

**NEW ISSUE – BOOK ENTRY ONLY**

**RATINGS:**  
**Moody's: MIG 1**  
**Standard & Poor's: SP-1+**  
**Fitch: F1+**  
**(See "RATINGS" herein.)**

*In the opinion of Nixon Peabody LLP, Bond Counsel, assuming the accuracy of certain representations and compliance by the County with certain tax covenants described herein, the interest on the Notes is excluded from gross income for federal income tax purposes under existing statutes, regulations, rulings and court decisions and, in the opinion of Bond Counsel, the interest on the Notes is exempt from personal income taxes of the State of California under present State law. In addition, Bond Counsel is of the opinion that the Notes are not "private activity bonds" and, therefore, the interest on the Notes will not be treated as a specific item of tax preference for purpose of the federal alternative minimum tax on individuals and corporations. However, the interest on the Notes is included in the computation of certain federal taxes on corporations. See "TAX EXEMPTION" herein.*



**\$500,000,000**  
**COUNTY OF LOS ANGELES**  
**2007-08 Tax and Revenue Anticipation Notes**  
**4.500% Priced to Yield 3.620%**  
**CUSIP No. 544657GZ6**

**Dated: July 2, 2007**

**Due: June 30, 2008**

The County of Los Angeles 2007-08 Tax and Revenue Anticipation Notes (the "Notes") will be issued as fixed rate notes in fully registered form. The Notes, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, which will act as securities depository for the Notes. Purchases of beneficial interests in the Notes will be made in book-entry only form, in denominations of \$5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their ownership interests in the Notes purchased. The Notes will bear interest at a fixed rate per annum from their dated date and will be priced as set forth above. Principal of and interest on the Notes are payable on the maturity date thereof directly to DTC by the Paying Agent. Upon receipt of payments of principal and interest, DTC will in turn distribute such payments to the beneficial owners of the Notes. See APPENDIX D – "BOOK-ENTRY ONLY SYSTEM."

The Notes are being issued to provide moneys to help meet Fiscal Year 2007-08 County General Fund Expenditures, including current expenses, capital expenditures and the discharge of other obligations or indebtedness of the County of Los Angeles (the "County"). The Notes are being issued pursuant to a resolution adopted by the Board of Supervisors of the County on May 15, 2007 (the "Resolution") and a Financing Certificate entitled, "Financing Certificate Providing for the Terms and Conditions of Issuance and Sale of 2007-08 Tax and Revenue Anticipation Notes" (the "Financing Certificate") to be delivered on the date of issuance of the Notes pursuant to the Resolution. In accordance with California law, the Notes are general obligations of the County, payable only from unrestricted taxes, income, revenue, cash receipts and other moneys of the County attributable to the Fiscal Year 2007-08 and lawfully available for the payment of the Notes. The Notes and the interest thereon are secured by a pledge of certain unrestricted taxes, income, revenue, cash receipts and other moneys. The County is not authorized, however, to levy or collect any tax for the repayment of the Notes. See "THE NOTES – Security for Issue" herein.

**The Notes are not subject to redemption prior to maturity.**

This cover page contains information for quick reference only. It is not a summary of this issue. Investors should read this entire Official Statement to obtain information essential to the making of an informed investment decision.

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*The Notes will be offered when, as and if issued and received by the Underwriters, subject to the approval of legality by Nixon Peabody LLP, Bond Counsel, and the approval of certain legal matters for the Underwriters by their counsel, Hawkins Delafield & Wood LLP, Los Angeles, California. Certain legal matters will be passed upon for the County by the County Counsel. It is expected that the Notes will be available for delivery through the facilities of DTC on or about July 2, 2007.*

**MORGAN STANLEY**

**Banc of America Securities LLC**  
**Backstrom McCarley Berry & Co., LLC**

**Lehman Brothers**  
**First Southwest Company**

The date of this Official Statement is June 6, 2007.





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# COUNTY OF LOS ANGELES

## 2007-08 TAX AND REVENUE ANTICIPATION NOTES

### **Board of Supervisors**

Zev Yaroslavsky  
*Third District, Chairman*

Gloria Molina  
*First District*

Yvonne B. Burke  
*Second District*

Don Knabe  
*Fourth District*

Michael D. Antonovich  
*Fifth District*

Sachi A. Hamai  
*Executive Officer-Clerk  
Board of Supervisors*

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### **County Officials**

David E. Janssen  
*Chief Executive Officer*

Raymond G. Fortner, Jr.  
*County Counsel*

J. Tyler McCauley  
*Auditor-Controller*

Mark J. Saladino  
*Treasurer and Tax Collector*

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No dealer, broker, salesperson or other person has been authorized by the County or the Underwriters to give any information or to make any representations other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the County or the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Notes, by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Notes. Statements contained in this Official Statement which involve estimates, projections, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts.

The information set forth herein has been obtained from official sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Underwriters. The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the County since the date hereof.

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IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE COUNTY AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION, NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

IN CONNECTION WITH THIS OFFERING THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE NOTES OFFERED HEREIN AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL THE NOTES TO CERTAIN DEALERS, INSTITUTIONAL INVESTORS AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICE STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICE MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

CUSIP data set forth herein are for convenience of reference only. Neither the County nor the Underwriters assume any responsibility for the accuracy of such data.

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## OFFICIAL STATEMENT

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**\$500,000,000**

**COUNTY OF LOS ANGELES  
2007-08 TAX AND REVENUE ANTICIPATION NOTES**

### INTRODUCTION

#### General

The purpose of this Official Statement, which includes the front cover and the attached appendices, is to provide certain information concerning the sale and delivery of \$500,000,000 in aggregate principal amount of 2007-08 Tax and Revenue Anticipation Notes (the “Notes”) of the County of Los Angeles, California (the “County”). The Notes will be issued as fixed rate notes bearing interest as set forth on the cover page of this Official Statement. Issuance of the Notes will provide moneys to help meet Fiscal Year 2007-08 County General Fund expenditures, including current expenses, capital expenditures and the discharge of other obligations or indebtedness of the County.

The Notes are authorized by and are being issued in accordance with Article 7.6, Chapter 4, Part 1, Division 2, Title 5 (commencing with Section 53850) of the Government Code of the State of California (the “Act”), and a resolution adopted by the Board of Supervisors of the County (the “Board of Supervisors”) on May 15, 2007 and entitled “Resolution of the Board of Supervisors of the County of Los Angeles, California Providing for the Issuance and Sale of 2007-08 Tax and Revenue Anticipation Notes in an Aggregate Principal Amount Not to Exceed \$700,000,000” (the “Resolution”). The Notes are issued subject to the terms and conditions of a Financing Certificate of the Treasurer and Tax Collector of the County (the “Treasurer”) entitled “Financing Certificate Providing for the Terms and Conditions of Issuance and Sale of 2007-08 Tax and Revenue Anticipation Notes” (the “Financing Certificate”) delivered on the date of issuance of the Notes pursuant to the Resolution. Pursuant to California law, the Notes and the interest thereon are general obligations of the County payable from the taxes, income, revenue, cash receipts and other moneys of the County attributable to the Fiscal Year 2007-08 and lawfully available therefor. The Notes and the interest thereon are secured by a pledge of certain unrestricted taxes, income, revenue, cash receipts and other moneys of the County attributable to the Fiscal Year 2007-08 as specified in the Resolution and the Financing Certificate. See “THE NOTES – Security for Issue.” The County is not authorized, however, to levy or collect any tax for the repayment of the Notes.

#### The County

The County is located in the southern coastal portion of the State of California (the “State”) and covers 4,084 square miles. The County was established under an act of the State Legislature on February 18, 1850. It is the most populous county in the nation and, in terms of population, is larger than 42 states. The economy of the County is diversified and includes manufacturing, technology, world trade, financial services, motion picture and television production, agriculture and tourism. For additional economic and demographic information with respect to the County, see APPENDIX A – “COUNTY OF LOS ANGELES INFORMATION STATEMENT” and APPENDIX B – “COUNTY OF LOS ANGELES FINANCIAL STATEMENTS.”

## COUNTY OF LOS ANGELES CASH MANAGEMENT PROGRAM

The County implemented a cash management program in 1977 to finance General Fund cash flow shortages occurring periodically during its fiscal year (July 1 through June 30). In each year since the program's inception, the County has sold either tax anticipation notes or tax and revenue anticipation notes (including commercial paper notes) in annual aggregate amounts up to \$1,850,000,000. In addition to the 2007-08 Tax and Revenue Anticipation Notes and other obligations which may be issued pursuant to the Act, certain funds held in trust by the County until apportioned to the appropriate agency are available to the County for intrafund borrowings. In addition, while it does not expect to do so, the County may, under certain circumstances, undertake interfund borrowing to fund shortages in the General Fund. See "THE NOTES – Interfund Borrowing, Intrafund Borrowing and Cash Flow." The County reserves the right to undertake such a borrowing under the Resolution. See "THE NOTES – Security for Issue," "– Interfund Borrowing, Intrafund Borrowing and Cash Flow" and APPENDIX A – "COUNTY OF LOS ANGELES INFORMATION STATEMENT – Cash Management Program."

### THE NOTES

The Notes will be issued in the aggregate principal amount of \$500,000,000. The Notes will be issued in book-entry only form and, when delivered, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"), New York, New York, which will act as securities depository for the Notes. Purchasers of the Notes will not receive certificates representing their ownership interest in the Notes purchased. See APPENDIX D – "BOOK-ENTRY ONLY SYSTEM." Beneficial ownership interests in the Notes may be transferred only in accordance with the rules and procedures of DTC.

The Notes will be dated July 2, 2007, will mature on June 30, 2008, and will be issued in fully registered form. The Notes are not subject to redemption prior to maturity.

The Notes will be issued in denominations of \$5,000 and any integral multiple thereof ("Authorized Denominations") and will bear interest at the rate set forth on the cover page hereof. Interest on the Notes will be payable at maturity and will be computed on the basis of a 360-day year comprised of twelve 30-day months. Principal and interest will be payable in immediately available funds, upon presentation and surrender of the Notes at the office of the Treasurer, serving as the Paying Agent with respect to the Notes.

#### **Authority for Issuance**

The Notes are being issued under the authority of the Act and pursuant to the Resolution and are subject to the terms and conditions of the Financing Certificate.

#### **Purpose of Issue**

Issuance of the Notes will provide moneys to help meet Fiscal Year 2007-08 County General Fund expenditures, including current expenses, capital expenditures and the discharge of other obligations or indebtedness of the County. The proceeds of the Notes will be invested in the Pooled Surplus Investments Fund (the "Treasury Pool") until expended. See APPENDIX A – "COUNTY OF LOS ANGELES INFORMATION STATEMENT – Financial Summary – *Los Angeles County Pooled Surplus Investments*".

## **Security for Issue**

The 2007-08 Tax and Revenue Anticipation Notes issued under and pursuant to the Resolution and the Financing Certificate are ratably secured by a pledge of the first \$174,000,000 of unrestricted taxes, income, revenue, cash receipts and other moneys to be received by the County on and after December 20, 2007; the first \$90,000,000 of unrestricted taxes, income, revenue, cash receipts and other moneys to be received by the County on and after January 1, 2008; the first \$57,000,000 of unrestricted taxes, income, revenue, cash receipts and other moneys to be received by the County on and after February 1, 2008; the first \$61,000,000 of unrestricted taxes, income, revenue, cash receipts and other moneys to be received by the County on and after March 1, 2008; and the first \$118,000,000 (plus an amount equal to the interest on the Notes that has accrued and will accrue to maturity) of unrestricted taxes, income, revenue, cash receipts and other moneys to be received by the County on and after April 20, 2008.

Pursuant to Section 53856 of the Act, the Notes and the interest thereon are a lien and charge against, and are payable from, such pledged moneys. In addition to such pledged moneys, pursuant to Section 53857 of the Act, the Notes are general obligations of the County, and, to the extent not payable from the taxes, income, revenue, cash receipts and other moneys of the County pledged for Fiscal Year 2007-08 for the payment thereon shall be paid with interest thereon only from any other moneys of the County lawfully available therefor. The County is not authorized to levy or collect any tax for the repayment of the Notes.

In accordance with the terms of the Resolution, the County Auditor-Controller (the "Auditor-Controller") will deposit with the Treasurer the money pledged for the repayment of the Notes into the 2007-08 TRANs Repayment Fund for the Notes (the "Repayment Fund"). Moneys pledged for the payment of the Notes will be deposited into the Repayment Fund in the amount and at the times described above. The Treasurer will hold the pledged money until the Notes are paid. The Resolution provides that such amounts may not be used for any other purpose and may be invested in Permitted Investments (herein defined). Interest on amounts in the Repayment Fund will be credited to the General Fund of the County. See "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION AND THE FINANCING CERTIFICATE – Permitted Investments."

As more particularly described under the heading "THE NOTES - Interfund Borrowing, Intrafund Borrowing and Cash Flow," the County may, under certain circumstances, undertake interfund borrowing to fund shortages in the General Fund. While the County does not expect to resort to any such interfund borrowing, Section 6 of Article XVI of the California Constitution requires that any such borrowing be repaid from revenues before any other obligation of the County (including the Notes) is paid from such revenues.

## **Available Sources of Payment**

The Notes, in accordance with California law, are general obligations of the County, and, to the extent not paid from the taxes, income, revenue, cash receipts and other moneys of the County pledged for the payment thereof shall be paid with interest thereon from any other moneys of the County lawfully available therefor. The County is not authorized, however, to levy or collect any tax for repayment of the Notes. Pursuant to the Act, no obligations, including the Notes, may be issued thereunder if the principal of and interest on such obligations is in excess of 85 percent of the estimated amount of the then uncollected taxes, income, revenue, cash receipts and other moneys which will be available for the payment of such principal and interest. See "THE NOTES – Security for Issue."

The County estimates that the total moneys to be available for payment of the principal of and interest on the 2007-08 Tax and Revenue Anticipation Notes, including the pledged amounts, will be in excess of approximately \$6.5 billion as indicated in the table below. Except for pledged amounts, these moneys will be expended during the course of the fiscal year, and no assurance can be given that any moneys, other than the pledged amounts, will be available to pay the 2007-08 Tax and Revenue Anticipation Notes and the interest thereon.

**COUNTY OF LOS ANGELES  
ESTIMATED GENERAL FUND UNRESTRICTED REVENUES  
FISCAL YEAR 2007-08  
BASED ON PROPOSED BUDGET<sup>(1)</sup>**

<u>Source</u>	<u>Amount</u>
Property Taxes	\$3,589,820,000
Other Taxes	199,577,000
Subvention and Grants	
In-Lieu Taxes	526,912,000
Homeowner's Exemptions	20,500,000
Fines, Forfeitures, and Penalties	201,012,000
Licenses, Permits and Franchises	56,114,000
Charges for Services	1,742,683,000
Use of Money and Property	131,401,000
Other Intergovernmental Transfers	<u>50,000,000</u>
Total	<u>\$6,518,049,000</u>
Less amount pledged for payment of the Notes <sup>(2)</sup>	<u>(522,375,000)</u>
Net total in excess of pledged revenues	<u>\$5,995,674,000</u>

<sup>(1)</sup> Reflects revenues set forth in the 2007-08 Proposed Budget (defined herein) adopted by the Board of Supervisors on April 17, 2007. Information subject to change to reflect the impact of the 2007-08 State Budget and other matters. See "THE NOTES – State of California Finances" and APPENDIX A – "COUNTY OF LOS ANGELES INFORMATION STATEMENT – Budgetary Information."

<sup>(2)</sup> Based on \$500,000,000 aggregate principal amount of Notes, plus an amount equal to interest thereon.

**State of California Finances**

On May 14, 2007, the Governor released the May Revision (the "May Revision") to the 2007-08 Proposed Budget (the "2007-08 Proposed Budget"). The May Revision projects State General Fund revenues and transfers will be approximately \$102.3 billion (inclusive of State General Fund revenues transferred to the Budget Stabilization Account) and State General Fund expenditures will be approximately \$103.8 billion for Fiscal Year 2007-08, resulting in a \$1.5 billion excess of expenditures over revenues for Fiscal Year 2007-08, which is expected to be addressed by Fiscal Year 2006-07's projected ending reserve fund balance of \$3.7 billion, thereby reducing the expected year-end reserve balance to approximately \$2.2 billion. The May Revision reflects an aggregate \$2.3 billion in lower revenues and higher costs relative to the budget outlook set forth in the 2007-08 Proposed Budget and proposes approximately \$2.4 billion in new budget solutions, including the suspension of the January 2008 Supplemental Security Income/State Supplementary Payment Program cost-of-living adjustment in the amount of \$185 million for Fiscal Year 2007-08 and \$370 million for Fiscal Year 2008-09 and the retention of proposals to suspend the July 2007 CalWORKs COLA, the imposition of new time limits and sanctions on children whose parents cannot or will not comply with participation requirements and the shift of certain CalWORKs child care costs to Proposition 98 funds. The County estimates that there will

be an overall net loss of \$29.4 million to the County for Fiscal Year 2007-08 as a result of the changes in the 2007-08 Proposed Budget and the May Revision.

On May 15, 2007, the State's Legislative Analyst's Office released an analysis of the May Revision entitled Overview of the 2007-08 May Revision (the "LAO Overview"). According to the LAO Overview, the economic and revenue forecasts set forth in the May Revision are generally reasonable in light of the economic uncertainties associated with the housing market and the prices of crude oil and retail gasoline, but also contain risks attendant to court cases with large fiscal liabilities, retiree health unfunded liabilities (identified to be \$47.9 billion by the State Controller) and lower-than-expected property tax receipts. The LAO Overview states that the May Revision relies on a number of optimistic assumptions that could result in the State's General Fund reserve at the end of Fiscal Year 2007-08 being overstated by as much as \$1.7 billion (which would result in a \$529 million reserve). The LAO Overview further states that the State Legislature will face a significant challenge to develop a Fiscal Year 2007-08 budget that realistically reflects revenues and spending while maintaining a prudent reserve, and that the State Legislature should identify solutions that realistically balance the State's finances on an ongoing basis while avoiding new ongoing commitments absent identified funding therefor.

The Fiscal Year 2007-08 State Budget (the "2007-08 State Budget") is expected to be subject to significant negotiation and revision prior to its ultimate adoption. There can be no assurances that the final 2007-08 State Budget will not place additional burdens on local governments, including the County, or will not significantly reduce revenues to such local governments. The 2007-08 State Budget is subject to approval by the State Legislature, and the County cannot predict the ultimate impact of the final approved 2007-08 State Budget on the County's financial situation. In the event the final 2007-08 State Budget includes decreases in County revenues or increases in required County expenditures from the levels assumed by the County, the County will be required to generate additional revenues or curtail programs and/or services to ensure a balanced budget. See APPENDIX A - "COUNTY OF LOS ANGELES INFORMATION STATEMENT."

## **Interfund Borrowing, Intrafund Borrowing and Cash Flow**

County General Fund expenditures tend to occur in level amounts throughout the fiscal year. Conversely, receipts have followed an uneven pattern primarily as a result of secured property tax installment payment dates in December and April and as a result of delays in payments from other governmental agencies, the two largest sources of County revenues. As a result, the General Fund cash balance prior to Fiscal Year 1977-78 had typically been negative for most of the year and had been covered by interfund borrowings pursuant to Section 6 of Article XVI of the California Constitution and intrafund borrowings. "Interfund borrowing" is borrowing from specific funds of other governmental entities whose funds are held in the County Treasury. "Intrafund borrowing" is borrowing for General Fund purposes against funds held in trust by the County. Because General Fund interfund borrowings caused disruptions in the County's management of the General Fund's pooled investments, beginning in 1977 the County has regulated its cash flow by issuing tax anticipation notes and tax and revenue anticipation notes for the General Fund and by using intrafund borrowing. All notes issued in connection with the County's cash management program, with the exception of \$500,000,000 in aggregate principal amount of tax and revenue anticipation notes issued in Fiscal Year 2006-07 which are due June 29, 2007, have been repaid on their respective maturity dates. Sufficient revenues have been reserved in a repayment fund held by the County, separate from the General Fund, to repay the 2006-07 Tax and Revenue Anticipation Notes at maturity.

To the extent necessary, the County intends to use intrafund (and not interfund) borrowing to cover General Fund cash needs, including projected year-end cash requirements, if any. Should the County find it necessary to resort to interfund borrowing, then such borrowing, pursuant to the California Constitution, may not occur after the last Monday in April of each year and shall be repaid before any other obligation of the County. The County does not intend to engage in interfund borrowing for the General Fund nor has it done so since the implementation of the General Fund cash management program in Fiscal Year 1977-78.

### **GENERAL FUND CASH FLOW**

The Auditor-Controller has prepared the following five-year summary of month-end cash balances in the General Fund. Also shown on the following pages is a detailed analysis of the Fiscal Year 2006-07 General Fund cash flow (which includes actual figures for the first ten months of such fiscal year and projections for the remainder of such fiscal year) and of the projected cash flow for Fiscal Year 2007-08. The cash flow projections are based on the 2007-08 Proposed Budget adopted by the Board of Supervisors on April 17, 2007 (the "2007-08 Proposed Budget"). Such cash flow projections could change based on the final form of the County's 2007-08 Budget, when adopted.

