have not been established to monitor administrative, master and super-user activity in the Affinity system. This observation affects all five hospital facilities;
- b. Procedures have not been established to monitor employee user access privileges within the Affinity system to ensure that user authorization roles are current and appropriate for the user's functions, and to ensure proper segregation of duties. This observation affects two of the hospital facilities;
- c. User accounts are only reviewed once every two years at one of the hospital facilities, which places the facility at an increased risk of the user account access being inappropriate for assigned job functions.

*Criteria*

General computer controls over the access to programs and data require that network and application security controls be implemented to assure administrative, master and super-user activities are properly authorized and to safeguard information technology resources and data.

*Recommendation*

We recommend that the County take the following actions:

- a. Develop policies and implement procedures requiring periodic (e.g. monthly) reviews of Affinity administrative, master, and super-user activities. The review should be performed by a position outside of the chain of command of these users with high level access and should be pursuant to guidelines and criteria that would aid in identifying the nature of this activity;

**COUNTY OF LOS ANGELES  
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- b. Develop policies and implement procedures requiring periodic (at least annually) reviews of user access privileges to ensure that the access privileges are current and appropriate for their job functions and to ensure proper segregation of duties;
- c. Revise policies to require more frequent (at least annually) reviews of Affinity user accounts to ensure that they are current and appropriate for each person's job functions, and to ensure proper segregation of duties.

*Views of Responsible Officials and Planned Corrective Action*

DHS agrees that policies need to be reviewed pertaining to procedures for reviewing Affinity activity. DHS will develop a process for the reviewing of Master and super-user rights and that user access will be reviewed to ensure that each user has the appropriate rights for their job.

***Finding # 09-03 - Contingency and Recovery Planning (DHS)***

*Condition*

During our review we noted the following:

- a. The disaster recovery plans have been developed for each facility although have not been fully tested due to a lack of available resources and funding. Without fully testing the recovery plan, the County cannot be assured that the plan is complete and assures that the financial data can be recovered within a reasonable amount of time. This observation affected all five hospital facilities;
- b. One of the hospital facilities stores the Affinity backup tapes, which contain system and accounting data, on site. If a serious emergency occurred at this hospital facility, the data could be lost.

*Criteria*

Computer operation controls require that a contingency plan be established, documented and tested for emergency response, backup operations and post-disaster recovery to ensure the availability of critical resources and to facilitate the continuity of operations in an emergency situation.

*Recommendation*

We recommend that the County take the following actions:

- a. The County should plan and budget for a full test of the disaster recovery plan as soon as possible. In the absence of immediate funding, the facilities should conduct table-top testing of the plan to identify administrative issues that may hinder implementing the plan;

**COUNTY OF LOS ANGELES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2009**

- b. Affinity back up data should be stored in a secure offsite location. Best practices require backup tapes be stored offsite at least 20 miles from the main facility.

*Views of Responsible Officials and Planned Corrective Action*

We will take into consideration the audit findings and review our contingency plan for the recommendations made in the MGO IT Audit report and include any actions needed.

***Finding # 09-04 - Protection of Information Assets (DHS)***

*Condition*

During our review we noted the following:

- a. One of the hospital facility's server room does not have the following:
  - i. An independent air conditioning system
  - ii. An automatic monitoring of server room temperature or any notification system that would inform IT management and building maintenance if environmental conditions fall out of tolerances
  - iii. An automatic fire suppression system

The lack of these items increases the risk of damage to IT assets and data loss. We also observed that a security door to the server room was propped open to allow for air circulation in the absence of an air conditioning system. This also increases risk of accidental or deliberate damage or tampering with IT equipment and data.

- b. At another hospital facility, IT assets are not currently safeguarded by an active dry fire suppression system. The server room has a Halon system, but it had been disconnected.

*Criteria*

Physical security controls require information assets to be adequately protected.

*Recommendation*

We recommend that the County take the following actions:

- a. Server room conditions should be improved with an independent air conditioning system, and automatic temperature monitoring system and dry fire suppression system. In addition, IT management should implement oversight procedures to

**COUNTY OF LOS ANGELES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2009**

ensure that server room doors remain locked and not propped open;

- b. Evaluate options and budget for the replacement of the Halon fire suppression system because the system should be reactivated as soon as possible.

*Views of Responsible Officials and Planned Corrective Action*

DHS Management will take into consideration if the funds should be spent to improve the air conditioning systems along with fire suppression systems.

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**Section III – Federal Award Findings and Questioned Costs**

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***Finding # 09-05 - Allowable Costs/Cost Principles – Cost Allocation Plan – OMB A-87 Cost Principles for State, Local and Indian Tribal Governments-Allocation of Costs***

*Condition*

Out of ten central service costs selected for the Cost Allocation Plan testwork, the following control and compliance issues were noted:

- a. Cost pool expenditures for the Human Resources central service department, e-HR subpool, were not appropriately allocated to the various benefiting departments during the second allocation;
- b. The allocation basis for the Human Resources central service department, Countywide Non Court subpool, included the Court employee man months. Per the narrative description in the Cost Allocation Plan, this subpool should not include Courts;
- c. Cost pool expenditures and direct billings for the Human Resources and Public Safety central service departments were not allocated to the Child Support Services Department (department #065);
- d. The allocation basis used for the Auditor Controller central service department, General Claims Main subpool, was department salaries and wages with Courts. However, the narrative description in the Cost Allocation Plan states payment vouchers as the allocation basis.

*Criteria*

Per OMB A-87, the following was noted:



**COUNTY OF LOS ANGELES  
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- a. Section C, Basic Guidelines, paragraph 3(b), all activities which benefit from the governmental unit's indirect cost, including unallowable activities and services donated to the governmental unit by third parties, will receive an appropriate allocation of indirect costs.

*Questioned Costs:*

- a. \$8,429
- b. \$775,736
- c. Unknown. In order to determine the amount of questionable costs, the Cost Allocation Plan would have to be corrected and reentered into the CDM software;
- d. None. The costs were allocated appropriately; however, the narrative was not updated accordingly.

*Systemic or Isolated:* Systemic

*Cause*

- a. Most of the e-HR subpool expenditures were allocated to the Auditor Controller department during the first allocation. However, the remainder of expenditures during the second allocation should have been allocated to the various benefiting departments. The allocation did not occur due to a system limitation in allocating expenditures differently in the first and second allocations;
- b. Data entry error when inputting the basis information into the Cost Determination Model (CDM) software utilized to prepare the plan;
- c. This was due to a data entry error when inputting the department number into CDM. The leading zero was not entered in the data and therefore CDM did not recognize it as a department;
- d. The narrative was never updated when the allocation basis was changed from payment vouchers to Department Salaries and Wages with courts.

*Effect*

Failure to follow guidelines when distributing costs may result in non compliance with OMB A-87 which in turn may cause allowable costs/activities non compliance in accordance with OMB A-133.

*Recommendation*

- a. Develop policies and procedures to ensure the allocation of expenditures is

**COUNTY OF LOS ANGELES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2009**

performed appropriately when encountered with system limitations;

- b. Develop policies and procedures to ensure a detailed review process occurs in order to avoid errors.

*Views of Responsible Officials and Planned Corrective Action*

Auditor-Controller agrees with the recommendation. New procedures were established as of June 10, 2009, to ensure that all entries into the Cost Determination Model (CDM) are accurate and to ensure that any issues resulting from system limitations are resolved. A staff person, other than the one inputting data into CDM, will review every report to ensure that it matches the work papers and that an accurate cost allocation has occurred.

***Finding # 09-06 - Activities Allowed or Unallowed – Lack of Supporting Documents and Controls over Payroll and Time Study Transactions***

<b>Program Name:</b>	<b>Probation Title IV-E</b>
<b>CFDA Title and Number:</b>	<b>Foster Care - Title IV-E CFDA #93.658</b>
<b>Federal Agency:</b>	<b>U.S. Department of Health and Human Services (HHS)</b>
<b>Pass- Through Agency:</b>	<b>California Department of Social Services (CDSS)</b>
<b>Federal Award Number:</b>	<b>N/A</b>
<b>Award Year:</b>	<b>June 30, 2009</b>
<b>Name of Department:</b>	<b>Probation Department</b>

*Condition*

The Probation Department performs one time study per quarter for all Probation Title IV-E employees. Out of sixty (60) time study transactions selected, the following control and compliance issues were noted:

- a. Three (5%) employee time studies did not contain reasonable hours when compared to hours on the employee's timesheets (for example, the employee had non working hours on the timesheet; however, the hours per the time study were allocated to the working program codes);
- b. Two (3%) employee time studies did not match the hours/category per the quarterly time study report.

*Criteria*

- a. Employee work hours recorded on the time study should be reasonable when compared to the employee's timesheet;

**COUNTY OF LOS ANGELES  
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FOR THE YEAR ENDED JUNE 30, 2009**

- b. Per the Chief Probation Officer of California (CPOC) Policy Statement dated December 2007, "Time studies are used to determine the percentage of total time worked in each category. Total cost pool is multiplied by the percentage of time for each category to determine the cost per category."

*Questioned Costs:* \$36,718 (Calculated based on the salary amount paid to the employees where exceptions were noted). This program did not expend American Recovery and Reinvestment Act (ARRA) funds during FY 08/09.

*Systemic or Isolated:* Systemic

*Cause*

Lack of policies and procedures over the detailed review of time study and timesheets concurrently. In addition, lack of policies and procedures over the review of the information that is input into the quarterly time study report.

*Effect*

Failure to properly document employee's time charged to the program may result in the submission of unallowable costs and activities causing noncompliance with OMB Circular A-133, grant guidelines and CPOC Policy Statement dated December 2007.

*Recommendation*

We recommend the Probation department perform the following:

- a. Develop policies and procedures to ensure management reviews timesheets and time studies concurrently for reasonableness;
- b. Develop policies and procedures to ensure that the hours/category on the quarterly time study report match the hours and category per time study.

*Views of Responsible Officials and Planned Corrective Action*

- a. Probation Department management agrees and has developed a policy and procedure that will ensure that timecards and time studies are reviewed concurrently by the employees' supervisor to verify that the timecard and time study match. Effective July 2009, the memo to all Area Office Directors and Program Directors was amended to request that supervisors verify that an employee's time study matches his/her timecard before signing;
- b. Probation Department management agrees and has issued a policy and procedure that will ensure that the hours coded to the program description category on the quarterly time study report match the hours that are recorded to the description code on the Department's Title IV-E Time Study database file.

**COUNTY OF LOS ANGELES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2009**

Due to the volume of time studies we receive during a time study month (approximately 1,350 each quarter) and the lack of personnel to individually recheck the Account Clerk II's input in the time study database, effective the first quarter of Fiscal Year 2009-10, we will take a sampling of time studies and verify they match with the hours by category entered in the data base to the time study.

