

**COUNTY OF LOS ANGELES
COMPREHENSIVE ANNUAL FINANCIAL REPORT**

Fiscal Year Ended June 30, 2009
Wendy L. Watanabe, Auditor-Controller

COUNTY OF LOS ANGELES
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE FISCAL YEAR ENDED JUNE 30, 2009
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INTRODUCTORY SECTION



COUNTY OF LOS ANGELES DEPARTMENT OF AUDITOR-CONTROLLER

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WENDY L. WATANABE
AUDITOR-CONTROLLER

MARIA M. OMS
CHIEF DEPUTY

ASST. AUDITOR-CONTROLLERS

ROBERT A. DAVIS
JOHN NAIMO
JUDI E. THOMAS

December 11, 2009

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, California 90012

Dear Supervisors:

In accordance with Section 25253 of the Government Code of California, I hereby submit the Comprehensive Annual Financial Report (CAFR) of the County of Los Angeles for the year ended June 30, 2009. The report contains financial statements that have been prepared in accordance with generally accepted accounting principles (GAAP) prescribed for governmental entities, and provides a comprehensive overview of the County's financial operations and financial position. The accuracy, completeness and fairness of the presentation of all information in this report are the responsibility of the County.

The Independent Auditor's Report is presented at the front of the financial section of this report. Management's Discussion and Analysis (MD&A), immediately follows the Independent Auditor's Report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

The report includes financial data for all County funds. Additionally, the following entities are considered part of the County for purposes of meeting the reporting entity requirements prescribed by the Governmental Accounting Standards Board:

Fire Protection District	Regional Park and Open Space District
Flood Control District	Garbage Disposal Districts
Street Lighting Districts	Sewer Maintenance Districts
Improvement Districts	Waterworks Districts
Community Development Commission (including the Housing Authority of the County of Los Angeles)	Various Joint Powers Authorities Los Angeles County Employees Retirement Association Los Angeles County Capital Asset Leasing Corporation Los Angeles County Securitization Corporation
First 5 LA	

These entities are component units of the County and are included in the County's basic financial statements because the County Board of Supervisors is financially accountable for them. All component units are blended into the basic financial statements except for First 5 LA, which is discretely presented. Note 1 to the basic financial statements contains additional information regarding the relationship between the County and these entities.

Other local governmental entities provide public or specialized services to the residents of the County, including over eighty cities, one hundred school districts and numerous special districts. The operations of these entities are not included in the County's reporting entity since each entity is responsible for conducting its own day-to-day operations and is compelled to answer to its own separately elected governing board. Significant entities that do not meet the criteria for inclusion in this report include the City of Los Angeles, Los Angeles Unified School District and Los Angeles County Sanitation Districts. Also, the Los Angeles County Superior Court is not included due to legislation (AB233) which transferred oversight responsibilities for Court operations to the State in 1997-98. However, AB233 requires the County to continue to fund certain Court-related expenditures, and the County continues to receive certain Court collections. Accordingly, the County's financial statements include various Court-related financial transactions.

LOS ANGELES COUNTY AND ITS SERVICES

Los Angeles County was established by an act of the State Legislature on February 18, 1850 as one of California's original 27 counties. Located in the southern portion of the State, the County covers 4,083 square miles. With a population of nearly 10.4 million, its population is the largest of any county in the nation.

Los Angeles County was a general law county until 1913 when it became a charter county as a result of local election. The County is governed by a five-member Board of Supervisors who are elected by district to serve alternating four-year terms. The Assessor, District Attorney and Sheriff are also elected officials while all other departments are headed by appointed officials. On March 5, 2002, County voters approved two charter amendments providing for term limits for members of the Board of Supervisors. The affected officials are limited to three consecutive terms commencing December 2002.

On March 27, 2007, the Board of Supervisors (Board) amended the County Code by adopting the Interim Governance Structure Ordinance. This governance structure provides delegated authority to the Chief Executive Office (CEO) to oversee, evaluate, and recommend for appointment and removal certain Department Heads and County Officers. The departments that continue to report directly to the Board (rather than to the CEO) are the Fire Department, Auditor-Controller, County Counsel, Executive Officer of the Board, and the CEO. The change in administrative structure was designed to improve the operational efficiency of County governance. The Board has retained the exclusive responsibility for establishing County policy, regulations, and organizational direction.

There are over one million residents in the unincorporated areas of the County. These residents receive all municipal services from the County, including law enforcement, fire protection, land use and zoning, building and business permits, local road building and maintenance, animal care and control, and public libraries. In addition, the County provides a wide range of services to all County residents.

The County also provides municipal services to many incorporated cities within its boundaries under the Contract Services Plan. Established in 1954, the Plan allows cities to provide municipal services without incurring the cost of creating numerous city departments and facilities by having the County provide, at cost, any or all municipal services within a city at the same level as provided in unincorporated areas, or at any higher level the city may choose. Although the Plan was developed to assist new cities, the great majority of the cities in the County now contract for one or more services.

The County's principal functions include seven major areas as required under the County's charter, County ordinances, or by State or federal mandate: general government, public protection, public ways and facilities, health and sanitation, public assistance, education and recreation and cultural services. The State and federal governments mandate certain minimum levels of services in the public assistance and health areas.

ECONOMIC OVERVIEW

With a 2008 Gross Product estimated at \$513.6 billion, Los Angeles County's economy is larger than that of 44 states and all but 17 countries. The County serves as the central trade district for the western United States and controls nearly 75% of the Pacific Coast trade with Asia. It is a leader in the communications industry, has established itself as a leading financial center, and serves as the western headquarters for many national firms. The County's economy continued to expand in 2008 in the midst of a prolonged recession, with a slight increase of 1.1% in Gross Product. However, the economic downturn in 2009 has created significant financial challenges for major industries.