**COUNTY OF LOS ANGELES  
GENERAL FUND  
MONTH-END CASH BALANCES<sup>(1)</sup>  
FISCAL YEARS 2002-03 THROUGH 2006-07  
(In Thousands)**

	<u>2002-03</u> <sup>(2)</sup>	<u>2003-04</u> <sup>(3)</sup>	<u>2004-05</u> <sup>(4)</sup>	<u>2005-06</u> <sup>(5)</sup>	<u>2006-07</u> <sup>(6)</sup>
July.....	\$976,113	\$1,078,529	\$1,495,033	\$1,261,166	\$1,494,833
August.....	856,749	667,423	1,033,691	1,032,306	1,238,335
September.....	691,326	308,176	720,170	763,434	885,254
October.....	447,121	302,740	436,387	340,692	476,851
November.....	245,917	192,258	184,646	(94,322) <sup>(7)</sup>	307,807
December.....	498,302	689,307	831,138	174,098	845,828
January.....	614,206	503,898	1,083,012	559,038	1,244,232
February.....	573,555	554,452	861,378	471,091	1,026,082
March.....	295,964	303,562	284,599	380,571	733,242
April.....	(9,302) <sup>(7)</sup>	272,210	412,913	498,427	822,218
May.....	607,547	412,805	1,056,905	871,221	1,432,864 <sup>(8)</sup>
June.....	918,806	986,202	1,241,153	1,617,756	1,257,067 <sup>(8)</sup>

<sup>(1)</sup> Month-end balances include the effects of intrafund borrowing net of deposits to the repayment funds relating to the short-term notes. See "THE NOTES – Interfund Borrowing, Intrafund Borrowing and Cash Flow." See also APPENDIX A – "COUNTY OF LOS ANGELES INFORMATION STATEMENT – Cash Management Program."

<sup>(2)</sup> Includes receipt in July 2002 of proceeds from sale of \$650,000,000 of 2002-03 Tax and Revenue Anticipation Notes, Series A.

<sup>(3)</sup> Includes receipt in July 2003 of proceeds from sale of \$600,000,000 of 2003-04 Tax and Revenue Anticipation Notes, Series A.

<sup>(4)</sup> Includes receipt in July 2004 of proceeds from sale of \$600,000,000 of 2004-05 Tax and Revenue Anticipation Notes, Series A.

<sup>(5)</sup> Includes receipt in July 2005 of proceeds from sale of \$500,000,000 of 2005-06 Tax and Revenue Anticipation Notes, Series A.

<sup>(6)</sup> Includes receipt in July 2006 of proceeds from sale of \$500,000,000 of 2006-07 Tax and Revenue Anticipation Notes, Series A.

<sup>(7)</sup> Certain monthly periods may reflect negative cash balances. The borrowable resources that were available to provide coverage for the deficits are set forth in APPENDIX A.

<sup>(8)</sup> Estimated.

**COUNTY OF LOS ANGELES  
GENERAL FUND CASH FLOW ANALYSIS  
FISCAL YEAR 2006-07  
(in thousands)  
ACTUALS THROUGH APRIL**

	July 2006	August 2006	September 2006	October 2006	November 2006	December 2006
Beginning Balance	\$1,617,756.0	\$1,494,833.0	\$1,238,335.0	\$885,254.4	\$476,851.4	\$307,807.4
<b>Receipts</b>						
Property Taxes	\$168,832.0	\$86,300.0	(\$21.0)	\$0.0	\$44,607.0	\$854,464.0
Sales and Other Taxes	13,547.0	22,186.0	21,203.0	5,429.0	12,092.0	25,388.0
Licenses, Permits & Franchises	1,855.0	6,952.0	3,124.0	3,487.0	398.0	2,264.0
Fines, Forfeitures & Penalties	14,371.0	20,796.0	13,315.0	13,530.0	19,133.0	13,045.0
Revenue From Use of Money & Property	42,247.0	17,478.0	23,841.0	17,843.0	13,694.0	18,459.0
Intergovernmental Revenue	255,158.0	179,501.0	207,505.0	293,019.0	313,482.0	329,431.0
Charges for Current Services	109,678.0	122,896.0	65,233.0	96,431.0	66,676.0	149,150.0
Other Revenue	14,312.0	11,316.0	6,289.0	11,671.0	6,797.0	33,836.0
Expenditure Transfers & Reimbursements	5,236.0	26,903.0	65,914.0	7,915.0	224,555.0	7,050.0
Welfare Advances	224,925.0	209,508.0	202,426.0	402,969.0	261,442.0	341,840.0
Other Receipts	28,157.0	33,402.0	24,044.0	(19,109.0)	9,164.0	39,860.0
Intrafund Transfer	0.0	0.0	0.0	0.0	0.0	0.0
TRANs Sold	500,000.0	0.0	0.0	0.0	0.0	0.0
TRANs Reserve	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total Receipts</b>	<b>\$1,378,318.0</b>	<b>\$737,238.0</b>	<b>\$632,873.0</b>	<b>\$833,185.0</b>	<b>\$972,040.0</b>	<b>\$1,814,787.0</b>
<b>Disbursements</b>						
Welfare Warrants	\$178,996.0	\$173,823.0	\$183,570.0	\$277,564.0	\$190,212.0	\$194,735.0
Salaries & Employee Benefits	784,859.0	322,574.0	466,436.0	437,786.0	471,178.0	476,961.0
Services & Supplies and Fixed Assets	383,281.0	262,123.0	230,525.0	297,194.0	325,588.0	244,610.0
Interfund Billings	154,105.0	235,216.0	105,422.6	229,044.0	154,106.0	186,460.0
TRANs Pledge Transfer	0.0	0.0	0.0	0.0	0.0	174,000.0
TRANs Repayment	0.0	0.0	0.0	0.0	0.0	0.0
Intrafund Transfer Repayment	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total Disbursements</b>	<b>\$1,501,241.0</b>	<b>\$993,736.0</b>	<b>\$985,953.6</b>	<b>\$1,241,588.0</b>	<b>\$1,141,084.0</b>	<b>\$1,276,766.0</b>
<b>Ending Balance</b>	<b>\$1,494,833.0</b>	<b>\$1,238,335.0</b>	<b>\$885,254.4</b>	<b>\$476,851.4</b>	<b>\$307,807.4</b>	<b>\$845,828.4</b>
<b>TRANs Repayment Fund</b>						
Beginning Balance	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Receipts	0.0	0.0	0.0	0.0	0.0	174,000.0
Disbursements	0.0	0.0	0.0	0.0	0.0	0.0
<b>Ending Balance</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$174,000.0</b>

\*Detail may not add due to rounding

January 2007	February 2007	March 2007	April 2007	May 2007	June 2007	Total
\$845,828.4	\$1,244,232.4	\$1,026,082.4	\$733,242.4	\$822,218.4	\$1,432,864.0	
\$733,442.0	\$132,852.0	\$21,095.0	\$639,829.0	\$630,287.7	\$33,735.1	\$3,345,422.8
16,101.0	22,527.0	15,938.0	9,774.0	17,078.7	13,640.3	194,904.0
1,761.0	1,731.0	16,041.0	2,370.0	7,755.7	6,761.3	54,500.0
12,596.0	24,664.0	19,194.0	14,361.0	29,433.4	29,281.6	223,720.0
17,888.0	19,663.0	30,721.0	18,839.0	15,135.7	19,951.3	255,760.0
266,928.0	308,603.0	315,151.0	255,547.0	351,775.3	365,030.5	3,441,130.8
106,052.0	80,865.0	146,898.0	91,016.0	148,151.9	157,811.6	1,340,858.5
20,798.0	9,750.0	6,145.0	106,852.0	7,793.9	7,525.1	243,085.0
239,004.0	50,512.0	33,326.0	7,012.0	199,746.0	13,828.7	881,001.7
339,605.0	227,158.0	277,132.0	296,446.0	293,324.1	295,665.1	3,372,440.2
(4,258.0)	15,761.0	7,202.0	4,782.0	6,060.0	4,935.0	150,000.0
0.0	0.0	0.0	0.0	0.0	0.0	0.0
0.0	0.0	0.0	0.0	0.0	0.0	500,000.0
0.0	0.0	0.0	0.0	0.0	522,250.0	522,250.0
\$1,749,917.0	\$894,086.0	\$888,843.0	\$1,446,828.0	\$1,706,542.5	\$1,470,415.5	\$14,525,073.0
\$191,932.0	\$202,489.0	\$186,830.0	\$194,378.0	\$198,154.2	\$193,316.8	\$2,366,000.0
494,324.0	508,597.0	463,181.0	494,877.0	494,572.6	465,296.4	5,880,642.0
277,258.0	249,656.0	249,324.0	266,821.0	312,694.7	300,925.3	3,400,000.0
297,999.0	94,494.0	221,348.0	261,526.0	90,475.4	164,423.8	2,194,619.8
90,000.0	57,000.0	61,000.0	140,250.0	0.0	0.0	522,250.0
0.0	0.0	0.0	0.0	0.0	522,250.0	522,250.0
0.0	0.0	0.0	0.0	0.0	0.0	0.0
\$1,351,513.0	\$1,112,236.0	\$1,181,683.0	\$1,357,852.0	\$1,095,896.9	\$1,646,212.3	\$14,885,761.8
\$1,244,232.4	\$1,026,082.4	\$733,242.4	\$822,218.4	\$1,432,864.0	\$1,257,067.2	
\$174,000.0	\$264,000.0	\$321,000.0	\$382,000.0	\$522,250.0	\$522,250.0	\$0.0
90,000.0	57,000.0	61,000.0	140,250.0	0.0	0.0	522,250.0
0.0	0.0	0.0	0.0	0.0	522,250.0	522,250.0
\$264,000.0	\$321,000.0	\$382,000.0	\$522,250.0	\$522,250.0	\$0.0	\$0.0

**COUNTY OF LOS ANGELES**  
**GENERAL FUND CASH FLOW ANALYSIS**  
**FISCAL YEAR 2007-08**  
**(in thousands)**  
**12-MONTHS PROJECTION**

	July 2007	August 2007	September 2007	October 2007	November 2007	December 2007
Beginning Balance	\$1,257,067.2	\$879,711.1	\$588,245.0	\$252,249.5	(\$199,557.4)	(\$460,599.6)
<b>Receipts</b>						
Property Taxes	\$145,078.1	\$86,964.2	(\$21.3)	\$0.0	\$36,173.8	\$888,126.4
Sales and Other Taxes	13,547.0	22,186.0	22,207.0	5,279.2	12,661.6	26,005.6
Licenses, Permits & Franchises	1,912.9	7,168.9	3,221.4	3,595.8	410.4	2,334.6
Fines, Forfeitures & Penalties	13,939.3	20,171.3	12,915.1	13,123.6	18,558.3	12,653.2
Revenue From Use of Money & Property	39,223.5	16,568.8	22,581.1	17,348.6	13,052.9	17,508.7
Intergovernmental Revenue	254,701.2	187,023.8	212,368.2	280,491.3	315,862.8	338,489.6
Charges for Current Services	102,030.9	132,641.6	67,710.9	97,962.8	69,400.7	151,967.1
Other Revenue	13,325.0	10,535.6	5,855.3	10,866.1	6,328.2	30,696.2
Expenditure Transfers & Reimbursements	5,236.0	32.0	150,002.0	4,775.0	160,838.0	6,259.0
Welfare Advances	233,596.2	217,531.6	210,148.6	418,434.9	271,500.8	355,032.8
Other Receipts	278,157.0	33,402.0	24,044.0	(19,109.0)	9,164.0	39,860.0
Intrafund Transfer	0.0	0.0	0.0	0.0	0.0	0.0
TRANS Sold	500,000.0	0.0	0.0	0.0	0.0	0.0
TRANS Reserve	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total Receipts</b>	<b>\$1,600,747.2</b>	<b>\$734,225.7</b>	<b>\$731,032.3</b>	<b>\$832,768.2</b>	<b>\$913,951.6</b>	<b>\$1,868,933.2</b>
<b>Disbursements</b>						
Welfare Warrants	\$179,103.8	\$173,250.0	\$182,905.3	\$275,925.9	\$189,299.3	\$193,882.4
Salaries & Employee Benefits	1,240,970.2	384,285.1	528,168.9	495,122.6	533,487.5	539,384.4
Services & Supplies and Fixed Assets	394,779.4	269,986.7	237,440.8	306,109.8	335,355.6	251,948.3
Interfund Billings	163,249.8	198,170.0	118,512.8	207,416.9	116,851.3	188,105.7
TRANS Pledge Transfer	0.0	0.0	0.0	0.0	0.0	174,000.0
TRANS Repayment	0.0	0.0	0.0	0.0	0.0	0.0
Intrafund Transfer Repayment	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total Disbursements</b>	<b>\$1,978,103.3</b>	<b>\$1,025,691.7</b>	<b>\$1,067,027.8</b>	<b>\$1,284,575.2</b>	<b>\$1,174,993.8</b>	<b>\$1,347,320.8</b>
<b>Ending Balance</b>	<b>\$879,711.1</b>	<b>\$588,245.0</b>	<b>\$252,249.5</b>	<b>(\$199,557.4)</b>	<b>(\$460,599.6)</b>	<b>\$61,012.8</b>
<b>TRANS Repayment Fund</b>						
Beginning Balance	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Receipts	0.0	0.0	0.0	0.0	0.0	174,000.0
Disbursements	0.0	0.0	0.0	0.0	0.0	0.0
<b>Ending Balance</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$174,000.0</b>

\*Detail may not add due to rounding

January 2008	February 2008	March 2008	April 2008	May 2008	June 2008	Total
\$61,012.8	\$542,805.3	\$277,014.1	\$65,440.5	\$397,510.3	\$761,265.5	
\$775,137.1	\$133,025.6	\$21,733.1	\$665,148.9	\$645,371.1	\$29,078.6	\$3,425,815.6
16,529.2	23,087.7	16,411.7	10,161.9	17,605.4	14,161.7	199,844.0
1,815.9	1,785.0	16,541.4	2,443.9	7,997.7	6,972.2	56,200.0
12,217.6	23,923.2	18,617.5	13,929.6	28,549.3	28,402.0	217,000.0
17,262.1	18,451.9	29,024.5	17,780.8	14,333.6	19,263.7	242,400.0
261,635.3	311,707.4	323,528.2	258,822.2	352,666.1	366,995.9	3,464,292.0
105,719.6	78,876.6	151,235.2	94,196.6	152,317.2	161,940.8	1,366,000.0
19,363.7	9,077.6	5,721.2	106,557.1	7,256.4	7,006.1	232,588.4
58,594.5	6,515.0	28,619.0	158,050.0	46,566.3	213,828.7	839,315.5
352,689.1	235,841.3	287,779.0	307,823.1	304,617.0	307,005.6	3,502,000.0
(4,258.0)	15,761.0	7,202.0	4,782.0	6,060.0	4,935.0	400,000.0
0.0	0.0	0.0	0.0	0.0	0.0	0.0
0.0	0.0	0.0	0.0	0.0	0.0	500,000.0
0.0	0.0	0.0	0.0	0.0	522,375.0	522,375.0
\$1,616,706.1	\$858,052.2	\$906,412.8	\$1,639,696.1	\$1,583,340.0	\$1,681,965.3	\$14,967,830.5
\$191,079.6	\$201,480.6	\$185,850.5	\$193,450.1	\$199,149.4	\$194,623.0	\$2,360,000.0
493,794.7	510,137.4	457,428.5	493,717.9	492,457.9	458,689.0	6,627,644.0
285,575.7	257,145.7	256,803.7	274,825.6	322,075.5	309,953.1	3,502,000.0
74,463.5	98,079.7	156,903.7	205,257.6	205,901.9	244,940.9	1,977,853.8
90,000.0	57,000.0	61,000.0	140,375.0	0.0	0.0	522,375.0
0.0	0.0	0.0	0.0	0.0	522,375.0	522,375.0
0.0	0.0	0.0	0.0	0.0	0.0	0.0
\$1,134,913.5	\$1,123,843.3	\$1,117,986.4	\$1,307,626.2	\$1,219,584.8	\$1,730,581.0	\$15,512,247.8
\$542,805.3	\$277,014.1	\$65,440.5	\$397,510.3	\$761,265.5	\$712,649.9	
\$174,000.0	\$264,000.0	\$321,000.0	\$382,000.0	\$522,375.0	\$522,375.0	\$0.0
90,000.0	57,000.0	61,000.0	140,375.0	0.0	0.0	522,375.0
0.0	0.0	0.0	0.0	0.0	522,375.0	522,375.0
\$264,000.0	\$321,000.0	\$382,000.0	\$522,375.0	\$522,375.0	\$0.0	\$0.0

## **SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION AND THE FINANCING CERTIFICATE**

The following is a summary of certain provisions of the Resolution and the Financing Certificate. This summary is not to be considered a full statement of the terms of the Resolution or the Financing Certificate and accordingly is qualified by reference thereto and is subject to the full text thereof. Except as otherwise defined herein, capitalized terms used in this Official Statement without definition have the respective meanings set forth in the Financing Certificate.

### **Resolution to Constitute Contract**

In consideration of the purchase and acceptance of any and all of the Notes authorized to be issued under the Resolution by those who will own said Notes from time to time, the Resolution constitutes a contract between the County and the Holders of the Notes; and the pledge made in the Resolution and the Financing Certificate and the covenants and agreements contained in the Resolution and the Financing Certificate to be performed by and on behalf of the County will be for the equal benefit, protection and security of the Holders of any and all of the Notes, all of which will be of equal rank without preference, priority or distinction of any of the Notes over any other thereof, except as expressly provided in or permitted by the Financing Certificate.

### **Covenants of the County**

The County covenants under the Financing Certificate that it will not issue any notes, or otherwise incur any indebtedness, pursuant to the Act with respect to its Fiscal Year 2007-08 in an amount which, when added to the interest payable thereon, shall exceed 85 percent of the estimated amount of the then-uncollected taxes, income, revenue, cash receipts, and other moneys of the County which will be available for the payment of said notes or other indebtedness and the interest thereon; provided, however, that to the extent that any principal of or interest on such notes or other indebtedness is secured by a pledge of the amount in any inactive or term deposit of the County, the term of which will terminate during said fiscal year, such principal and interest may be disregarded in computing said limit.

In order to maintain the exclusion from gross income for federal income tax purposes of interest on the Notes, the County covenants to comply with each applicable requirement of the Internal Revenue Code of 1986, as amended, necessary to maintain the exclusion of interest on the Notes from gross income for federal income tax purposes in that the County agrees to comply with the covenants contained in, and the instructions given pursuant to, the Tax Certificate prepared for the County by Bond Counsel, as such Tax Certificate may be amended from time to time. The County further covenants that it will make all calculations relating to any rebate of excess investment earnings on the Note proceeds due to the United States Department of the Treasury in a reasonable and prudent fashion and will segregate and set aside the amounts such calculations indicate may be required to be paid to the United States Department of the Treasury.

Notwithstanding any other provision of the Financing Certificate to the contrary, upon the County's failure to observe, or refusal to comply with, the foregoing tax covenants, the Holders of the Notes, and any adversely affected former Holders of the Notes, will be entitled to exercise any right or remedy provided to the Holders under the Financing Certificate.

## **Paying Agent and Note Registrar**

The Treasurer will act as Paying Agent and as Note Registrar for the Notes. The Paying Agent may at any time resign and be discharged of the duties and obligations created by the Financing Certificate by giving at least 60 days' written notice to the County. Any Paying Agent may be removed at any time by an instrument filed with such Paying Agent and signed by the County. In the event of the resignation or removal of a Paying Agent, the County may appoint a successor Paying Agent in accordance with the terms of the Financing Certificate. A successor Paying Agent will be a commercial bank with trust powers or a trust company organized under the laws of any state of the United States or a national banking association, having capital and surplus aggregating at least \$100,000,000. Resignation or removal of a Paying Agent will be effective upon appointment and acceptance of a successor Paying Agent. In no event shall the resignation or removal of the Paying Agent become effective prior to the assumption of such resigning or removed Paying Agent's duties and obligations by a successor Paying Agent.

## **Negotiability and Transfer of the Notes**

The Holders of the Notes which are evidenced by registered certificates may transfer such Notes upon the books maintained by the Note Registrar, in accordance with the Financing Certificate.

The County and any Paying Agent may deem and treat the Holder of any Note as the absolute owner of such Note, regardless of whether such Note is overdue, for the purpose of receiving payment thereof and for all other purposes, and all such payments so made to any such Holder or upon his or her order will satisfy and discharge the liability upon such Note to the extent of the sum or sums so paid, and neither the County nor any Paying Agent will be affected by any notice to the contrary. Cede & Co., as nominee of DTC, or such other nominee of DTC or any successor securities depository or the nominee thereof, will be the Holder of the Notes as long as the beneficial ownership of the Notes is held in book-entry form in the records of such securities depository. See APPENDIX D – "BOOK-ENTRY ONLY SYSTEM."

## **Permitted Investments**

Moneys on deposit in the Repayment Fund will be retained therein until applied to the payment of the principal of and interest on the Notes. Such amounts may not be used for any other purpose, although they may be invested in Permitted Investments ("Permitted Investments"). Permitted Investments are investments approved in writing by the Treasurer as prudent and appropriate for the funds to be invested and permitted by law and any policy guidelines promulgated by the County. In addition, the Financing Certificate specifically designates the following investments as Permitted Investments, subject to certain limitations more fully described in the Financing Certificate:

(1) Obligations of, or guaranteed as to principal and interest by, the United States of America, or by any agency or instrumentality thereof when such obligations are backed by the full faith and credit of the United States of America.