***Finding # 09-07 - Reporting – Lack of Supporting Documentation and Controls over Reporting***

<b>Program Name:</b>	<b>Individuals with Disabilities Education Act (IDEA)</b>
<b>CFDA Title and Number:</b>	<b>Special Education - Grants to States CFDA #84.027</b>
<b>Federal Agency:</b>	<b>U.S. Department of Education (ED)</b>
<b>Pass- Through Agency:</b>	<b>(Direct)</b>
<b>Federal Award Number:</b>	<b>N/A</b>
<b>Award Year:</b>	<b>June 30, 2009</b>
<b>Name of Department:</b>	<b>Department of Mental Health (DMH)</b>

***Condition***

The Department of Mental Health (DMH) is required to provide an accounting of expenditures to Los Angeles County Office of Education (LACOE) twice a year, through an "Accounting of Expenditure" report. For the fiscal year under review, DMH was unable to provide a copy of the report, evidence the report was submitted timely, or documentation supporting the process to develop or prepare the report.

***Criteria***

- a. Per the fiscal year 08-09 Memorandum of Understanding (MOU) between DMH and LACOE, "DMH will provide LACOE with an accounting of expenditures incurred pursuant to this MOU two times for the Fiscal Year. The first accounting of expenditures will cover the period of July 1, 2008, through December 31, 2008, and will be provided by February 1, 2009. The second accounting of expenditures will cover the period of January 1, 2009, through June 30, 2009, and will be provided by September 1, 2009";
- b. 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 of contracts or grant agreements that could have a material effect on each of its Federal programs";
- c. Per OMB Circular A-110, §\_\_\_\_.53, "Financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report."

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*Questioned Costs:* N/A

*Systemic or Isolated:* Systemic

*Cause*

DMH is currently working with their IT department and the granting agency regarding the details of the report. As a result, DMH has not developed policies and procedures over developing or preparing the report.

*Effect*

Failure to submit the "Accounting of Expenditure" report may result in noncompliance with OMB Circulars, grant guidelines and the MOU.

*Recommendation*

MGO recommends DMH establish policies and procedures to ensure that the "Accounting for Expenditure" reports are prepared and submitted to LACOE in accordance with the MOU.

*Views of Responsible Officials and Planned Corrective Action*

DMH agrees with the recommendation. Compliance on this aspect of the audit findings is contingent, in part, upon resolution of disputes internal to the education system, resolution of the technical barriers idiosyncratic to the DMH and LACOE data systems, and upon allocation of additional financial resource to both DMH and LACOE to support the timely and accurate completion of the data exchange and analysis. These additional costs to local government are not reimbursable by the state under the current provisions of SB90.

***Finding # 09-08 - Eligibility and Subrecipient Monitoring – Lack of Timely Assessment and Quarterly Face to Face Contact***

<b>Program Name:</b>	<b>Individuals with Disabilities Education Act (IDEA)</b>
<b>CFDA Title and Number:</b>	<b>Special Education - Grants to States CFDA #84.027</b>
<b>Federal Agency:</b>	<b>U.S. Department of Education (ED)</b>
<b>Pass- Through Agency:</b>	<b>(Direct)</b>
<b>Federal Award Number:</b>	<b>N/A</b>
<b>Award Year:</b>	<b>June 30, 2009</b>
<b>Name of Department:</b>	<b>Department of Mental Health (DMH)</b>

*Condition*

During our review of forty (40) case files, the following compliance issues were noted:

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- a. Eight (20%) case files were not assessed for mental health services by the Department of Mental Health (DMH) within sixty days from the receipt of the written parental consent for the assessment. Furthermore, there was no evidence in the case file demonstrating that a parent had requested an extension for the assessment;
- b. Eighteen (45%) case files did not contain evidence of quarterly face-to-face contact from DMH case managers.

*Criteria*

- a. Per AB 1662, Chapter 653, Statutes of 2005 dated October 7, 2005; the timeline was extended to 60 days. "The mental health assessment shall be completed in sufficient time to ensure that an Individualized Education Program (IEP) meeting is held within sixty (60) days from the receipt of the written parental consent for the assessment. This time line may only be extended upon the written request of the parent";
- b. Per California Code of Regulations Title 2. Division 9. Chapter 1. Article 3. 60110 (c)(8): "Case management shall conduct quarterly face-to-face contacts at the residential facility with a pupil with a disability who is seriously emotionally disturbed to monitor the level of care and supervision and the provision of the mental services as required by the IEP." In addition, per conversations with DMH, the quarterly face-to-face contacts are utilized as the tool to programmatically monitor out of state providers.

*Questioned Costs: N/A*

*Systemic or Isolated: Systemic*

*Cause*

- a. Lack of enforcement of policies and procedures over conducting timely assessments of cases referred to DMH;
- b. Lack of enforcement of policies and procedures over conducting quarterly face-to-face contacts for those cases placed at a residential facility.

*Effect*

Failure to conduct timely assessments and quarterly face-to-face contacts for cases placed at a residential facility may result in noncompliance with OMB A-133 grant guidelines, California Code of Regulations Title 2.Division 9. and AB 1662, Chapter 653.

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*Recommendation*

We recommend DMH enforce the policies and procedures in order to ensure compliance with OMB A-133 grant guidelines, California Code of Regulations Title 2.Division 9.and AB 1662, Chapter 653.

*Views of Responsible Officials and Planned Corrective Action*

DMH agrees with the recommendation. DMH will continue to exercise prudent spending practices and maintain sound clinical care of consumers, while awaiting the State of California to comply with the provisions of Proposition 1A (2004) in which it is required that the Legislature fully fund the program or suspend the mandate on the counties during the fiscal years in which the State cannot fully fund the program.

***Finding # 09-09 - Eligibility – Lack of Supporting Documents and Controls over Eligibility***

**Program Name:** Adoptions – Administration and Assistance  
ARRA – Adoptions – Administration and Assistance  
FMAP  
**CFDA Title and Number:** Adoption Assistance CFDA #93.659  
**Federal Agency:** U.S. Department of Health & Human Services (HHS)  
**Pass- Through Agency:** California Department of Social Services (CDSS)  
**Federal Award Number:** N/A  
**Award Year:** June 30, 2009  
**Name of Department:** Department of Children and Family Services

*Condition*

During our review of sixty Adoption Assistance Program cases, the following control and compliance issues were noted:

- a. One (2%) case contained an initial AD 4320 form, in which the adoptive parent(s) signed the “Deferred Agreement” indicating that they did not need assistance at that time. However, it was noted that the parent received assistance during the fiscal year;
- b. Two (3%) cases contained an initial AD 4320 form that was properly signed by the adoptive parent(s); however, the “Reasons for AAP Eligibility” section, indicating that both children have special needs, was not completed. MGO was able to verify that the child has special needs through the review of the “Barriers to Adoption” section of the AAP4 form or the “Adoption Assistance Program Worksheet and Referral” form. Although MGO was able to verify that the children have special needs, the Initiating Adoption Assistance Benefits Procedural Guide requires that the initial AD 4320 form is properly completed;

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- c. Three (5%) cases contained an AAP4 form; however, the "Federal Eligibility Information" section, indicating that the child meets the eligibility requirements for federal AFDC-FC (Title IV-E foster care), was not completed or was incorrectly filled out. Please see details for each case below:
  - i. One (2%) case contained an AAP4 form in which the "Federal Eligibility Information" section was not completed. However, MGO was able to verify that the child was federal AFDC-FC eligible through the review of FC3 form, "Determination of Federal AFDC-FC Eligibility." Although MGO was able to verify that the child was federal AFDC-FC Eligible, the Adoption Assistance Program (AAP) Policies (E080-0530) requires that the AAP4 form is properly completed;
  - ii. One (2%) case contained an AAP4 form in which the "Federal Eligibility Information" section was erroneously marked that the child was eligible for the Supplemental Security Income Benefits (SSI/SSP) instead of the Federal AFDC-FC eligible benefits. However, per review of the FC3 form, "Determination of Federal AFDC-FC Eligibility," the child was determined to be federal AFDC-FC Eligible. Although MGO was able to verify that the child was federal AFDC-FC Eligible, the Adoption Assistance Program (AAP) Policies (E080-0530) requires that the AAP4 form is properly completed;
  - iii. One (2%) case contained an AAP4 form in which the "Federal Eligibility Information" section was erroneously marked that the child was eligible for the Supplemental Security Income Benefits (SSI/SSP) instead of the Federal AFDC-FC eligible benefits. In addition, the Department of Children and Family Services (DCFS) was unable to provide an FC3 form, "Determination of Federal AFDC-FC Eligibility," which would support that the child was AFDC-FC eligible. Therefore, MGO was unable to verify that the child was federal AFDC-FC Eligible;
- d. Two (3%) cases contained an AAP4 form; however, the "Barriers to Adoption" section, indicating that the child has special needs, was not completed. MGO was able to verify that both children have special needs through the review of the "Reasons for AAP Eligibility" section of the initial AD 4320 form. Although MGO was able to verify that the children have special needs, the Adoption Assistance Program (AAP) Policies (E080-0530) require that the AAP4 form is properly completed;
- e. One (2%) case did not contain an AAP4 form; therefore, MGO was unable to verify that the child was federal AFDC-FC Eligible.



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*Criteria*

- a. Per Part IV of OMB Circular A-133 Compliance Supplement for the Adoption Assistance program, the County must make reasonable efforts to place the child for adoption without a subsidy;
- b. Per the "Initiating Adoption Assistance Benefits Procedural Guide," when completing the adoptive placement and initiating Adoption Assistance Program Benefits, an Adoption Case Social Worker (CSW) is required to complete the AD 4320 and obtain each adoptive parent's signature. Per review of the 4320 form, each section must be filled out in order for the form to be complete;
- c. Per the "Adoption Assistance Program (AAP) Policies (E080-0530)," the CSW documents or establishes that the conditions are met for the child to be eligible while the Eligibility Worker (EW) is responsible for making the final determination that the foster care child meets the AAP requirements of age and financial participation. When an initial AAP determination request is received, an AAP EW is required to complete an AAP 4 and record the appropriate information on the "AAP Eligibility" section of the form. Per review of the AAP4 form, each section must be filled out in order for the form to be complete.

*Questioned Costs:*

\$123,816 (Calculated based on payments for 12 months for the cases listed in conditions a, c-iii, and e above.)

N/A – The cases listed in conditions b, c-i, c-ii, and d were determined to be eligible; therefore, questionable costs are not applicable.

*Systemic or Isolated:* Systemic

*Cause*

Lack of enforcement of policies and procedures.

*Effect*

Failure to maintain appropriate documentation on file supporting eligibility and payments made to participants and failure to properly review forms may result in noncompliance with Part IV of OMB Circular A-133 Compliance Supplement for the Adoption Assistance program, the Initiating Adoption Assistance Benefits Procedural Guide, and the Adoption Assistance Program (AAP) Policies (E080-0530), which may lead to inappropriate distribution of funds to ineligible participants.

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*Recommendation*

MGO recommends DCFS enforce its policies and procedures in order to ensure compliance with Part IV of OMB Circular A-133 Compliance Supplement for the Adoption Assistance program, Initiating Adoption Assistance Benefits Procedural Guide and the Adoption Assistance Program (AAP) Policies (E080-0530).

*Views of Responsible Officials and Planned Corrective Action*

DCFS agrees with the recommendation. Adoption and Permanency Resources Division (APRD) staff agrees with the recommendation and will draft a memo instructing all APRD Social Work Staff to check all AAP paperwork for completeness and correctness prior to signing the internal document for processing.