The County's unemployment rate has trended upward since 2006 and rose to 7.5% in 2008. It is forecasted to climb even higher in 2009, approaching 12%, with a projected loss of 168,000 jobs. However, this negative trend may be offset by positive factors in major public and private construction projects. In the November 2008 election, the electorate approved a one-half of one percent sales tax rate increase to provide new funding for highway transit projects throughout the County. There are a number of voter-approved school construction projects that are also in progress. These voter-approved measures, combined with the terminal expansions under way at the ports of Los Angeles and Long Beach and certain provisions of the American Recovery and Reinvestment Act that benefit the County, are expected to provide a strong foundation for the creation of new jobs.

INTERNAL AND BUDGETARY CONTROLS

The County has developed a system of internal accounting controls designed to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use. It also provides reliable records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the costs of a system of internal accounting controls should not outweigh related benefits. Also, the evaluation of costs and benefits requires estimates and judgments by management. All internal accounting control evaluations occur within the above framework. We believe that the County's system of internal accounting controls adequately safeguards assets and also provides reasonable assurance of proper recording of financial transactions.

In accordance with the provisions of Section 29000-29144 of the Government Code, commonly known as the County Budget Act, the County prepares and adopts a budget on or before August 30 of each fiscal year. Expenditures are controlled at the object level for all budget units within the County, except for capital asset expenditures which are controlled at the sub-object level.

Encumbrance accounting is utilized to ensure effective budgetary control and accountability. Unencumbered appropriations lapse at year-end and encumbrances outstanding at the time are reported as reservations of fund balance for subsequent year expenditures.

The Board of Supervisors must approve all transfers of appropriations between budget units and transfers exceeding \$250,000 within budget units. The Board must also approve necessary supplemental appropriations, normally financed by unanticipated revenues earned during the year.

In addition to these procedural controls, the Auditor-Controller's Audit Division performs periodic internal control, operational and management audits of the various departments to help ensure that prescribed procedures are followed and that operations are conducted in an efficient manner. The Countywide Contract Monitoring Division provides oversight of various social service contract providers to enhance accountability and performance effectiveness. In addition, the Auditor-Controller operates the County's federal Health Insurance Portability and Accountability Act (HIPAA) Privacy Program, providing supervision and oversight of the County's HIPAA covered departments. A fraud hotline provides County employees and citizens with a way to anonymously report perceived fraudulent activities by County employees, vendors, contractors, inspectors, etc. Allegations reported over the hotline are evaluated and investigated, as appropriate, by the Office of County Investigations within the Auditor-Controller.

BUDGET OUTLOOK AND MAJOR CAPITAL ASSET INITIATIVES

The County's approach to the Fiscal Year (FY) 2009-10 Budget was highly influenced by what may be the worst recession and economic crisis in many decades. The County continues to see shortfalls in a number of key revenue sources, including documentary transfer taxes and State revenues that are derived from the State's share of sales taxes and vehicle license fees. The rising unemployment rate has increased the ranks of those seeking public assistance from the County, causing caseloads and costs to increase accordingly. In planning for the FY 2009-10 Budget, the County faced a deficit of approximately \$300 million. The proposal to address the deficit consisted of departmental spending reductions of \$107 million, use of one-time reserves of \$115 million, and federal stimulus funding of \$78 million.

DEPARTMENTAL SPENDING REDUCTIONS

All County departments, with the exception of Health Services, were required to submit 5% spending reduction proposals. This information was subsequently used to develop a final spending plan which achieved \$107 million of net budgetary savings. Significant budget savings were identified in the following areas:

- Reductions of \$29.9 million to the Sheriff's budget, consisting of 51 administrative positions (\$6.1 million), service and supply curtailments (\$14 million), and capital asset spending reductions (\$9.8 million). Revenue increases of \$1.7 million were also identified.
- Elimination of 51 budgeted positions in the District Attorney's budget, combined with service and supply reductions from various operational units for total spending reductions of \$9.5 million.
- Elimination of 925 vacant and budgeted positions in the Department of Public Social Services' administrative budget to achieve net County savings of \$5.8 million.
- Elimination of 75 temporary and vacant positions in the Department of Parks and Recreation to achieve net County savings of \$3.3 million. These reductions will impact grounds maintenance, recreation programs, and nature areas.

USE OF ONE-TIME RESERVES

Prior to the recession, the County was able to set aside excess funds to protect against reducing service levels due to temporary revenue shortfalls. The General Fund's unreserved fund balance on a GAAP basis as of June 30, 2009 was \$2.627 billion. A portion of these funds (\$115 million) was used to offset revenue losses that are directly related to the cyclical nature of the current economic environment. Examples of areas targeted for use of these funds include the Sheriff's Department (to maintain a constant level of jail capacity) and General Relief, a public assistance program.

FEDERAL ECONOMIC STIMULUS

Among the benefits brought to the County by the American Recovery and Reinvestment Act (ARRA) is an increase in the Federal Medical Assistance Percentage (FMAP), which is the federal match rate for non-administrative medical assistance costs. The FMAP change is projected to temporarily decrease the County's contribution to the In-Home Supportive Services program by \$78 million and provide budgetary relief in this area. There are several other ARRA initiatives that will enable the County to augment a variety of programs.

CAPITAL ASSET INITIATIVES

The County has been able to continue to fund high priority capital asset acquisitions and improvements. The FY 2009-10 Budget provided \$1.4 billion for the continued development, design, and construction of projects that address high-priority health, public safety, recreation, and infrastructure needs. The following notable capital asset projects were included in the FY 2009-10 Budget:

- \$493.1 million for public protection facilities, including a jail master plan, new construction at the Biscailuz Center Training Academy, new fire stations in the Santa Clarita Valley, refurbishment and expansion of the Coroner's facility, security improvements at juvenile halls and camps, a new animal shelter in the east Antelope Valley, and four new spay and neuter clinics.
- \$214.6 million for recreational facilities, including new community rooms, refurbishment of swimming pools, and beach facility refurbishments.
- \$161.4 million for general government facilities, most notably the new County data center in Downey.
- \$155.3 million for health facilities, including a mental health urgent care center, expansion of emergency room and construction of tuberculosis unit at Olive View Medical Center; and replacement surgery and emergency suites at Harbor-UCLA Medical Center.
- \$106.4 million for infrastructural improvements at County flood control and aviation facilities and watershed testing efforts.
- \$98.2 million for new or replacement libraries and refurbishment of the historic Patriotic Hall.