(2) Obligations of instrumentalities or agencies of the United States of America limited to the following: (a) the Federal Home Loan Bank Board ("FHLB"); (b) the Federal Home Loan Mortgage Corporation ("FHLMC"); (c) the Federal National Mortgage Association (FNMA); (d) Federal Farm Credit Bank ("FFCB"); (e) Government National Mortgage Association ("GNMA"); (f) Student Loan Marketing Association ("SLMA"); and (g) guaranteed portions of Small Business Administration ("SBA") notes.

(3) Commercial Paper having original maturities of not more than 270 days, payable in the United States of America and issued by corporations that are organized and operating in the United States with total assets in excess of \$500 million and having “A” or better rating for the issuer’s long-term debt as provided by Moody’s Investors Service, Inc. (“Moody’s”), Standard & Poor’s (“S&P”), or Fitch Ratings (“Fitch”) and “P-1”, “A-1”, “F1” or better rating for the issuer’s short-term debt, as provided by Moody’s, S&P, or Fitch, respectively. The maximum total par value may be up to 15% of the total amount held by the Treasurer in accordance with the Financing Certificate.

(4) The Los Angeles County Treasury Pool.

(5) Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as “bankers’ acceptances,” having original maturities of not more than 180 days, with a maximum par value of 40% of the total amount held by the Treasurer in accordance with the Financing Certificate. The institution must have a minimum short-term debt rating of “A-1”, “P-1”, or “F1” by S&P, Moody’s, or Fitch, respectively, and a long-term debt rating of no less than “A” by S&P, Moody’s or Fitch.

(6) Shares of beneficial interest issued by diversified management companies, known as money market funds, registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1 et sq.) and whose fund has received the highest possible rating from S&P and at least one other nationally recognized securities rating agency. The maximum par value may be up to 15% of the total amount held by the Treasurer in accordance with the Financing Certificate.

(7) Negotiable certificates of deposit issued by a nationally- or state-chartered bank or a state or federal association (as defined by Section 5102 of the California Financial Code) or by a state-licensed branch of a foreign bank, in each case which has, or which is a subsidiary of a parent company which has, obligations outstanding having a rating of “A” or better from S&P, Moody’s or Fitch. The maximum par value may be up to 30% of the total amount held by the Treasurer in accordance with the Financing Certificate.

(8) Repurchase agreements which have a maximum maturity of 30 days and are fully secured at or greater than 102% of the market value plus accrued interest by obligations of the United States Government, its agencies and instrumentalities, in accordance with number (2) above. The maximum par value per issuer may not exceed \$250,000,000 and the maximum total par value for all such agreements with funds held by the Treasurer under the Financing Certificate may not exceed \$500,000,000.

(9) Investment agreements and guaranteed investment contracts with issuers having a long-term debt rating of at least “AA” or “Aa2” by S&P or Moody’s, respectively.

### **Supplemental Resolutions and Supplemental Financing Certificates**

Any amendment of or supplement to the Financing Certificate and of the rights and obligations of the County and of the Holders of the Notes may be made by a Supplemental Financing Certificate of the Treasurer, with the written consent of the Holders of at least a majority in principal amount of the Notes outstanding at the time such consent is given; provided, however, that if such supplement or amendment will, by its terms, not take effect so long as any particular Notes remain outstanding, the consent of the Holders of such Notes will not be required. No such supplement or amendment may (i) permit a change in the terms of maturity of the principal of any Notes or of the interest rate thereon or a reduction in the

principal amount thereof without the consent of the Holders of such Notes, or (ii) change the dates or amounts of the pledge set forth in the Resolution or the Financing Certificate, or (iii) reduce the percentage of the Holders of the Notes required to approve such Supplemental Financing Certificate without the consent of all of the Holders of the affected Notes, or (iv) change or modify any of the rights or obligations of the Paying Agent without its written consent thereto.

Additionally, a Supplemental Resolution of the County may be adopted or a Supplemental Financing Certificate may be executed, without the consent of the Holders, (i) to add covenants and agreements to be observed by the County which are not contrary to or inconsistent with the Resolution or the Financing Certificate, (ii) to add limitations and restrictions to be observed by the County which are not contrary to or inconsistent with the Resolution or the Financing Certificate, (iii) to confirm as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by the Resolution or the Financing Certificate, of any moneys, securities or funds or to establish any additional funds or accounts to be held under the Resolution or the Financing Certificate, (iv) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Resolution or the Financing Certificate, (v) to supplement or amend the Resolution or the Financing Certificate as required to obtain a rating for the Notes, or any portion thereof, from any rating agency, provided that the County obtains an opinion of bond counsel to the effect that such Supplemental Resolution or Supplemental Financing Certificate does not adversely affect the interests of the Holders, or (vi) to supplement or amend the Resolution or Financing Certificate in any other respect, provided that the County obtains an opinion of bond counsel to the effect that such Supplemental Resolution or Supplemental Financing Certificate does not adversely affect the interests of the Holders.

### **Events of Default**

Any one or more of the following will constitute an “Event of Default” under the Resolution and the Financing Certificate:

- (1) default in the due and punctual payment of the principal of or interest on any Notes when and as the same become due and payable;
- (2) default in the performance or observance by the County of any other of the covenants, agreements or conditions required to be performed or observed by the County pursuant to the Financing Certificate, the Resolution or any of the Notes and the continuation of such default for a period of 60 days after written notice thereof to the County by the Holders of not less than 10 percent in aggregate principal amount of the outstanding Notes; or
- (3) filing by the County of a petition for relief under the federal bankruptcy laws.

Whenever any Event of Default shall have happened and be continuing, the Holders of the Notes, and any adversely affected former Holders of the Notes, and their legal representatives, will be entitled to take any and all actions available at law or in equity to enforce the performance of the covenants in the Financing Certificate and in the Act. Nothing in the Financing Certificate will preclude an individual Holder from enforcing such Holder’s rights to payment of principal of and interest on such Holder’s Notes.

### **Payment of Unclaimed Moneys to County**

Anything in the Financing Certificate to the contrary notwithstanding, any moneys held in trust for the payment and discharge of any of the Notes which remain unclaimed for a period of one year after the date when such Notes have become due and payable, if such moneys were so held at such date, or for

one year after the date of deposit of such moneys if deposited after the date when such Notes became due and payable, will be repaid to the County, as its absolute property and free from trust, and the Holders may thereafter look only to the County for the payment of such Notes from legally available funds; provided, however, that before any such payment is made to the County, the County will create (and thereafter maintain until payment of all of the Notes) a record of the amount so repaid, and the County will cause to be published at least twice, at any interval of not less than seven days between publications, in Authorized Newspapers, a notice that said moneys remain unclaimed and that, after a date named in said notice, which date may be not less than thirty days after the date of the first publication of such notice, the balance of such moneys then unclaimed will be returned to the County.

### **TAX EXEMPTION**

In the opinion of Nixon Peabody LLP, Bond Counsel, under existing statutes, regulations, rulings and court decisions, interest on the Notes is excluded from gross income for federal income tax purposes pursuant to Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code"). In addition, Bond Counsel is of the opinion that the Notes are not "private activity bonds" within the meaning of Section 141(a) of the Code and, therefore, interest on the Notes is not a specific item of tax preference for purposes of the Code's alternative minimum tax provisions. However, interest on the Notes received by a corporation will be included in adjusted current earnings for purposes of computing such corporation's alternative minimum tax liability.

Bond Counsel is further of the opinion that interest on the Notes is exempt from personal income taxes of the State of California under present State law. Bond Counsel expresses no opinion as to other California tax consequences arising with respect to the Bonds nor as to the taxability of the Bonds or the income therefrom under the laws of any state other than California.

The Notes are being offered at prices in excess of their principal amounts ("Premium Notes"). An initial purchaser with an initial adjusted basis in a Premium Note in excess of its principal amount will have amortizable bond premium which is not deductible from gross income for federal income tax purposes. The amount of amortizable bond premium for a taxable year is determined actuarially on a constant interest rate basis over the term of each Premium Note based on the purchaser's yield to maturity. For purposes of determining gain or loss on the sale or other disposition of a Premium Note, an initial purchaser who acquires such obligation with an amortizable bond premium is required to decrease such purchaser's adjusted basis in such Premium Note annually by the amount of amortizable bond premium for the taxable year. The amortization of bond premium may be taken into account as a reduction in the amount of tax-exempt income for purposes of determining various other tax consequences of owning such Premium Notes. Owners of the Notes are advised that they should consult with their own advisors with respect to the state and local tax consequences of owning such Premium Notes.

Under the Code and the Treasury Regulations promulgated thereunder (the "Regulations"), if the County does not spend all of the proceeds of the Notes within six months after issuance (determined as provided in the Code and the Regulations), the County must rebate to the federal government its arbitrage profits, if any, in order for interest on the Notes to be excluded from gross income for federal income tax purposes. The County expects to spend all of the proceeds of the Notes within six months of issuance. If, however, it fails to do so, the County has covenanted to provide for and to set aside any required rebate payment from moneys attributable to Fiscal Year 2007-08. The California Constitution generally prohibits the County from incurring obligations payable from moneys other than moneys attributable to the fiscal year in which such obligations are incurred. Accordingly, if, after the end of the Fiscal Year 2007-08, it is determined that the County's calculations of expenditures of Note proceeds or of rebatable arbitrage profits, if any, were incorrect and that the moneys attributable to Fiscal Year 2007-08 that were

set aside were insufficient to meet the recalculated rebate requirement, it is unclear whether the County could be compelled to pay the difference from the moneys attributable to the then current fiscal year. If the amount required to be rebated to the federal government as recalculated is not paid, then it may be determined that, retroactive to the issuance of the Notes, the interest on the Notes is not excluded from gross income for federal income tax purposes.

In rendering such opinions, Bond Counsel has relied upon representations and covenants of the County in the Resolution and in the County's Tax and Nonarbitrage Certificate concerning the investment and use of Note proceeds and the rebate to the federal government of certain earnings thereon, to the extent required, from legally available moneys. In addition, Bond Counsel has assumed that all such representations are true and correct and that the County will comply with such covenants (including the covenant that rebate payments due the federal government, if any, will be timely made).

Bond Counsel has expressed no opinion with respect to the exclusion of interest on the Notes from gross income under Section 103(a) of the Code in the event that any such representations are untrue or the County should fail to comply with any of such covenants (including the covenant that rebate payments due the federal government, if any, will be timely made), unless such failure to comply is based on the advice or opinion of Bond Counsel. Bond Counsel has expressed no opinion regarding the effect, if any, of legislation enacted after the date hereof, on the exclusion of interest on the Notes from gross income for federal income tax purposes.

Ownership of the Notes may result in other Federal tax consequences to certain taxpayers, including, without limitation, certain S corporations, foreign corporations with branches in the United States, property and casualty insurance companies, individuals receiving Social Security or Railroad Retirement benefits, individuals seeking to claim the earned income credit, and taxpayers (including banks, thrift institutions and other financial institutions) who may be deemed to have incurred or continued indebtedness to purchase or to carry the Notes.

Interest paid on tax-exempt obligations such as the Notes is subject to information reporting to the Internal Revenue Service (the "IRS") in a manner similar to interest paid on taxable obligations. In addition, interest on the Notes may be subject to backup withholding if such interest is paid to a registered owner that (a) fails to provide certain identifying information (such as the registered owner's taxpayer identification number) in the manner required by the IRS, or (b) has been identified by the IRS as being subject to backup withholding.

Legislative or administrative actions and court decisions, at either the federal or state level, could have an adverse impact on the potential benefits of the exclusion from gross income of the interest on the Notes for Federal or state income tax purposes, and thus on the value or marketability of the Notes. This could result from changes to Federal or state income tax rates, changes in the structure of Federal or state income taxes (including replacement with another type of tax), repeal of the exclusion of the interest on the Notes from gross income for Federal or state income tax purposes, or otherwise. It is not possible to predict whether any legislative or administrative actions or court decisions having an adverse impact on the Federal or state income tax treatment of holders of the Notes may occur. Prospective purchasers of the Notes should consult their own tax advisers regarding such matters.

On May 21, 2007, the U.S. Supreme Court agreed to hear Davis v. Kentucky Dep't Of Revenue of The Finance and Admin. Cabinet, 197 S.W.3d 557 (2006), a case that has questioned the permissibility under the U.S. Constitution of the Commonwealth of Kentucky providing for a state income tax exemption for interest on obligations issued by Kentucky or its subdivisions while taxing interest on obligations of other states or their subdivisions. The laws of the California currently result in such differing treatment, by exempting interest on obligations of California and its subdivisions and

instrumentalities from personal income tax while taxing the interest on obligations issued by other states or their subdivisions or instrumentalities.

Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance and delivery of the Notes may affect the tax status of interest on the Notes. Bond Counsel expresses no opinion as to any Federal, state or local tax law consequences with respect to the Notes, or the interest thereon, if any action is taken with respect to the Notes or the proceeds thereof upon the advice or approval of other counsel.

Bond Counsel is not rendering any opinion as to any Federal tax matters other than those described under the caption "TAX EXEMPTION." Prospective investors, particularly those who may be subject to special rules described above, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Notes, as well as any tax consequences arising under the laws of any state or other taxing jurisdiction.

### **APPROVAL OF LEGAL PROCEEDINGS**

Legal matters related to the authorization, issuance, sale and delivery of the Notes are subject to the approval of Nixon Peabody LLP, Bond Counsel. The approving opinion of Bond Counsel will be delivered with the Notes in substantially the form appearing in APPENDIX C hereto.

Certain legal matters will be passed upon for the Underwriters by their counsel, Hawkins Delafield & Wood LLP, Los Angeles, California. Certain legal matters will be passed on for the County by the County Counsel.

### **LEGALITY FOR INVESTMENT IN CALIFORNIA**

Under the California Financial Code, the Notes are legal investments for commercial banks in California, and under the California Government Code, the Notes are eligible to secure deposits of public moneys in the State of California.

### **RATINGS**

Moody's Investors Service, Standard & Poor's Ratings Service, a division of the McGraw-Hill Companies, Inc. and Fitch Ratings have given the Notes the ratings of "MIG 1," "SP-1+" and "F1+," respectively. Certain information was supplied by the County to the rating agencies to be considered in evaluating the Notes. Such ratings reflect only the views of the rating agencies, and are not a recommendation to buy, sell or hold any of the Notes. Any explanation of the significance of each such rating should be obtained from the rating agency furnishing the same. There can be no assurance that any such rating will remain in effect for any given period of time or that any such rating will not be revised downward or withdrawn entirely by the rating agency furnishing the same if, in its judgment, circumstances so warrant. Any downward revision or withdrawal of ratings may have an adverse effect on the market price of the affected Notes.

### **LITIGATION**

To the best knowledge of the County, no litigation is pending or threatened concerning the validity of the Notes, and an opinion of the County Counsel to that effect will be furnished at the time of issuance of the Notes.

There are a number of lawsuits and claims pending against the County. Included in these are a number of property damage, personal injury and wrongful death actions seeking damages in excess of the County's insurance limits. The aggregate amount of the uninsured liabilities of the County which may result from all suits and claims will not, in the opinion of the County Counsel, materially impair the County's ability to repay the Notes. Note 17 of "Notes to the Basic Financial Statements" included in APPENDIX B discusses this liability as of June 30, 2006. See also APPENDIX A – "COUNTY OF LOS ANGELES INFORMATION STATEMENT."

### **UNDERWRITING**

The Notes are being purchased for reoffering by Morgan Stanley & Co. Incorporated, as representative of the Underwriters of the Notes (the "Underwriters"). The Underwriters have agreed to purchase the Notes at a purchase price of \$504,010,459.11 (representing the principal amount of the Notes of \$500,000,000.00, plus original issue premium of \$4,220,000.00, less Underwriters' discount of \$209,540.89). The Contract of Purchase provides that the Underwriters will purchase all of the Notes if any are purchased. The obligation to make such purchase is subject to certain terms and conditions set forth in the Contract of Purchase.

The Underwriters may offer and sell the Notes to certain dealers and others at prices lower than the public offering price stated on the cover page hereof. The offering price may be changed from time to time by the Underwriters.

### **ADDITIONAL INFORMATION**

The purpose of this Official Statement is to supply information to prospective buyers of the Notes. Quotations from and summaries and explanations of the Notes, the Resolution, the Financing Certificate and the statutes and documents contained herein do not purport to be complete, and reference is made to said documents and statutes for full and complete statements of their provisions.

Appropriate County officials, acting in their official capacity, have determined that, as of the date hereof, the information contained herein is, to the best of their knowledge and belief, true and correct in all material respects and does not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made herein, in light of the circumstances under which they were made, not misleading. An appropriate County official will execute a certificate to such effect upon delivery of the Notes. This Official Statement and its distribution have been duly authorized and approved by the Board of Supervisors of the County.

## **CONTINUING DISCLOSURE**

The County has agreed in a Disclosure Certificate to provide, in a timely manner, notice of the occurrence of the events set forth in Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended (“Rule 15c2-12”), if material, to each Nationally Recognized Municipal Securities Repository, as that term is defined in Rule 15c2-12, or to the Municipal Securities Rulemaking Board, and to the appropriate State Information Depository, as defined in Rule 15c2-12, if any. Such events include the following: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) adverse tax opinions or events affecting the tax-exempt status of the Notes; (4) modifications to rights of Note holders; and (5) rating changes. The County has not failed to comply with prior undertakings of the County under Rule 15c2-12.

In addition, the County regularly prepares a variety of reports, including audits, budgets, and related documents, as well as certain monthly activity reports. Any owner of a Note may obtain a copy of any such report, as available, from the County.

Additional information regarding this Official Statement and copies of the Resolution and the Financing Certificate may be obtained by contacting:

GLENN BYERS  
DIRECTOR OF PUBLIC FINANCE  
COUNTY OF LOS ANGELES TREASURER AND TAX COLLECTOR  
500 WEST TEMPLE STREET, ROOM 432  
LOS ANGELES, CALIFORNIA 90012  
(213) 974-7175

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**APPENDIX A**

**COUNTY OF LOS ANGELES INFORMATION STATEMENT**

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# THE COUNTY OF LOS ANGELES

## Information Statement

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### GENERAL INFORMATION

The County of Los Angeles was established by an act of the California State Legislature on February 18, 1850, as one of California's original 27 counties. Located in the southern coastal portion of the State, the County covers 4,084 square miles and includes 88 incorporated cities as well as many unincorporated communities. With an estimated population of 10.35 million in 2007, the County is the most populous of the 58 counties in California and has a larger population than 43 states. As required by the County Charter, County ordinances, and State or federal mandate, the County is responsible for providing government services at the local level for activities including public welfare, health and justice, the maintenance of public records, and administration of ad valorem taxes.

The County provides services such as law enforcement and public works to cities within the County on a cost-recovery contract basis. The County also provides municipal services to unincorporated areas of the County and operates recreational and cultural facilities in these locations.

### COUNTY GOVERNMENT

The County of Los Angeles is governed by a five-member Board of Supervisors, each of whom is elected by residents from their respective supervisorial districts. Supervisors serve four-year alternating terms with elections held every two years. The other elected officials of the County are the Assessor, District Attorney and Sheriff. On March 5, 2002, County voters approved two charter amendments that introduced mandatory term limits for the eight elected officials of the County. As a result, each is now limited to serving three consecutive terms commencing as of December 2002.

The vast majority of the County population resides in the 88 incorporated cities located within its boundaries. The County provides some municipal services to these cities on a contract basis under the Contract Services Plan. Established in 1954, the Plan is designed to allow cities to contract for municipal services without incurring the cost of creating numerous city departments and facilities. Under the Plan, the County will provide any or all such municipal services to a city at the same level as provided in unincorporated areas, or at any higher level the city may choose. Services are provided at cost.

Over one million people live in the unincorporated areas of the County of Los Angeles. For the residents of these areas, the County Board of Supervisors is their "City Council," and County departments provide all of their municipal services, including law enforcement, fire protection, land use and zoning, building and business permits, road maintenance, animal care and control, and public libraries. Beyond the unincorporated areas, the County of Los Angeles provides a wide range of services to all citizens who live within its boundaries.

### County Services

Many of the County's core service functions are required by the County Charter, County ordinances, or by State or federal mandate. State and federal mandated programs, primarily in the social services and health care areas, are required to be

maintained at certain minimum levels, which can limit the County's flexibility in these areas.

### *Health and Welfare*

Under State Law, the County is required to administer federal and State health and welfare programs, and to fund a portion of the program costs with local revenues, such as sales and property taxes. Over 700,000 residents of the County receive benefits and services from these programs. Health care services are provided through a network of County hospitals and comprehensive health centers.

The County has the responsibility to provide and partially fund mental health, drug and alcohol prevention, and various other treatment programs. These services are provided through County facilities and a network of contracted providers. In addition, the County provides public health, immunization, environmental and paramedic services, and is responsible for the design and establishment of the county-wide emergency trauma network, which includes three medical centers operated by the County.

