



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

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June 11, 2009

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

FROM: Wendy L. Watanabe
Auditor-Controller

SUBJECT: **AUDIT OF THE LOS ANGELES COUNTY TREASURY AND REVIEW
OF THE TREASURY OVERSIGHT COMMITTEE'S COMPLIANCE WITH
GOVERNMENT CODE REQUIREMENTS FOR THE YEAR ENDED
JUNE 30, 2008**

California Government Code Sections 26920 and 26922 require annual audits of the assets in the County Treasury, with an opinion on whether the Treasurer's statement of assets is presented fairly, in accordance with generally accepted accounting principles. We contracted with an independent Certified Public Accounting firm, Macias, Gini & O'Connell, LLP (MGO), to audit the financial statements of the Los Angeles County Treasury for the year ended June 30, 2008. MGO conducted the audit under the Auditor-Controller's Master Agreement.

MGO issued an unqualified opinion on the Treasurer's financial statements, indicating the statements are presented fairly, in accordance with accounting principles generally accepted in the United States of America (Attachment 1). As part of the audit, MGO reviewed the Treasurer's internal controls over financial reporting and identified no material weaknesses.

MGO also prepared a management letter (Attachment 2), which includes recommendations related to documenting the review and approval of investment transactions, changes to the journal entry format for accounting for safekeeping securities and filing of investment authorization letters centrally with the corresponding trade tickets. The Treasurer indicated they are working to resolve these matters.

Board of Supervisors
June 11, 2009
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MGO also examined the Treasurer's compliance with Government Code Sections 27130 through 27137, regarding requirements of the Treasury Oversight Committee, from July 1, 2007 through June 30, 2008. The Treasury Oversight Committee, which was disbanded subsequent to the review period, was responsible for reviewing the County's Investment Policy and monitoring the Treasury's compliance with the policy. MGO noted no matters involving non-compliance with the Government Codes regarding the Treasury Oversight Committee.

Please call me if you have any questions, or your staff may call Jim Schneiderman at (213) 253-0101.

WLW:MMO:JLS:KVO

Attachments

c: William T Fujioka, Chief Executive Officer
Mark J. Saladino, Treasurer and Tax Collector
Public Information Office
Audit Committee

Los Angeles County Treasury

Management's Discussion and Analysis and
Financial Statements with
Independent Auditor's Reports

For the Fiscal Year Ended June 30, 2008

**LOS ANGELES COUNTY TREASURY
FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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Certified Public Accountants & Management Consultants

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SACRAMENTO

OAKLAND

WALNUT CREEK

NEWPORT BEACH

SAN MARCOS

SAN DIEGO

INDEPENDENT AUDITOR'S REPORT

Board of Supervisors
County of Los Angeles, California

We have audited the accompanying financial statements of the Los Angeles County Treasury (Treasury), as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Treasury's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Treasury'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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Treasury and do not purport to, and do not, present fairly the financial position of the County of Los Angeles, California, as of June 30, 2008, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Treasury as of June 30, 2008, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2009, on our consideration of the Treasury's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We 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 did not audit the information and express no opinion on it.

Macias Fini & O'Connell LLP
Certified Public Accountants

Los Angeles, California
February 23, 2009

**LOS ANGELES COUNTY TREASURY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)**

The Los Angeles County Treasury (Treasury) maintains two investment portfolios, the External Investment Pool (Pool) and the Specific Purpose Investment (SPI) portfolio. The Treasury manages the Pool, on behalf of Pool participants, through the authority delegated to it annually by the Los Angeles County Board of Supervisors. The primary objective of the Treasury's Investment Policy is to ensure the safety of principal. The secondary objective is to meet the liquidity needs of the Pool participants. The third objective is to achieve a return on funds invested. The Treasury accomplishes these objectives through the purchase of high quality fixed income investments, held to a designated maturity.

Mandatory Pool participants include the County, local school and community college districts, and the Courts. There were approximately 1,700 Pool participants at the year ended June 30, 2008. The Treasury also maintains an SPI portfolio to manage specific investment objectives of certain Pool participants and other voluntary participants. The individual investment strategies of the SPI are established by the needs of the requesting entity.

Other Specific Investments represents assets held by the Treasury, in a custodial capacity, pursuant to State Code or a court order.

As management of the Pool, SPI portfolio and Other Specific Investments, we offer readers of the Treasury's financial statements this narrative overview and analysis of the financial activities of the Treasury for the fiscal year ended June 30, 2008. We hope that the information presented provides you with a solid understanding of the Treasury's financial status as of June 30, 2008.

Financial Highlights

- The Pool's total net assets at June 30, 2008 were \$20.43 billion, an increase of \$2.29 billion (12.61%) over the year ended June 30, 2007.
- The Pool had liabilities of \$2.40 million at June 30, 2008.
- The investment income of the Pool decreased \$66.65 million (-9.39%) from \$709.55 million for the year ended June 30, 2007 to \$642.89 million for the year ended June 30, 2008. The yield on investments decreased from 5.21%, in the prior year to 4.54% in the current year. This was primarily due to a decrease in interest rates during the fiscal year 2008.
- The fair value of the Pool showed an unrealized loss of \$22.50 million (.11%) of portfolio fair value at June 30, 2008 compared to an unrealized loss of \$31.09 million (.17%) of portfolio fair value at June 30, 2007.
- The Pool's allowable administrative expenses totaled \$7.98 million for the year ended June 30, 2008. This represented approximately 4.0 basis points of the average daily-invested balance for the year. This ratio was consistent with the ratio for 2007.

**LOS ANGELES COUNTY TREASURY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)**

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Treasury's basic financial statements. The Treasury's basic financial statements consist of two components:

- 1-A) Statement of Net Assets, 1-B) Statement of Changes in Net Assets
- 2) Notes to the Basic Financial Statements.