OTHER INFORMATION

INDEPENDENT AUDIT

The basic financial statements have been audited by Macias Gini & O'Connell LLP. In accordance with the requirements of the Office of Management and Budget Circular A-133, as revised, the auditors are also in the process of completing an annual financial and compliance audit of federal funds received by the County in FY 2008-09. The County's single audit for FY 2007-08 has been completed.

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the County of Los Angeles for its Comprehensive Annual Financial Report for the past twenty-seven fiscal years.

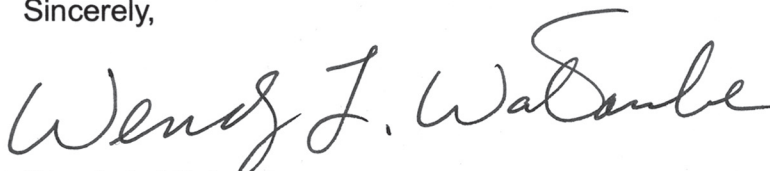
In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. The report must satisfy both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to Certificate of Achievement Program requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

ACKNOWLEDGEMENTS

I would like to express my appreciation to my Accounting Division, the various County departments who assisted in the preparation of this report, and also acknowledge the efforts of our independent auditor.

Sincerely,



Wendy L. Watanabe
Auditor-Controller



Certificate of Achievement for Excellence in Financial Reporting

Presented to

County of Los Angeles
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2008

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



President

Executive Director

COUNTY OF LOS ANGELES
BOARD OF SUPERVISORS AND PRINCIPAL COUNTY OFFICIALS
AS OF JUNE 30, 2009

BOARD OF SUPERVISORS

Don Knabe, Chairman
Fourth District

Gloria Molina
First District

Zev Yaroslavsky
Third District

Mark Ridley Thomas
Second District

Michael D. Antonovich
Fifth District

Sachi A. Hamai
Executive Officer
Board of Supervisors

PRINCIPAL COUNTY OFFICIALS

Rick Auerbach
Assessor

Steve Cooley
District Attorney

Leroy D. Baca
Sheriff

William T Fujioka
Chief Executive Officer

Mark J. Saladino
Treasurer and Tax Collector

Wendy L. Watanabe
Auditor-Controller

Robert Kalunian
Acting County Counsel

COUNTY OF LOS ANGELES

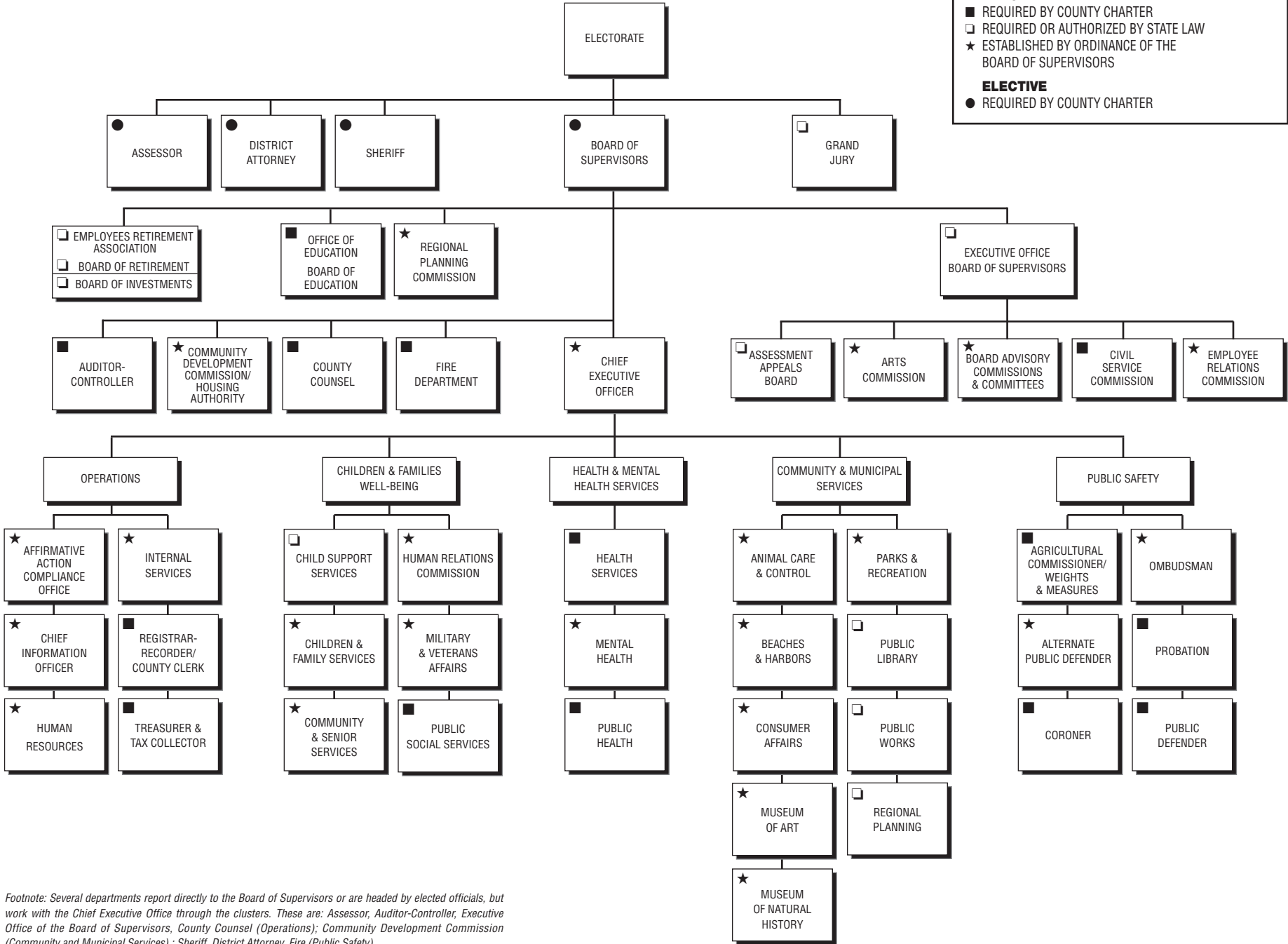
LEGEND

APPOINTIVE

- REQUIRED BY COUNTY CHARTER
- REQUIRED OR AUTHORIZED BY STATE LAW
- ★ ESTABLISHED BY ORDINANCE OF THE BOARD OF SUPERVISORS