While many of the patients receiving services at County facilities are indigent or covered by Medi-Cal (a State health insurance program), the County health care delivery system is designed to provide quality care to the entire population. Through its affiliation with three medical schools and by operating its own school of nursing, the County Department of Health Services is a major supplier of health care professionals throughout California.

### *Disaster Services*

The County operates and coordinates an entire disaster recovery network that is responsible for providing critical services in response to floods, fires, storms, earthquakes, and other emergency events. Centralized command centers can be established at any Sheriff station or in mobile trailers throughout the County. To prevent floods and conserve water, the County maintains and operates a system of 15 major dams, 131 debris basins, 86,500 catch basins, 42 sediment placement sites, and over 2,825 miles of storm drains and channels. County lifeguards monitor 31 miles of beachfront and County rescue boats patrol 75 miles of coastline, including the Catalina Channel.

### *Public Safety*

The County criminal justice network is primarily supported by local County revenue sources, State Public Safety sales tax revenue and fees from contracting cities. The Sheriff provides county-wide law enforcement services and will perform specific functions requested by local police departments, including the training of thousands of police officers employed by the incorporated cities of the County. Specifically, the County provides training for narcotics, vice, homicide, consumer fraud, and arson investigations, as well as assistance in locating and analyzing crime scene evidence. The County also operates and maintains one of the largest jail systems in the United States, with an average daily population of over 17,000 inmates.

## General Government

The County is responsible for the administration of the property tax system, including property assessment, assessment appeals, collection of taxes, and distribution of property tax revenue to cities, community redevelopment agencies, special districts, and local school districts. A second major general government service is the County's voter registration and election system, which provides services to more than 500 political districts and 3.8 million registered voters.

## Culture and Recreation

Through a partnership with community leaders, volunteers and the private sector, the County operates the Music Center complex, which includes the Dorothy Chandler Pavilion, Mark Taper Forum, Ahmanson Theater, and the Walt Disney Concert Hall. The County also functions as the operator of the Hollywood Bowl, the John Anson Ford Theater, the Los Angeles County Museum of Art, the Museum of Natural History, and the George C. Page Museum.

The County's botanical centers, including the Arboretum, the South Coast Botanic Garden, Descanso Gardens, and the Virginia Robinson Estate, provide County residents with a valuable recreational and educational resource. The County also manages over 63,000 acres of parks and operates a network of regional recreational facilities, including Marina del Rey (a small craft harbor), 7 major regional parks, 90 local and community regional parks and 19 golf courses.

## EMPLOYEE RELATIONS/COLLECTIVE BARGAINING

Approximately 85% of the County workforce is represented by certified employee organizations. These organizations include fifty-two (52) collective bargaining units, which are represented either by the Services Employees International Union (SEIU) Local 721 (formerly known as Local 660), the Coalition of County Unions (consisting of 10 unions) or by one of six independent unions. Under labor relations policy direction from the Board of Supervisors and Chief Executive Officer, the CEO/Employee Relations Division negotiates fifty-two (52) individual Collective Bargaining Agreements and two Fringe Benefit Agreements. The Fringe Benefit Agreements reached with the Coalition of County Unions (CCU) and Local 721 have a term of three years and will expire on September 30, 2009.

In October 2006, the County announced a 3-year contract with SEIU Local 721 that covers nearly 50,000 County employees. Under the terms of the agreement, the majority of Local 721 members will receive a 15.5% salary increase between October 1, 2006 and January 1, 2009. The County reached similar agreements with most of the Coalition of County Unions and the independent unions. One Local 721 group, the Registered Nurses, has been given a new classification and salary structure that will result in some of these employees receiving raises substantially higher than 15.5%.

Earlier in 2006, the County reached agreement under re-opener provisions with the Association for Los Angeles Deputy Sheriffs and the Professional Peace Officers Association for new contracts that will extend through January 2009. These contracts resulted in salary increases totaling up to 18.5% over three years. A similar agreement was reached with the Los Angeles County Fire Fighters and the Los Angeles County Lifeguard Association. Deputy Probation Officers also settled in early 2006, receiving 10% salary increases as well as longevity pay for employees with 20 or more years of County service.

## Litigation by Contract Workers

In November 2000, three employees of contractors providing technical services to the County's Internal Services Department filed litigation (*Holmgren et al v. County of Los Angeles*) as a class action, alleging that they were improperly hired and treated as non-County employees even though the County directed and controlled their services. The plaintiffs seek County employee status and damages for alleged differentials in compensation and benefits. Two lawsuits (*Hall et al v. County of Los Angeles* and *Shiell et al v. County of Los Angeles*) filed prior to 2000 by employees of a contractor providing legal services to County Counsel make similar claims and seek similar remedies. In the *Holmgren* and *Shiell* cases, judgment in favor of the County was entered in October 2006. In the *Hall* case, summary judgment was granted in favor of the County. Plaintiffs filed an appeal, which was unsuccessful as the appellate court affirmed the trial court's decision in favor of the County. The California Supreme Court then denied plaintiff's petition for review. The potential financial impact of these cases on the County has not yet been determined.

## Litigation by County Safety Police Officers

On June 6, 2002, a jury found the County liable in the class action lawsuit *Frank, et al. v. County of Los Angeles, et al.* The case had been filed on behalf of approximately 500 past and current members of the County's Safety Police, alleging among other things that County Safety Police officers had been denied equal pay and benefits in comparison to County deputy sheriffs due to racial discrimination.

The final judgment, which was entered on June 6, 2003, awarded back-pay to the plaintiffs of \$42,760,559, plus \$4,677,513 in attorneys' fees and a costs award of \$60,843. Both the County and the plaintiffs filed notices of appeal in or about August 2003. The plaintiffs' appeal claims that they are entitled to prospective relief, which they've estimated to be more than \$100 million, and which has not been specifically awarded by the court in its judgment. On April 12, 2007, the Court of Appeals, in a published opinion, reversed the summary judgment against the County in its entirety and remanded the case back to the Superior Court with directions to enter judgment for the County. Plaintiffs have filed a petition for review with the California Supreme Court.

## RETIREMENT PROGRAM

### General

All permanent County employees of three-quarter time or more are eligible for membership in the Los Angeles County Employees Retirement Association ("LACERA"). LACERA was established in accordance with the County Employees Retirement Law of 1937 (the "Retirement Law") to administer the County's Employee Retirement Trust Fund (the "Retirement Fund"). LACERA operates as a cost-sharing multi-employer defined benefit plan for the County of Los Angeles and four minor participating agencies. Combined, these four non-County agencies account for less than one percent (1%) of LACERA's membership. Through the Retirement Fund and various benefit plans, LACERA provides retirement benefits to all general and safety (sheriff, fire and lifeguard) members.

The LACERA plans are structured as "defined benefit" plans in which benefit allowances are provided based on salary, length of service and age. County employees may participate in contribution based plans, or for those who began employment

after January 4, 1982, in a non-contribution based plan. With respect to the contribution based plans, employee contributions to the retirement system are based on rates determined by LACERA's actuary. Such contributions depend upon age, the date of entry into the plan and the type of membership (general or safety).

LACERA's membership total as of June 30, 2006 was 147,081. This membership consisted of 63,140 active vested members, 25,491 nonvested active members, 50,992 retired members and 7,458 terminated vested (deferred) members.

#### *Actuarial Valuation*

The Retirement Law provides that the County contribute to the Retirement Fund on behalf of employees using rates determined by the plan's actuary (currently Milliman Consultants and Actuaries). Such rates are required under the Retirement Law to be calculated at least once every three years. LACERA presently conducts annual valuations to assess changes in the Retirement Fund's portfolio.

In June 2002, the County and LACERA entered into the Retirement Benefits Enhancement Agreement ("2002 Agreement") to enhance certain retirement benefits in a manner that is consistent with changes to State programs enacted in 2001 and fringe benefit changes negotiated in 2000. The 2002 Agreement, which expires in July 2010, provides for a 30-year rolling amortization period for any unfunded actuarial accrued liability ("UAAL"). UAAL is defined as the actuarial accrued liability minus the actuarial value of the assets of LACERA at a particular valuation date. Each year, contributions to fund the UAAL are amortized as a level percentage of the projected salaries of present and future members of LACERA over a 30-year period from the valuation date. Utilizing a level percentage of projected salaries methodology, this rolling 30-year amortization may cause the UAAL amount to increase over time. The amortization method, however, is only one of multiple factors that affect the UAAL, and other factors such as investment returns, changes in actuarial assumptions and benefit increases may cause an increase or decrease in the UAAL.

Beginning with Fiscal Year 2003-04, the Board of Investments adopted a new series of economic and non-economic assumptions to be used in LACERA's actuarial valuations. Important changes to the economic assumptions included a reduction in the Investment Return Rate from 8.0% to 7.75%, a reduction in Price Inflation from 4.0% to 3.5%, and a reduction to Payroll Increases from 4.0% to 3.75%. Changes to the non-economic assumptions included smaller merit salary increases for members with 10 or more years of service, a decrease in disability retirement rates and lower mortality rates. These new actuarial assumptions directly impact the actuary's valuation of the system, and determine the amount needed to fund the normal retirement cost and calculate any UAAL for the Retirement Program.

When measuring assets for determining the UAAL, the County has elected to "smooth" gains and losses to reduce volatility. If in any year, the actual investment return on the Retirement Fund's assets is lower or higher than the actuarial assumed rate of return (7.75%), then the shortfall or excess is smoothed, or spread, over a 3-year period. The impact of this will result in "smoothed" assets that are lower or higher than the market value of assets depending on whether the remaining amount to be smoothed is either a net gain or a net loss.

#### *UAAL and Deferred Investment Returns*

The most recent annual actuarial valuation by Milliman Consultants and Actuaries approved by the Board of Investments was for the fiscal year ending June 30, 2006. In Fiscal Year 2006-07, Retirement Fund assets achieved a rate of return of 13.0%. This rate of return, combined with the recognition of a portion of the deferred gains from 2004 and 2005 resulted in a \$1.64 billion gain in actuarial assets in 2006. As a result of the strong investment performance of fund assets over the last three years, well in excess of the 7.75% assumed rate of return, the funded ratio increased from 85.81% on June 30, 2005 to 90.51% on June 30, 2006. The increased funded ratio has resulted in a reduction in the required County contribution rate from 14.86% to 12.91% of covered payroll in Fiscal Year 2007-08. A summary of investment returns for the prior six years is presented in Table 2 ("Investment Return on Retirement Plan Assets") on page A-7.

The June 30, 2006 Actuarial Valuation reported that the actuarial accrued liability had increased by 5.5% to \$36.259 billion. Despite the increase in actuarial liabilities, the UAAL decreased by \$1.439 billion from \$4.878 billion on June 30, 2005 to \$3.439 billion on June 30, 2006. The significant decrease (29.5%) in UAAL was the direct result of higher than assumed investment returns over the last three years. A six-year history of the County's UAAL is provided in Table 1 ("Retirement Plan UAAL and Funded Ratio") on page A-7.

As a result of the strong investment performance and increased funded ratio, the County's required contribution rate decreased to 12.91% of covered payroll in Fiscal Year 2007-08. The required contribution rate includes the County's normal cost contribution rate of 9.42%, which decreased slightly from Fiscal Year 2006-07 as the result of year-to-year changes in membership, and a 3.49% contribution rate for the County to fund amortization of the UAAL. The UAAL amortization rate, which represents the amount necessary to finance the UAAL over the 30-year period beginning July 1, 2006, decreased significantly from the 5.33% of the previous year. The lower County contribution rate of 12.91%, which represents an estimated \$794 million expenditure in the County budget for Fiscal Year 2007-08, would result in a \$65 million reduction in annual employer retirement contributions from Fiscal Year 2006-07.

The actuarial valuation as of June 30, 2006 also identified \$1.4 billion in deferred investment gains that will be "smoothed" into the UAAL calculation over the next two actuarial years. These gains are attributable to an 11.0% return on Plan investments for the fiscal year ended June 30, 2005 and 13.0% return on Plan investments for Fiscal Year 2005-06. The strong performance of the Retirement Fund has continued in Fiscal Year 2006-07. For the nine-month period ended March 31, 2007, the estimated rate of return on the Retirement Fund's assets is 13.5%.

#### *Investment Policy*

The Board of Investments has exclusive control of all Retirement Fund investments and has adopted an Investment Policy Statement (the "Statement"). The Board of Investments is comprised of four active and retired members and four public directors appointed by the Board of Supervisors. The County Treasurer and Tax Collector serves as an ex-officio member. The Statement establishes LACERA's investment policies and objectives and defines the principal duties of the Board of Investments, investment staff, investment managers, master custodian, and consultants. The actual asset allocation percentages for LACERA's assets as of March 31, 2007 are

33.5% domestic equity, 22.7% international equity, 26.6% fixed income, 9.4% real estate, 6% private equity and 1.9% cash.

#### *Contributions*

Employers and members contribute to LACERA based on unisex rates recommended by an independent actuary (using the Entry Age Normal Cost Funding Method) and adopted by the Board of Investments and the County's Board of Supervisors. Contributory plan members are required to contribute between 5% and 15% of their annual covered salary. Employers and participating agencies are required to contribute the remaining amounts necessary to finance the coverage of their employees (members) through monthly or annual pre-funded contributions at actuarially determined rates.

The County has funded 100% or more of its employer contributions to LACERA in each of the last ten years. In Fiscal Year 2005-06, the County's total contribution to the Retirement Fund was \$856 million. Of this amount, approximately \$179.4 million was funded from excess earnings. Total contributions of the County for Fiscal Year 2006-07 are estimated to be \$858.9 million. The County expects to apply approximately \$106.5 million of excess earnings to partially fund its employer contribution to LACERA for retirement costs. A summary of employer contributions for the six years ending on June 30, 2006 is presented in Table 3 ("County Pension Related Payments") on page A-7.

During the early and mid-1990's, the County relied heavily upon the use of excess earnings to meet its retirement contribution requirements. Beginning in 1996, however, the County embarked on a multi-year plan to lessen its reliance on excess earnings by systematically increasing its Net County Cost. The \$106.5 million in excess earnings applied in Fiscal Year 2006-07 represents the final use of these monies to fund employer contributions. Beginning in 2007-08, retirement costs will no longer be subsidized with excess earnings from the pension system.

In Fiscal Year 2007-08, the County intends to pre-fund \$400 million of its required contribution to LACERA. This payment will be made in July and will serve to reduce monthly transfers during the fiscal year. The \$400 million pre-payment is reflected in the County's cash flow forecast for Fiscal Year 2007-08.

#### *Pension Obligations*

The County, has issued pension obligation bonds and certificates and transferred the proceeds to LACERA to reduce its UAAL. In California, the obligation to fund the UAAL by making actuarially required contributions is an obligation imposed by state law. As of May 1, 2007, the County had outstanding pension obligations in the aggregate principal amount of approximately \$547 million. The final payment on these pension obligations will be in Fiscal Year 2010-11. A complete description of the County's pension obligations is included in the "Debt Summary" portion of this Appendix. A six-year history of the County's debt service payments on its pension obligations is also presented in Table 3 on page A-7.

#### *STAR Program*

The Supplemental Targeted Adjustment for Retirees program ("STAR Program") is a discretionary program that provides a supplemental cost-of-living increase from excess earnings to restore retirement allowances to 80% of the purchasing power held by retirees at the time of retirement. The STAR Program funded approximately \$305 million for the vesting of the 2001

STAR Program benefits and approximately \$5 million for the vesting of 2002-2005 STAR Program benefits. As of June 30, 2006, \$654 million was available in the STAR Program Reserve to fund future benefits. Future *ad hoc* increases to the current STAR Program Reserve will be subject to approval by the Board of Retirement on an annual basis, provided sufficient excess earnings are available as determined by the Board of Investments. Of the \$654 million in STAR Program reserves, \$620 million were included as valuation assets and used in the determination of the June 30, 2006 UAAL. Were this \$620 million not included among the Retirement Plan's valuation assets, the recommended County contribution rate would have increased by 0.69% to 13.60%, and the funded ratio of the Retirement Program would have decreased to 88.8%.

#### *Post Retirement Health Care Benefits*

The Governmental Accounting Standards Board ("GASB") has issued two statements that address other postemployment benefits ("OPEB"), which are defined to include many post retirement benefits other than pension-related benefits. Health care and disability benefits are the most significant of these benefits provided by the County.

LACERA administers a Health Care Benefits Program ("HBP") under an agreement with the County. The HBP includes medical, dental, vision and life insurance benefit plans for over 88,000 retirees or survivors and their eligible dependents. Retirement plan net assets are not held in trust for such post employment benefits and LACERA's Board of Retirement reserves the right to amend or revise the medical plans and programs under the HBP at any time. County contributions to fund retiree health care benefits are based on the retirement service credit of eligible members. For members with 10 years of service, the County contributes 40% of the health care plan premium. For each year of service beyond 10 years, the County contributes an additional 4% of the plan premium, up to a maximum of 100% for a member with 25 years of service credit.

In Fiscal Year 2005-06, total HBP-related payments from the County to LACERA were \$307.1 million. This amount included \$66.2 million in contributions from LACERA's excess earnings reserves. For Fiscal Year 2006-07, the County has estimated a total HBP-related payment of \$317.3 million, of which \$40.5 million will be funded by LACERA excess earnings. This growth in post employment benefit payments is expected to continue in Fiscal Year 2007-08, with a projected County contribution of \$342.5 million plus an offset from excess earnings of \$15.8 million. Total HBP-related payments for Fiscal Year 2007-08 are forecasted to be \$358.3 million.

In addition to its Retirement Plan, the County administers a Disability Benefits Plan ("DBP") that is separate from LACERA. The DBP covers employees who become disabled as a direct result of an injury or disease while performing assigned duties. Generally, the long term disability plans included in the DBP provide to such employees a basic monthly benefit of between 40% and 60% of such employee's monthly compensation commencing after 6 months of disability. Benefits under these plans normally terminate when the employee is no longer totally disabled or turns age 65, whichever occurs first. The health plans included in the DBP generally cover qualified employees who are sick or disabled and provide for payment of a portion of these individuals medical premiums. For Fiscal Year 2006-07, the County has estimated that the long-term disability portion of its DBP-related payment will total approximately \$31.5 million.

GASB Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,

establishes financial reporting standards for OPEBs in a manner similar to those currently in effect for pension benefits. GASB 43 is focused on the entity that administers such benefits (which, in the case of the County, is LACERA) and requires an actuarial valuation to determine the funded status of benefits accrued. LACERA intends to comply with GASB 43 requirements for the annual reporting period ending June 30, 2007.

GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, establishes financial reporting standards designed to measure, recognize, and disclose OPEB costs. Currently, OPEBs are accounted for by the County on a pay-as-you-go basis, which does not require the accrual of costs associated with future OPEB payments. GASB 45 is focused on the County's financial statements and related note disclosures and is intended to associate the costs of the OPEB with the periods in which employee services are rendered in exchange for the OPEB. OPEB costs would become measurable on an accrual basis of accounting and actuarially determined contribution rates would be prescribed for funding such costs.

The core requirement of GASB 45 is that at least biennially an actuarial analysis must be prepared with respect to projected benefits ("Plan Liabilities"), which would be measured against the actuarially determined value of the related assets (the "Plan Assets"). To the extent that Plan Liabilities exceeded Plan Assets, the difference would be amortized over a period which could be up to 30 years. The method of financial reporting for OPEB costs would be similar to that used for pension plan normal costs and the UAAL thereof. The County intends to comply with the provisions of GASB 45 by no later than the fiscal year ending June 30, 2008, as required under the provisions of GASB 45.

The standards set forth under GASB 45 affect the County's financial statements. However, GASB 45 does not impose requirements on the funding of any OPEB and there is no mandatory payment associated with the implementation of GASB 45. GASB 45 provides that OPEB costs, if not funded on an actuarial accrual basis, will be recognized as a liability in the County's financial statements.

In order to comply with the requirements of GASB 43, LACERA engaged Milliman Consultants and Actuaries to complete an actuarial valuation of OPEB liabilities for the LACERA pension plan as of July 1, 2006. In a draft report dated May 11, 2007 (the "Milliman Report"), Milliman presented the first actuarial calculation of the County's unfunded accrued liability for post retirement health care and life insurance benefits paid to its employees.

The Milliman Report provides a determination of the UAAL for LACERA's health, dental, vision and life insurance benefits plan. The County's members comprise approximately 95% of LACERA's retiree population and the County is responsible for such percentage of OPEB costs. The 5% of LACERA retirees who do not contribute to the County's OPEB liability are predominantly members of the California State Superior Court. The Milliman Report's demographic and economic assumptions are modeled on the assumptions currently used by LACERA for its pension programs. The Milliman Report assumed a 3.75% general wage increase for County employees and a 3.5% implied inflation rate. Further, the Milliman Report's health cost assumptions were based on discussions with other consultants and actuaries used by the County, LACERA and labor groups. The Milliman Report assumes increases in annual medical costs for County employees and retirees presently under 65 of 11% in 2007-08 and gradually declining to 5% by Fiscal Year 2016-17

and thereafter; and increases in annual medical costs for County employees and retirees presently over 65 of 13.5% in Fiscal Year 2007-08 and gradually declining to 5.25% by Fiscal Year 2016-17 and thereafter.