The Statement of Net Assets presents information on the Pool's, SPI's and Other Specific Investments' assets and liabilities, with the difference between the two reported as net assets.

The Statement of Changes in Net Assets presents information on how the Pool's, SPI's and Other Specific Investments' net assets changed during the most recent fiscal year.

Statement of Net Assets

The Pool's net assets were \$20.43 billion at June 30, 2008, an increase of \$2.29 billion (12.61%) from the prior year ended June 30, 2007. SPI net assets were \$494.34 million, a decrease of \$1.47 billion (-74.82%) from the prior year. Other Specific Investment net assets were \$43.95 million, a decrease of \$490,133 (-1.10%) from the prior year.

**LOS ANGELES COUNTY TREASURY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)**

Net Assets

A summary of the net assets is presented below.

	External Investment Pool			
	2008	2007	Increase/(Decrease) Amount \$	Percentage
Assets				
Investments at Fair Value	\$ 20,264,689,930	\$ 17,928,785,830	\$ 2,335,904,100	13.03%
Cash	66,995,475	69,312,508	(2,317,033)	-3.34%
Interest Receivable	100,418,305	145,503,574	(45,085,269)	-30.99%
Total Assets	\$ 20,432,103,710	\$ 18,143,601,912	\$ 2,288,501,798	12.61%
Liabilities				
Trades Payable	2,400,000	-	2,400,000	100.00%
Total Liabilities	2,400,000	-	2,400,000	100.00%
Total Net Assets	\$ 20,429,703,710	\$ 18,143,601,912	\$ 2,286,101,798	12.60%

	Specific Purpose Investment			
	2008	2007	Increase/(Decrease) Amount \$	Percentage
Assets				
Investments at Fair Value	\$ 490,817,691	\$ 1,911,675,079	\$ (1,420,857,388)	-74.33%
Accounts Receivable	-	30,000,000	(30,000,000)	-100.00%
Interest Receivable	3,527,151	21,620,573	(18,093,422)	-83.69%
Total Assets	\$ 494,344,842	\$ 1,963,295,652	\$ (1,468,950,810)	-74.82%
Liabilities				
Trades Payable	-	-	-	0.00%
Total Liabilities	-	-	-	
Net Assets	\$ 494,344,842	\$ 1,963,295,652	\$ (1,468,950,810)	-74.82%

	Other Specific Investments			
	2008	2007	Increase/(Decrease) Amount \$	Percentage
Assets				
Investments at Fair Value	\$ 43,945,829	\$ 44,435,962	\$ (490,133)	-1.10%
Total Assets	\$ 43,945,829	\$ 44,435,962	\$ (490,133)	-1.10%
Net Assets	\$ 43,945,829	\$ 44,435,962	\$ (490,133)	-1.10%

**LOS ANGELES COUNTY TREASURY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)**

Changes in Net Assets

The additions include contributions by pool participants, investment income and changes in the fair value of investments. Administrative expenses are shown as a deduction to additions to the Pool and to SPI. Deductions represent distributions to pool participants.

Pool

- Contributions by Pool Participants were \$52.15 billion during the year ended June 30, 2008, an increase of \$892.99 million (1.74%) from the prior year.
- The investment income of the Pool decreased \$66.65 million (-9.39%) from \$709.55 million for the year ended June 30, 2007 to \$642.89 million for the year ended June 30, 2008. The yield on investments decreased from 5.21% to 4.54% in the current year. The decrease in the Pool earnings rate can be largely attributed to the decrease in federal funds level during the fiscal year 2007-2008. Although the average daily investment balance increased to \$19.93 billion during the year ended June 30, 2008, from \$17.67 billion in the prior year, the federal funds rate, set by the Federal Reserve, decreased from 5.25% to 2.00% for the year ended June 30, 2008. The federal funds rate in the prior fiscal year remained unchanged at 5.25%.
- Administrative expenses, which are deducted from Investment Income, were \$7.98 million for the year ending June 30, 2008, an increase of \$974,424 (13.91%) from the prior year. This increase in the Administrative expenses is primarily due to a prior year timing difference, an increase in Treasurer's expenses and an increase in Auditor-Controller charges. The \$7.98 million in total administrative expenses represented approximately 4.0 basis points of the average daily invested balance for the year ended June 30, 2008. This ratio was consistent with the ratio for 2007.
- The fair value of the Pool showed an unrealized loss of \$22.50 million (.11%) of portfolio fair value at June 30, 2008 compared to an unrealized loss of \$31.09 million (.17%) of portfolio fair value at June 30, 2007.
- Distributions to Pool Participants were \$50.77 billion during the year ended June 30, 2008, an increase of \$522.91 million (1.04%) from the prior year.

SPI

- Contributions by SPI Participants were \$289.03 million during the year ended June 30, 2008, a decrease of \$2.08 billion (-87.82%) from the prior year. The decrease in the contributions by SPI Participants can be attributed to the declining interest rates during this period. In a declining interest rate environment, the Pool's earnings rate out yields any security offered in the market.
- Distributions to SPI Participants of \$1.81 billion were approximately \$492.86 million (-21.42%) lower than the prior year's figure of \$2.30 billion.
- Investment income decreased by \$32.32 million (-42.84%).

Other Specific Investments

**LOS ANGELES COUNTY TREASURY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)**

- There were no new contributions by participants during the year ended June 30, 2008.
- Distributions to Participants were \$2.16 million during the year.