***Finding # 09-10 - Activities Allowed or Unallowed – Lack of Supporting Documents and Controls over Payroll Transactions***

<b>Program Name:</b>	<b>Adoptions – Administration &amp; Assistance Independent Living Skills – Children’s Services Aid to Families with Dependent Children – FC – Administration and Assistance Children’s Welfare Services Title IV-E Children’s Welfare Services Title XX</b>
<b>CFDA Title and Number:</b>	<b>Adoption Assistance CFDA# 93.659 Chafee Foster Care Independence Program CFDA# 93.674 Foster Care - Title IV-E CFDA# 93.658 Social Services Block Grant CFDA# 93.667</b>
<b>Federal Agency:</b>	<b>U.S. Department of Health &amp; Human Services (HHS)</b>
<b>Pass- Through Agency:</b>	<b>California Department of Social Services (CDSS)</b>
<b>Federal Award Number:</b>	<b>N/A</b>
<b>Award Year:</b>	<b>June 30, 2009</b>
<b>Name of Department:</b>	<b>Department of Children and Family Services (DCFS)</b>

*Condition*

The Department of Children and Family Services (DCFS) performs one time study per quarter for all federal award programs in the consolidated County Expense Claim (CEC). Out of sixty-nine (69) timestudy transaction samples selected from the CEC report, the following control and compliance issues were noted:

- a. Four (6%) employee time studies reviewed contained instances where the employee coded the time as worked on the program per the time study, even though the employee’s timesheet revealed that there was no time worked on the program, but rather indicated sick time or vacation time;

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- b. Ten (14%) employees hours on the timesheet did not match the hours paid per the CWTAPPS system;
- c. Four (6%) employee timesheets were missing; consequently, we could not determine whether any time had been worked by the employee or whether the timesheets were properly reviewed and approved by supervisory personnel.

In addition, MGO reviewed allocable support staff costs also claimed through the CEC report. During our review of forty five (45) support staff transaction samples, the following control and compliance issue was noted:

- d. Six (13%) employee timesheets were missing. Consequently, we could not determine whether any time had been worked by the employee or whether the timesheets were properly reviewed and approved by supervisory personnel.

*Criteria*

- a. Employee work hours recorded and coded as worked on the time study should be coded as worked on the timesheet;
- b. Per OMB Circular A-87 Attachment A, Paragraph C, to be allowable under federal awards, costs must be adequately documented. Therefore, 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;
- c. Per OMB Circular A-110, §\_\_\_\_.53, "financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report";
- d. Per OMB Circular A-133§\_\_\_\_.300(b), the County must "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." (Therefore, timesheets should be signed and approved by the supervisor.)

*Questioned Costs:*

Time study Transactions - \$12,319 (Calculated based on the amount paid/discrepancies noted during the review of the transactions.)

Support Staff Transactions - \$9,381 (Calculated based on the amount paid/discrepancies noted during the review of the transactions.)

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These programs did not use American Recovery and Reinvestment Act (ARRA) funds to recover administrative costs during FY 08/09.

*Systemic or Isolated:* Systemic

*Effect*

Failure to properly document and retain supporting documentation including absence of supervisory review may result in the submission of unallowable costs and activities causing noncompliance with OMB A-87, OMB A-110 and OMB A-133.

*Recommendation*

We recommend that DCFS implement the following actions:

- a. Develop policies and procedures to ensure management reviews timesheets and time studies concurrently for reasonableness;
- b. Enforce control procedures to ensure that the hours on the employee's timesheet match the hours per CWTAPPS.

*Views of Responsible Officials and Planned Corrective Action*

DCFS agrees with the recommendation and will perform the following in order to address the finding:

- a. The Department's Time Study Unit has re-enforced and implemented their existing time study policies and procedures on a quarterly basis. The Time Study Unit has also posted the policies and procedures in the Department's intranet to instruct departmental management staff to ensure the work schedule in the Time Study System and CWTAPSS/eCAPS/Timesheet match before they certify and approve their employee's time sheets;
- b. The Human Resources Division expects to have all departmental employees using the eCAPS Time Collection System by the end of this calendar year. This will reduce the need for staff to manually data keypunch information into CWTAPPS, thereby, reducing the error rate. Additionally, the Department has and will continue to conduct monthly quality assurance reviews to monitor for compliance in this area.

***Finding 09-11 - Eligibility and Activities Allowed or Unallowed – Controls and Compliance over Eligibility***

**Program Name:** Aid to Families with Dependent Children – FC –  
Administration and Assistance  
ARRA - Aid to Families with Dependent Children – FC –

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**Administration and Assistance FMAP  
Children's Welfare Services Title XX**  
**CFDA Title and Number:** Foster Care - Title IV-E CFDA# 93.658  
Social Services Block Grant CFDA# 93.667  
**Federal Agency:** U.S. Department of Health & Human Services (HHS)  
**Pass- Through Agency:** California Department of Social Services (CDSS)  
**Federal Award Number:** N/A  
**Award Year :** June 30, 2009  
**Name of Department:** Department of Children and Family Services (DCFS)

*Condition*

During our review of forty-seven (47) case files, three (6%) eligibility re-determination's were not performed in a timely manner.

- a. One (2%) eligibility re-determination was performed two months late;
- b. One (2%) eligibility re-determination was performed seven months late;
- c. One (2%) eligibility re-determination for fiscal year (FY) 08/09 was completed the same day as the re-determination for FY 07/08.

*Criteria*

Per Part III of OMB Circular A-133 Compliance Supplement, determination and re-determination should be performed in order to determine the participant is eligible based on the program's compliance requirements. In addition, per the Department of Children and Family Services (DCFS) Procedural Guide E020-0510, titled "Eligibility Determination for Financial Participation," "a re-determination of all circumstances of eligibility shall be completed at least once every twelve (12) months."

*Questioned Costs:* N/A as the children were determined to be federally eligible.

*Systemic or Isolated:* Systemic

*Cause*

A lack of enforcement of current policies and procedures over the re-determination process.

*Effect*

Failure to properly document the re-determination of eligible participants may result in noncompliance with the DCFS Procedural Guide E020-0510 and OMB Circular A-133.

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*Recommendation*

We recommend DCFS enforce policies and procedures to ensure compliance with the DCFS Procedural Guide E020-051 and with OMB Circular A-133.

*Views of Responsible Officials and Planned Corrective Action*

DCFS agrees with the recommendation. Revenue Enhancement staff agrees the “redeterminations” were not timely but they were subsequently found to be eligible for Federal financial participation and did not result in noncompliance cases. Revenue Enhancement Management has re-enforced policies and procedures at the weekly managers meeting as well as reiterated the importance of conducting timely redeterminations at the quarterly supervisors meeting.

***Finding # 09-12 - Subrecipient Monitoring - During the Award Monitoring and Identification of Federal Award Information***

**Program Name:** Independent Living Skills – Children’s Services  
**CFDA Title and Number:** Chafee Foster Care Independence Program CFDA# 93.674  
**Federal Agency:** U.S. Department of Health and Human Services (HHS)  
**Pass- Through Agency:** California Department of Social Services (CDSS)  
**Federal Award Number:** N/A  
**Award Year :** June 30, 2009  
**Name of Department:** Department of Children and Family Services (DCFS)

*Condition*

The Department of Children and Family Services (DCFS) passes monies down to the Community Development Commission (CDC) in accordance with the Memorandum of Understanding (MOU) approved by the County Board of Supervisors. Monies are used to provide services to eligible youth. CDC in turn passes monies down to the Los Angeles Homeless Services Authority (LAHSA). Out of one (1) subrecipient selected, the following control and compliance issues were noted:

- a. The contract with CDC did not contain the Catalog of Federal Domestic Assistance (CFDA) number or the name of the Federal granting agency;
- b. Although it was noted that CDC programmatically monitored LAHSA, there was no evidence to show that the department reviewed and approved CDC’s programmatic monitoring report or that the department performed their own programmatic monitoring. Furthermore, the department has no programmatic monitoring policies and procedures.

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*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, if the award is research and development, 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) 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;

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

*Questioned Costs:* \$1,922,978 (Calculated based on the amount of expenditures for FY08/09 for the subrecipient noted above.)

*Systemic or Isolated:* Systemic

*Cause*

DCFS has no written formal policies and procedures over:

- a. Communicating Federal grant award information to subrecipients;
- b. Monitoring the activities of subrecipients to ensure Federal awards are used for authorized purposes in compliance with laws, regulations, and the provision of contracts or grant agreement.

*Effect*

Failure to properly monitor subrecipient activities, inform subrecipients of the required information, establish internal controls and develop policies and procedures may result in DCFS being unable to determine whether the subrecipients use the funds appropriately and are in compliance with OMB Circular A-133.

*Recommendation*

We recommend DCFS develop and implement procedures to ensure subrecipient monitoring processes are in accordance with OMB Circular A-133.

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*Views of Responsible Officials and Planned Corrective Action*

DCFS Youth Development Services Division agrees with the recommendation and will develop and implement procedures for subrecipient monitoring processes.

***Finding # 09-13 - Eligibility – Lack of Beneficiary Certification***

**Program Name:** Independent Living Skills – Children’s Services  
**CFDA Title and Number:** Chafee Foster Care Independence Program CFDA# 93.674  
**Federal Agency:** U.S. Department of Health and Human Services (HHS)  
**Pass- Through Agency:** California Department of Social Services (CDSS)  
**Federal Award Number:** N/A  
**Award Year :** June 30, 2009  
**Name of Department:** Department of Children and Family Services (DCFS)

*Condition*

During our review of forty (40) beneficiary files, the following compliance issues were noted:

- a. One file (3%) contained a Transitional Independent Living Plan (TILP) form that was not completed and signed by the youth (i.e. beneficiary);
- b. One file (3%) did not contain a Transitional Independent Living Plan (TILP) form;
- c. One file (3%) contained a Transitional Independent Living Plan (TILP) form that was not signed by the youth.

*Criteria*

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

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

**Questioned Costs:** \$1,444 (Calculated based on the payment selected for the above beneficiaries.)

**Systemic or Isolated:** Systemic



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*Cause*

ILP coordinators occasionally receive incomplete TILP forms from the Regional social workers, who are responsible for completing the TILP forms; this is due to high case loads resulting in a lack of full enforcement of policies and procedures related to completing those forms.

*Effect*

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

*Recommendation*

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

*Views of Responsible Officials and Planned Corrective Action*

The DCFS Youth Development Services (YDS) Division agrees with the recommendation and has taken steps to inform YDS staff that all Request for Funds forms must have a complete TILP or the new 90 Day Living Plan attached prior to processing.

***Finding # 09-14 - Subrecipient Monitoring – During the Monitoring and Identification of Federal Award Information***

**Program Name:** Promoting Safe and Stable Families (PSSF)  
**CFDA Title and Number:** Promoting Safe and Stable Families CFDA# 93.556  
**Federal Agency:** U.S. Department of Health and Human Services (HHS)  
**Pass- Through Agency:** California Department of Social Services (CDSS)  
**Federal Award Number:** N/A  
**Award Year :** June 30, 2009  
**Name of Department:** Department of Children and Family Services (DCFS)

*Condition*

Out of 14 subrecipients selected for review, the following control and compliance issues were noted:

- a. Thirteen (93%) contracts with the subrecipients did not contain the CFDA title, number, award name and federal agency. Furthermore, one (7%) subrecipient contract was not made available to MGO for review. Therefore, MGO was unable to verify whether the Department of Children and Family Services (DCFS)

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communicated the CFDA title, number, award name and federal agency to the subrecipient;

- b. Two (14%) subrecipients were not accompanied by a single audit report;
- c. Five (36%) subrecipients were accompanied by a single audit report; however, there was no evidence of DCFS management review including follow-up of findings noted;
- d. Three (21%) subrecipients were not accompanied by a Monitoring Report; therefore, there was no evidence of follow-up to ensure subrecipient corrected findings (if any);
- e. The department does not have formal subrecipient monitoring policies and procedures.