ELECTIVE

- REQUIRED BY COUNTY CHARTER



Footnote: Several departments report directly to the Board of Supervisors or are headed by elected officials, but work with the Chief Executive Office through the clusters. These are: Assessor, Auditor-Controller, Executive Office of the Board of Supervisors, County Counsel (Operations); Community Development Commission (Community and Municipal Services) ; Sheriff, District Attorney, Fire (Public Safety).



FINANCIAL SECTION



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

LOS ANGELES
 515 S. Figueroa Street, Suite 325
 Los Angeles, CA 90071
 213.286.6400

SACRAMENTO

OAKLAND

WALNUT CREEK

NEWPORT BEACH

SAN MARCOS

SAN DIEGO

INDEPENDENT AUDITOR'S REPORT

The Honorable Board of Supervisors
 County of Los Angeles, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County of Los Angeles, California (County), as of and for the year ended June 30, 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. 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.

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 introductory section, combining and individual fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we and the other auditors express no opinion on them.


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		Business-type		Total	
	Activities		Activities			
	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**

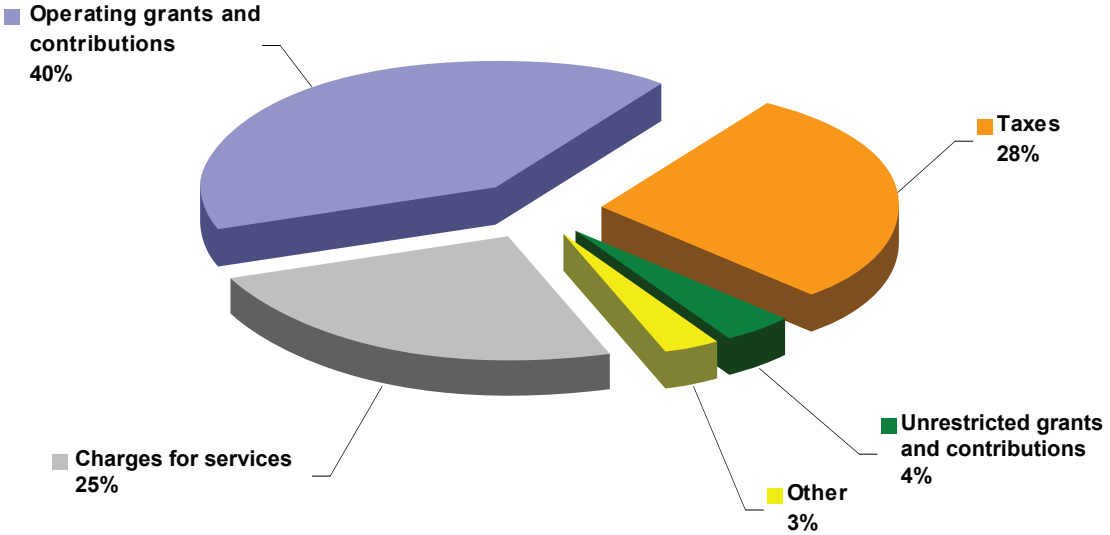
The following table indicates the changes in net assets for governmental and business-type activities:

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

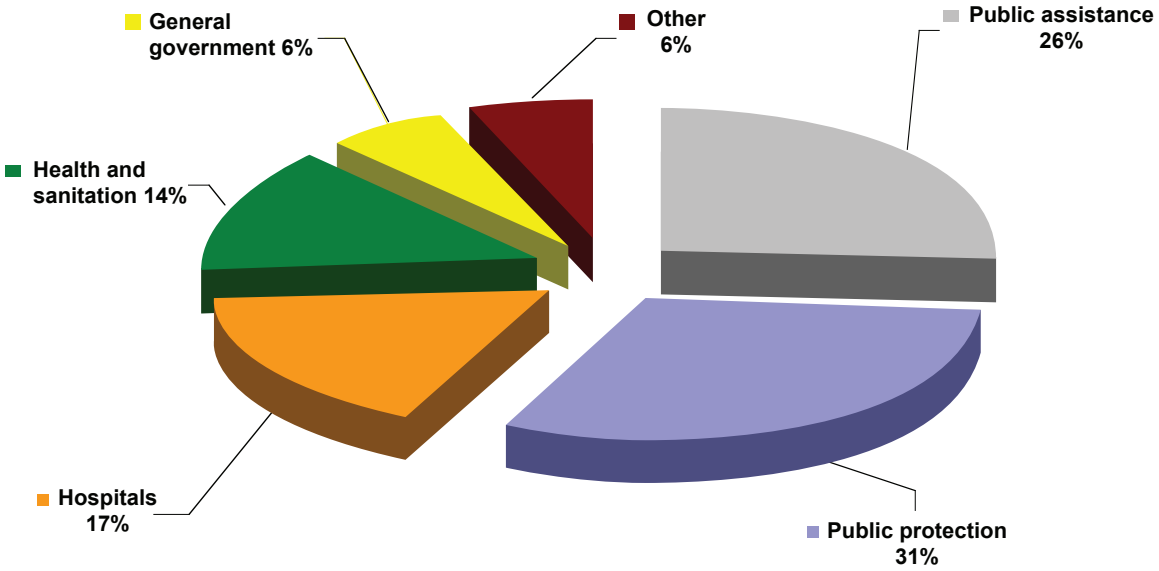
	Governmental		Business-type		Total	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program revenues:						
Charges for services	\$ 2,694,729	\$ 2,738,552	\$ 2,095,944	\$ 1,806,747	\$ 4,790,673	\$ 4,545,299
Operating grants and contributions	7,215,270	7,113,135	279,195	263,471	7,494,465	7,376,606
Capital grants and contributions	206,137	184,502	837	2,897	206,974	187,399
General revenues:						
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
Total revenues	16,404,899	16,403,466	2,416,068	2,116,580	18,820,967	18,520,046
Expenses:						
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
Total expenses	16,179,879	15,564,102	3,793,444	3,417,869	19,973,323	18,981,971
Excess (deficiency) before transfers	225,020	839,364	(1,377,376)	(1,301,289)	(1,152,356)	(461,925)
Transfers	(1,011,862)	(1,152,946)	1,011,862	1,152,946		
Changes in net assets	(786,842)	(313,582)	(365,514)	(148,343)	(1,152,356)	(461,925)
Net assets – beginning, as restated	15,539,137	15,883,997	1,742,713	1,891,056	17,281,850	17,775,053
Net assets – ending	\$ 14,752,295	\$ 15,570,415	\$ 1,377,199	\$ 1,742,713	\$ 16,129,494	\$ 17,313,128