All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of timing of related cash flows. Thus, additions and deductions are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Summaries of the changes in net assets for the Pool, SPI and Other Specific Investments are presented below:

Statement of Changes in Net Assets External Investment Pool				
	2008	2007	Increase/(Decrease)	
			Amount \$	Percentage
Additions				
Contributions by Participants	\$ 52,154,757,579	\$ 51,261,764,939	\$ 892,992,640	1.74%
Investment Income	642,892,179	709,546,659	(66,654,480)	-9.39%
Less: Administrative Expenses	(7,979,473)	(7,005,049)	974,424	13.91%
Net Increase in Fair Value of Investments	<u>270,160,225</u>	<u>223,954,220</u>	<u>46,206,005</u>	<u>20.63%</u>
Net Increase from Investment Income	<u>905,072,931</u>	<u>926,495,830</u>	<u>(21,422,899)</u>	<u>-2.31%</u>
Total Additions	\$ 53,059,830,510	\$ 52,188,260,769	\$ 871,569,741	1.67%
Deductions				
Distributions to Participants	<u>50,773,728,712</u>	<u>50,250,814,547</u>	<u>522,914,165</u>	<u>1.04%</u>
Net Increase in Net Assets	2,286,101,798	1,937,446,222	348,655,576	18.00%
Net Assets beginning of year	<u>18,143,601,912</u>	<u>16,206,155,690</u>	<u>1,937,446,222</u>	<u>11.96%</u>
Net Assets end of year	<u>\$ 20,429,703,710</u>	<u>\$ 18,143,601,912</u>	<u>\$ 2,286,101,798</u>	<u>12.60%</u>

Statement of Changes in Net Assets Specific Purpose Investments				
	2008	2007	Increase/(Decrease)	
			Amount \$	Percentage
Additions				
Contributions by Participants	\$ 289,031,813	\$ 2,373,604,168	\$ (2,084,572,355)	-87.82%
Investment Income	43,125,349	75,449,275	(32,323,926)	-42.84%
Less: Administrative Expenses	(160,083)	(342,324)	(182,241)	-53.24%
Net Increase in Fair Value of Investments	<u>7,319,937</u>	<u>6,853,620</u>	<u>466,317</u>	<u>6.80%</u>
Net Increase from Investment Income	<u>50,285,203</u>	<u>81,960,571</u>	<u>(31,675,368)</u>	<u>-38.65%</u>
Total Additions	\$ 339,317,016	\$ 2,455,564,739	\$ (2,116,247,723)	-86.18%
Deductions				
Distributions to Participants	<u>1,808,267,826</u>	<u>2,301,123,346</u>	<u>(492,855,520)</u>	<u>-21.42%</u>
Net Increase (Decrease) in Net Assets	(1,468,950,810)	154,441,393	(1,623,392,203)	-1051.14%
Net Assets beginning of year	<u>1,963,295,652</u>	<u>1,808,854,259</u>	<u>154,441,393</u>	<u>8.54%</u>
Net Assets end of year	<u>\$ 494,344,842</u>	<u>\$ 1,963,295,652</u>	<u>\$ (1,468,950,810)</u>	<u>-74.82%</u>

**LOS ANGELES COUNTY TREASURY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)**

Statement of Changes in Net Assets Other Specific Investments					
	2008		2007		Increase/(Decrease)
	\$	420	\$	151	Amount \$ Percentage
Additions					
Investment Income	\$	420	\$	151	\$ 269 178.15%
Net Increase in Fair Value of Investments		1,671,304		2,243,630	(572,326) -25.51%
Net Increase from Investment Income		1,671,724		2,243,781	(572,057) -25.50%
Total Additions	\$	1,671,724	\$	2,243,781	\$ (572,057) -25.50%
Deductions					
Distributions to Participants		2,161,857		2,139,704	22,153 1.04%
Net Increase (Decrease) in Net Assets		(490,133)		104,077	(594,210) -570.93%
Net Assets beginning of year		44,435,962		44,331,885	104,077 0.23%
Net Assets end of year	\$	43,945,829	\$	44,435,962	\$ (490,133) -1.10%

Request for Information

This financial report is designed to provide a general overview of the Treasury's finances for all interested parties. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Los Angeles County Treasurer and Tax Collector, 500 West Temple Street, Room 437, Los Angeles, California 90012-2766.

LOS ANGELES COUNTY TREASURY
STATEMENT OF NET ASSETS
JUNE 30, 2008

	External Investment Pool	Specific Purpose Investments	Other Specific Investments
Assets			
Treasurer Cash	\$ 66,995,475	\$ -	\$ -
Investments:			
Commercial Paper	7,061,349,493	-	-
Corporate and Deposit Notes	1,313,888,035	229,031	-
Local Agency Investment Fund	-	65,831,711	-
Los Angeles County Securities	192,735,000	5,370,000	-
Mortgage Trust Deeds	-	865,995	-
Negotiable Certificates of Deposit	4,338,813,667	10,115,928	-
U.S. Agency Securities	7,357,386,068	92,728,060	-
U.S. Treasury Securities			
U.S. Treasury Notes	-	61,743,715	-
U.S. Treasury Bills	-	-	43,945,813
U.S. Treasury Bonds	-	430,036	-
Guaranteed Investment Contracts	-	253,503,215	-
Money Market Fund	517,667	-	16
Total Investments	20,264,689,930	490,817,691	43,945,829
Interest Receivable	100,418,305	3,527,151	-
Total Assets	20,432,103,710	494,344,842	43,945,829
Liabilities			
Trades Payable	2,400,000	-	-
Total Liabilities	2,400,000	-	-
Total Net Assets Held in Trust	\$ 20,429,703,710	\$ 494,344,842	\$ 43,945,829

The accompanying notes are an integral part of these financial statements.

**LOS ANGELES COUNTY TREASURY
STATEMENT OF CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

	External Investment Pool	Specific Purpose Investments	Other Specific Investments
ADDITIONS:			
Contributions by Pool Participants	\$ 52,154,757,579	\$ 289,031,813	\$ -
Investment Income:			
Investment Income	642,892,179	43,125,349	420
Administrative Expenses	(7,979,473)	(160,083)	-
Net Increase in Fair Value of Investments	270,160,225	7,319,937	1,671,304
Net Increase Resulting from Investment Income	905,072,931	50,285,203	1,671,724
Total Additions	53,059,830,510	339,317,016	1,671,724
DEDUCTIONS:			
Distributions to Pool Participants	50,773,728,712	1,808,267,826	2,161,857
Net Increase (Decrease) in Net Assets	2,286,101,798	(1,468,950,810)	(490,133)
Net Assets Held in Trust, July 1, 2007	18,143,601,912	1,963,295,652	44,435,962
Net Assets Held in Trust, June 30, 2008	\$ 20,429,703,710	\$ 494,344,842	\$ 43,945,829

The accompanying notes are an integral part of these financial statements.