*Criteria*

- a. 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) 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;
  - (3) 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;
- b. Per OMB Circular A-133§\_\_\_\_.300(b), the County must "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";
- c. Per OMB Circular A-110, §\_\_\_\_.53, "financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report."

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*Questioned Costs:* \$3,321,417

*Systemic or Isolated:* Systemic

*Cause*

We believe that DCFS program managers, where issues were identified, may not have an adequate understanding of the various grant requirements. Certain grant requirements require written formal policies and procedures over:

- a. Communicating Federal grant award information to subrecipients;
- b. Monitoring the activities of subrecipients to ensure Federal awards are used for authorized purposes in compliance with laws, regulations, and the provision of contracts or grant agreement;
- c. Collecting Single Audit reports for 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;
- d. Reviewing audit findings and issuing a management decision on audit findings within six months after receipt of the subrecipients audit report and ensuring that the subrecipient takes appropriate and timely corrective action.

*Effect*

Failure to properly monitor subrecipient activities, inform them of the required information, establish internal controls and develop policies and procedures may result in DCFS being unable to determine whether the subrecipients used the funds appropriately and are in compliance with OMB Circular A-133.

*Recommendation*

We recommend DCFS develop and implement procedures to ensure subrecipient monitoring processes are in accordance with OMB Circular A-133.

*Views of Responsible Officials and Planned Corrective Action*

DCFS Community-Based Support staff agrees with the recommendation and will implement procedures to ensure subrecipient monitoring processes are in accordance with OMB Circular A-133. In addition, staff will issue a Federal Award Information notice to all PSSF contract providers and amend contracts to include this information.

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***Finding # 09-15 - Subrecipient Monitoring – Identification of Federal Award Information***

<b>Program Name:</b>	Area Agency on Aging III B Area Agency on Aging III C-I Area Agency on Aging III C-II Area Agency on Aging III USDA CI Area Agency on Aging III USDA CII
<b>CFDA Title and Number:</b>	Aging Cluster CFDA # 93.044/93.045/93.053
<b>Federal Agency:</b>	Department of Health and Human Services (HHS)
<b>Pass- Through Agency:</b>	California Department of Aging (CDA)
<b>Federal Award Number:</b>	AP-0809-19
<b>Award Year:</b>	June 30, 2009
<b>Name of Department:</b>	Department of Community and Senior Services (CSS)

***Condition***

Out of thirteen (13) subrecipients selected, thirteen (100%) contracts with the subrecipients did not contain the CFDA title and number.

***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.

***Questioned Costs:*** N/A – Subrecipients were monitored throughout the year for compliance.

***Systemic or Isolated:*** Systemic

***Cause***

Lack of policies and procedures over informing the subrecipient's of the CFDA title and number.

***Effect***

Failure to properly inform the subrecipients of required information may result in noncompliance with OMB A-133.

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*Recommendation*

We recommend the Department of Community and Senior Services (CSS) develop and implement procedures to properly inform the subrecipients of required information in accordance with OMB Circular A-133 requirements.

*Views of Responsible Officials and Planned Corrective Action*

CSS management concurs with this recommendation. CSS has issued a CFDA Number directive and provided training on compliance with Federal CFDA Number guidance requirements per OMB Circular A-133.

***Finding # 09-16 - Activities Allowed or Unallowed - Lack of Supporting Documents and Controls over Payroll Transactions***

**Program Name:** Area Agency on Aging III B  
Area Agency on Aging III C-I  
Area Agency on Aging III C-II  
Area Agency on Aging III USDA CI  
Area Agency on Aging III USDA CII  
**CFDA Title and Number:** Aging Cluster CFDA # 93.044/93.045/93.053  
**Federal Agency:** Department of Health and Human Services (HHS)  
**Pass- Through Agency:** California Department of Aging (CDA)  
**Federal Award Number:** AP-0809-19  
**Award Year:** June 30, 2009  
**Name of Department:** Department of Community and Senior Services (CSS)

*Condition*

During our review of forty (40) timecards, we noted that one (3%) employee timecard did not match the hours paid per the CWTAPPS system.

*Criteria*

Per OMB Circular A-87 Attachment A Paragraph C, to be allowable under federal awards, "costs must be adequately documented"; therefore, 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 and the actual amount paid to the employee.

*Questioned Costs:* \$268.86

*Systemic or Isolated:* Systemic

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*Cause*

Lack of enforcement of current policies and procedures.

*Effect*

Failure to properly document the employee's time entries on the County time keeping system may result in the submission of unallowable costs and activities causing noncompliance with OMB A-87.

*Recommendation*

We recommend CSS enforce policies and procedures to ensure compliance with OMB A-87.

*Views of Responsible Officials and Planned Corrective Action*

CSS management concurs with this recommendation. Corrective actions have been implemented. The department's existing policy has been reinforced and monthly reports are being produced to capture exceptions and corrections.

***Finding # 09-17 - Activities Allowed or Unallowed – Controls and Compliance over Time Survey***

<b>Program Name:</b>	<b>HIV Prevention Project</b>
<b>CFDA Title and Number:</b>	<b>HIV Prevention Activities-Health Department Based CFDA # 93.940</b>
<b>Federal Agency:</b>	<b>U.S. Department of Health and Human Services (HSS)</b>
<b>Pass-Through Agency:</b>	<b>(Direct)</b>
<b>Federal Award Number:</b>	<b>N/A</b>
<b>Award Year:</b>	<b>Year 18 &amp; Year 19</b>
<b>Name of Department:</b>	<b>Department of Public Health (DPH)</b>

*Condition*

Department of Public Health (DPH) Office of Aids Program and Policy (OAPP), performs a one time survey per quarter for all DPH OAPP employees. Out of forty (40) time survey transactions selected, MGO found one (3%) employee time survey did not agree with the time survey percentage charged on the Employee Benefit (EB) Modified report (claim).

*Criteria*

Per OMB Circular A-87 Attachment A Paragraph C, to be allowable under federal awards, costs must be adequately documented; therefore; employee work hour

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percentages on the EB Modified report should be substantiated by the actual hour percentages recorded on the time survey.

*Questioned Costs:* \$1,491

*Systemic or Isolated:* Systemic

*Cause*

Lack of policies and procedures over the detailed review of the EB modified report.

*Effect*

Failure to properly document the working hour percentages may result in noncompliance with OMB A-87.

*Recommendation*

DPH OAAP should enforce policies and procedures to ensure compliance with OMB A-87.

*Views of Responsible Officials and Planned Corrective Action*

OAPP agrees with the recommendation to enforce policies and procedures for detailed review of the EB modified report. OAPP Management implemented the corrective action with the Time Surveys for the quarter ending September 30, 2009 by adjusting the September 2009 drawdown to reduce the over billing in the month of April 2009. Furthermore, OAPP implemented additional controls to ensure 100% accuracy in the posting of each employee's distribution of time as reflected in the Time Surveys.

***Finding # 09-18 - Subrecipient Monitoring – During the Award Monitoring***

<b>Program Names:</b>	<b>Alcohol Block Grant Federal Female Offender New Prenatal Set – Aside Substance Abuse Block Grant New HIV Set – Aside Substance Abuse Prevention and Treatment Projects Substance Abuse Prevention and Treatment Block Grant Adolescent Treatment Substance Abuse Prevention and Treatment Set - Aside</b>
<b>CFDA Title and Number:</b>	<b>Block Grants for Prevention and Treatment of Substance Abuse CFDA# 93.959</b>
<b>Federal Agency:</b>	<b>U.S. Department of Health and Human Services (HHS)</b>
<b>Pass- Through Agency:</b>	<b>California Department of Alcohol and Drugs (ADP)</b>

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**Federal Award Number:** 50-09, 45-09, 52-09, 51-09, 56-09, 50a-09, 50d-09  
**Award Year:** June 30, 2009  
**Name of Department:** Department of Public Health

*Condition*

During our review of forty (40) subrecipients, the following compliance and control issues were noted:

- a. Seven (18%) subrecipients had not been monitored for the fiscal year ended June 30, 2009, in accordance with the Department of Public Health (DPH) policies, which require annual programmatic monitoring. However, the department obtained and reviewed 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:

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.

In addition, per the "Alcohol and Drug Program Administration – Monitoring Protocol" (renamed Substance Abuse Prevention & Control) issued by DPH, dated February 19, 2009, Contract Program Auditors (CPAs) assure contract compliance and quality of services, and provide technical assistance to achieve these objectives. Through annual or more frequent audits, the monitor evaluates the amount, kind, and quality of services delivered.

*Questioned Costs:* \$5,145,588

*Systemic or Isolated:* Systemic

*Cause*

Due to a shortage of staff DPH was unable to complete annual monitoring for seven subrecipients.

*Effect*

Failure to properly monitor subrecipient activities may result in noncompliance with OMB Circular A-133 and DPH policies. Also, the Department of Public Health may be unable to determine whether the subrecipients have used the funds appropriately.



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*Recommendation*

We recommend DPH evaluate monitoring efforts to be performed on the subrecipients and ensure they are reasonable considering staffing levels and OMB, as well as Public Health requirements.

*Views of Responsible Officials and Planned Corrective Action*

The Department of Public Health, Substance Abuse Prevention and Control (SAPC) agrees with this recommendation. SAPC will re-assess the frequency of the monitoring audits performed on subrecipients and will submit a request for approval to reduce the frequency of monitoring audits to DPH management and the Auditor-Controller by April 30, 2010. If approved, the revised monitoring protocol will be effective on July 1, 2010.

***Finding # 09-19 Reporting – Controls and Compliance over the State Criminal Alien Assistance Program (SCAAP) Application Reporting***

<b>Program Name:</b>	<b>State Criminal Alien Assistance Program (SCAAP)</b>
<b>CFDA Title and Number:</b>	<b>State Criminal Alien Assistance Program CFDA #16.606</b>
<b>Federal Agency:</b>	<b>U.S. Department of Justice (DOJ)</b>
<b>Pass- Through Agency:</b>	<b>(Direct)</b>
<b>Federal Award Number:</b>	<b>2008-AP-BX-1060</b>
<b>Award Year:</b>	<b>June 30, 2007</b>
<b>Name of Department:</b>	<b>Sheriff's Department</b>

*Condition*

During our review of one (1) "FY 2006-2007 State Criminal Alien Assistance Program (SCAAP) Application," which is the annual claim submitted to the funding agency, the following was noted:

The salary of one Inmate Reception Center administrative employee who was not SCAAP eligible was included as part of the total reported salary cost.