**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>	Increase (Decrease) From Original <u>Budget</u>	Final Budget <u>Amount</u>	Actual <u>Amount</u>	Variance- Positive (Negative)
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>	Increase (Decrease) From Original Budget	Final Budget Amount	Actual Amount	Variance- Positive
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	<u>633,734</u>	<u>1,568,583</u>	<u>(934,849)</u>
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	<u>653,634</u>	<u>900,824</u>	<u>247,190</u>
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	TOTAL	FIRST 5 LA
	ACTIVITIES	ACTIVITIES		
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	<u>4,226,836</u>	<u>221,585</u>	<u>4,448,421</u>	<u>874,241</u>
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	<u>15,252,601</u>	<u>2,482,382</u>	<u>17,734,983</u>	<u>13,873</u>
TOTAL ASSETS	<u>23,234,072</u>	<u>3,213,118</u>	<u>26,447,190</u>	<u>935,198</u>
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	<u>8,481,777</u>	<u>1,835,919</u>	<u>10,317,696</u>	<u>40,305</u>
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	<u>\$ 14,752,295</u>	<u>\$ 1,377,199</u>	<u>\$ 16,129,494</u>	<u>\$ 894,893</u>

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	EXPENSES	PROGRAM REVENUE		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
PRIMARY GOVERNMENT:				
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	<u>16,179,879</u>	<u>2,694,729</u>	<u>7,215,270</u>	<u>206,137</u>
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	<u>3,793,444</u>	<u>2,095,944</u>	<u>279,195</u>	<u>837</u>
Total primary government	<u>\$ 19,973,323</u>	<u>\$ 4,790,673</u>	<u>\$ 7,494,465</u>	<u>\$ 206,974</u>
COMPONENT UNIT -				
First 5 LA	<u>\$ 171,191</u>	<u>\$</u>	<u>\$ 137,736</u>	<u>\$</u>

GENERAL REVENUES:

Taxes:
Property taxes
Utility users taxes
Voter approved taxes
Documentary transfer taxes
Other taxes
Sales and use taxes, levied by the State
Grants and contributions not restricted to special programs
Investment earnings
Miscellaneous
TRANSFERS - NET
Total general revenues and transfers
CHANGE IN NET ASSETS
NET ASSETS, JULY 1, 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)		<u>FUNCTIONS</u>
(3,696,922)		(3,696,922)		PRIMARY GOVERNMENT:
(13,630)		(13,630)		Governmental activities:
(682,965)		(682,965)		General government
(877,481)		(877,481)		Public protection
(105,847)		(105,847)		Public ways and facilities
(156,765)		(156,765)		Health and sanitation
(165,782)		(165,782)		Public assistance
(6,063,743)		(6,063,743)		Education
				Recreation and cultural services
				Interest on long-term debt
				Total governmental activities
	(1,373,101)	(1,373,101)		Business-type activities:
	(1,129)	(1,129)		Hospitals
	(18,192)	(18,192)		Aviation
	(25,046)	(25,046)		Waterworks
	(1,417,468)	(1,417,468)		Community Development Commission
(6,063,743)	(1,417,468)	(7,481,211)		Total business-type activities
				Total primary government
			\$ (33,455)	COMPONENT UNIT -
				Total - First 5 LA
4,656,370	4,453	4,660,823		GENERAL REVENUES:
63,947		63,947		Taxes:
303,213		303,213		Property taxes
36,522		36,522		Utility users taxes
58,940		58,940		Voter approved taxes
73,574		73,574		Documentary transfer taxes
				Other taxes
756,417	37	756,454		Sales and use taxes, levied by the State
197,705	9,844	207,549	28,103	Grants and contributions not restricted to special programs
142,075	25,758	167,833	453	Investment earnings
(1,011,862)	1,011,862			Miscellaneous
5,276,901	1,051,954	6,328,855	28,556	TRANSFERS - NET
(786,842)	(365,514)	(1,152,356)	(4,899)	Total general revenues and transfers
15,539,137	1,742,713	17,281,850	899,792	CHANGE IN NET ASSETS
\$ 14,752,295	\$ 1,377,199	\$ 16,129,494	\$ 894,893	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
ASSETS:				
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
TOTAL ASSETS	<u>\$ 5,254,485</u>	<u>318,443</u>	<u>238,617</u>	<u>46,400</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
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			
TOTAL LIABILITIES	<u>2,087,667</u>	<u>113,506</u>	<u>46,591</u>	<u>19,475</u>
FUND BALANCES:				
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				
TOTAL FUND BALANCES	<u>3,166,818</u>	<u>204,937</u>	<u>192,026</u>	<u>26,925</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 5,254,485</u>	<u>318,443</u>	<u>238,617</u>	<u>46,400</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
<u>86,873</u>	<u>1,376,417</u>	<u>(12,822)</u>	<u>16,239,869</u>
	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
<u>51,937</u>	<u>1,006,305</u>	<u>(35,942)</u>	<u>15,344,952</u>
<u>34,936</u>	<u>370,112</u>	<u>23,120</u>	<u>894,917</u>
	188,287		527,231
(33,280)	(554,759)		(1,540,633)
	4,885		6,145
<u>(33,280)</u>	<u>(361,587)</u>		<u>(1,006,377)</u>
1,656	8,525	23,120	(111,460)
<u>286,005</u>	<u>2,251,614</u>	<u>(269,995)</u>	<u>6,003,091</u>
<u>\$ 287,661</u>	<u>2,260,139</u>	<u>(246,875)</u>	<u>\$ 5,891,631</u>