**LOS ANGELES COUNTY TREASURY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Note 1 - Summary of Significant Accounting Policies

The Financial Reporting Entity

The Los Angeles County (County) Treasurer and Tax Collector (Treasury) is responsible for tax collection, banking, investment and accountability of public funds. The County Treasury maintains two investment portfolios, the External Investment Pool portfolio (the Pool) and the Specific Purpose Investments (SPI) portfolio with approximately \$20.43 billion and \$494.34 million, respectively, in total net assets as of June 30, 2008. The Pool is managed by the County Treasury on behalf of the Pool participants, which include the County, local school districts, and the Courts who are required by State statutes to participate in the Pool. Voluntary participants in the County Treasury consist of the Sanitation Districts, the Metropolitan Transportation Authority, the South Coast Air Quality Management District and certain other municipal agencies. The deposits held for these entities are invested in the Pool and SPI portfolios. The Treasury also maintains Other Specific Investments totaling approximately \$43.95 million at June 30, 2008. These assets are held by the Treasury for both a municipal agency and a private corporation, per State Code and a court order, respectively. The State of California allows the Board of Supervisors (Board) the ability to delegate the investment authority to the County Treasury in accordance with Section 53607 of the California Government Code.

Pursuant to Sections 27130-27137 of the California Government Code, the Board has established a County Treasury Oversight Committee to review and monitor the Treasury's Investment Policy. The Committee membership includes the Treasurer, Auditor-Controller, Chief Executive Officer, Superintendent of Schools and a non-County representative. The Pool is not registered with the Securities and Exchange Commission (SEC) as an investment company.

Treasury's Investment Strategy

The County Treasury's investment strategy for the Pool is to maintain the principal and to provide sufficient cash to meet disbursement needs. The cash flow needs of the Pool members are monitored daily to ensure that sufficient liquidity is maintained to meet the needs of participants. The County Treasury's basic investment strategy is to buy and hold, to a designated maturity, high quality fixed income investments.

The SPI portfolio is used to account for the net assets of individual investment accounts, in aggregate. The related investment activity occurs separately from the Pool and is provided as a service to Pool participants and external investors. The individual investment strategies are targeted for the needs of the requesting entity.

The Other Specific Investments are used to account for the assets placed with the County Treasury pursuant to State Code and court order. The investment activity occurs separately from the County's Pool and the related investment strategies are governed by State Code and court order.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accompanying financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Contributions from pool participants are recognized as contributions in the period in which they are received. Distributions to pool participants are recognized in the period they are distributed. Earnings on investments are recognized as revenue in the period in which they are earned and administrative costs are recognized as expense when incurred, regardless of the timing of

**LOS ANGELES COUNTY TREASURY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

related cash flows. In accordance with generally accepted accounting principles (GAAP), the County Treasury records investment purchases and sales on the trade date. In accordance with Governmental Accounting Standards Board (GASB) Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, the accompanying financial statements reflect the fair value of investments. Fair value is determined monthly. Special disclosures related to GASB 31 appear in Note 3. Pool participants' cash balances and withdrawals are based on amortized cost. The Treasury has prepared its deposit and investments disclosures in accordance with the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment to GASB Statement No. 3*. The related disclosures appear in Note 3.

Trades Payable

Trades payable represents purchase of investments by the Treasury where payment has not been made as of the fiscal year end. Trades payable totaled \$2.40 million at June 30, 2008.

Trades Receivable

The Pool had no trades receivable at June 30, 2008.

Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the financial statements. Actual results could differ from the estimates.

Note 2 – Bank Deposits

As of June 30, 2008, the County Treasury maintained accounts in five banks. The carrying amount of the County Treasury's total deposits in financial institutions was \$66,563,955 plus \$431,520 in cash in the County Treasury's vault.

Under Government Code Section 53652, each financial institution in California is required to pledge a pool of securities as collateral against all of its public deposits. Depending upon the type of security in the pool, the pool must have a minimum market value of 110 to 150 percent of the total amount of the public deposits.

The total balance of deposits in financial institutions was covered by federal depository insurance or collateralized with securities monitored by the Local Agency Security Program (LASD) of California Department of Financial Institutions. LASD confirmed that the pools of collateral related to the County Treasury's deposits were maintained at required levels as of June 30, 2008. However, during the fiscal year, there were isolated instances where balances were not properly collateralized. The institution subsequently obtained the required collateral without any impact on the County.

Note 3 – Investments

Government Code Sections 53601 and 53635 authorize the County Treasury to invest the Pool and SPI funds (Notes 5 and 6, respectively) in obligations of the United States Treasury, federal agencies, municipalities, asset-backed securities, mortgage-backed securities, bankers' acceptances, commercial paper rated A-1 by Standard and Poor's Corporation (S&P) or P-1 by Moody's, negotiable certificates of

LOS ANGELES COUNTY TREASURY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

deposit, medium-term notes, corporate notes, repurchase agreements, reverse repurchase agreements, time deposits, shares of beneficial interest of a Joint Powers Authority that invests in authorized securities, the State's Local Agency Investment Fund (LAIF), and guaranteed investment contracts. As permitted by the Government Code, the County Treasury developed, and the Board adopted, an Investment Policy that further defines and restricts the limits within which the Treasury may invest. The investments are managed by the County Treasury who reports investment activity to the Board on a monthly basis. The County Treasury also maintains Other Specific Investments which are invested pursuant to State Code and court order.