The Milliman Report determined the UAAL for LACERA's health care and life insurance benefits using a 5% discount rate and two different actuarial cost methods, the Entry Age Normal method and the Projected Unit Credit method. Using the Entry Age Normal actuarial cost method, the UAAL for LACERA's OPEB program as of June 30, 2006 is \$21.3 billion, of which approximately \$20.3 billion is the County's liability. The total annual required contribution for the County, referred to in GASB 45 as the "ARC", as of June 30, 2006 is estimated to be \$1.55 billion, which is approximately 31.16% of the County's payroll costs. Application of the Projected Unit Credit method resulted in an insubstantial change (less than 1%) to the unfunded liabilities and ARCs that are determined using the Entry Age Normal method. LACERA and the County have not yet determined whether they will report their UAAL using the Entry Age Normal method or the Projected Unit Credit Method. In either instance, the financial statements for LACERA in 2007 and the County in 2008 will reflect an OPEB liability based on a 5% discount rate.

The Milliman Report also calculated the UAAL for LACERA's health care and life insurance benefits using a discount rate of 7.75%, reflecting an assumed prefunded plan, with assets invested similarly to the balanced portfolio used by LACERA for pension benefits. Based on a discount rate of 7.75% and using the Entry Age Normal method, the UAAL for LACERA's OPEB program as of June 30, 2006 is \$13.6 billion, of which approximately \$13.0 billion is the County's liability. The County's ARC as of June 30, 2006 is estimated to be \$1.056 billion, which is approximately 21.19% of the County's payroll costs. The UAAL and ARC calculated using a 7.75% discount rate are for comparison purposes only and will not be included in the annual financial statements for either LACERA or the County.

The County is considering several funding options to reduce its OPEB UAAL. In Fiscal Year 2006-07, the County set aside \$17 million in one-time monies to pre-fund retiree health costs. In Fiscal Year 2007-08, the County anticipates using the approximately \$400 million of remaining excess pension earnings to fund a trust for the payment of future OPEB costs. Beyond Fiscal Year 2007-08, the County may consider applying general fund revenues, including those amounts that will become available following the final maturity of the County's outstanding Pension Obligation Bonds in Fiscal Year 2010-11, to supplement its initial trust deposit.

The authority to establish a tax-exempt trust to pre-fund the County's OPEB liability is provided by California Government Code Section 31694.3. Under the provisions contained therein, the County will seek to create either a Section 115 Trust or an Integral Part Entity Trust. With each of these options, it is the intention of the County to contract with LACERA for the administrative and investment services related to the trust.

In addition to the Milliman Report, the County also received an actuarial assessment of the long-term disability portion of its DBP in an October 25, 2006 report prepared by Buck Consultants. This report provides a determination that, as of June 30, 2006, and based on the assumptions set forth in the report, the UAAL of the County's long-term DBP is \$1.022 billion. Assuming that this liability is also subject to the requirements of GASB 45, the County's total OPEB liability as of July 1, 2006 would be increased by this amount.

The amount of LACERA's OPEB liability will be disclosed in both LACERA's and the County's Comprehensive Annual Financial Report for the fiscal year ending June 30, 2007. The County's ability to fund its health care, life insurance, disability and other post employment benefits on an accrual basis in the future is presently unknown.

#### *Retirement System Litigation*

There are currently no litigation matters pending against the County's retirement program.

### **GENERAL LITIGATION**

#### *Litigation Regarding Reductions 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. Specifically, *Rodde, et al. v. Bonta, et al.* ("Rodde") challenged the closure of Rancho Los Amigos National Rehabilitation Center ("Rancho"). *Harris, et al. v. County of Los Angeles, et al.* ("Harris") challenged the closure of Rancho as well as the reduction of the 100 beds at LAC+USC Medical Center ("LAC+USC").

Negotiated settlements in the *Harris* and *Rodde* 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 has agreed to keep Rancho open through March 9, 2009 at a specified level of service, during which time the County will seek to identify and negotiate with an organization to assume the future operation of Rancho. 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.

#### *Litigation Regarding the Taxing Authority of the County*

A lawsuit entitled *Oronoz v. County of Los Angeles* was filed against the County in May 2005 contending that the County's utility taxes do not meet the provisions of Proposition 62 and are therefore invalid. Proposition 62 requires that all new or increased local taxes must be approved by the voters and the County's utility taxes have been challenged in this regard. The matter is currently before the Court of Appeals. A more detailed discussion of the *Oronoz* lawsuit and its potential impact on the County's financial condition can be found on page A-8 of the Budgetary Information Section.

#### *Other Litigation*

In 1999, a lawsuit entitled *Roger E. Bacon v. Alan T. Sasaki* was filed against the County challenging the Auditor-Controller's method of calculating interest on property tax refunds. A bench trial was held on January 9, 2006 regarding two test claims, and the trial court only partially sustained the Auditor-Controller's position. The case is now in the post-mediation stage and parties are currently in settlement discussions. In the event that the parties are not able to settle, plaintiffs will seek certification of a class action, and for entry of judgment. The potential liability is estimated to be \$20 to \$30 million.

In July 2004 and February 2007, two related cases, *Ricketts v. McCormack, et al.* ("Ricketts") and *Conner, et al., v. McCormack, et al.* ("Conner"), respectively, were filed against the County Recorder. In the *Ricketts* case, the plaintiff has alleged that the County Recorder did not timely record reconveyances of deeds

of trust as required by statute. The County obtained dismissal of the monetary claims in April 2006. In February 2007, the plaintiff prevailed on summary judgment and obtained a writ of mandate compelling the Recorder to timely record reconveyances. The County's motion for new trial was granted in May 2007, but the trial date has not been determined. In the *Conner* case, a class action lawsuit, the plaintiffs are seeking statutory forfeitures of five hundred dollars per violation against the County and its Recorder for alleged late recording of reconveyances of deeds of trust. This litigation is in the early pleading and discovery stages.

There are a number of other lawsuits and claims pending against the County. Included in these are a number of property damage, personal injury and wrongful death actions seeking damages in excess of the County's insurance limits. In the opinion of the County Counsel, such suits and claims as are presently pending will not impair the ability of the County to make debt service payments or otherwise meet its outstanding lease or debt obligations.

**TABLE 1: RETIREMENT PLAN UAAL AND FUNDED RATIO**  
(in thousands)

Actuarial Valuation Date	Market Value of Plan Assets	Actuarial Value of Plan Assets	Actuarial Accrued Liability	UAAL	Funded Ratio
06/30/2001	\$28,353,262	\$26,490,000	\$26,489,976	(\$24)	100.00%
06/30/2002	26,047,240	28,262,129	28,437,493	175,364	99.38%
06/30/2003	26,247,806	26,564,328	30,474,025	3,909,697	87.17%
06/30/2004	29,481,183	27,089,440	32,700,505	5,611,065	82.84%
06/30/2005	32,026,105	29,497,485	34,375,949	4,878,464	85.81%
06/30/2006	35,185,589	32,819,725	36,258,929	3,439,204	90.51%

Source: Milliman Actuarial Valuation (of LACERA) for June 30, 2006.

**TABLE 2: INVESTMENT RETURN ON RETIREMENT PLAN ASSETS**  
(in thousands)

Fiscal Year	Market Value of Plan Assets	Market Rate of Return
2000-2001	\$28,353,262	-5.2%
2001-2002	26,047,240	-5.6%
2002-2003	26,247,806	3.6%
2003-2004	29,481,183	16.5%
2004-2005	32,026,105	11.0%
2005-2006	35,185,589	13.0%

Source: Milliman Actuarial Valuation (of LACERA) for June 30, 2006.

**TABLE 3: COUNTY PENSION RELATED PAYMENTS**  
(in thousands)

Fiscal Year	Cash Payment to LACERA	Transfer From Excess Earnings to LACERA	Pension Bonds Debt Service	Total Pension Related Payments	Percent Change Year to Year
2000-01	\$193,650	\$197,029	\$264,984	\$655,663	10.8%
2001-02	258,884	155,824	281,326	696,034	6.2%
2002-03	324,709	194,213	298,704	817,626	17.5%
2003-04	395,062	126,916	316,115	838,093	2.5%
2004-05	527,810	222,542	336,329	1,086,681	29.7%
2005-06	676,667	179,368	356,883	1,212,918	11.6%
2006-07*	752,374	106,510	381,235	1,240,119	2.2%

Source: Milliman Actuarial Valuation (of LACERA) for June 30, 2005 and County of Los Angeles Chief Administrative Office.

\* Estimated

# BUDGETARY INFORMATION

## COUNTY BUDGET PROCESS

The County is required by California State Law to adopt a balanced budget by August 30. Upon release of the Governor's Proposed State Budget in January, the Chief Executive Office (the "CEO") of the County prepares a preliminary forecast of the County's budget based on the current year's budget, the Governor's Budget, and other projected revenue and expenditure trends. Expanding on this forecast, a target County budget for the ensuing fiscal year, beginning July 1, is developed, and projected resources are tentatively allocated to the various County programs.

The CEO normally presents the Proposed County Budget to the Board of Supervisors in April. The Board of Supervisors is required by County Code to adopt a Proposed Budget no later than June 30. Absent the adoption of the Final County Budget by June 30, the appropriations approved in the Proposed Budget, with certain exceptions, become effective for the new fiscal year until a final budget is adopted.

Upon adoption of the final State budget, the CEO recommends revisions to the Proposed Budget to align County expenditures with approved State funding. After conducting public hearings and deliberating on the details of the budget, the Board of Supervisors adopts the Final County Budget by August 30.

Throughout the balance of the fiscal year, the Board of Supervisors approves various adjustments to the Final County Budget to reflect changes in appropriation requirements and funding levels. The levels of annual revenues from the State and federal governments are generally allocated pursuant to formulas specified in State and federal statutes. For budgetary or other reasons, such statutes can be amended, which could affect the level of County revenues and budgetary appropriations.

## CONSTITUTIONAL PROVISIONS AFFECTING TAXES AND APPROPRIATIONS

### *Proposition 13*

Article XIII A of the California Constitution limits the taxing powers of California public agencies. Article XIII A provides that the maximum ad valorem tax on real property cannot exceed one percent of the "full cash value" of the property, and effectively prohibits the levying of any other ad valorem property tax except for taxes required to pay debt service on voter-approved general obligation bonds. "Full cash value" is defined as "the County Assessor's valuation of real property as shown on the 1975-76 tax bill under 'full cash value' or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment."

The "full cash value" is subject to annual adjustment to reflect inflation at a rate not to exceed two percent, a reduction in the consumer price index or comparable local data, or declining property value caused by damage, destruction or other factors. The foregoing limitation does not apply to ad valorem taxes or special assessments to pay the interest and redemption charges on any indebtedness approved by the voters before July 1, 1978 or any bonded indebtedness for the acquisition or improvement

of real property approved by two-thirds of the votes cast on the proposition.

Article XIII B of the California Constitution limits the amount of appropriations of local governments for "proceeds of taxes." The County's appropriation limit for "proceeds of taxes" for 2006-07 is \$13,427,592,807. The 2006-07 County Budget reflects proceeds of taxes at \$5,952,024,000, which is well below the allowable limit.

### *Proposition 62*

Proposition 62, a 1986 initiative that amended the California Constitution, requires voter approval of all new or increased local taxes. A challenge to taxes subject to Proposition 62 may only be made for those taxes collected within three years of the date the action is brought.

In May 2005, a lawsuit entitled *Oronoz v. County of Los Angeles* was filed against the County that contends the County's utility taxes do not meet the requirements of Proposition 62 and are therefore invalid. In November 2006, the trial court certified the matter as a class action. However, in March 2007 the trial court stayed the action to allow the County to pursue the matter by appellate review. Both parties have since been ordered by the Court of Appeals to appear before it at a July 2007 hearing to review the propriety of the class action certification. It is estimated that the County collected approximately \$218.9 million in such utility taxes during the course of the last three years. The taxes collected have been placed in a reserve and could be applied to a refunding should the tax be determined invalid. Accordingly, the County does not believe that the impoundment of existing taxes or a judicial order to refund such previously collected taxes would adversely affect its ability to pay the principal of, and interest on, its debt obligations as and when they become due.

### *Proposition 218*

Proposition 218, a 1996 initiative that added Articles XIII C and XIII D to the California Constitution, established the following requirements on all taxes and property-related assessments, fees, and charges:

- precluded special purpose districts or agencies, including school districts, from levying general taxes;
- precluded any local government from imposing, extending or increasing any general tax unless such tax is approved by a majority of the electorate;
- precluded any local government from imposing, extending or increasing any special purpose tax unless such tax is approved by two-thirds of the electorate;
- ensured that voters may reduce or repeal any local taxes, assessments, fees or changes through the initiative process.

An appellate court decision ruled that Proposition 218 did not supersede Proposition 62. Consequently, voter approval alone

may not be sufficient to validate the imposition of general taxes adopted, increased or extended after January 1, 1995.

Proposition 218 also expressly extends to voters the power to reduce or repeal local taxes, assessments, fees, and charges through the initiative process, regardless of the date such taxes, assessments, fees or charges were imposed. SB 919, the Proposition Omnibus Implementation Act enacted in 1997 to prescribe specific procedures and parameters for local jurisdictions in complying with Proposition 218, states that the initiative power provided for in Proposition 218 "shall not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after November 6, 1998, assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights" protected by the United States Constitution. Furthermore, in the 2006 case of *Bighorn-Desert View Water Agency v. Virjil (Kelley)*, the State Supreme Court suggested that the initiative power under Proposition 218 is not free of all limitations, and could be subject to restrictions imposed by the contract clause of the United States Constitution. No assurance can be given, however, that voters in the County will not, in the future, approve an initiative that reduces or repeals local taxes, assessments, fees or charges that are deposited into the County's General Fund. In addition, "fees" and "charges" are not defined by Article XIIC or SB 919, and the scope of the initiative power under Article XIIC could include all sources of General Fund moneys not received from or imposed by the federal or State government or derived from investment income.

In a June 3, 1997 election, voters approved special tax measures to maintain the Fire Protection District's benefit assessment and the Public Library's benefit charge by the required two-thirds majority.

#### *Proposition 1A*

Proposition 1A, proposed by the State Legislature in connection with the 2004-05 Budget Act and approved by the voters in November 2004, provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax or change the allocation of local sales tax revenues, subject to certain exceptions. Proposition 1A generally prohibits the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any fiscal year, as set forth under the laws in effect as of November 3, 2004. In general, any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of both houses of the Legislature.

#### *Future Initiatives*

Propositions 13, 62, 218 and 1A were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time, other initiative measures could be adopted, further affecting revenues of the County or the County's ability to expend revenues. The nature and impact of these measures cannot be predicted by the County.

## **PROGRAM FUNDING BY FEDERAL AND STATE GOVERNMENTS**

A significant portion of the County budget is comprised of revenues received from the federal and State governments. As indicated in the table "Historical Funding Requirements and Revenue Sources" on page A-13 of this Appendix, \$4.1 billion of the \$16.9 billion Proposed 2007-08 General County Budget is received from the federal government and \$4.8 billion is funded by the State. The balance of \$8.0 billion in County financing is generated from property taxes and a variety of other sources. The fact that 53% of General County financing is provided by the federal and State governments underscores the County's reliance on those outside funding sources.

On February 5, 2007, the President released his proposed budget for Federal Fiscal Year 2008, which begins on October 1, 2007. Similar to prior years, it would reduce overall federal aid to state and local governments. Most of his proposed budget cuts affecting state and local governments are similar to those that were proposed, but rejected by Congress, last year. For example, as in prior years, the President is proposing to eliminate the State Criminal Alien Assistance Program (SCAAP), which partially reimburses the County's costs of incarcerating undocumented criminal aliens. Last year, Congress rejected this proposal and, instead, maintained SCAAP funding at the prior year's level. The President also once again is proposing to cap Medicaid payments to government providers, such as the County, to no more than the cost of providing services to Medicaid recipients, which could potentially cost the County \$200 million annually. On January 18, 2007, the Centers for Medicare and Medicaid Services (CMS) published a proposed rule that would implement the proposed cap, effective as of September 1, 2007. If implemented, the proposed rule is likely to be challenged in the courts on the grounds that CMS lacks the authority to limit Medicaid payments by regulation. In addition, pending federal legislation would impose at least a one-year moratorium on the implementation of any regulation that would limit Medicaid payments to government providers.

Many events will affect the amount the County actually receives from the federal and State governments in the future. As a result, the information in this Official Statement (including this Appendix A) relating to the funding the County expects to receive from federal and State governments is based upon the County's current expectations and is subject to the occurrence of future events.

#### *Realignment Program*

In Fiscal Year 1991-92, the State and county governments collectively developed a program realignment system that removed State funding for certain health and welfare programs, and provided counties with additional flexibility in the administration of such programs. Under this plan, these programs were funded through a one-half percent increase in sales taxes and increased vehicle license fees. Counties receive these funds under a fixed formula under State law and the flow of these funds is no longer subject to the State budget process. If sales tax and vehicle license fee revenues are not realized as expected, county governments will maintain responsibility for the management and cost of these health and welfare programs.

### *Tobacco Settlement*

On November 23, 1998, the attorneys general of 46 states (including the State of California), the District of Columbia, the Commonwealth of Puerto Rico, Guam, the U.S. Virgin Islands, American Samoa, and the Commonwealth of the Northern Mariana Islands reached agreement with the then four largest United States tobacco manufacturers to settle more than forty pending lawsuits brought by these public entities.

The Master Settlement Agreement (MSA) requires the tobacco companies to make payments to the states in perpetuity, with the payments totaling an estimated \$206.0 billion through the year 2025. California will receive 12.76%, or approximately \$25.0 billion of the total settlement. While the County's share of the State settlement is expected to average an estimated \$105.0 million each year, the amount of funding may fluctuate significantly from year to year. Factors that could impact the amount actually paid each year to the State include actions of the federal government, declines in cigarette sales, lawsuits, tobacco company bankruptcies, and various adjustments under the terms of the MSA. To date there have been multiple legal challenges to the MSA under a variety of claims, including claims on anti-trust and Commerce Clause grounds. None of these lawsuits has been successful or resulted in the termination of the original agreement. Recent actions by certain participating manufacturers, however, have reduced amounts received by the State and may adversely impact projected payments. Specifically, a portion of settlement payments have been withheld (or made under protest) until the courts decide whether California has diligently enforced the provisions relative to the financial obligations of non-participating manufacturers to make certain escrow payments. Annual payments received by the states were reduced in April 2007 and the County received 7.5% less than expected, or \$98.1 million rather than \$106.0 million. While this decrease resulted in less revenue to the County, there will be no material impact to the budget since only \$89.2 million in Tobacco Settlement Revenues (TSRs) is allocated for use in Fiscal Year 2007-08.

It has been reported that 38 of the settling states have commenced enforcement proceedings under the MSA to compel the participating manufacturers to make the payments, without reduction for any non-participating manufacturer's adjustment, until the courts have reached a final non-appealable resolution to the issue. The California Attorney General initiated such proceedings on April 18, 2006 claiming that the State had diligently enforced its MSA responsibilities.

Neither the MSA nor the Memorandum of Understanding restricts the use of the County's settlement monies for any specific purpose. Proceeds received by the County from the settlement have been deposited in the County's General Fund and reserved in a designation for health services. Through April 2007, the County has received \$906.3 million in tobacco settlement proceeds and accrued interest. It is estimated that approximately \$699.3 million of the collected proceeds will be expended by June 30, 2007.

The difference between TSRs received and TSRs expended of approximately \$207.0 million has resulted primarily because of initial delays in developing a spending plan for the funds. In addition, the Department of Health Services (DHS) has not expended each year's appropriation of TSRs, which increases the amount maintained in reserve. While DHS has identified

programmatic uses for projected ongoing TSRs, it continues to develop plans to use the excess proceeds, primarily for one-time uses that help decrease its projected deficit.

On February 8, 2006, the County issued \$319,827,107 in tax-exempt Tobacco Settlement Asset-Backed Bonds (Tobacco Bonds). The Tobacco Bonds are secured and payable from 25.9% of the County's TSRs beginning in 2011, which is also the year in which debt service on the Tobacco Bonds commences. The sale of the Tobacco Bonds was undertaken to finance construction costs related to the LAC+USC Medical Center Replacement Facility, as well as insure against the risk of a substantial loss of a portion of the County's allocated tobacco revenues. The use of this fixed percentage of TSRs to secure and repay the Tobacco Bonds is not expected to materially impact the DHS programs that rely on such revenues for funding.

### **STATE BUDGET**

Recent State budgets have reflected the State's efforts to stabilize its fiscal position in response to an uncertain and volatile economy. Over the past ten years, the State budget has experienced broad fluctuations as the State has responded to the economic recession of the early 1990's, the economic recovery later in that decade, and the most recent recession and recovery. The State's budgetary decisions during this period have had significant financial and programmatic impacts on counties, cities, and other local jurisdictions.

#### *Property Tax Shift*

In response to the State's 1993-94 budgetary recession, the State shifted \$2.1 billion in property taxes from counties and \$500 million from cities, special districts and redevelopment agencies to school and community college districts. This action reduced the County's primary source of discretionary revenue. The reduction has been partially offset by revenues from the County's share of the Proposition 172 one-half cent public safety sales tax.