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	(311,823)	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	19,131	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	(131)	(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	(16,432)
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
ASSETS					
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	<u>16,519</u>	<u>14,836</u>	<u>38,502</u>	<u>54,037</u>	<u>4,371</u>
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	<u>250,368</u>	<u>295,879</u>	<u>599,972</u>	<u>245,334</u>	<u>152,185</u>
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	<u>92,257</u>	<u>110,549</u>	<u>1,022,970</u>	<u>104,328</u>	<u>109,966</u>
Total noncurrent assets	<u>105,641</u>	<u>141,008</u>	<u>1,056,518</u>	<u>110,111</u>	<u>120,276</u>
TOTAL ASSETS	<u>356,009</u>	<u>436,887</u>	<u>1,656,490</u>	<u>355,445</u>	<u>272,461</u>
LIABILITIES					
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	<u>318,026</u>	<u>329,397</u>	<u>619,131</u>	<u>251,723</u>	<u>133,632</u>
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	<u>201,524</u>	<u>153,699</u>	<u>554,539</u>	<u>171,892</u>	<u>121,531</u>
TOTAL LIABILITIES	<u>519,550</u>	<u>483,096</u>	<u>1,173,670</u>	<u>423,615</u>	<u>255,163</u>
NET ASSETS					
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)
TOTAL NET ASSETS (DEFICIT) (Note 3)	<u>\$ (163,541)</u>	<u>(46,209)</u>	<u>482,820</u>	<u>(68,170)</u>	<u>17,298</u>

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	
\$ 86,393	4,863	\$ 104,129	\$ 48,576	ASSETS
881	6	116,279	9,281	Current assets:
87,274	4,869	220,408	57,857	Pooled cash and investments: (Notes 1 and 5)
	30,380	30,380	8,131	Operating (Note 1)
950		950		Other (Note 1)
		1,024,854		Total pooled cash and investments
349	13	553	207	Other investments (Note 5)
8,484	8,456	71,487	6,789	Taxes receivable
1,821	53	320,212	65,910	Accounts receivable - net (Note 13)
1,164		1,164		Interest receivable
	11	17,554	9,769	Other receivables
100,042	43,782	1,687,562	148,663	Due from other funds (Note 14)
				Advances to other funds (Note 14)
				Inventories
				Total current assets
		66,796	14,124	Noncurrent assets:
		26,688	5,150	Restricted assets (Note 5)
10,965	199,160	246,974		Net pension obligation (Note 7)
119,091	179,967	1,987,112	1,734	Capital assets: (Notes 6 and 9)
535	3,175	283,245	217,720	Land and easements
1,108,349	41,505	1,149,854		Buildings and improvements
35,368	1,258	111,678		Equipment
(480,038)	(188,274)	(1,307,732)	(114,404)	Infrastructure
794,270	236,791	2,471,131	105,050	Construction in progress
794,270	236,791	2,564,615	124,324	Less accumulated depreciation
894,312	280,573	4,252,177	272,987	Total capital assets - net
				Total noncurrent assets
				TOTAL ASSETS
				LIABILITIES
				Current liabilities:
3,231	3,074	66,045	5,539	Accounts payable
		120,075	24,402	Accrued payroll
19	3,007	14,636	1,811	Other payables
		556	209	Accrued interest payable
6,263	249	233,752	36,917	Due to other funds (Note 14)
		821,428	22,000	Advances from other funds (Note 14)
		228		Advances payable
475	530	2,280	711	Unearned revenue
19	987	410,763	77,667	Current portion of long-term liabilities (Note 10)
10,007	7,847	1,669,763	169,256	Total current liabilities
				Noncurrent liabilities:
	211	128,596	37,657	Accrued vacation and sick leave (Note 10)
67	3,324	88,738	30,470	Bonds and notes payable (Note 10)
		82,911	15,998	Pension bonds payable (Notes 7 and 10)
		253,733	14,531	Workers' compensation (Notes 10 and 17)
		88,005	1,341	Litigation and self-insurance (Notes 10 and 17)
		388,549	84,482	OPEB obligation (Notes 8 and 10)
		176,255		Third party payor liability (Notes 10 and 13)
67	3,535	1,206,787	184,479	Total noncurrent liabilities
10,074	11,382	2,876,550	353,735	TOTAL LIABILITIES
				NET ASSETS
794,184	233,111	2,216,051	67,154	Invested in capital assets, net of related debt (Notes 6 and 10)
90,054	2,969	159,263	13,915	Restricted:
	29,546	29,546	3,042	Debt service
	3,565	(1,029,233)	(164,859)	Special purpose
\$ 884,238	269,191	1,375,627	\$ (80,748)	Unrestricted (deficit)
				TOTAL NET ASSETS (DEFICIT) (Note 3)
				Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds
		1,572		NET ASSETS OF BUSINESS-TYPE ACTIVITIES (PAGE 23)
		\$ 1,377,199		