*Criteria*

Per Bureau of Justice Assistance, SCAAP, FY 2008 grant guideline:

"Employees, officers, and contractual staff whose primary responsibility is providing non-custody services to the facility or its inmate population are not SCAAP eligible, including office and secretarial support, administrative, housekeeping, maintenance, food, health, education, training, vocational, counseling, and medical staff."

*Questioned Costs:* \$14,938 (Calculated based on the salary amount paid to the employee above.).

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*Systemic or Isolated:* Systemic

*Cause*

Lack of enforcement of policies and procedures over the detailed review of the application.

*Effect*

Failure to enforce policies and procedures may result in the incorrect reporting of salary cost and as a result, in an incorrect claim and noncompliance with the Bureau of Justice Assistance, SCAAP, and FY 2008 grant guideline.

*Recommendation*

We recommend the Sheriff's department enforce policies and procedures to ensure that the applications are properly reviewed for accuracy.

*Views of Responsible Officials and Planned Corrective Action*

The Sheriff's department will enforce policies and procedures to ensure that the applications are properly reviewed for accuracy.

***Finding # 09-20 - Activities Allowed or Unallowed – Lack of Supporting Documents and Controls over Payroll***

<b>Program Name:</b>	<b>State Criminal Alien Assistance Program (SCAAP)</b>
<b>CFDA Title and Number:</b>	<b>State Criminal Alien Assistance Program CFDA #16.606</b>
<b>Federal Agency:</b>	<b>U.S. Department of Justice (DOJ)</b>
<b>Pass- Through Agency:</b>	<b>(Direct)</b>
<b>Federal Award Number:</b>	<b>2008-AP-BX-1060</b>
<b>Award Year:</b>	<b>June 30, 2007</b>
<b>Name of Department:</b>	<b>Sheriff's Department</b>

*Condition*

During our review of sixty (60) State Criminal Alien Assistance Program (SCAAP) payroll transactions, we found that one (2%) employee time card was missing. Therefore, it could not be determined whether the employee actually worked during the pay period for which they were paid.

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*Criteria*

Per OMB Circular A-110, §\_\_\_\_.53, "financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report."

*Questioned Costs:* \$6,229

*Systemic or Isolated:* Systemic

*Cause*

Due to the nature of the program and timing of federal funding, MGO reviewed employee timecards for Fiscal Year (FY) 06/07. Consequently, the noted employee time card was missing from the offsite storage; therefore, unavailable for our review.

*Effect*

Failure to properly retain supporting documentation for employee's time charged to the program may result in the submission of unallowable costs and activities causing noncompliance with OMB A-110.

*Recommendation*

We recommend the Sheriff's department revisit their policies and procedures over record retention to ensure compliance with OMB A-110.

*Views of Responsible Officials and Planned Corrective Action*

The Sheriff's department will revisit their policies and procedures over record retention to ensure compliance with OMB A-110. In the near future, only electronic records will be maintained by Los Angeles County.

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**Finding # 08-01 - Capital Assets**

*Condition*

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

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

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

- a. Two (4%) Building & Improvement projects were not capitalized in the year they were placed in service. One (1) project was not listed on the CIP B&I worksheet that is maintained by Auditor Controller to keep track of open projects. One (1) project was listed on the CIP B&I worksheet, however, was not monitored for completion status:
  - i. One (2%) project completed and placed in service during FY 2006/2007 is not yet capitalized. Since this project was not listed on the CIP B&I worksheet, it was never monitored for completion. Auditor Controller staff stated that this was a Waterworks project and until Auditor Controller began using CAS in FY 2006/2007, DPW maintained the CIP-B&I records for Waterworks. In the conversion from DPW records to CAS, this Waterworks project was overlooked for tracking and was not included in

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the worksheet.

- ii. One (2%) project completed and placed in service during FY 2007/2008 is not yet capitalized. Although this project was listed on the CIP B&I worksheet with an estimated completion date of May 2008, timely follow up with the department regarding the status of the project was not performed by Auditor Controller. At MGO's request, Auditor Controller staffs performed follow up and noted that the project had been completed.

*Recommendation*

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

*Current Year Management Response*

The County has implemented the recommendation, except for the second and fourth Finding "Conditions," which are partially implemented as noted below.

- a. A procedure was added to send a year-end reminder notice on an annual basis to departments about the need to record equipment transfers to other departments.
- b. Two procedures were added to more efficiently capture the completed capital projects. This would be an ongoing process which would be fully implemented by June 30, 2010.
- c. A procedure to report and adjust for unearned revenue has been added.
- d. The eCAPS security workflow for the FX document has been changed to require only one Auditor-Controller approval in accordance with the Internal Control Plan, except for FX documents involving two specific departments. The two department's workflows have been changed as of August 31, 2009.

*Current Status as of June 30, 2009*

Partially Implemented

*Implementation Date*

June 30, 2009 – Items a. and c.

*Expected Implementation Dates as of June 30, 2009*

June 30, 2010 – Item b.

August 31, 2009 – Item d.

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**CFDA # 93.658 - Foster Care Title IV-E  
CFDA # 93.659 - Adoption Assistance**

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

*Condition*

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

For details, please see the chart below:

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

*Recommendation*

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

*Current Year Management Response*

The Department of Children and Family Services Bureau of Finance and Administration staff developed a *CA 800 Assistance Claim Report Procedural Guide* and disseminated it to all fiscal operations accounting services staff.

*Current Status as of June 30, 2009*

Implemented

*Implementation Date*

June 2008

**CFDA # 93.659 - Adoption Assistance**

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

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*Condition*

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

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

*Recommendation*

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

*Current Year Management Response*

The Department of Children and Family Services Business and Information Systems Division is still in the process of converting the stand alone system to a web-based system. Staff will develop policy and procedures once the system is operational.

*Current Status as of June 30, 2009*

Not Implemented

*Expected Implementation Date as of June 30, 2009*

January 2010

**CFDA # 93.659 - Adoption Assistance**

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

*Condition*

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

Four (8%) cases did not contain an initial 4320 form that was properly signed by the

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adoptive parent(s) and the Agency's Representative; Therefore, MGO was unable to verify whether the 4320 form was signed and in effect before the final decree of adoption.

*Recommendation*

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

*Current Year Management Response*

Children and Family Services Adoption and Permanency Resources Management reissued procedures to staff to ensure all documentation is kept in file to comply with policy.

*Current Status as of June 30, 2009*

Partially Implemented (see current year finding #09-09)

*Expected Implementation Date as of June 30, 2009*

April 1, 2010

**CFDA # 93.674 - Chafee Foster Care Independence Program**

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

*Condition*

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

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

*Recommendation*

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

*Current Year Management Response*

Children and Family Services Youth Development Services (YDS) management revised the *Policy Guidelines for Distribution of YDS Benefits*. It incorporates proper documentation (signed requests for services from youth and receipts) of disbursements.



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In November 2008, the revised policy was disseminated to YDS managers so they could discuss and distribute to staff.

*Current Status as of June 30, 2009*

Implemented

*Implementation Date*

November 2008

**CFDA # 93.674 - Chafee Foster Care Independence Program**

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

*Condition*

Out of 4 subrecipients selected:

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

*Recommendation*

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

*Current Year Management Response*

Children and Family Services Independent Living Program (ILP) Management is in the process of reviewing and implementing procedures to ensure subrecipient monitoring is conducted in accordance with OMB Circular A-133 requirements.

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*Current Status as of June 30, 2009*

During FY 08/09, the department began to collect and review Single Audit reports, and therefore, partially implemented the recommendation (see current year finding #09-12).

*Expected Implementation Date as of June 30, 2009*

December 2009

**CFDA # 93.674 - Chafee Foster Care Independence Program**

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

*Condition*

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

*Recommendation*

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

*Current Year Management Response*

The Department of Children and Family Services staff revised the *Youth Development Transitional Independent Living Planning Procedural Guide* in August 2008 to include maintaining signed TILP forms in appropriate files. Youth Development Services Management disseminated the revised procedural guide and staff attended Transitional Independent Living Plan (TILP) training at the UCLA Child Welfare Center Training Center.

*Current Status as of June 30, 2009*

During FY 08/09, the department revised their eligibility policies and procedures and presented them to their staff during training. However, the policies and procedures were not fully enforced during the fiscal year, therefore, the department partially implemented the recommendation (see current year finding #09-13).

*Expected Implementation Date as of June 30, 2009*

December 18, 2009

**CFDA # 93.658 - Foster Care Title IV-E**

**CFDA # 93.659 - Adoption Assistance**

**CFDA # 93.667 - Social Services Block Grant**

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**CFDA # 93.674 - Chafee Foster Care Independence Program**

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

*Condition*

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

- a. Twenty (13%) employee time studies did not contain reasonable hours when compared to hours on the employee's timesheet (for example, an employee was sick or on vacation according the timecard but hours were allocated to a working Pin Code);
- b. Sixteen (10%) employee timesheets did not match the hours paid per the CWTAPPS system;
- c. Twenty (13%) employee timesheets were missing;
- d. Three (2%) supervisors' signatures could not be verified. Therefore, it could not be determined whether the timecards were properly approved by authorized personnel;
- e. One (1%) employee was missing the language proficiency certificate on file as evidence of a properly approved bi-lingual pay bonus;
- f. One (1%) employee's salary exceeded the approved MOU range.

*Recommendation*

We recommend the following actions to be implemented:

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

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properly supported;

- e. Enforce policies and procedures to ensure that employee's salaries/hourly rates are supported by the approved MOU range.

*Current Year Management Response*

- a. The Department of Children and Family Services Time Study Section staff disseminates Time Study Instructions and a Frequently Asked Time Study Questions guide to all applicable staff on a quarterly basis via the department's intranet. The instructions clearly direct personnel to ensure the work schedule and hours match their time sheet. Staff may change the instructions every quarter as new codes are added or any other change occurs.
- b. The Bureau of Finance and Administration has assigned staff to conduct monthly payroll quality assurance.
- c. Human Resource Management issued a memorandum regarding the 5-year retention requirement and continues to distribute the memo at their monthly eCAPS Liaison Trainings.
- d. The Classification and Compensation Staff has policies and procedures in place to ensure proper documentation is on file for all bonus requests and the manager issued a memo to all staff informing them to ensure all Language Proficiency Certificates are kept in the employee's file.
- e. A review and approval process was implemented in August 2008 whereby all personnel transactions have an initiator, reviewer/approver, and data entry person.

*Current Status as of June 30, 2009*

During FY 08/09, the department assigned staff to complete monthly quality assurance reviews. In addition, the department developed policies and procedures to ensure proper documentation is maintained for bi-lingual certificates and pay exceeding the MOU. However, the department is currently working on implementing the remainder of the recommendation. As a result, the department has partially implemented the recommendation (see current year finding# 09-10).

*Implementation Dates*

October 2007 – Item c.  
February 2009 – Item d.  
August 2008 – Item e.

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*Expected Implementation Dates as of June 30, 2009*

August 1, 2009 – Item a.

December 15, 2009 – Item b.

**CFDA # 93.889 - National Bioterrorism Hospital Preparedness Program**

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

*Condition*

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

*Recommendation*

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

*Current Year Management Response*

The Department has developed procedures to ensure that there is a review of single audit reports received from the subrecipients and that there is follow up on any audit findings in compliance with OMB Circular A-133, subrecipients monitoring requirements. Necessary actions will be taken for any “material” exception that could impact the grant’s requirements.