#### *Public Safety/Justice Programs*

In 2002, the State reappropriated \$92.0 million in grant funding for the construction of a new crime laboratory in Los Angeles County, and authorized the issuance of lease revenue bonds to finance the project. Construction of the crime laboratory was completed in May 2007.

#### *Trial Courts*

In 1998, the State enacted the Trial Court Funding Act, which provided a major restructuring of Trial Court Funding to stabilize court funding and provide long-term fiscal relief to counties. Under the restructuring, the State assumed responsibility for funding trial court operations, including any increases in operational costs. Counties retained responsibility for facility costs and local judicial benefits and make an annual contribution to the Trial Court Trust Fund. The level of each county's contribution is based on each county's funding for court operations in 1994-95.

In November 2002, the State enacted SB1732, which establishes a governance structure and procedures for the transfer of court facilities from counties to the State. The

legislation became effective January 1, 2003 and requires a phased approach during a three-year transition period that commences in 2004. Any facility transfer requires county payment for operations and maintenance costs. The county payment level will remain fixed under a maintenance of effort agreement to be negotiated between the State and the affected county. As of April 2007, no County of Los Angeles facility transfers have occurred.

#### *Medi-Cal Redesign*

Recent legislation, Medi-Cal Hospital/Uninsured Care (SB 1100), will dramatically restructure Medi-Cal payments to California's public hospitals under a new federal Medicaid 1115 Waiver. While subject to revisions based on the State's analysis, DHS estimates that it will receive additional Medi-Cal Redesign funding of approximately \$132.5 million for Fiscal Year 2006-07 and \$127.1 million for Fiscal Year 2007-08.

It should be noted that the Centers for Medicare and Medicaid Services (CMS) has approved the Medi-Cal Hospital/Uninsured Care State Plan Amendment. Approval of a Physician State Plan Amendment is pending approval by CMS.

### **STATE-LOCAL GOVERNMENT FINANCES**

#### *Local Government Agreement*

The 2004-05 Final State Budget included an agreement with local governments to limit the proposed shift in property tax revenues to \$1.3 billion for the two years ending with Fiscal Year 2005-06. After this period, local governments would relinquish \$4.1 billion of Vehicle License Fee (VLF) backfill revenue in return for an equal amount of property taxes. The State would be constitutionally precluded from implementing future property tax shifts and the State will begin repayment for unreimbursed State mandates over a five-year period commencing in 2006-07. This agreement was codified by the passage of Proposition 1A in the November 2, 2004 election.

#### *Proposition 1A*

On November 2, 2004, California voters approved the passage of Proposition 1A. As discussed earlier, this proposition provided for an amendment to the State Constitution that limits the State's authority to reduce local sales tax rates or alter their method of allocation, shift property taxes from local governments to schools or community colleges, or decrease VLF revenues without providing replacement funding.

Proposition 1A further amended the State Constitution to require the State to suspend State laws that create unfunded mandates in any year that the State does not fully reimburse local governments for their costs to comply with such mandates.

### **2007-08 STATE BUDGET**

The Governor's Proposed State Budget, released in January 2007, has substantially less of an impact to the County than in prior years due primarily to the passage of Proposition 1A.

The Governor's Budget, along with moving the Presidential Primary Election to February 2008, would leave the County with a net loss of \$21.7 million. The Budget proposals include reductions to Integrated Services for Homeless Adults with

Serious Mental Illness Program (\$17.0 million) and the Substance Abuse Crime Prevention Act Program (\$7.0 million) and the unfunded cost of a February 2008 Presidential Primary Election (\$20.0 million). The Governor's Budget proposes increases for Health Care Workforce Development (\$5.7 million), the Adult Probation Program (\$14.6 million) and LEADER System Replacement (\$2.0 million).

The Governor's Budget proposal does not restore funding for the Property Tax Administration Program, which was suspended two years ago, with the expectation that the program would be reinstated in 2007-08. The County's annual share of the program was \$13.5 million. The impacts of any new State proposed changes, with the exception of increases to the Health Care Workforce Development program, are not included in the County's Proposed Budget. Upon adoption of the State Budget for Fiscal Year 2007-08, the County will likely align State budget actions with the County Budget.

On May 14, 2007, the Governor released revisions to the Proposed 2007-08 State Budget. The one County program to be directly impacted by the Governor's May Revision is the Adult Probation Program, which saw its anticipated funding reduced from \$14.6 million to approximately \$6.9 million. The revised net loss to the County following the May Revision is an estimated \$29.4 million for 2007-08.

In addition, the Proposed Budget does not include the impact of the Governor's proposals in the areas of corrections and health care reform. These proposals are being evaluated as more details of the plans become available.

### **THE COUNTY BUDGET**

The County Budget is comprised of eight (8) fund groups through which the County's resources are allocated and controlled. These groups include the General, Hospital Enterprise, and Debt Service Funds (that represent the General County Budget), Special Funds, Special District Funds, Other Enterprise Funds and Other Funds.

The General County Budget accounts for approximately 79.7% of the 2007-08 Proposed County Budget and funds programs that are provided on a mostly county-wide basis (e.g., health care, welfare, and detention facilities), municipal services to the unincorporated areas not otherwise included in a special district, and certain municipal services to various cities on a contract fee-for-service basis (e.g., law enforcement, planning and engineering).

Special Funds represent approximately 9.2% of the 2007-08 Proposed County Budget and are used to account for the allocation of revenues that are restricted to specific purposes, such as Public Library operations, courthouse construction programs and operations, and specified automation projects.

Special Districts account for approximately 7.9% of the 2007-08 Proposed County Budget and are separate legal entities funded by specific taxes and assessments. These districts provide public improvements and/or services benefiting targeted properties and residents. They are governed by the Board of Supervisors and include, among others, the Flood Control, Garbage Disposal, Sewer Maintenance and Regional Park and Open Space Districts.

Other Enterprises reflect only 0.9% of the 2007-08 Proposed County Budget and are distinct fiscal entities that fund the operations of certain governmental units that like private businesses provide specific services to the general public and are primarily funded by user fees. Included in this fund group are the Waterworks Districts and the Transit Fund.

Other Funds include approximately 2.0% of the 2007-08 Proposed County Budget and go towards a number of separate legal entities such as the Community Development Commission and Housing Authority, which are not special districts but are controlled by the Board of Supervisors.

The following table details historical General County appropriations.

**County of Los Angeles: General County Budget  
Historical Appropriations by Fund  
(in thousands)**

<b>Fund</b>	<b>Final 2003-04</b>	<b>Final 2004-05</b>	<b>Final 2005-06</b>	<b>Final 2006-07</b>	<b>Proposed 2007-08</b>
General Fund	\$ 12,104,810	\$ 12,616,794	\$ 13,723,601	\$ 14,837,253	\$ 15,084,965
Hospital Enterprise Fund	1,640,514	1,745,137	1,963,466	1,773,047	1,846,086
Debt Service Fund	43,521	44,362	10,290	9,554	-
<b>Total General County Budget</b>	<b>\$ 13,788,845</b>	<b>\$ 14,406,293</b>	<b>\$ 15,697,357</b>	<b>\$ 16,619,854</b>	<b>\$ 16,931,051</b>

**County of Los Angeles: General County Budget  
Historical Funding Requirements and Revenue Sources  
(in thousands)**

	<b>Final 2003-04</b>	<b>Final 2004-05</b>	<b>Final 2005-06</b>	<b>Final 2006-07</b>	<b>Proposed 2007-08</b>
<b>Requirements</b>					
Social Services	\$ 4,696,224	\$ 4,711,572	\$ 4,651,813	\$ 4,749,055	\$ 4,903,286
Health	4,216,053	4,318,251	4,638,706	4,930,299	5,086,019
Justice	3,401,501	3,550,049	3,826,565	4,177,707	4,372,509
Other	1,475,067	1,826,421	2,580,273	2,762,793	2,569,237
<b>Total</b>	<b>\$ 13,788,845</b>	<b>\$ 14,406,293</b>	<b>\$ 15,697,357</b>	<b>\$ 16,619,854</b>	<b>\$ 16,931,051</b>
<b>Revenue Sources</b>					
Property Taxes	\$ 1,756,796	\$ 2,532,415	\$ 2,744,055	\$ 3,246,500	\$ 3,589,820
State Assistance	4,260,158	4,252,927	4,417,274	4,716,625	4,840,876
Federal Assistance	4,510,919	4,070,743	3,986,571	4,091,431	4,149,428
Other	3,260,972	3,550,208	4,549,457	4,565,298	4,350,927
<b>Total</b>	<b>\$ 13,788,845</b>	<b>\$ 14,406,293</b>	<b>\$ 15,697,357</b>	<b>\$ 16,619,854</b>	<b>\$ 16,931,051</b>

**County of Los Angeles: General County Budget  
Historical Summary of Funding Requirements by Budgetary Object and Available Financing  
(in thousands)**

	<b>Final 2003-04</b>	<b>Final 2004-05</b>	<b>Final 2005-06</b>	<b>Final 2006-07</b>	<b>Proposed 2007-08</b>
<b>Financing Requirements</b>					
Salaries & Employee Benefits	\$ 6,245,540	\$ 6,607,111	\$ 7,101,154	\$ 7,701,124	\$ 8,316,755
Services & Supplies	4,539,358	4,619,687	4,993,336	5,480,217	5,593,603
Other Charges	3,779,382	3,782,145	3,607,279	3,031,605	3,019,623
Fixed Assets	372,395	490,517	812,222	1,269,445	1,245,023
Other Financing Uses	1,005,172	1,129,523	1,406,675	1,130,994	1,161,503
Residual Equity Transfers Out	370	299	291	379	278
Appropriation for Contingencies	22,526	16,221	-	-	-
Interfund Transfer	(1,584,315)	(1,728,744)	(2,099,672)	(1,547,962)	(1,648,801)
Gross Appropriation	\$ 14,380,428	\$ 14,916,759	\$ 15,821,285	\$ 17,065,802	\$ 17,687,984
Less: Intrafund Transfers	697,293	708,686	769,845	791,309	844,530
Net Appropriation	\$ 13,683,135	\$ 14,208,073	\$ 15,051,440	\$ 16,274,493	\$ 16,843,454
<b>Reserves</b>					
General Reserve	\$ 4,367	\$ 4,007	\$ 3,747	\$ 3,439	\$ 3,000
Designations/Other Reserves	100,987	194,034	641,722	341,871	84,597
Estimated Delinquencies	356	179	448	51	-
<b>Total Financing Requirements</b>	<b>\$ 13,788,845</b>	<b>\$ 14,406,293</b>	<b>\$ 15,697,357</b>	<b>\$ 16,619,854</b>	<b>\$ 16,931,051</b>
<b>Available Financing</b>					
Fund Balance	\$ 681,196	\$ 874,846	\$ 911,894	\$ 1,073,017	\$ 1,217,445
Cancellation of Reserve/Designation	264,763	222,101	944,318	823,328	366,793
Property Taxes: Regular Roll	1,706,011	2,452,682	2,638,633	3,132,117	3,400,595
Supplemental Roll	50,785	79,733	105,422	114,383	189,225
Revenue	11,086,090	10,776,931	11,097,090	11,477,009	11,756,993
<b>Total Available Financing</b>	<b>\$ 13,788,845</b>	<b>\$ 14,406,293</b>	<b>\$ 15,697,357</b>	<b>\$ 16,619,854</b>	<b>\$ 16,931,051</b>

Source: Chief Administrative Office

## RECENT COUNTY BUDGETS

Recent General County Budgets have reflected a conservative approach and sought to maintain a stable budgetary outlook in an uncertain fiscal environment.

The stability of the County's budget over the past ten years has been highlighted by:

- the County's initiation of a multi-year plan to lessen its reliance on surplus investment earnings from LACERA to fund ongoing costs of the retirement program. By substantially increasing its Net County Cost contribution over the prior ten (10) fiscal years, the County will have eliminated its use of the surplus investment credit. 2007-08 marks the end of the County's reliance on pension excess earnings;
- the allocation of \$757.0 million in local one-time discretionary funding on deferred maintenance and capital improvement needs;
- increased federal and State revenues for mental health and probation programs;
- the amendment of County ordinances that brought the County's general purpose taxes into conformance with Proposition 218 restrictions and requirements;
- a decrease in welfare assistance payments due to the enactment of the State's Welfare-to-Work Act of 1997 and creation of the California Work Opportunity and Responsibility to Kids Program (CalWORKs) with the intent of assisting recipients in the transition from welfare to employment through increased administrative flexibility and access to certain support services, such as child care, that diminish barriers to employment;
- the approval of a \$110.3 million Security Action Plan for the County, to be funded from State and federal revenue, to augment specialized firefighting, health and law enforcement activities in response to the September 11, 2001 terrorist attacks and the subsequent threat of further terrorist acts;
- an increase in preventative, outpatient care services through the implementation of public-private partnerships with community based health organizations in accordance with the requirements of the federal Medicaid 1115 Waiver;
- the gradual elimination of 1115 Waiver funding over the five-year extension period ending on June 30, 2005; and
- an increase in funding to reopen jail facilities throughout the Sheriff's custody system and to add deputies to increase patrols in the unincorporated areas of the County.
- an increase in funding for the Probation Department to implement plans to comply with the Department of Justice settlement agreements, redesign camps, restructure camp management and increase administrative and support staff throughout the

department. Since 2005-06 the County has committed a total of \$75.1 million in new ongoing funding to address the Probation Department's comprehensive improvement strategy.

These actions, combined with a gradual improvement in the local economy and the absence of additional revenue shifts by the State, have resulted in the highest level of stability since 1992-93.

Current and future County budgets are further stabilized due to the passage of Proposition 1A in November 2004, which secured long-term financial protection from a State reallocation of property tax revenues during times of State fiscal crisis. The State can no longer reallocate local property taxes to reduce the costs for funding schools. While Proposition 1A guarantees more predictable funding and relief from unfunded mandates, the County was required to contribute \$103.2 million to the State in both 2004-05 and 2005-06 as part of the Local Government Agreement. This agreement also provides for the substitution of vehicle license fee funds with property tax revenues, which gives the County increased reliability as property taxes have historically been one of the least volatile forms of revenue.

The dependability of property tax revenues is due in large part to Proposition 13, which helps to insulate the County from the cyclical nature of the real estate market. As discussed earlier, Proposition 13 limits the growth of assessed valuations and allows for reassessments only when a property is sold. As a result, there is a significant amount of "stored" home value appreciation that is not reflected on the property tax rolls and which would help to offset any future reduction in assessed valuations. Changes of ownership requiring a reassessment under Proposition 13 added approximately \$65 billion to the Assessment Roll in 2006, representing over 69% of the \$94 billion increase from 2005.

### Health Services

The expiration of a federal Medicaid 1115 Waiver on June 30, 2005, combined with the structural deficit in the DHS budget, represents the County's most difficult budgetary challenge. This annual structural deficit of approximately \$300 million has resulted in the need to use one-time funding to address ongoing commitments.

DHS has been planning for anticipated budget deficits for several years. In 2002, it released a System Redesign proposal to provide a comprehensive approach to consolidating and reducing services as well as obtaining additional federal and State financial support. The Board of Supervisors approved this plan in June 2002. DHS successfully implemented some of the plan's recommendations; however, legal action resulting in a Federal Court injunction has until recently prevented the transition or closure of Rancho Los Amigos National Rehabilitation Center (Rancho) and the reduction of 100 inpatient beds at LAC+USC Medical Center, each of which would have resulted in substantial savings.

On August 9, 2005, the Board of Supervisors approved a negotiated settlement with the plaintiffs in the above-referenced legal action (the Harris-Rodde Settlement Agreements). The Federal District Court approved the *Harris* settlement on December 19, 2005, and the *Rodde* settlement on March 10, 2006. These settlement agreements allow for the phased

reduction of beds at LAC+USC contingent upon meeting established milestone reductions in patients' average length of stay. Specifically, DHS was able to reduce 25 beds immediately, with additional decreases tied to achieving and maintaining milestone reductions for prescribed periods of time. The settlement also calls for DHS to continue to operate Rancho, although at a reduced size with only core rehabilitation services, for a three-year period through March 9, 2009, while the County simultaneously seeks an entity to take-over hospital operations. DHS estimates that it will be able to achieve cumulative net savings of approximately \$61.4 million as a result of implementing settlement-related efforts through Fiscal Year 2008-09. (See "General Litigation" in the Information Statement section of this Appendix A for additional information).

The DHS Fiscal Outlook Update presented to the Board of Supervisors on April 17, 2007, demonstrated that the DHS Fiscal Year 2007-08 Proposed Budget is balanced. However, additional costs and potential sources of revenue identified in the Fiscal Outlook report are currently being reviewed as part of the County's budget process. Included in the 2007-08 Proposed County Budget is \$93.0 million in revenue related to the Managed Care Supplemental Rate that is currently pending approval with the Centers for Medicare and Medicaid Services (CMS). The possibility that this revenue may not be approved by CMS presents a potential risk to the DHS budget for 2007-08. Also not contemplated in the Proposed County Budget is the Medicaid cap recommended by the President in his budget proposal for Federal Fiscal Year 2008. As mentioned earlier, the introduction of a cap on Medicaid payments could potentially cost the County as much as \$200 million annually.

Included with the April 17, 2007 DHS Fiscal Outlook Update was a deficit management plan requested by the Board, which identified specific actions the department can take to enhance savings and facilitate potential new sources of revenue. Should all of the proposed deficit management plan actions be implemented, DHS forecasts that it will achieve a budget surplus of \$24.7 million for Fiscal Year 2007-08. In addition to the specific actions recommended in its deficit management plan, DHS will continue to evaluate the overall configuration of health services within Los Angeles County and will present options for further savings to the Board of Supervisors in June 2007.

On September 22, 2006, the Centers for Medicare and Medicaid Services (CMS) notified the County that Martin Luther King/Drew Medical Center (MLK) would lose its certification effective November 30, 2006. This would have made MLK ineligible to receive Medicaid and Medicare funding, jeopardizing approximately \$200 million in federal assistance to the hospital. To remedy this situation, the County developed a new model of care that would reduce services at MLK and transfer control of the facility to the County's Harbor-UCLA Medical Center. The County presented this new service model as an option to CMS in order to allow MLK to continue to be certified. As a result, CMS agreed to extend the effective termination date to March 31, 2007 to allow the County to transition to this new care model. An additional extension, through August 15, 2007, was granted by CMS on March 30, 2007. This extension allows DHS to continue to provide patient care to South Los Angeles residents under a CMS agreement, while finalizing the implementation of the MetroCare Plan.

#### *Property Tax for Emergency Services*

The Board of Supervisors approved the placement of Measure B on the County's November 5, 2002 ballot, which proposed a property tax increase of three cents per square foot of structural improvements to fund trauma and emergency medical services at public and private medical facilities throughout the County. It was anticipated that passage of this property tax increase would generate up to \$168.0 million per year.

The County's voters approved Measure B on November 5, 2002 with a 73% majority vote. DHS has developed plans to maximize the benefit of the Measure B funds. The 2007-08 Proposed County Budget includes \$215.2 million in Measure B funds to support trauma and emergency medical services at public and private medical facilities in the County and to fund the DHS bioterrorism preparedness activities.

#### **2007-08 PROPOSED BUDGET**

The 2007-08 Proposed Budget, which was approved by Board of Supervisors on April 17, 2007, appropriates \$21.2 billion, a 0.9% increase from the prior year. For General County purposes (General Fund, Hospital Enterprise Fund and Debt Service Fund), the Proposed Budget recommends \$16.9 billion, which represents a 1.9% increase from the 2006-07 Final Adopted Budget. The Proposed Budget added 1,425.6 budgeted positions for Fiscal Year 2007-08.

The 2007-08 Proposed Budget is supported by \$3.6 billion in property taxes, \$4.1 billion in federal contributions, \$4.8 billion in State contributions, \$0.4 billion in cancelled reserves and designations and approximately \$3.8 billion in other funding.

Overall, the 2007-08 Proposed Budget results in a \$311.2 million increase, which reflects a 1.9% increase from the Fiscal Year 2006-07 Final Adopted Budget. The Fiscal Year 2007-08 Proposed Budget once again builds on the prior years' budgets that focused funding on public protection and health services needs. The Fiscal Year 2007-08 Proposed Budget provides funding to address a number of public protection, including anti-gang initiatives, and health care issues facing the County.

The tables on the following pages summarize and compare the Final Adopted 2006-07 General County Budget with the Proposed 2007-08 General County Budget.