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
<u>58,407</u>	<u>15,793</u>	<u>2,169,796</u>	<u>459,336</u>		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
<u>76,895</u>	<u>273,051</u>	<u>3,503,036</u>	<u>455,358</u>		TOTAL OPERATING EXPENSES
<u>(18,488)</u>	<u>(257,258)</u>	<u>(1,333,240)</u>	<u>3,978</u>		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
<u>7,535</u>	<u>232,189</u>	<u>(44,870)</u>	<u>(2,868)</u>		TOTAL NONOPERATING REVENUES (EXPENSES)
<u>(10,953)</u>	<u>(25,069)</u>	<u>(1,378,110)</u>	<u>1,110</u>		INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS
166	671	968			Capital contributions
	2,980	1,066,942	4,362		Transfers in (Note 14)
<u>(349)</u>		<u>(55,013)</u>	<u>(2,889)</u>		Transfers out (Note 14)
<u>(11,136)</u>	<u>(21,418)</u>	<u>(365,213)</u>	<u>2,583</u>		CHANGE IN NET ASSETS
<u>895,374</u>	<u>290,609</u>		<u>(83,331)</u>		TOTAL NET ASSETS (DEFICIT), JULY 1, 2008
<u>\$ 884,238</u>	<u>269,191</u>		<u>\$ (80,748)</u>		TOTAL NET ASSETS (DEFICIT), JUNE 30, 2009
		(301)			Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds
		<u>\$ (365,514)</u>			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	<u>(199,843)</u>	<u>(209,715)</u>	<u>(511,855)</u>	<u>(29,723)</u>	<u>(72,584)</u>
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	<u>203,017</u>	<u>205,926</u>	<u>454,149</u>	<u>82,668</u>	<u>79,454</u>
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	<u>(36,503)</u>	<u>(4,732)</u>	<u>(89,847)</u>	<u>(8,060)</u>	<u>(6,329)</u>
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	<u>58,778</u>	<u>49,668</u>	<u>205,911</u>	<u>10,170</u>	<u>11,039</u>
Cash and cash equivalents, June 30, 2009	<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	
\$		\$ 1,757,618	\$	CASH FLOWS FROM OPERATING ACTIVITIES:
	11,761	11,761	25,781	Cash received from patient services
59,462	2,747	62,209	427,472	Rentals received
1	888	77,729		Cash received from charges for services
		72,076		Other operating revenues
	26	(1,652,651)	(334,601)	Cash received for services provided to other funds
(49,024)	(270,071)	(626,739)	(65,527)	Cash paid for salaries and employee benefits
(3,669)	(840)	(751,029)	(32,672)	Cash paid for services and supplies
		(223,413)		Other operating expenses
				Cash paid for services from other funds
6,770	(255,489)	(1,272,439)	20,453	Net cash provided by (required for) operating activities
				CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:
		1,198,663		Cash advances received from other funds
		(956,026)		Cash advances paid/returned to other funds
		(18,860)	(3,639)	Interest paid on pension bonds
		(8,363)		Interest paid on advances
		(254,720)		Intergovernmental transfers
176	230,635	230,811	785	Intergovernmental receipts
	2,980	1,074,285	4,362	Transfers in
(349)		(7,134)	(2,889)	Transfers out
				Net cash provided by (required for) noncapital financing activities
(173)	233,615	1,258,656	(1,381)	
				CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:
4,418		4,418		Proceeds from taxes
	671	671		Capital contributions
	5	5	25,000	Proceeds from bonds and notes
(9)	(223)	(8,898)	(1,190)	Interest paid on capital borrowing
(18)	(830)	(12,319)	(15,815)	Principal payments on bonds and notes
		(130)	(60)	Principal payments on capital leases
(19,391)	(4,216)	(148,811)	(34,426)	Acquisition and construction of capital assets
				Net cash required for capital and related financing activities
(15,000)	(4,593)	(165,064)	(26,491)	
				CASH FLOWS FROM INVESTING ACTIVITIES -
2,992	1,767	8,231	801	Interest income received
				Net increase (decrease) in cash and cash equivalents
(5,411)	(24,700)	(170,616)	(6,618)	
92,685	59,949	488,200	86,730	Cash and cash equivalents, July 1, 2008
\$ 87,274	35,249	\$ 317,584	\$ 80,112	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	\$ (199,843)	(209,715)	(511,855)	(29,723)	(72,584)
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES-					
Capital contributions	\$			46	85
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	\$ 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	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) operating activities:
22,305	2,810	55,866	30,262	Depreciation and amortization
1	9	58,076	(13,118)	Other charges - net
		(266,962)		(Increase) decrease in:
			90	Accounts receivable - net
408	(1,756)	(1,950)	(1,030)	Interest receivable
648	(5)	49,503	(6,552)	Other receivables
	(11)	5,694	(2,093)	Due from other funds
		11,146	2,150	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 Corporation (a Non Profit Corporation) (NPC)
Community Development Commission (including the Housing Authority of the County of Los Angeles) (CDC)	Various Joint Powers Authorities (JPAs)
Regional Park and Open Space District	Los Angeles County Employees Retirement Association (LACERA)
	Los Angeles County Securitization Corporation (LACSC)

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

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

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	Restricted Assets		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

	<u>Fair Value</u>
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	<u>784</u>
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:

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

	<u>Fair Value</u>	<u>Principal</u>	<u>Interest Rate % Range</u>	<u>Maturity Range</u>	<u>Weighted Average Maturity (Years)</u>
U. S. Government securities	\$ 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	<u>90,256</u>	<u>90,256</u>			
	<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	16,453	16,453			
	<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 & 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	<u>0.24%</u>
			<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	<u>23.85%</u>
			<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):

	<u>Balance</u> <u>July 1, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2009</u>
<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	<u>323,841</u>	<u>130,330</u>	<u>(93,460)</u>	<u>360,711</u>
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	<u>7,052,454</u>	<u>119,989</u>	<u>(75)</u>	<u>7,172,368</u>
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	<u>(2,581,878)</u>	<u>(151,854)</u>	<u>26</u>	<u>(2,733,706)</u>
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	<u>30,840</u>	<u>20,868</u>	<u>(15,574)</u>	<u>36,134</u>
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	<u>1,134,743</u>	<u>15,111</u>		<u>1,149,854</u>
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	<u>(407,755)</u>	<u>(21,220)</u>		<u>(428,975)</u>
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	1,669	602	(144)	2,127
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	(1,035)	(337)	144	(1,228)
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></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:

	A	B	C	D	E
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>

<u>Fiscal Year</u> <u>Ended</u>	<u>Trend Information (in thousands)</u>		<u>Net Pension</u> <u>Obligation (Asset)</u>
	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage of APC</u> <u>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>\$ 2,465,383</u>

Fiscal Year Ended	Trend Information (in thousands)		Net OPEB Obligation
	Annual OPEB Cost	Percentage of OPEB Cost Contributed	
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	<u>(66,460)</u>	<u>(988)</u>
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):

	<u>Original Par Amount of Debt</u>	<u>Balance June 30, 2009</u>
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%	<u>11,401</u>	<u>3,680</u>
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):

<u>Year Ending June 30</u>	<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	<u>44,965</u>	<u>4,630</u>		
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:

<u>Year Ending</u> <u>June 30</u>	<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):

<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	\$ 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	<u>93,425</u>	<u>29,729</u>	<u>219,580</u>	<u>57</u>
Subtotal	1,386,363	<u>\$1,000,431</u>	315,381	<u>\$ 34,236</u>
Add: Accretions Unamortized Bond Premiums	138,476		6,549	
Less: Unamortized Loss on Advance Refunding of Debt	<u>(34,848)</u>			
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</u> <u>July 1, 2008</u>	<u>Additions/</u> <u>Accretions</u>	<u>Transfers/</u> <u>Maturities</u>	<u>Balance</u> <u>June 30, 2009</u>	<u>Due Within</u> <u>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	<u>113,004</u>
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	<u>118,113</u>
	<u>326,379</u>	
Fire Protection District	General Fund	3,065
	Internal Service Funds	1
	Nonmajor Governmental Funds	<u>450</u>
	<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	<u>380</u>
	<u>20,013</u>	
Public Library	General Fund	273
	Nonmajor Governmental Funds	<u>150</u>
	<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
	<u>27,826</u>	
	<u>65,910</u>	
Waterworks Enterprise Funds	General Fund	2
	Internal Service Funds	1,819
		<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	29,584
	<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	21,831
	<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	54,371
	<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):

	<u>Beginning of Fiscal Year Liability</u>	<u>Current Year Claims and Changes In Estimates</u>	<u>Claim Payments</u>	<u>Balance At Fiscal Year-End</u>
<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 1st and June 1st each year, and interest is payable on December 1st and June 1st.

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.

COUNTY OF LOS ANGELES
MAJOR GOVERNMENTAL FUND
GENERAL FUND

The General Fund is the general operating fund of the County. It is used to account for all financial resources except those accounted for in other funds. Revenues are derived from Taxes; Licenses, permits and franchises; Fines, forfeitures and penalties; Revenue from use of money and property; Intergovernmental revenues; Charges for services and Miscellaneous. Expenditures are expended for functions of General government; Public protection; Public ways and facilities; Health and sanitation; Public assistance; Education; Recreation and cultural services; Debt service and Capital outlay.

COUNTY OF LOS ANGELES
 GENERAL FUND
 SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL ON BUDGETARY BASIS
 FOR THE YEAR ENDED JUNE 30, 2009 (in thousands)

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL ON BUDGETARY BASIS	VARIANCE FROM FINAL BUDGET OVER (UNDER)
GENERAL GOVERNMENT:				
Salaries and employee benefits	\$ 845,047	844,297	732,317	(111,980)
Services and supplies	1,209,971	1,212,138	536,363	(675,775)
Other charges	114,195	129,974	90,539	(39,435)
Capital assets	13,661	15,147	7,131	(8,016)
Intrafund transfers	(587,521)	(582,658)	(495,869)	86,789
TOTAL GENERAL GOVERNMENT	1,595,353	1,618,898	870,481	(748,417)
PUBLIC PROTECTION:				
Salaries and employee benefits	3,484,684	3,532,365	3,493,497	(38,868)
Services and supplies	927,420	925,869	776,477	(149,392)
Other charges	358,390	389,196	367,612	(21,584)
Capital assets	45,178	44,683	11,667	(33,016)
Intrafund transfers	(112,570)	(122,468)	(82,367)	40,101
TOTAL PUBLIC PROTECTION	4,703,102	4,769,645	4,566,886	(202,759)
HEALTH AND SANITATION:				
Salaries and employee benefits	966,408	965,635	887,293	(78,342)
Services and supplies	1,890,281	1,902,164	1,711,778	(190,386)
Other charges	94,477	97,461	92,502	(4,959)
Capital assets	13,256	14,528	6,888	(7,640)
Intrafund transfers	(150,689)	(157,343)	(135,549)	21,794
TOTAL HEALTH AND SANITATION	2,813,733	2,822,445	2,562,912	(259,533)
PUBLIC ASSISTANCE:				
Salaries and employee benefits	1,680,518	1,684,447	1,614,256	(70,191)
Services and supplies	928,342	937,088	833,191	(103,897)
Other charges	2,572,722	2,661,580	2,489,633	(171,947)
Capital assets	6,110	6,285	4,546	(1,739)
Intrafund transfers	(60,718)	(65,909)	(64,802)	1,107
TOTAL PUBLIC ASSISTANCE	5,126,974	5,223,491	4,876,824	(346,667)
RECREATION AND CULTURAL SERVICES:				
Salaries and employee benefits	132,596	132,737	128,452	(4,285)
Services and supplies	114,521	115,391	107,054	(8,337)
Other charges	14,131	14,136	13,017	(1,119)
Capital assets	1,013	1,072	625	(447)
Intrafund transfers	(1,255)	(1,255)	(1,122)	133
TOTAL 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 GENERAL FUND	\$ 15,859,545	15,912,978	13,235,487	(2,677,491)