Investments held by the County Treasury 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, such as repurchase agreements, money market mutual funds, mortgage trust deeds, Los Angeles County securities, guaranteed investment contracts and investments in the Local Agency Investment Fund. The fair value of investments is determined monthly and is provided by the custodian bank. The method used to determine the value of participant's equity withdrawn is based on the book value, which is amortized cost, of the participant's percentage participation on the date of such withdrawals.

Investments in LAIF are governed by California Government Code and overseen by a five member Local Investment Advisory Board as designated by the California Government Code. Investments in LAIF are valued in these financial statements using a fair value factor provided by LAIF applied to the value of the SPI's shares in the investment pool. As of June 30, 2008 the total amount invested by all California local governments and special districts in LAIF was \$25.2 billion. LAIF is part of the State of California's Pooled Money Investment Account (PMIA), which as of June 30, 2008 had a balance of \$70.0 billion. The PMIA is not SEC registered, but is required to invest according to California State Government Code. Included in the PMIA's investment portfolio are certain derivative securities or similar products in the form of structured notes totaling \$6.11 billion, and asset-backed securities totaling \$4.19 billion at June 30, 2008. Collectively, these represent 14.72% of the PMIA balance of \$70.0 billion.

The School Districts and the Courts are required by legal provisions to participate in the Pool. At June 30, 2008, the total percentage share of the Pool that relates to these participants in addition to Los Angeles County and related entities is 90%. Voluntary participants in the County Treasury consist of the Sanitation Districts, the Metropolitan Transportation Authority, the South Coast Air Quality Management District and certain municipal agencies. The deposits held for these entities are included in the Pool and SPI portfolio. Certain specific investments have been made by the County Treasury, as requested by Pool participants and external depositors. This investment activity occurs separately from the Pool and is reported in the SPI portfolio.

Risk Disclosures

As of June 30, 2008, the major classes of the County's investments consisted of the following:

**LOS ANGELES COUNTY TREASURY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

<u>Pool</u>	<u>Fair Value</u>	<u>Principal</u>	<u>Interest Rate Range (%)</u>	<u>Maturity Range</u>	<u>Weighted Average Maturity in Years</u>
Commercial Paper	\$ 7,061,349,493	\$ 7,062,687,198	2.30%-3.00%	07/01/08-09/02/08	0.04
Corporate and Deposit Notes	1,313,888,035	1,318,397,903	2.20%-5.20%	07/01/08-01/21/11	0.82
Los Angeles County Securities	192,735,000	192,735,000	2.35%-4.66%	06/30/10-12/01/37	25.91
Negotiable Certificates of Deposit	4,338,813,667	4,339,923,806	2.40%-3.06%	07/03/08-08/21/09	0.13
U.S. Agency Securities	7,357,386,068	7,372,928,735	2.41%-9.25%	07-03/08-05/29/13	3.87
Money Market Funds	517,667	517,667	0.25%	N/A	
Total Investments	\$20,264,689,930	\$ 20,287,190,309			1.75

<u>SPI</u>	<u>Fair Value</u>	<u>Principal</u>	<u>Interest Rate Range (%)</u>	<u>Maturity Range</u>	<u>Weighted Average Maturity in Years</u>
Local Agency Investment Fund	\$ 65,831,711	\$ 65,834,988	-	N/A	0.58
Corporate and Deposit Notes	229,031	230,000	5.33%	08/03/09	1.09
Mortgage Trust Deeds	865,995	865,742	4.50% - 5.50%	08/01/12 - 04/01/17	6.25
Los Angeles County Securities	5,370,000	5,370,000	5.00%	09/02/21	13.15
Negotiable Certificate of Deposits	10,115,928	10,000,000	5.05	03/16/09	0.71
U.S. Agency Securities	92,728,060	90,986,002	3.63%-5.59%	07/18/08-06/10/13	1.04
U.S. Treasury Securities					
U.S. Treasury Notes	61,743,715	60,506,875	3.25%-4.88%	08/15/08-07/31/11	0.80
U.S. Treasury Bonds	430,036	314,434	7.25% - 11.25%	02/15/15-05/15/16	6.92
Guaranteed Investment Contracts	253,503,215	253,503,215	4.75%-4.87%	06/30/09-03/15/10	1.43
Total Investments	\$ 490,817,691	\$ 487,611,256			1.29

<u>Other Specific Investments</u>	<u>Fair Value</u>	<u>Principal</u>	<u>Interest Rate Range (%)</u>	<u>Maturity Range</u>	<u>Weighted Average Maturity in Years</u>
Money Market Funds	\$ 16	\$ 16	4.86%	07/01/08	0.00
U.S. Treasury Securities					
U.S. Treasury Bills	43,945,813	43,926,715	2.05%-2.09%	08/14/08-12/11/08	0.13
Total Investments	\$ 43,945,829	\$ 43,926,731			0.13

**LOS ANGELES COUNTY TREASURY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Interest Rate Risk

The County Treasury manages the Pool's exposure to declines in fair value by limiting its weighted average maturity to a target of 1.5 years, in accordance with the Investment Policy. For purposes of computing weighted average maturity, the maturity date of variable-rate notes is the stated maturity. 58.80% of the Pool's \$20,264,689,930 in investments at June 30, 2008 mature in six months or less. Of the remainder, 39.29% have a maturity of more than one year. At June 30, 2008, the weighted average maturity in years for the Pool was 1.75.

As of June 30, 2008, the floating rate notes comprised 5.52% of the Pool Investments. 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 securities is generally less susceptible to changes in value than fixed rate securities because the variable-rate coupon resets back to the market rate on a periodic basis. There were no floating rate notes in the SPI and Other Specific Investments.