*Current Status as of June 30, 2009*

Implemented

*Implementation Date*

January 2009

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**CFDA # 93.777/93.778 Medicaid Cluster**

**Finding # 08-10 - Eligibility – Compliance – Lack of Supporting Documents**

*Condition*

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

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

*Recommendation*

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

*Current Year Management Response*

The Department of Public Social Services continues to disagree with this non-compliance finding as current application of Medi-Cal policy is in accordance with State regulations.

*Current Status as of June 30, 2009*

N/A – Based on subsequent documentation from the State, the County handled the issue in accordance with State regulations.

**CFDA # 93.558 - Temporary Assistance for Needy Families**

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

*Condition*

- a. Out of 15 subrecipients selected the following control and compliance issues were noted:
- b. Fifteen (100%) contracts with the subrecipients did not contain the CFDA title, number, award name and federal agency.
- c. One (7%) subrecipient was not accompanied by a single audit report. As a result, MGO was unable to verify the single audit report was reviewed and a management decision was issued.

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*Recommendation*

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

*Current Year Management Response*

- a. The Department of Public Social Services (DPSS) released Contract Memo Number 09-05, dated May 18, 2009, advising DPSS County Contract Administrators to share with each subrecipient the CFDA information related to their contract.
- b. There is fiscal accountability language in all of our financial contracts, including the requirement that contractors must adhere to OMB Circular A-133 for audits of State, local governments and non-profit organizations. Contractors are required to file a copy of any Single Audit to the County within the timeframe (March for previous year) established by the subject OMB Circular. We monitor the contractors for compliance.

*Current Status as of June 30, 2009*

Implemented

*Implementation Date*

May 18, 2009

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

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

*Condition*

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

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

*Recommendation*

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

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*Current Year Management Response*

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

*Current Status as of June 30, 2009*

Implemented

*Implementation Date*

February 13, 2009

**CFDA # 93.658 - Foster Care Title IV-E**

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

*Condition*

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

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

*Recommendation*

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



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*Current Year Management Response*

Procedures have been developed to ensure that all federal grant expenditures (including the grants where Probation is the subrecipient), are recorded and reported in the County's Grant Inventory System, Listing of Open Grants. We have adhered to this procedure in the 2007-08 and 2008-09 submittal of the Grant Inventory System, Listing of Open Grants, to the Auditor-Controller to include in its Schedule of Expenditures of Federal Awards.

*Current Status as of June 30, 2009*

Implemented

*Implementation Date*

January 2009

**CFDA # 93.658 - Foster Care Title IV-E**

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

*Condition*

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

*Recommendation*

We recommend that the County develop procedures to ensure that the claim submitted is accurate.

*Current Year Management Response*

Procedures were developed and are being followed to accurately submit our quarterly claims.

*Current Status as of June 30, 2009*

Implemented

*Implementation Date*

January 2009

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**CFDA # 93.658 - Foster Care Title IV-E**

**Finding # 08-15 - Activities Allowed or Unallowed – Lack of Supporting Documents**

*Condition*

The Probation department performs one time study per quarter for all Title IV-E employees. Out of forty (40) time study transaction samples, three (8%) employees' time studies were missing.

*Recommendation*

We recommend that the County develop and enforce procedures to ensure time studies are performed and retained for all Title IV-E employees.

*Current Year Management Response*

If we have not received a time study by its due date, we do not include that employee in the current claim; the information will be submitted when the claim is amended.

*Current Status as of June 30, 2009*

Implemented

*Implementation Date*

January 2009

**CFDA # 93.958 - Block Grants for Community Mental Health Services**

**Finding # 08-16 - Activities Allowed or Unallowed – Lack of Supporting Documents**

*Condition*

Out of 43 samples selected, one (2%) employee's hours on the timesheet did not match the hours paid per the CWTAPPS system.

*Recommendation*

We recommend that the County enforce procedures to ensure that the hours on the timesheet match the hours per CWTAPPS.

*Current Year Management Response*

The Payroll Clerks are working with only one time card at a time. When the time card is processed, it is placed in a bin marked "completed." The Payroll Clerk retrieves the next

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time card from the bin marked "not processed." This avoids the error of an employee's hours on the timesheet not matching the hours paid per the CWTAPPS system.

*Current Status as of June 30, 2009*

Partially Implemented

*Expected Implementation Date as of June 30, 2009*

September 28, 2009

**Finding # 07-01 - Capital Assets**

*Condition*

For the fiscal year 2006/2007, the County implemented a new information system to account for the County's capital assets – Capital Asset System (CAS). During our review of capital assets, we noted that County managers had to perform significant reviews of information and prepare material adjustments to ensure that the information processed, maintained and reported for capital assets was materially accurate. Specifically, we noted the following:

- a. A report generated by CAS included instances where capital asset additions and improvements amounts did not agree with amounts recorded in CAS.
- b. Certain additions and deletions of infrastructure assets were technically not additions and deletions, but rather improvements to existing infrastructure assets and changes in estimated useful lives. County managers stated that due to CAS limitations, manual adjustments are prepared to account for these transactions.
- c. Capital asset additions recorded in CAS were not always evidenced by management approval within the system. County management indicated that this was likely a system security and approval "set-up" issue during the initial implementation of CAS.
- d. CAS system detail reports did not agree to system summary reports. County managers stated that this occurred during the conversion to CAS for the period under audit and may also be an ongoing system issue.

*Recommendation*

We recommend County management evaluate the sufficiency of internal controls, the effects of the conversion to CAS, and the overall process of accounting, recording and reporting capital assets, and determine where improvements can be made to ensure the accuracy of the County's capital assets information.

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*Current Year Management Response*

The County has implemented the recommendation, except for the fourth Finding "Condition," which is partially implemented as noted below.

- d. The incorrectly converted Activity Codes, which caused CAS detail reports and summary reports to disagree, cannot be easily changed in CAS. The changes that can be processed manually have been completed. The changes that require an automated solution are expected to be resolved by June 30, 2010.

*Current Status as of June 30, 2009*

Partially Implemented

*Implementation Date*

June 30, 2008 – Items a. through c.

*Expected Implementation Date as of June 30, 2009*

June 30, 2010 – Item d.

**Finding # 07-02 - Information Technology Environment – Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control Framework**

*Condition*

During our audit of the County's basic financial statements, MGO reviewed the County's information Technology (IT) environment and system controls against the framework established by the Committee of Sponsoring Organization of the Treadway Commission (COSO). The COSO framework provides the basis for an effective system of internal control over financial reporting. Overall, decentralization within the County's IT environment has led to inconsistencies in the IT controls currently in place within various County departments. These inconsistencies are systemic and generally relate to controls over passwords, user access rights, and controls over super-users access. We also noted multiple methodologies over change management within the IT environment and differing IT organizational structures. We note that County management is currently determining the current IT controls being utilized at each department.

*Recommendation*

We recommend County management develop a communication protocol for how departmental IT policies and procedures are developed, and ensure that these policies are either in compliance with the County's overall IT policies or document the reason for establishing alternative controls. This communication protocol should be well

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documented so that it complies with the COSO framework, which encourages documentation to support the decision making process.

*Current Year Management Response*

The County has completed an internal control assessment based on the Committee of Sponsoring Organization of the Treadway Commission (COSO) Framework, which included an assessment of the IT environment. The IT internal control matrix was submitted to the auditors for review on October 3, 2008 with a request for any comments in writing. As of June 30, 2009 the County received no comments.

*Current Status as of June 30, 2009*

Implemented

*Implementation Date*

October 3, 2008

**Finding # 07-03 – Schedule of Expenditures of Federal Awards (SEFA) Reporting – Missing Pass-through Agency Identification Number**

*Condition*

The Schedule of Expenditures of Federal Awards (SEFA) does not list the identifying number assigned by the pass-through entities.

*Recommendation*

We recommend the County list the identifying number from the pass-through entity for each federal program presented on the fiscal year 2007/2008 SEFA.

*Current Year Management Response*

As previously stated, in April 2008, the Auditor-Controller (A-C) forwarded a memo to all County Departmental Fiscal Officers, Administrative Deputies and Grant coordinators, entitled "2007-2008 Single Audit Requirements." This memo explained the need for all subrecipients to list the identifying number from the pass-through entity for each federal program from which they receive grant funding. To aid in this endeavor, A-C staff modified the grant worksheets that the departments complete. Additionally, on May 7, 2008, A-C staff, along with staff from the County's outside auditors, met with Departmental Grant and Audit Coordinators to discuss the above requirements. Lastly, in June 2008, the A-C forwarded a request for modifications of the Grant System to the A-C Systems Division. This request was to modify the Grant System to include the identifying numbers and then to reflect them in the appropriate SEFA reports. The Grant

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System modifications were completed August 15, 2008. Therefore, this recommendation is now fully implemented.

*Current Status as of June 30, 2009*

Implemented

*Implementation Date*

August 15, 2008

**CFDA # 39.011 - Help America Vote Act (HAVA) 102 Punch Card Buyout**

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

*Condition*

The Registrar-Recorder's Office received \$15.8 million in advanced funds from the California Secretary of State in May 2004 to purchase voting systems. Due to a delay in the certification process of the voting systems, the County did not completely spend these advanced funds until fiscal year 2007. During that period, the advanced funds were maintained in a trust fund and the related interest earnings were retained by the County general fund. The grant agreement with the State was silent as to interest earnings on the \$15.8 million in advanced funds. Per County policy, supporting documentation or information is required to justify the payment of interest earnings for each trust fund established. If grant agreements do not specifically require interest earnings to be accounted for as "program income" or returned to the grantor, the County general fund retains any interest earnings. It is noted that County management did confer with County Counsel as to the treatment of interest earnings from this advance.

*Recommendation*

We recommend the County remit the interest earned to the funding agency and review its policy on cash management to ensure that interest earned on advanced federal funds is remitted back to the funding agency in accordance with federal guidelines.

*Current Year Management Response*

Interest earned on the HAVA 102 Advance does not need to be remitted back to the funding agency. The County may retain the interest earned as long as the County's stated use of those funds is for HAVA-related Section 102 purposes per a letter, dated August 27, 2008, from Chris Reynolds, Deputy Secretary of State (SOS) for HAVA Activities, consistent with the SOS review of HAVA Section 102 and other Federal Guidelines.

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The County calculated the interest earned of \$1,253,359.90 as of 12/1/2009 for the HAVA Section 102 funds. The Auditor-Controller transferred that amount into an interest bearing trust fund for the County Registrar-Recorder as of 12/23/2009. The County Registrar-Recorder used the funds to pay the remaining HAVA Section 102 related invoices.

Additionally, we have reviewed our policy on cash management. While we have made no changes, we will continue to be proactive in working with departments to determine if any of their Federal grants include advanced funding. If so, departments will be required to deposit the advances into interest-bearing funds to track the interest earned on the advances.

*Current Status as of June 30, 2009*

Partially Implemented

*Expected Implementation Date as of June 30, 2009*

December 15, 2009

**CFDA # 93.674 - Independent Living Skills – Children's Services Program**

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

*Condition*

Our review of forty beneficiary files determined that four files (10%) did not contain a Transitional Independent Living Plan (TILP) form signed by the youth (i.e., beneficiary).