**COUNTY OF LOS ANGELES  
GENERAL COUNTY BUDGET  
COMPARISON OF FINAL ADOPTED 2006-07 BUDGET TO PROPOSED 2007-08 BUDGET  
Net Appropriation: By Function  
(In thousands)**

Function	2006-07 Final Budget <sup>(1)</sup>	2007-08 Proposed Budget <sup>(2)</sup>	Difference	Percentage Difference
<b>REQUIREMENTS</b>				
General				
General Government	\$ 933,933.0	\$ 891,266.0	\$ (42,667.0)	-4.57%
General Services	223,410.0	210,160.0	(13,250.0)	-5.93%
Public Buildings	1,090,052.0	1,112,761.0	22,709.0	2.08%
Total General	\$ 2,247,395.0	\$ 2,214,187.0	\$ (33,208.0)	-1.48%
Public Protection				
Justice	\$ 3,880,726.0	\$ 4,195,499.0	\$ 314,773.0	8.11%
Other Public Protection	144,253.0	127,010.0	(17,243.0)	-11.95%
Total Public Protection	\$ 4,024,979.0	\$ 4,322,509.0	\$ 297,530.0	7.39%
Health and Sanitation	4,930,299.0	5,086,019.0	155,720.0	3.16%
Public Assistance	4,749,055.0	4,903,286.0	154,231.0	3.25%
Recreation and Cultural Services	239,804.0	243,556.0	3,752.0	1.56%
Insurance and Loss Reserve	73,897.0	73,897.0	-	0.00%
Reserves/Designations	345,361.0	87,597.0	(257,764.0)	-74.64%
Debt Service	9,064.0	-	(9,064.0)	-100.00%
Appropriation for Contingency	-	-	-	0.00%
<b>Total Requirements</b>	<b>\$ 16,619,854.0</b>	<b>\$ 16,931,051.0</b>	<b>\$ 311,197.0</b>	<b>1.87%</b>
<b>AVAILABLE FUNDS</b>				
Property Taxes	\$ 3,246,500.0	\$ 3,589,820.0	\$ 343,320.0	10.58%
Fund Balance	1,073,017.0	1,217,445.0	144,428.0	13.46%
Cancelled Prior-Year Reserves	823,328.0	366,793.0	(456,535.0)	-55.45%
Intergovernmental Revenues				
State Revenues				
In-Lieu Taxes	\$ 509,881.0	\$ 526,912.0	\$ 17,031.0	3.34%
Homeowners' Exemption	20,500.0	20,500.0	-	0.00%
Public Assistance Subventions	1,477,021.0	1,543,141.0	66,120.0	4.48%
Other Public Assistance	545,937.0	536,362.0	(9,575.0)	-1.75%
Public Protection	869,706.0	877,649.0	7,943.0	0.91%
Health and Mental Health	873,752.0	916,133.0	42,381.0	4.85%
Capital Projects	94,879.0	50,160.0	(44,719.0)	-47.13%
Other State Revenues	37,881.0	35,845.0	(2,036.0)	-5.37%
Total State Revenues	\$ 4,429,557.0	\$ 4,506,702.0	\$ 77,145.0	1.74%
Federal Revenues				
Public Assistance Subventions	\$ 2,078,749.0	\$ 2,135,485.0	\$ 56,736.0	2.73%
Other Public Assistance	201,209.0	199,197.0	(2,012.0)	-1.00%
Public Protection	139,274.0	137,378.0	(1,896.0)	-1.36%
Health and Mental Health	604,163.0	646,314.0	42,151.0	6.98%
Capital Projects	3,581.0	2,260.0	(1,321.0)	-36.89%
Other Federal Revenues	2,396.0	2,345.0	(51.0)	-2.13%
Total Federal Revenues	\$ 3,029,372.0	\$ 3,122,979.0	\$ 93,607.0	3.09%
Other Governmental Agencies	99,937.0	93,625.0	(6,312.0)	-6.32%
Total Intergovernmental Revenues	\$ 7,558,866.0	\$ 7,723,306.0	\$ 164,440.0	
Fines, Forfeitures and Penalties	200,190.0	201,012.0	822.0	0.41%
Licenses, Permits and Franchises	54,364.0	56,114.0	1,750.0	3.22%
Charges for Services	2,031,307.0	2,089,310.0	58,003.0	2.86%
Other Taxes	192,960.0	199,577.0	6,617.0	3.43%
Use of Money and Property	130,166.0	131,584.0	1,418.0	1.09%
Miscellaneous Revenues	405,129.0	466,172.0	61,043.0	15.07%
Operating Contribution from General Fund	904,027.0	889,918.0	(14,109.0)	-1.56%
<b>Total Available Funds</b>	<b>\$ 16,619,854.0</b>	<b>\$ 16,931,051.0</b>	<b>\$ 311,197.0</b>	<b>1.87%</b>

(1) Reflects the Final Adopted 2006-07 Budget approved by the Board of Supervisors on September 26, 2006.

(2) Reflects the 2007-08 Proposed General County Budget approved by the Board of Supervisors on April 17, 2007.

**COUNTY OF LOS ANGELES**  
**FINAL ADOPTED 2006-07 GENERAL COUNTY BUDGET <sup>(1)</sup>**  
**Net Appropriation: By Fund and Function**  
**(In thousands)**

<b>Function</b>	<b>General Fund</b>	<b>Debt Service Fund</b>	<b>Hospital Enterprise Fund</b>	<b>Total General County</b>
<b>REQUIREMENTS</b>				
General				
General Government	\$ 933,933.0	\$ -	\$ -	933,933.0
General Services	223,410.0	-	-	223,410.0
Public Buildings	1,090,052.0	-	-	1,090,052.0
<b>Total General</b>	<b>\$ 2,247,395.0</b>	<b>\$ -</b>	<b>\$ -</b>	<b>2,247,395.0</b>
Public Protection				
Justice	\$ 3,880,726.0	\$ -	\$ -	3,880,726.0
Other Public Protection	144,253.0	-	-	144,253.0
<b>Total Public Protection</b>	<b>\$ 4,024,979.0</b>	<b>\$ -</b>	<b>\$ -</b>	<b>4,024,979.0</b>
Health and Sanitation				
Public Assistance	\$ 4,749,055.0	\$ -	\$ 1,773,047.0	4,930,299.0
Recreation and Cultural Services	239,804.0	-	-	239,804.0
Insurance and Loss Reserve	73,897.0	-	-	73,897.0
Reserves/Designations	344,871.0	490.0	-	345,361.0
Debt Service	-	9,064.0	-	9,064.0
Appropriation for Contingency	-	-	-	-
<b>Total Requirements</b>	<b>\$ 14,837,253.0</b>	<b>\$ 9,554.0</b>	<b>\$ 1,773,047.0</b>	<b>\$ 16,619,854.0</b>
<b>AVAILABLE FUNDS</b>				
Property Taxes				
Fund Balance	\$ 3,241,133.0	\$ 5,367.0	\$ -	3,246,500.0
Cancelled Prior-Year Reserves	1,069,828.0	3,189.0	-	1,073,017.0
	681,264.0	747.0	141,317.0	823,328.0
Intergovernmental Revenues				
State Revenues				
In-Lieu Taxes	\$ 509,881.0	\$ -	\$ -	509,881.0
Homeowners' Exemption	20,500.0	-	-	20,500.0
Public Assistance Subventions	1,477,021.0	-	-	1,477,021.0
Other Public Assistance	545,937.0	-	-	545,937.0
Public Protection	869,706.0	-	-	869,706.0
Health and Mental Health	821,328.0	-	52,424.0	873,752.0
Capital Projects	94,879.0	-	-	94,879.0
Other State Revenues	37,881.0	-	-	37,881.0
<b>Total State Revenues</b>	<b>\$ 4,377,133.0</b>	<b>\$ -</b>	<b>\$ 52,424.0</b>	<b>\$ 4,429,557.0</b>
Federal Revenues				
Public Assistance Subventions	\$ 2,078,749.0	\$ -	\$ -	2,078,749.0
Other Public Assistance	201,209.0	-	-	201,209.0
Public Protection	139,274.0	-	-	139,274.0
Health and Mental Health	601,440.0	-	2,723.0	604,163.0
Capital Projects	3,581.0	-	-	3,581.0
Other Federal Revenues	2,396.0	-	-	2,396.0
<b>Total Federal Revenues</b>	<b>\$ 3,026,649.0</b>	<b>\$ -</b>	<b>\$ 2,723.0</b>	<b>\$ 3,029,372.0</b>
Other Governmental Agencies				
	99,937.0	-	-	99,937.0
<b>Total Intergovernmental Revenues</b>	<b>\$ 7,503,719.0</b>	<b>\$ -</b>	<b>\$ 55,147.0</b>	<b>\$ 7,558,866.0</b>
Fines, Forfeitures and Penalties				
Licenses, Permits and Franchises	200,190.0	-	-	200,190.0
Charges for Services	54,364.0	-	-	54,364.0
Other Taxes	1,644,669.0	-	386,638.0	2,031,307.0
Use of Money and Property	192,960.0	-	-	192,960.0
Miscellaneous Revenues	129,803.0	251.0	112.0	130,166.0
Operating Contribution from General Fund	119,323.0	-	285,806.0	405,129.0
	-	-	904,027.0	904,027.0
<b>Total Available Funds</b>	<b>\$ 14,837,253.0</b>	<b>\$ 9,554.0</b>	<b>\$ 1,773,047.0</b>	<b>\$ 16,619,854.0</b>

(1) Reflects the Final Adopted 2006-07 General County Budget approved by the Board of Supervisors on September 26, 2006.

**COUNTY OF LOS ANGELES**  
**PROPOSED 2007-08 GENERAL COUNTY BUDGET <sup>(1)</sup>**  
**Net Appropriation: By Fund and Function**  
**(In thousands)**

<b>Function</b>	<b>General Fund</b>	<b>Debt Service Fund</b>	<b>Hospital Enterprise Fund</b>	<b>Total General County</b>
<b>REQUIREMENTS</b>				
General				
General Government	\$ 891,266.0	\$ -	\$ -	891,266.0
General Services	210,160.0	-	-	210,160.0
Public Buildings	1,112,761.0	-	-	1,112,761.0
<b>Total General</b>	<b>\$ 2,214,187.0</b>	<b>\$ -</b>	<b>\$ -</b>	<b>2,214,187.0</b>
Public Protection				
Justice	\$ 4,195,499.0	\$ -	\$ -	4,195,499.0
Other Public Protection	127,010.0	-	-	127,010.0
<b>Total Public Protection</b>	<b>\$ 4,322,509.0</b>	<b>\$ -</b>	<b>\$ -</b>	<b>4,322,509.0</b>
Health and Sanitation				
Public Assistance	\$ 4,903,286.0	\$ -	\$ 1,846,086.0	5,086,019.0
Recreation and Cultural Services	243,556.0	-	-	243,556.0
Insurance and Loss Reserve	73,897.0	-	-	73,897.0
Reserves/Designations	87,597.0	-	-	87,597.0
Debt Service	-	-	-	-
Appropriation for Contingency	-	-	-	-
<b>Total Requirements</b>	<b>\$ 15,084,965.0</b>	<b>\$ -</b>	<b>\$ 1,846,086.0</b>	<b>\$ 16,931,051.0</b>
<b>AVAILABLE FUNDS</b>				
Property Taxes				
Property Taxes	\$ 3,589,820.0	\$ -	\$ -	3,589,820.0
Fund Balance	1,217,445.0	-	-	1,217,445.0
Cancelled Prior-Year Reserves	168,402.0	-	198,391.0	366,793.0
Intergovernmental Revenues				
State Revenues				
In-Lieu Taxes	\$ 526,912.0	\$ -	\$ -	526,912.0
Homeowners' Exemption	20,500.0	-	-	20,500.0
Public Assistance Subventions	1,543,141.0	-	-	1,543,141.0
Other Public Assistance	536,362.0	-	-	536,362.0
Public Protection	877,649.0	-	-	877,649.0
Health and Mental Health	863,473.0	-	52,660.0	916,133.0
Capital Projects	50,160.0	-	-	50,160.0
Other State Revenues	35,845.0	-	-	35,845.0
<b>Total State Revenues</b>	<b>4,454,042.0</b>	<b>-</b>	<b>52,660.0</b>	<b>4,506,702.0</b>
Federal Revenues				
Public Assistance Subventions	\$ 2,135,485.0	\$ -	\$ -	2,135,485.0
Other Public Assistance	199,197.0	-	-	199,197.0
Public Protection	137,378.0	-	-	137,378.0
Health and Mental Health	643,591.0	-	2,723.0	646,314.0
Capital Projects	2,260.0	-	-	2,260.0
Other Federal Revenues	2,345.0	-	-	2,345.0
<b>Total Federal Revenues</b>	<b>\$ 3,120,256.0</b>	<b>\$ -</b>	<b>\$ 2,723.0</b>	<b>\$ 3,122,979.0</b>
Other Governmental Agencies				
Other Governmental Agencies	93,625.0	-	-	93,625.0
<b>Total Intergovernmental Revenues</b>	<b>\$ 7,667,923.0</b>	<b>\$ -</b>	<b>\$ 55,383.0</b>	<b>\$ 7,723,306.0</b>
Fines, Forfeitures and Penalties				
Fines, Forfeitures and Penalties	201,012.0	-	-	201,012.0
Licenses, Permits and Franchises	56,114.0	-	-	56,114.0
Charges for Services	1,742,683.0	-	346,627.0	2,089,310.0
Other Taxes	199,577.0	-	-	199,577.0
Use of Money and Property	131,401.0	-	183.0	131,584.0
Miscellaneous Revenues	110,588.0	-	355,584.0	466,172.0
Operating Contribution from General Fund	-	-	889,918.0	889,918.0
<b>Total Available Funds</b>	<b>\$ 15,084,965.0</b>	<b>\$ -</b>	<b>\$ 1,846,086.0</b>	<b>\$ 16,931,051.0</b>

(1) Reflects the 2007-08 Proposed General County Budget approved by the Board of Supervisors on April 17, 2007.

# FINANCIAL SUMMARY

## PROPERTY TAX RATE, VALUATION AND LEVY

Taxes are levied for each fiscal year on taxable real and personal property which is situated in the County as of the preceding January 1. However, upon a change in ownership of property or completion of new construction, State law permits an accelerated recognition and taxation of increases in real property assessed valuation (known as a "floating lien date"). For assessment and collection purposes, property is classified either as "secured" or "unsecured", and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State assessed property and property secured by a lien on real property which is sufficient, in the opinion of the Assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

The County of Los Angeles levies a 1% property tax on behalf of all taxing agencies in the County. The taxes collected are allocated on the basis of a formula established by State law. Under this formula, the County and all other taxing entities receive a base year allocation plus an allocation on the basis of "situs" growth in assessed value (new construction, change of ownership, and inflation) prorated among the jurisdictions which serve the tax areas within which the growth occurs. Tax rate areas are specifically defined geographic areas which were developed to permit the levying of taxes for less than county-wide or less than city-wide special districts.

## PAYMENT DATES AND LIENS

Property taxes on the secured roll are due in two installments, on November 1 and February 1. If unpaid, such taxes become delinquent after December 10 and April 10 respectively, and a ten percent penalty attaches to any delinquent payment. In addition, property on the secured roll with respect to which taxes are delinquent is declared tax-defaulted on July 1. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus costs and a redemption penalty of one and one-half percent per month to the time of redemption. If taxes are unpaid for a period of five years or more, the tax-defaulted property is subject to sale by the County Treasurer and Tax Collector.

Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent, if unpaid, on August 31. A ten percent penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of one and one-half percent per month begins to accrue on November 1. The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the County Recorder's office in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the taxpayer.

## LARGEST TAXPAYERS

The twenty largest taxpayers in the County as shown on the Fiscal Year 2006-07 secured tax roll and the approximate amounts of their aggregate levies for all taxing jurisdictions within the County are shown below. Property owned by these twenty largest taxpayers had a full cash value of \$28,517,781,564, which constitutes less than 3.3% of the total full cash value for the entire County.

Taxpayer	Total Tax Levy 2006-07
Southern California Edison Co.	\$ 42,399,564
Douglas Emmett Realty Fund	28,004,261
Maguire Thomas Partners	25,477,899
Chevron USA Inc.	23,241,649
BP West Coast Products	22,794,113
Exxon Mobil Corporation	17,927,265
AT&T California	17,907,692
Verizon California Inc.	17,187,394
Trizec LLC	16,945,131
Southern California Gas Company	16,030,268
Universal Studios Inc.	15,317,477
Arden Realty LTD Partnership	14,383,654
Conocophillips Company	14,361,322
Equilon Enterprises LLC	10,510,471
Anheuser Busch Inc.	10,005,290
Macerich LLC	9,725,974
Archstone Smith Operating Trust	9,683,256
Participants in Long Beach Unit	9,634,681
Valero Energy Corporation	9,522,645
Plains Exploration	7,100,118
	<b>\$ 338,160,126</b>

Source: Los Angeles County Treasurer and Tax Collector

## PROPERTY TAXATION AND COLLECTIONS

The table on the following page compares the assessed cash values, property tax levies and collections since 2002-03. For the Fiscal Year 2006-07, collections as a percentage of property tax levies are estimated at 97.42%, which is consistent with data from prior years.

COUNTY OF LOS ANGELES  
 COMPARISON OF FULL CASH VALUE  
 PROPERTY TAXATION AND COLLECTIONS  
 FISCAL YEARS 2002-03 THROUGH 2006-07

Fiscal Year	Full Cash Value <sup>(1)</sup>	General Fund Secured Property Tax Levies	General Fund Secured Property Tax Collections <sup>(2)</sup>	Current Collection As a Percent of Levies %
2002-03	\$ 605,942,874,836	\$ 1,506,200,807	\$ 1,467,167,904	97.41%
2003-04	656,073,063,881	1,617,943,519	1,582,529,914	97.81%
2004-05	709,671,759,735	1,738,123,054	1,697,194,166	97.65%
2005-06	783,342,364,874	1,901,915,833	1,852,878,570	97.42%
2006-07	872,103,795,877	2,117,424,120 <sup>(3)</sup>	2,062,830,388 <sup>(3)</sup>	97.42%

- (1) Full cash values reflect the equalized assessment roll as reported in August of each year; mid-year adjustments are reflected in the following year's values. Incremental full cash values of properties within project areas designated by community redevelopment agencies are excluded. See "Redevelopment Agencies".
- (2) Reflects collection within the fiscal year originally levied.
- (3) Preliminary estimate. Subject to change.

Source: Los Angeles County Auditor-Controller, Tax Division

**REDEVELOPMENT AGENCIES**

The California Community Redevelopment Law authorizes the redevelopment agency of any city or county to issue bonds payable from the allocation of tax revenues resulting from increases in full cash values of properties within designated project areas. This allocation reduces the tax revenues the County and all other taxing agencies would otherwise receive.

The rate of growth in full cash values of these project areas, on an aggregate basis, is greater than the rate of growth in the balance of the County. Since these project areas are primarily in commercial and industrial areas, they have provided a significant impetus to the development and revitalization of the County's economic base. In addition, under State law, redevelopment projects must contribute a portion of the property tax funds they receive to increase the availability of housing for families with low and moderate income.

The following table shows full cash value increments and total tax allocations to community redevelopment agencies for the Fiscal Years 2002-03 through 2006-07.

COMMUNITY REDEVELOPMENT AGENCY (CRA)  
 PROJECTS IN THE COUNTY OF LOS ANGELES  
 FULL CASH VALUE INCREMENTS AND TAX ALLOCATIONS  
 FISCAL YEARS 2002-03 THROUGH 2006-07

Fiscal Year	Full Cash Value Increments <sup>(1)</sup>	Total Tax Allocations <sup>(2)</sup>
2002-03	\$ 67,790,492,894	\$ 638,253,845
2003-04	74,089,202,480	678,254,140
2004-05	79,019,105,066	801,448,742
2005-06	94,983,553,733	909,975,540
2006-07	111,226,063,567	799,659,292 <sup>(3)</sup>

- (1) Equals the full cash value for all redevelopment project areas above their base year valuations. This data represents growth in full cash values which generates tax revenues for use by community redevelopment agencies.
- (2) Includes actual cash revenues collected by the County and subsequently paid to redevelopment agencies, which includes incremental growth allocation, debt service, mid year changes and Supplemental Roll.
- (3) Tax allocation to CRA as of April 20, 2007.

Source: Los Angeles County Auditor-Controller, Tax Division.

**CASH MANAGEMENT PROGRAM**

County General Fund expenditures tend to occur in level amounts throughout the fiscal year. Conversely, receipts from the two largest sources of County revenues have followed an uneven pattern, primarily as a result of secured property tax installment payment dates in December and April and delays in payments from other governmental agencies.

As a result, the General Fund cash balance prior to Fiscal Year 1977-78 had typically been negative for most of the year and had been covered by interfund borrowings pursuant to Section 6 of Article XVI of the California Constitution and intrafund borrowings.

“Intrafund borrowing” is borrowing for General Fund purposes against funds held in trust by the County. “Interfund borrowing” is borrowing from specific funds of other governmental entities whose funds are held in the County Treasury.

Because such General Fund interfund borrowings caused disruptions in the General Fund’s management of pooled investments, beginning in 1977 the County has regulated its cash flow by issuing tax anticipation notes and tax and revenue anticipation notes for the General Fund and by using intrafund borrowing.

All notes issued in connection with the County’s cash management program, with the exception of \$500,000,000 in aggregate principal amount of 2006-07 Tax and Revenue Anticipation Notes (2006-07 Notes) which were issued on July 3, 2006 and are due June 29, 2007, have been repaid on their respective maturity dates. Deposit obligations to the Repayment Fund for the 2006-07 Notes were satisfied in full as of April 23, 2007.

**2007-08 Tax and Revenue Anticipation Notes**

Pursuant to California law and a resolution adopted by the Board of Supervisors on May 15, 2007, the estimated \$500.0 million in 2007-08 Notes are general obligations of the County attributable to the 2007-08 fiscal year and are secured by a pledge of certain unrestricted taxes, income, revenue, cash receipts and other moneys of the County.