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

Custodial Credit Risk

Custodial credit risk for investments is the risk that the Treasury will not be able to recover the value of investment securities that are in the possession of an outside party. Investments are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Treasury and are held by either the counterparty, or the counterparty's trust department or agent but not in the Treasury's name. At year-end, all Pool, SPI and Other Specific Investment securities were either held by the Treasury or by the custodian bank in the name of the Treasury and were not exposed to custodial credit risk.

Credit Risk

The Investment Policy sets forth the 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. The Guaranteed Investment Contracts (GIC), and the State of California LAIF are not rated.

Concentration of Credit Risk

The Investment Policy 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 Pool portfolio. (An exception to this is obligations of the United States government, United States government agencies or government-sponsored enterprises, which do not have a limit.) Further, the Treasurer restricts investments in any one issuer based on the issuer's ratings from a NRSRO. For commercial paper, bankers acceptances, certificates of deposit, corporate notes and floating rate notes, the highest issuer limit, for those issuers with ratings of P-1/Aaa (Moody's) and A-1/AAA (S&P), was \$500 million, approximately 2.5% of the Pool daily investment balance. For commercial paper, the highest issuer limit was \$750 million, or 3.8% of the Pool's daily investment balance.

**LOS ANGELES COUNTY TREASURY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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, 2008:

<u>Issuer</u>	<u>Pool</u>	<u>SPI</u>
Federal Farm Credit Bank	\$ 1,344,688,831	\$ 32,041,462
Federal Home Loan Bank	2,563,417,511	36,854,731
Federal Home Loan Mortgage Corp	3,449,279,726	23,831,867

In addition, SPI had a total of \$253,503,215 invested in Guaranteed Investment Contracts (GIC). \$156,817,072 was invested with FSA Capital Management Services, and \$96,686,143 was invested with Trinity Funding Co.

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

<u>Pool</u>	<u>S&P</u>	<u>Moody's</u>	<u>% of Portfolio</u>
Commercial Paper	A-1	P-1	34.85%
Corporate and Deposit Notes	A-1+	P-1	6.48%
Los Angeles County Securities	A	A2	0.95%
Negotiable Certificates of Deposit	A-1	P-1	21.41%
U.S. Agency Securities	AAA	Aaa	36.31%
Money Market Funds	A-1+	P-1	0.00%
			100.00%
<u>SPI</u>			
Local Agency Investment Fund	Not rated	Not rated	13.41%
Corporate and Deposit Notes	A-1+	P-1	0.05%
Mortgage Trust Deeds	AA	Aa3	0.18%
Los Angeles County Securities	AA	Aa3	1.09%
Negotiable Certificate of Deposit	A-1+	P-1	2.06%
Guaranteed Investment Contracts	Not rated	Not rated	51.65%
U.S. Agency Securities	AAA	Aaa	18.89%
U.S. Treasury Securities			
U.S. Treasury Notes	AAA	Aaa	12.58%
U.S. Treasury Bonds	AAA	Aaa	0.09%
			100.00%
<u>Other Specific Investments</u>			
Money Market Funds	AAA	Aaa	0.00%
U.S. Treasury Securities			
U.S. Treasury Bills	AAA	Aaa	100.00%
			100.00%

LOS ANGELES COUNTY TREASURY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Safekeeping Securities

At June 30, 2008, all Pool, SPI investments and Other Specific Investments were safe kept by The Bank of New York Mellon Corporation (effective July 1, 2007, The Bank of New York Company, Inc. and Mellon Financial Corporation merged and was renamed The Bank of New York Mellon Corporation), except for the County Improvement Bonds and Bond Anticipation Notes (BANs), certain certificates of participation issued by County entities, GIC, LAIF, money market funds and the mortgage trust deeds.

The bonds, BANs, and certain certificates of participation were held in the Treasury's vault and are recorded in the Los Angeles County Securities line item. The mortgage trust deeds were held and administered by Bank of America or by the County Treasury.

The County has not provided nor obtained any legally binding guarantees during the fiscal year ended June 30, 2008 to support the value of shares in the Pool.

Investment Income

The earnings rate, which includes investment income, net of allowable administrative expenses, on all Pool investments held by the County Treasury for the fiscal year ended June 30, 2008 was 4.54% on an average daily investment balance of the Pool portfolio of \$19,933,763,061.

The change in fair value of investments consists of both unrealized and realized gains and losses. Realized gains and losses on investments held in more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in the prior year(s) (as an unrealized gain or loss) and the current year (as a realized gain or loss). Securities in the aggregate amount of \$10,882,905,138 and \$164,112,650 were called or sold during the year with a net gain of \$1,515,360 for the Pool and \$14,444 for SPI, respectively. The net increase in the fair value of investments for the year ended June 30, 2008 was \$270,160,225 for the Pool, \$7,319,937 for the SPI and \$1,671,304 for Other Specific Investments.

Derivatives

The California Government Code and the County Treasury's Investment Policy allow the County Treasury 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 Treasury's Investment Policy limits the amount of floating rate notes to 10% of the Pool portfolio. The Pool contained floating rate notes at fair market value of \$1,119,195,225 (5.52% of the Pool) as of June 30, 2008. The policy also prohibits the purchase of inverse floating rate notes and hybrid or complex structured investments and for the fiscal year ended June 30, 2008, there were none.

Los Angeles County Securities – External Investment Pool

The Board authorized the Treasury to purchase Los Angeles County Capital Asset Leasing Corporation's (LACCAL) BANs for the Pool, which are floating rate notes. LACCAL is a nonprofit corporation established by the Board to issue tax-exempt bonds to finance the purchase of certain equipment on behalf of the County. The BANs were created to provide LACCAL with operating cash prior to the sale of financing bonds. LACCAL issues BANs and sells them to the County Treasury periodically, based on cash needs. As part of the 2007-2008 Debt Management Guidelines, the Board authorized the issuance of

**LOS ANGELES COUNTY TREASURY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

an aggregate amount of BANS not to exceed \$65 million. As of June 30, 2008, the Pool had \$15,000,000 invested in LACCAL BANS.