*Recommendation*

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

*Current Year Management Response*

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

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*Current Status as of June 30, 2009*

During FY 08/09, the department revised their eligibility policies and procedures and presented them to their staff during training. However, the policies and procedures were not fully enforced during the fiscal year, therefore, the department partially implemented the recommendation (see current year finding #09-13)

*Implementation Date*

August 2008

**CFDA # 93.674 - Independent Living Skills – Children's Services Program**

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

*Condition*

Out of forty cash disbursement transactions selected, the following internal control weaknesses with respect to additional County procedures were noted:

- a. Fifteen (38%) transactions did not contain evidence of letter sent to youth with the specific language instructing them to return receipts for the funding requested;
- b. Nineteen (48%) transactions did not contain receipts; therefore, the County was unable to determine whether the unused funds were returned to the program;
- c. Two (5%) gift certificate transactions did not contain a Request for Funds form prepared by the accountant;
- d. Thirteen (33%) transactions did not contain a signed letter from the youth stating the need for the funding.

*Recommendation*

We recommend that the County enforce the internal control procedures developed in the Internal Controls Policy and Procedure Manual and the Policy Guidelines for Distribution of ESD Benefit Manual by:

- a. Sending a copy of the letter to the youth instructing them to submit receipts and return all unused funds and keeping a copy of this letter on file as evidence;
- b. Modifying procedures to include time period for which the youth must turn in receipts after advancement;



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- c. Ensuring that all disbursements are accompanied by a Request for Funds form, regardless of whether funds are disbursed via a warrant or a gift certificate;
- d. Ensuring that all request for funds are accompanied by a signed letter from the youth stating the needs for the funding.

*Current Year Management Response*

Children and Family Services Youth Development Services (YDS) management revised the *Policy Guidelines for Distribution of YDS Benefits*. It incorporates proper documentation (signed requests for services from youth and receipts) of disbursements. In November 2008, the revised policy was disseminated to YDS managers so they could discuss and distribute to staff.

*Current Status as of June 30, 2009*

Implemented

*Implementation Date*

November 2008

**CFDA # 93.674 - Independent Living Skills – Children's Services Program**

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

*Condition*

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

*Recommendation*

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

*Current Year Management Response*

Children and Family Services Youth Development Services Division Management staff developed procedures for the timely submission of the program's Annual Statistical Report (SOC 405A). The procedures were approved and disseminated to managerial staff in October 2008.

*Current Status as of June 30, 2009*

Implemented

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*Implementation Date*

October 2008

**CFDA # 93.674 - Independent Living Skills – Children's Services Program**

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

*Condition*

Out of two samples selected, the following compliance issues were noted:

- a. Two (100%) contracts with the subrecipients did not contain the CFDA title, number, and award name.
- b. Two (100%) subrecipients were not accompanied by proper program monitoring review and no single audit report was requested from these subrecipients.

*Recommendation*

We recommend that the County develop and implement procedures to ensure the following:

- a. There is a review of single audit reports received from the subrecipients and follow up on audit findings (if any) in compliance with OMB Circular A-133 subrecipients monitoring requirements.
- b. Ensure that either the contract or an accompanying letter to the contract contains the CFDA title, number and award name at the time of the award.
- c. Programmatic monitoring is performed for all subrecipients.

*Current Year Management Response*

Children and Family Services Independent Living Program (ILP) Management is in the process of reviewing and implementing procedures to ensure subrecipient monitoring is conducted in accordance with OMB Circular A-133 requirements.

*Current Status as of June 30, 2009*

During FY 08/09, the department began to collect and review Single Audit reports, and therefore, partially implemented the recommendation (see current year finding #09-12)

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*Expected Implementation Date as of June 30, 2009*

December 2009

**CFDA # 93.674 - Independent Living Skills – Children's Services, # 93.658 - Health Care Program Children in Foster Care, # 93.659 - Adoptions - Administration and Assistance, # 93.777/93.778 - Medicaid Cluster (Children's Welfare Services)**

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

*Condition*

Department of Children and Family Services (DCFS) performs one timestudy per quarter for all federal award programs in the consolidated County Expense Claim (CEC) report. Out of one hundred (100) time study transaction samples from the CEC report, the following control and compliance issues were noted:

- a. Nine (9%) timecards were "blank" (i.e., no actual work hours were filled out by employees). The County's payroll department recorded default 40 work hours into the Countywide Time Keeping and Payroll Personnel System (CWTAPPS) when the "blank" timesheets were received;
- b. Twenty four (24%) employee timesheets were missing;
- c. One (1%) employee was missing the language proficiency certificate on file as evidence of a properly approved bi-lingual pay bonus;
- d. Three (3%) supervisors' signature identification could not be verified. Therefore, it could not be determined whether the timecard was properly approved by authorized personnel;
- e. Twenty two (22%) employee hours on the timesheets did not match the hours paid per the CWTAPPS system.

*Recommendation*

We recommend the following actions to be implemented:

- a. Enforce the County payroll policies and procedures by communicating to employees and supervisors via training/memo to complete the default and variance hours on the timesheets;
- b. Establish control procedures to ensure that the hours on the timesheets match the hours per CWTAPPS;

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- 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.

*Current Year Management Response*

- a. The Department of Children and Family Services has paper timesheet instructions on the Human Resources intranet website. The Department plans to have the e-Time Collection Timesheet System fully operational by July 2010 and all employees will submit electronic timesheets.
- b. The Bureau of Finance and Administration has assigned staff to conduct monthly payroll quality assurance.
- c. Human Resource Management issued a memorandum regarding the 5-year retention requirement and continues to distribute the memo at their monthly eCAPS Liaison Trainings.
- d. The Classification and Compensation Staff has policies and procedures in place to ensure proper documentation is on file for all bonus requests. Staff conducts an annual review of all bonuses.
- e. The Payroll Section staff expects the eCAPS Time Collection Timesheet System to resolve the issue of maintaining employee supervisor records on file.

*Current Status as of June 30, 2009*

During FY 08/09, the department assigned staff to complete monthly quality assurance reviews. In addition, the department developed policies and procedures to ensure proper documentation is maintained for bi-lingual certificates and pay exceeding the MOU. However, the department is currently working on implementing the remainder of the recommendation. As a result, the department has partially implemented the recommendation (see current year finding# 09-10).

*Implementation Dates*

January 2008 – Item a.  
May 2008 – Item b.  
October 2007 – Item c.

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May 2008 – Item d.

*Expected Implementation Date as of June 30, 2009*

July 2010 – Item e.

**CFDA # 93.959 - Alcohol Block Grant**

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

*Condition*

Under current procedures, the Department of Public Health (DPH) conducts contract monitoring on all subrecipients. However, the Department notifies only those subrecipients that have received more than \$500,000 in Alcohol and Drug Program (ADP) funds of the required federal award information. The Department then requests single audit reports from those notified.

Per review of forty samples in our testwork, we noted the following compliance issues:

- a. Twenty-two (55%) subrecipients that received less than \$500,000 in federal awards from ADP did not receive contracts or appending letters notifying them with all required federal award information. Below you will find the details:
  - i. Thirteen (33%)– missing CFDA number, award amount and name of federal agency; and
  - ii. Nine (23%) – missing all information plus award name.
- b. One (3%) subrecipient's Contract Monitoring Report was not filed timely.

*Recommendation*

We recommend the County perform the following:

- a. Modify current monitoring procedures to ensure that all subrecipients, including those receiving less than \$500,000 in federal funding from the ADP
  - i. Receive an appending letter containing all federal award information (i.e., CFDA number, amount of award, name of federal agency and award name) in a timely manner regardless if the agency requests it or not;
  - ii. Submit a copy of single audit report (if applicable) for review;

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

*Current Year Management Response*

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

*Current Status as of June 30, 2009*

Partially Implemented (see current year finding #09-18)

*Implementation Date*

February 13, 2009 – item a.

*Expected Implementation Date*

July 1, 2010 – item b.

**CFDA # 93.889 - Bioterrorism Hospital Preparedness Program**

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

*Condition*

Out of fifteen samples selected, we noted the following compliance issues:

- a. The County Department of Health Services did not present funding source information in the original contracts with the subrecipients. The department subsequently sent out an accompanying letter dated April 16, 2007 notifying its subrecipients of the name of the award as well as the OMB Circular A-133 requirements. This letter was not sent out in a timely manner and some of the required information was missing. The missing information includes CFDA number, amount of award, and name of federal agency;
- b. Fifteen (100%) subrecipients were not accompanied by proper review and follow up on findings identified in the single audit reports.

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*Recommendation*

We recommend that the County develop and implement procedures to ensure that there is a review of single audit reports received from the subrecipients and follow up on any audit findings in compliance with OMB Circular A-133 subrecipients monitoring requirements. Also, procedures should be developed to ensure that either the contract or an accompanying letter to the contract contains the CFDA title, number and award name at the time of the award.

*Current Year Management Response*

The EMS Agency Assistant Director sent letters to all participating hospitals who received Federal funding through the Hospital Preparedness Program (HPP) requesting submission of A-133 audit information on November 14, 2007 for the FY 05-06 reports. A second letter requesting FY 06-07 reports was sent on June 4, 2008. In July 2008, EMS Agency developed and enforced procedures to incorporate this information into the cover letters that are mailed out with the subrecipient's check.

The EMS Agency has incorporated funding source information into their contracts and correspondence related to the HPP. In addition, this funding source information will be incorporated into future agreements effective January 1, 2009. This funding source information is not in current agreements which had been approved by the Board of Supervisors prior to the date of this finding.

The Department of Health Services has added the funding source information on all new agreements and will continue to do so in the future.

*Current Status as of June 30, 2009*

Implemented

*Implementation Dates*

November 14, 2007 – Letters sent to hospitals requesting FY 05-06 reports

June 4, 2008 – Letters sent to hospitals requesting FY 06-07 reports

July 2008 – Letters sent to hospitals incorporating the CFDA title, number and award name

January 1, 2009 – Funding source information incorporated

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**CFDA # 93.558 - Temporary Assistance for Needy Families**

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

*Condition*

Out of forty samples selected, the following internal control weaknesses were noted:

- a. Nine (23%) case files were missing a copy of the Applicant IEVS abstract in the case folder, and no comments were made by the Eligibility Worker to indicate if the Applicant IEVS match follow-up had been performed and any discrepancy had been documented in the LEADER system, (the Automatic Data Processing system used by the County to determine the Temporary Assistance for Needy Families (TANF) eligibility).
- b. Eight (20%) Applicant IEVS abstract forms in the case files were not signed and dated. In addition, no comments were made by the Eligibility Worker to indicate whether these cases had been reviewed or any discrepancy noted in the LEADER system.

*Recommendation*

We recommend that the County establish procedures to:

- a. Ensure case files contain Applicant IEVS forms. Review and compare the information obtained from Applicant IEVS against information contained in the case record to determine whether it affects the individual's eligibility, level of assistance or benefits, and services under the TANF program in a timely basis; and
- b. Ensure Eligibility Worker signs and dates the Applicant IEVS abstract and review the Applicant IEVS records for any discrepancy.

*Current Year Management Response*

The Department of Public Social Services previously reported the release of DPSS Operations Handbook Manual Letter Number 315 on August 7, 2008. This letter reiterates procedures for processing Applicant IEVS abstracts. To supplement the release of the manual letter, an e-mail reminder was released to all DPSS Line Division Chiefs and District Directors to reinforce with eligibility staff the need to review and familiarize themselves with the manual letter. Division Chiefs and District Directors were asked to reinforce with their staff the importance of reviewing and applying appropriate signatures and dates as required regarding the processing of Applicant IEVS abstracts.



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STATUS OF PRIOR YEAR'S FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2009**

*Current Status as of June 30, 2009*

Implemented

*Implementation Date*

May 18, 2009

**CFDA # 93.563 - Child Support Enforcement**

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

*Condition*

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

- a. The Monthly Report of Collections & Distributions (CS34) for the month ended October 2006 was electronically submitted on November 16, 2006 (i.e., one day late).
- b. The Local Child Support Agency Administrative Expense Claim Schedule & Certification (CS 356) for the quarter ended March 2007 was electronically submitted on April 17, 2007 (i.e., two days late).
- c. The Monthly State Performance Report (CS 1257) for the months of September 2006, October 2006 and May 2007 were electronically submitted on October 25, 2006 (i.e., nine days late), October 16, 2006 (i.e., one day late) and June 22, 2007 (i.e., seven days late), respectively.

*Recommendation*

We recommend that the County establish procedures to ensure that reports are prepared, reviewed, approved and submitted by the due dates to the California Department of Child Support Services.

*Current Year Management Response*

Child Support Services Department has issued procedures to ensure that reports are submitted to the State by the due dates.

The California Child Support Automation System (CCSAS) was implemented in November 2008. Due to the implementation of the statewide CCSAS, Child Support Services Department is no longer required to prepare and submit the CS34 and CS1257 reports. However, the report CS356 is still required to be submitted to Department of Child Support Services.

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On July 18, 2008, the department also added a 3<sup>rd</sup> approver in the Executive Office as back-up personnel to ensure that approvals are performed with no lapses or delays in the process.

In addition, Fiscal Services staff requests that the Department of Child Support Services obtain advanced approval for the extension of submission date, in the event that CS356 report can not be completed by an established due date.

*Current Status as of June 30, 2009*

Implemented

*Implementation Date*

July 18, 2008

**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 coordination with the Department of Public Health, should ensure that fiscal audits of subrecipients are done periodically.

*Current Year Management Response*

The Department of Public Health's Contract Monitoring Division (CMD) has issued the final reports on the backlog of fiscal audits identified during this audit. CMD has obtained and reviewed the outstanding contractors' Corrective Action Plans (CAP). The

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contractors have six months to address the findings noted in the reports and are then reassessed by staff.

*Current Status as of June 30, 2009*

Partially Implemented

*Expected Implementation Date as of June 30, 2009*

June 30, 2010

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

**Finding # 06-07 - Subrecipient Monitoring, During the Award Monitoring**

*Condition*

- a. Fiscal reviews for 13 of the 25 subrecipients selected have not been done for the past three years. Desk reviews have been alternatively done by the Contract Monitoring Division (CMD).
- b. For 12 of the 25 subrecipients selected, fiscal reviews have been done recently but have not yet been finalized.

*Recommendation*

Limitations on existing resources may make it difficult, if not impossible, to conduct fiscal site reviews of subrecipients within the three-year period required by County policies. However, failure to conduct reviews for several consecutive periods increases the risk of significant deficiencies in the subrecipients' financial control processes and disallowed costs not being detected in a timely manner. Desk reviews can provide valuable information as far as the financial viability of the subrecipient is concerned. 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 Department of Public Health's Contract Monitoring Division has issued the final reports on the backlog of fiscal audits identified during this audit. CMD has obtained and reviewed the outstanding contractors' Corrective Action Plans (CAP). The contractors have six months to address the findings noted in the reports and are then reassessed by staff.

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STATUS OF PRIOR YEAR'S FINDINGS  
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*Current Status as of June 30, 2009*

Partially Implemented

*Expected Implementation Date as of June 30, 2009*

June 30, 2010

**CFDA # 93.563 - Child Support Enforcement Title IV-D**

**Finding # 06-09 - Reporting**

*Condition*

19 of the 41 reports examined (CS34, CS35, CS157, CS356 and CS1257) were submitted beyond the due date set by the State. Reports that were submitted late were delinquent between 1 to 12 days.

*Recommendation*

We recommend that CSSD comply with the reporting requirements set forth in its contract with the State. We also recommend that CSSD consider renegotiating more reasonable report due dates with the State.

*Current Year Management Response*

Child Support Services Department has issued procedures to ensure that reports are submitted to the State by the due dates.

The California Child Support Automation System (CCSAS) was implemented in November 2008. Due to the implementation of the statewide CCSAS, Child Support Services Department is no longer required to prepare and submit the CS34, CS35, CS157, and CS1257 reports. However, the CS356 report is still required to be submitted to the Department of Child Support Services.

On July 18, 2008, the department also added a 3<sup>rd</sup> approver in the Executive Office as back-up personnel to ensure that approvals are performed with no lapses or delays in the process. In addition, Fiscal Services staff requests that the Department of Child Support Services, advance approval for the extension of the submission date, in the event that the CS356 report can not be completed by the established due date.

*Current Status as of June 30, 2009*

Implemented

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STATUS OF PRIOR YEAR'S FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2009**

*Implementation Date*

July 18, 2008

**CFDA # 93.556 - Promoting Safe and Stable Families (PSSF)**

**Finding # 06-10 - Subrecipient Monitoring, Subrecipient Audits**

*Condition*

We noted that 2 out of the 25 subrecipients tested did not have current Single Audit reports on file.

*Recommendation*

We recommend that DCFS ensure that up-to-date Single Audit reports are obtained from subrecipients, as applicable, and that subrecipients take timely and appropriate corrective action on all audit findings, if any.

*Current Year Management Response*

The Department of Children and Family Services staff will complete written procedures and Family Preservation Program staff will conduct compliance monitoring for all provider single audit reports.

*Current Status as of June 30, 2009*

During FY 08/09, some of the divisions that handle the program began to develop policies and procedures over the collection and review of the Single Audit reports. However, the remainder of the divisions are currently in the process of developing them. As a result, the department has partially implemented the recommendation (see current year finding# 09-14).

*Expected Implementation Date as of June 30, 2009*

August 2009

**CFDA # 93.556 - Promoting Safe and Stable Families (PSSF)**

**Finding # 06-11 - Subrecipient Monitoring, During the Award Monitoring**

*Condition*

3 out of 11 Family Preservation (FP) subrecipients selected for testing did not have their technical reviews for fiscal year ended June 30, 2006. Technical reviews cover verification of effective implementation of the FP programs, including policy, budget,

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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*

Children and Family Services Community Based Support Division staff developed procedures and protocols for Family Preservation technical reviews. Staff conducted technical reviews for all Family Preservation agencies for fiscal year 2008-2009.

*Current Status as of June 30, 2009*

Implemented

*Implementation Date*

December 2008

**CFDA # 93.556 - Promoting Safe and Stable Families (PSSF)**  
**Finding # 06-12 - Subrecipient Monitoring, During the Award Monitoring**

*Condition*

During our review of subrecipient monitoring activities, we noted that several attendance sheets were missing for the Family Preservation monthly roundtable meetings and Family Support quarterly meetings.

*Recommendation*

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

*Current Year Management Response*

Children and Family Services Community Based Support Division staff developed procedures and both units are in full compliance with the recommendation.

*Current Status as of June 30, 2009*

Implemented

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*Implementation Date*

December 2008

**CFDA # 93.940 - HIV Prevention Project**

**Finding # 05-15 - Subrecipient Monitoring**

*Condition*

The Fiscal Monitoring Instrument (FMI) is the guide utilized to provide evidence of the procedures performed to support the issuance of the Financial Evaluation Report. Based on the testwork performed, the following findings were noted:

- a. 5 out of 50 items selected did not have Financial Monitoring Instruments (FMIs) and Financial Evaluation Reports;
- b. 1 out of 50 items selected did not have FMIs, although the related Financial Evaluation Reports were issued;
- c. 15 out of 50 items selected have no final Financial Evaluation Reports, only draft copies were available for 19 out of 50 items selected, fiscal reviews were not performed within the 3-year period County policy, but desk reviews were performed for the current year;
- d. 4 out of 50 items selected did not have the Plan of Corrective Action on findings noted on the fiscal reviews.

*Recommendation*

Centralized Contract Monitoring Division (CCMD) should ensure compliance with the performance of the fiscal reviews for programs at least once in three years to verify that the subrecipients are in compliance with the requirements applicable to the federal program, including the audit requirements of OMB Circular A-133. Moreover, CCMD should keep complete documentation, including Financial Reviews and FMIs, to support the review performed.

*Current Year Management Response*

The Department of Public Health's Contract Monitoring Division (CMD) has issued the final reports on the backlog of fiscal audits identified during this audit. CMD has obtained and reviewed the outstanding contractors' Corrective Action Plans (CAP). The contractors have six months to address the findings noted in the reports and are then reassessed by staff.

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*Current Status as of June 30, 2009*

Partially Implemented

*Expected Implementation Date as of June 30, 2009*

June 30, 2010

**CFDA # 93.959 - Substance Abuse Prevention and Treatment**

**Finding # 05-16 - Subrecipient Monitoring**

*Condition*

The Fiscal Monitoring Instrument (FMI) is the guide utilized to provide evidence of the procedures performed to support the issuance of the Financial Evaluation Report. Based on the testwork performed, the following findings were noted:

- a. 3 out of 50 items selected did not have FMI and Financial Evaluation Reports;
- b. 1 out of 50 items selected had the FMI but not the Financial Evaluation Report;
- c. 18 out of 50 items have no final Financial Evaluation Reports, only draft copies were available;
- d. 34 out of 50 items selected did not have fiscal reviews performed within the 3-year period County policy, but had desk reviews performed in the current year.

*Recommendation*

Centralized Contract Monitoring Division (CCMD) should perform fiscal reviews for programs at least once in three years to ensure that the subrecipients are in compliance with the requirements applicable to the federal program, including the audit requirements of OMB Circular A-133. Moreover, CCMD should keep complete documentation, i.e., Financial Reviews and FMIs, to support the review performed.

*Current Year Management Response*

The Department of Public Health's Contract Monitoring Division (CMD) has issued the final reports on the backlog of fiscal audits identified during this audit. CMD has obtained and reviewed the outstanding contractors' Corrective Action Plans (CAP). The contractors have six months to address the findings noted in the reports and are then reassessed by staff.



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*Current Status as of June 30, 2009*

Partially Implemented

*Expected Implementation Date as of June 30, 2009*

June 30, 2010

**CFDA # 93.596 - Child Day Care Program**

**Finding # 05-32 - Allowable Costs and Activities**

*Condition*

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

*Recommendation*

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

*Current Year Management Response*

The Department of Children and Family Services staff has successfully brought up an additional 1300 employees since the last follow-up. The department plans to have the e-Time Collection Timesheet system in full operation by 2010 provided that there are no unforeseen problems. This e-Time Collection Timesheet System will resolve the current problems of document maintenance.

*Current Status as of June 30, 2009*

Partially Implemented

*Expected Implementation Date as of June 30, 2009*

July 2010