BANS are payable within five years of the purchase date. In addition, the BANS are issued with a formal agreement that, in the event they are not liquidated by the end of the five-year period, they convert to capital leases with a three-year term secured by County real property.

Los Angeles County Securities – Auction Rate Securities

Auction Rate Securities (ARS) are either debt or equity instruments tied to short-term interest rates that are reset periodically – normally every 7, 28 or 35 days – through an auction process (commonly referred to as a “Dutch” auction). ARS are typically bought and sold on a par in/par out basis at auction. The ARS market offers both tax-exempt and taxable investments. Municipalities and closed-end funds are two of the largest categories of issuers in the ARS market. Auction rate municipal debt can be issued by municipalities and non-profit state authorities. They are bonds with intermediate to long-term maturities that generally reset on a stated basis.

In April 2008, the Board authorized the extension of the maximum maturity for certain County-affiliated securities from 20 years to 30 years to provide the flexibility to assist County-related affiliates during times of market disruption. The Treasury purchased auction rate securities issued by the California Statewide Communities Development Authority (Los Angeles County Museum of Art Project (LACMA) for the Pool, which are floating rate notes. As of June 30, 2008, the Pool had invested \$177,735,000 in these auction rate securities with a maturity range date of December 1, 2034 and December 1, 2037. Of the \$177,735,000, \$53,185,000 are invested in variable rate demand notes (VRDN).

Los Angeles County Securities – Specific Purpose Investments (SPI)

As of June 30, 2008, the Los Angeles County Securities category included the Rancho Palos Verdes Redevelopment Agency Tax Allocation Bond for \$5,370,000 issued on December 2, 1997. It earns an interest rate of 5% per annum and matures in September 2021. The original loan provided funding for landslide mitigation measures in the Abalone Cove area pursuant to a 1987 settlement agreement.

Mortgage Trust Deeds

In December 1986 and October 1987, the Board approved the disbursing of funds for mortgage trust deeds as part of the settlements of the Flying Triangle and the Abalone Cove landslide litigation. Such disbursements are authorized under Government Code Section 23004, the County’s power to compromise and make payment of claims being implicit in the County’s power to sue and be sued. Per the Flying Triangle and Abalone Cove settlements, the combined amount of all mortgage loans is not to exceed \$8,500,000.

The trust deeds, which are fully secured, have terms of 15 to 30 years and fixed interest rates of between 4.5% and 5.5%, except for one loan that had a variable rate of 4.5% as of June 30, 2008. As of June 30, 2008, \$865,995 in mortgage trust deeds are included in the SPI portfolio.

LOS ANGELES COUNTY TREASURY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Note 4 – Interest Receivable

Receivables primarily consist of interest accrued on investments. In addition, certain securities were purchased with accrued interest. At June 30, 2008, the Pool had \$100,418,305 of interest receivable of which \$2,154,647 represents accrued interest purchased. At June 30, 2008, the SPI portfolio had \$3,527,151 of interest receivable of which \$2,104 represents accrued interest purchased.

Note 5 – External Investment Pool

The Treasury maintains the Pool, which includes all funds deposited by County entities and external legal entities. The purpose of the Pool is to provide safe, liquid investment opportunities for pooled surplus funds deposited into the County Treasury. Earnings on Pool investments are allocated monthly to Pool participants by the County Auditor-Controller based upon each participant's average daily balance in the allocation period. Investment gains and losses are proportionately shared by the entities participating in the Pool as an increase or reduction in investment, net of administrative costs. Section 27013 of the California Government Code authorizes the County Treasury to deduct certain Treasury-related administrative fees.

Investments purchased with the intent to be held to maturity are accounted for in the non-trading portion of the Pool. Investments purchased with the intent to be sold prior to maturity are accounted for in the trading portion of the Pool. During the year ended June 30, 2008, the County Treasury had invested \$175,335,000 in auction rate securities for trading purposes.

Note 6 – Specific Purpose Investments

The County Treasury maintains the SPI portfolio to manage specific investments requested by specific entities with the approval of the County Treasury. Investment income/loss distribution is credited/debited to the specific entity for which the investment was made.

Note 7 – Other Specific Investments

Other Specific Investments represents assets held by the County Treasury pursuant to State Code and a court order, and totaled \$43,945,829 at June 30, 2008.

This amount is comprised of \$43,643,717 in U.S. Treasury Bills, held in the Treasury's Special Safekeeping Account II at Bank of New York, Western Trust and \$16 in Dreyfus Money Market Fund. The funds were deposited by Phillip Morris USA Incorporated to stay enforcement, pending appeal, of two judgments by the Superior Court of the County of Los Angeles. The remaining \$302,096, also in U.S. Treasury Bills, is held in the Treasury's Special Safekeeping Account on behalf of the County's Community Health Plan (CHP). The funds were assigned to the California Commission of Corporations to meet CHP deposit requirements imposed by the California Code of Regulations.



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OAKLAND

WALNUT CREEK

NEWPORT BEACH

SAN MARCOS

SAN DIEGO

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

Board of Supervisors
County of Los Angeles, California

We have audited the basic financial statements of the Los Angeles County Treasury (Treasury) as of and for the year ended June 30, 2008, and have issued our report thereon dated February 23, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported Treasury management, in a separate letter dated February 23, 2009.

This report is intended solely for the information of the Treasury's management, Treasury Oversight Committee, the Board of Supervisors, and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

Macias Jini & O'Connell LLP

Certified Public Accountants

Los Angeles, California
February 23, 2009



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**INDEPENDENT ACCOUNTANT'S REPORT ON COMPLIANCE
WITH GOVERNMENT CODE SECTIONS 27130 THROUGH 27137**

Board of Supervisors
County of Los Angeles, California

We have examined the Los Angeles County Treasury's compliance with California Government Code Sections 27130 through 27137, which addresses requirements of the Treasury Oversight Committee, during the year ended June 30, 2008. Management is responsible for the Treasury's compliance with those requirements. Our responsibility is to express an opinion on the Treasury's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the Treasury's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Treasury's compliance with specified requirements.

In our opinion, the Treasury complied, in all material respects, with the aforementioned requirements during the year ended June 30, 2008.

This report is intended solely for the information of the Treasury's management, Treasury Oversight Committee, the Board of Supervisors, and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountants

Los Angeles, California
February 23, 2009

LOS ANGELES COUNTY TREASURY

Report to Management

For the Year Ended June 30, 2008



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

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NEWPORT BEACH

SAN MARCOS

SAN DIEGO

February 23, 2009

County Board of Supervisors
Los Angeles County, California

In planning and performing our audit of the financial statements of the Los Angeles County Treasury (Treasury) as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Treasury's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Treasury's internal control. Accordingly, we do not express an opinion on the effectiveness of the Treasury's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, during our audit we became aware of several matters involving the internal controls and other operational matters that are presented for your consideration. This letter does not affect our report dated February 23, 2009 on the financial statements of the Treasury. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss them in further detail at your convenience, perform any additional study of these matters, or to assist you in implementing the recommendations.

Our comments are summarized in the memorandum that accompanies this letter. We have already discussed these comments with appropriate members of management and have included management's responses to our recommendations in the attached memorandum.

This report is intended solely for the information and use of the Board of Supervisors and Treasury management and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Macias Gini & O'Connell LLP

Macias Gini & O'Connell LLP

Current Year Findings and Recommendations

2008-01 - Safekeeping Accounting

During our test work of safekeeping transactions, we noted that the Treasury did not prepare a journal voucher for the free delivery of U.S. Treasury Bills to Phillip Morris USA Incorporated. Upon further inquiry, MGO noted that the Treasury was incorrectly accounting for the transactions within the Safekeeping accounts. All security transactions (purchases, sales, withdrawals, and maturities) were booked only to a cash and liability account as follows:

<u>Purchase:</u>	<u>Maturity:</u>
Dr. Liability	Dr. Cash
Cr. Cash	Cr. Liability

However, the liability account balance should have remained at the original principal balance and should only be affected by investment earnings/losses or wire transfers of excess earnings to Phillip Morris. All other investment activities should have been booked as follows:

<u>Purchase:</u>	<u>Maturity:</u>
Dr. Investments	Dr. Cash
Cr. Cash	Cr. Investments
	Cr. Liability (earnings on investments)

Recommendation

MGO recommends that the Treasury follow the prescribed journal entries above for accounting for safekeeping securities.

Management Response

Subsequent to the release of the audit, staff consulted with the Department of the Auditor-Controller who concurred with MGO's recommendation. However, before we could make the correcting journal entries, we received a court order to release the security on July 21, 2008. This ended our safekeeping requirement. We will implement the accounting recommendation on future safekeeping transactions, should they occur.

Prior Year Findings and Recommendations

2007-01 - Documentation of Review and Approval

The Treasurer's trade ticket includes a section to document both an Internal Controls accounting staff and management staff review. Of the 110 sales, withdrawals, purchases, and repo purchase transactions reviewed, MGO noted 14 (13%) trade tickets that were not signed by an Internal Control manager indicating their review of the transactions noted on the trade tickets. However, none of the investment transactions included on the trade tickets reviewed, were out of compliance with the Investment Policy.

Recommendation

Treasury management to ensure that all investment transactions are properly reviewed and approved and trade tickets signed off, as required by the Investment Policy.

Management Response

The Treasury’s Internal Control Branch’s practice is to document an initial review and a management review of all tickets/delivery instructions, and to document a management review of all call notices. Management has reiterated to staff the need to comply with these practices.

Status

Implemented.

2007-02 - Safekeeping Accounting

During our test work of safekeeping transactions, we noted that the Treasury did not prepare a journal voucher for the free delivery of U.S. Treasury Bills to Phillip Morris USA Incorporated. Upon further inquiry, MGO noted that the Treasury was incorrectly accounting for the transactions within the Safekeeping accounts. All security transactions (purchases, sales, withdrawals, and maturities) were booked only to a cash and liability account as follows:

<u>Purchase:</u>	<u>Maturity:</u>
Dr. Liability	Dr. Cash
Cr. Cash	Cr. Liability

However, the liability account balance should have remained at the original principal balance and should only be affected by investment earnings/losses or wire transfers of excess earnings to Phillip Morris. All other investment activities should have been booked as follows:

<u>Purchase:</u>	<u>Maturity:</u>
Dr. Investments	Dr. Cash
Cr. Cash	Cr. Investments
	Cr. Liability (earnings on investments)

Recommendation

MGO recommends that the Treasury follow the prescribed journal entries above for accounting for safekeeping securities.

Management Response

Staff will consult with the Auditor-Controller to correctly account for these safekeeping securities.

Status

Please see current year finding.

2007-03 – Authorization Letters

During our Specific Purpose Investments (SPI) control test work, we noted that out of twenty-five (25) samples selected for review, nine (9) transactions included an authorization letter from participants that was filed with the yellow trade ticket, authorization letters for ten (10) transactions were filed in a completely separate and unrelated folder, and authorization letters for four (4) transactions were filed solely with the Investment Office. Ideally, authorization letters, if provided, should be filed with the yellow trade tickets maintained by the Internal Controls Group.

Recommendation

MGO recommends that the Treasury establish a formal policy whereby authorization letters from SPI participants, if provided, are filed centrally with the corresponding trade tickets maintained by the Internal Controls Group.

Management Response

The Treasury's practice is for the Investment Office to attach an authorization letter from the SPI participant to the yellow trade ticket. Management has reiterated to staff the need to comply with this practice.

Status

Implemented.