The County pledged to deposit sufficient revenues during the 2007-08 fiscal year into a Repayment Fund to repay the 2007-08 Notes at maturity. Under the Resolution and Financing Certificate executed by the County Treasurer and Tax Collector, such deposits are to be made in accordance with the following schedule:

COUNTY OF LOS ANGELES 2007-08 TAX AND REVENUE ANTICIPATION NOTES SCHEDULE OF DEPOSITS TO REPAYMENT FUND*		
Deposit Date		Deposit Amount
December, 2007	\$	174,000,000
January, 2008		90,000,000
February, 2008		57,000,000
March, 2008		61,000,000
April, 2008		140,375,000
<b>Total</b>	<b>\$</b>	<b>522,375,000</b>

\* Based on a 4.5% coupon and \$500 million in 2007-08 Notes.

The County has always fully satisfied its deposit obligations with respect to tax and revenue anticipation notes. The following table illustrates the Unrestricted General Fund Receipts collected on a cash flow basis since Fiscal Year 2001-02.

COUNTY OF LOS ANGELES  
GENERAL FUND  
UNRESTRICTED GENERAL FUND RECEIPTS (in thousands)

	2001-02	2002-03	2003-04	2004-05	2005-06	Estimated 2006-07
Property Taxes	\$1,552,293.0	\$1,652,678.0	\$1,797,267.0	\$2,599,369.0	\$2,933,232.0	\$3,345,422.8
Other Taxes	140,125.0	158,010.0	178,277.0	181,614.0	204,889.0	194,904.0
Licenses, Permits and Franchises	47,521.0	57,727.0	56,164.0	56,801.0	56,194.0	54,500.0
Fines, Forfeitures and Penalties	190,916.0	193,734.0	200,901.0	214,316.0	227,104.0	223,720.0
Use of Money and Property	133,336.0	80,675.0	66,362.0	81,391.0	180,511.0	255,760.0
State In-Lieu Taxes	1,091,762.0	1,111,455.0	997,003.0	507,114.0	465,913.0	505,727.0
State Homeowner Exemptions	20,726.0	20,726.0	20,514.0	21,558.0	21,528.0	20,500.0
Charges for Current Services	1,009,844.0	1,192,279.0	1,245,540.0	1,243,492.0	1,314,525.0	1,340,858.5
Miscellaneous Revenues	213,105.0	227,380.0	190,564.0	245,851.0	251,722.0	243,085.0
<b>TOTAL UNRESTRICTED RECEIPTS</b>	<b>\$4,399,628.0</b>	<b>\$4,694,664.0</b>	<b>\$4,752,592.0</b>	<b>\$5,151,506.0</b>	<b>\$5,655,618.0</b>	<b>\$6,184,477.3</b>

Detail may not add due to rounding.  
Source: Los Angeles County Auditor-Controller.

## **Intrafund and Interfund Borrowing**

To the extent necessary, the General Fund intends to use intrafund (and not interfund) borrowing to cover General Fund cash needs, including projected year-end cash requirements. Should the County find it necessary to resort to interfund borrowing, then such borrowing may not occur after the last Monday in April of each year and must be repaid before any other obligation of the County.

The County does not intend to engage in interfund borrowing for the General Fund nor has it done so since the implementation of the General Fund cash management program in Fiscal Year 1977-78.

## **Funds Available for Intrafund Borrowing**

After the TRANS proceeds are utilized, the General Fund borrows from three fund groups to meet its cash flow needs. The most significant group is the Property Tax Group which consists of collected taxes that are awaiting apportionment to various agencies. The great majority of these amounts will be distributed to other agencies.

The second most significant borrowing source includes the various trust groups and other funds. The largest fund in this group is the Departmental Trust Fund which consists of various collections, such as court fines and other revenues, awaiting distribution. The majority of these funds will eventually be distributed to entities other than the County. Also in this group is the Payroll Revolving Fund which consists of payroll charged to the various County Funds awaiting distribution to employees and other agencies.

The last fund group includes the Hospital Enterprise funds. The balances in these funds generally represent working capital advances from the General Fund and hospital generated cash. At year-end, remaining balances are transferred back to the General Fund.

It must be noted that the average daily balances shown for these sources are not necessarily indicative of the balances on any given day. The balances in certain funds, such as those in the tax group, can fluctuate greatly during the month. Likewise, the General Fund cash balance fluctuates during the month with the third week being the lowest and month-end the highest due to the timing of State receipts and receipt of welfare advances on the last day of the month. The tables on the following four pages indicate the average daily balances in each of the funds available for intrafund borrowing.

The legality of the County's practice of intrafund borrowing was decided and affirmed by the California Court of Appeal in May 1999, in the case entitled *Stanley G. Auerbach et al v. Board of Supervisors of the County of Los Angeles et al.*

## **General Fund Cash Flow Statements**

The final 2005-06 General Fund cash flow statement has been included as well as the General Fund Cash Flow for 2006-07 with actual through April 2007. Please note that the County is forecasting an ending balance of \$1.257 billion for the Fiscal Year 2006-07. These statements are shown on the pages immediately following the average daily balance tables.

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**COUNTY OF LOS ANGELES  
FUNDS AVAILABLE FOR INTRAFUND BORROWING**

**2005-06: 12 MONTHS ACTUAL  
2006-07: 10 MONTHS ACTUAL**

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COUNTY OF LOS ANGELES  
 AVERAGE DAILY BALANCES: 2005-06  
 FUNDS AVAILABLE FOR INTRAFUND BORROWING (in thousands of \$)

	July 2005	August 2005	September 2005	October 2005	November 2005	December 2005
<b>PROPERTY TAX GROUP</b>						
Tax Collector's Trust Fund	\$ 209,369.0	\$ 81,907.0	\$ 76,591.0	\$ 260,534.0	\$ 1,284,577.0	\$ 1,998,559.0
Auditor Unapportioned Money	128,769.0	203,040.0	143,140.0	258,544.0	188,546.0	359,030.0
Unsecured Property Tax Fund	133,332.0	11,382.0	155,784.0	127,718.0	84,958.0	92,034.0
Miscellaneous Fees & Taxes	5,932.0	13,423.0	33,844.0	37,796.0	37,817.0	40,155.0
State Redemption Fund - TTC	47,858.0	72,021.0	72,442.0	53,189.0	58,985.0	61,842.0
Educ Rev Augmentation Fund	1,225.0	31,458.0	(32.0)	1,787.0	8,170.0	233,069.0
State Reimbursement Fund	0.0	0.0	0.0	0.0	467.0	10,867.0
Sales Tax Replacement Fund	0.0	0.0	0.0	0.0	0.0	14,202.0
VLF Replacement Fund	0.0	0.0	0.0	0.0	0.0	61,746.0
Rebate Fund	(9,867.0)	(13,503.0)	(27,902.0)	(41,847.0)	(46,784.0)	(41,723.0)
<b>Subtotal</b>	<b>\$ 516,618.0</b>	<b>\$ 399,728.0</b>	<b>\$ 453,867.0</b>	<b>\$ 697,721.0</b>	<b>\$ 1,616,736.0</b>	<b>\$ 2,829,781.0</b>
<b>VARIOUS TRUST GROUP</b>						
Departmental Trust Fund	\$ 431,266.0	\$ 472,507.0	\$ 478,015.0	\$ 512,617.0	\$ 544,043.0	\$ 547,069.0
Payroll Revolving Fund	96,747.0	98,107.0	99,830.0	60,223.0	99,666.0	97,975.0
Asset Dev't Implementation FD	27,333.0	26,015.0	25,930.0	26,143.0	26,280.0	26,303.0
Productivity Investment Fund	6,917.0	7,937.0	7,856.0	8,381.0	10,804.0	10,755.0
ACO Fund-Motor Vehicle/ISD	2,910.0	2,914.0	2,878.0	2,876.0	2,957.0	2,957.0
Civic Center Parking	(36.0)	(89.0)	90.0	221.0	107.0	50.0
Reporters Salary Fund	677.0	606.0	527.0	239.0	908.0	995.0
Cable TV Franchise Fund	4,304.0	4,386.0	4,380.0	4,464.0	4,629.0	4,649.0
Megaflex-Various	20,729.0	20,897.0	20,993.0	21,172.0	21,279.0	21,487.0
<b>Subtotal</b>	<b>\$ 590,847.0</b>	<b>\$ 633,280.0</b>	<b>\$ 640,499.0</b>	<b>\$ 636,336.0</b>	<b>\$ 710,673.0</b>	<b>\$ 712,240.0</b>
<b>HOSPITAL GROUP</b>						
Harbor/UCLA Medical Center	\$ 2,143.0	\$ 13,856.0	\$ 1,677.0	\$ 1,095.0	\$ 3,310.0	\$ 3,249.0
Olive View Medical Center	1,780.0	13,651.0	4,747.0	1,167.0	5,419.0	1,514.0
LAC+USC Medical Center	(3,258.0)	10,936.0	(3,757.0)	(2,117.0)	3,520.0	(497.0)
Martin Luther King Jr., Hospital	478.0	5,086.0	518.0	(216.0)	64.0	5,302.0
High Desert Hospital	(1,888.0)	(5,420.0)	(7,449.0)	(7,449.0)	(3,725.0)	0.0
South/West Network Hospital	964.0	3,267.0	1,370.0	240.0	1,736.0	1,178.0
ACO-LAC+USC Med Equip Fund	108,325.0	108,550.0	108,781.0	109,069.0	109,382.0	109,727.0
<b>Subtotal</b>	<b>\$ 108,544.0</b>	<b>\$ 149,926.0</b>	<b>\$ 105,887.0</b>	<b>\$ 101,789.0</b>	<b>\$ 119,706.0</b>	<b>\$ 120,473.0</b>
<b>GRAND TOTAL</b>	<b>\$ 1,216,009.0</b>	<b>\$ 1,182,934.0</b>	<b>\$ 1,200,253.0</b>	<b>\$ 1,435,846.0</b>	<b>\$ 2,447,115.0</b>	<b>\$ 3,662,494.0</b>

Detail may not add due to rounding.  
 Source: Los Angeles County Auditor-Controller

January 2006	February 2006	March 2006	April 2006	May 2006	June 2006	
<b>PROPERTY TAX GROUP</b>						
\$ 1,137,711.0	\$ 612,806.0	\$ 533,173.0	\$ 1,451,715.0	\$ 669,386.0	\$ 194,880.0	<b>Tax Collector's Trust Fund</b>
365,943.0	359,992.0	389,101.0	644,461.0	650,782.0	770,600.0	<b>Auditor Unapportioned Money</b>
97,815.0	76,754.0	53,910.0	49,749.0	63,799.0	87,209.0	<b>Unsecured Property Tax Fund</b>
41,444.0	26,660.0	6,483.0	5,868.0	6,059.0	6,795.0	<b>Miscellaneous Fees &amp; Taxes</b>
39,543.0	43,719.0	34,752.0	31,619.0	30,548.0	26,779.0	<b>State Redemption Fund - TTC</b>
18,837.0	64,914.0	547.0	230,566.0	16,744.0	725.0	<b>Educ Rev Augmentation Fund</b>
20,879.0	1,478.0	1,478.0	4,747.0	21,344.0	10,070.0	<b>State Reimbursement Fund</b>
92,415.0	10,610.0	25,084.0	24,782.0	66,830.0	0.0	<b>Sales Tax Replacement Fund</b>
391,055.0	24,222.0	136,397.0	141,476.0	369,216.0	0.0	<b>VLF Replacement Fund</b>
(37,139.0)	(9,796.0)	(10,296.0)	(16,363.0)	(9,171.0)	1,380.0	<b>Rebate Fund</b>
<b>\$ 2,168,503.0</b>	<b>\$ 1,211,359.0</b>	<b>\$ 1,170,629.0</b>	<b>\$ 2,568,620.0</b>	<b>\$ 1,885,536.0</b>	<b>\$ 1,098,438.0</b>	<b>Subtotal</b>
<b>VARIOUS TRUST GROUP</b>						
\$ 544,545.0	\$ 533,125.0	\$ 531,456.0	\$ 499,131.0	\$ 481,930.0	\$ 458,191.0	<b>Departmental Trust Fund</b>
115,969.0	97,607.0	99,134.0	102,497.0	112,395.0	110,220.0	<b>Payroll Revolving Fund</b>
26,327.0	29,230.0	32,061.0	33,167.0	33,390.0	34,814.0	<b>Asset Dev't Implementation FD</b>
10,427.0	10,247.0	10,204.0	10,019.0	9,529.0	9,213.0	<b>Productivity Investment Fund</b>
2,999.0	3,057.0	3,057.0	2,415.0	2,194.0	2,053.0	<b>ACO Fund-Motor Vehicle/ISD</b>
184.0	220.0	182.0	543.0	355.0	145.0	<b>Civic Center Parking</b>
628.0	766.0	861.0	698.0	710.0	835.0	<b>Reporters Salary Fund</b>
4,645.0	4,596.0	4,787.0	5,013.0	5,205.0	5,385.0	<b>Cable TV Franchise Fund</b>
21,877.0	22,246.0	22,622.0	22,932.0	23,200.0	23,524.0	<b>Megaflex-Various</b>
<b>\$ 727,601.0</b>	<b>\$ 701,094.0</b>	<b>\$ 704,364.0</b>	<b>\$ 676,415.0</b>	<b>\$ 668,907.0</b>	<b>\$ 644,381.0</b>	<b>Subtotal</b>
<b>HOSPITAL GROUP</b>						
\$ 487.0	\$ (660.0)	\$ (781.0)	\$ 1,079.0	\$ 1,367.0	\$ 413.0	<b>Harbor/UCLA Medical Center</b>
953.0	2,182.0	(4,530.0)	(107.0)	1,077.0	(4,853.0)	<b>Olive View Medical Center</b>
(3,634.0)	5,488.0	2,737.0	(470.0)	2,104.0	5,741.0	<b>LAC + USC Medical Center</b>
(88.0)	(680.0)	(920.0)	1,081.0	1,863.0	(676.0)	<b>Martin Luther King Jr., Hospital</b>
0.0	0.0	0.0	0.0	0.0	0.0	<b>High Desert Hospital</b>
380.0	(3,655.0)	383.0	1,367.0	787.0	442.0	<b>South/West Network Hospital</b>
110,077.0	110,352.0	110,701.0	111,091.0	111,467.0	111,792.0	<b>ACO-LAC+USC Med Equip Fund</b>
<b>\$ 108,175.0</b>	<b>\$ 113,027.0</b>	<b>\$ 107,590.0</b>	<b>\$ 114,041.0</b>	<b>\$ 118,665.0</b>	<b>\$ 112,859.0</b>	<b>Subtotal</b>
<b>\$ 3,004,279.0</b>	<b>\$ 2,025,480.0</b>	<b>\$ 1,982,583.0</b>	<b>\$ 3,359,076.0</b>	<b>\$ 2,673,108.0</b>	<b>\$ 1,855,678.0</b>	<b>GRAND TOTAL</b>

COUNTY OF LOS ANGELES  
 AVERAGE DAILY BALANCES: 2006-07  
 FUNDS AVAILABLE FOR INTRAFUND BORROWING (in thousands of \$)

	July 2006	August 2006	September 2006	October 2006	November 2006	December 2006
<b>PROPERTY TAX GROUP</b>						
Tax Collector's Trust Fund	\$ 158,423.0	\$ 111,254.0	\$ 95,119.0	\$ 272,652.0	\$ 1,100,836.0	\$ 2,474,865.0
Auditor Unapportioned Money	488,936.0	152,248.0	120,388.0	220,576.0	447,063.0	11,982.0
Unsecured Property Tax Fund	130,303.0	(21,275.0)	57,540.0	99,552.0	127,526.0	118,754.0
Miscellaneous Fees & Taxes	8,074.0	6,044.0	12,949.0	33,216.0	38,289.0	40,290.0
State Redemption Fund - TTC	43,233.0	67,305.0	68,648.0	54,934.0	50,488.0	47,151.0
Educ Rev Augmentation Fund	20,580.0	30,537.0	0.0	0.0	7,641.0	191,629.0
State Reimbursement Fund	0.0	0.0	0.0	0.0	463.0	11,807.0
Sales Tax Replacement Fund	0.0	1,009.0	10,428.0	10,428.0	10,430.0	27,418.0
VLF Replacement Fund	0.0	5,502.0	56,851.0	56,851.0	56,862.0	133,741.0
Rebate Fund	3,259.0	(21,360.0)	(50,772.0)	(68,564.0)	(11,287.0)	3,618.0
<b>Subtotal</b>	<b>\$ 852,808.0</b>	<b>\$ 331,264.0</b>	<b>\$ 371,151.0</b>	<b>\$ 679,645.0</b>	<b>\$ 1,828,311.0</b>	<b>\$ 3,061,255.0</b>
<b>VARIOUS TRUST GROUP</b>						
Departmental Trust Fund	\$ 452,300.0	\$ 499,668.0	\$ 494,419.0	\$ 503,325.0	\$ 490,246.0	\$ 494,476.0
Payroll Revolving Fund	104,094.0	104,560.0	104,001.0	121,570.0	102,703.0	97,412.0
Asset Dev't Implementation FD	35,074.0	34,702.0	33,047.0	33,346.0	33,384.0	33,390.0
Productivity Investment Fund	8,800.0	8,946.0	8,933.0	8,863.0	8,900.0	8,908.0
ACO Fund-Motor Vehicle/ISD	1,906.0	1,909.0	1,775.0	1,720.0	1,806.0	4,223.0
Civic Center Parking	(16.0)	47.0	120.0	158.0	315.0	282.0
Reporters Salary Fund	935.0	373.0	141.0	530.0	975.0	748.0
Cable TV Franchise Fund	5,435.0	4,998.0	4,993.0	5,244.0	5,457.0	5,452.0
Megaflex-Various	23,860.0	24,060.0	24,307.0	24,678.0	24,876.0	25,195.0
<b>Subtotal</b>	<b>\$ 632,388.0</b>	<b>\$ 679,263.0</b>	<b>\$ 671,736.0</b>	<b>\$ 699,434.0</b>	<b>\$ 668,662.0</b>	<b>\$ 670,086.0</b>
<b>HOSPITAL GROUP</b>						
Harbor/UCLA Medical Center	\$ 297.0	\$ 2,976.0	\$ 2,677.0	\$ (10.0)	\$ 2,157.0	\$ 714.0
Olive View Medical Center	(2,832.0)	(2,582.0)	1,256.0	1,084.0	349.0	(622.0)
LAC+USC Medical Center	(6,344.0)	(3,065.0)	869.0	(100.0)	(17.0)	(2,661.0)
Martin Luther King Jr., Hospital	(3,968.0)	975.0	918.0	855.0	458.0	542.0
High Desert Hospital	0.0	0.0	0.0	0.0	0.0	0.0
South/West Network Hospital	554.0	(284.0)	958.0	893.0	1,012.0	697.0
ACO-LAC+USC Med Equip Fund	112,234.0	112,593.0	113,148.0	114.0	114,056.0	114,433.0
<b>Subtotal</b>	<b>\$ 99,941.0</b>	<b>\$ 110,613.0</b>	<b>\$ 119,826.0</b>	<b>\$ 2,836.0</b>	<b>\$ 118,015.0</b>	<b>\$ 113,103.0</b>
<b>GRAND TOTAL</b>	<b>\$1,585,137.0</b>	<b>\$1,121,140.0</b>	<b>\$ 1,162,713.0</b>	<b>\$1,381,915.0</b>	<b>\$ 2,614,988.0</b>	<b>\$ 3,844,444.0</b>

Detail may not add due to rounding.

Source: Los Angeles County Auditor-Controller

January 2007	February 2007	March 2007	April 2007	Estimated May 2007	Estimated June 2007	
<b>PROPERTY TAX GROUP</b>						
\$ 633,818.0	\$ 459,949.0	\$ 515,809.0	\$ 1,094,109.0	\$ 532,516.0	\$ 106,449.0	<b>Tax Collector's Trust Fund</b>
523,825.0	462,721.0	471,105.0	1,210,195.0	517,716.0	420,925.0	<b>Auditor Unapportioned Money</b>
128,638.0	128,695.0	79,064.0	52,509.0	50,754.0	47,636.0	<b>Unsecured Property Tax Fund</b>
42,269.0	43,566.0	44,367.0	11,924.0	4,820.0	3,712.0	<b>Miscellaneous Fees &amp; Taxes</b>
39,547.0	39,097.0	35,656.0	29,805.0	24,302.0	14,627.0	<b>State Redemption Fund - TTC</b>
31,271.0	19,916.0	1,405.0	95,409.0	13,320.0	396.0	<b>Educ Rev Augmentation Fund</b>
19,658.0	1,442.0	1,442.0	2,521.0	16,980.0	5,501.0	<b>State Reimbursement Fund</b>
76,646.0	463.0	11,485.0	34,084.0	53,165.0	0.0	<b>Sales Tax Replacement Fund</b>
356,367.0	11,840.0	61,688.0	163,884.0	293,722.0	0.0	<b>VLF Replacement Fund</b>
1,806.0	(3,612.0)	7,731.0	(18,514.0)	(7,296.0)	754.0	<b>Rebate Fund</b>
<b>\$ 1,853,845.0</b>	<b>\$ 1,164,077.0</b>	<b>\$ 1,229,752.0</b>	<b>\$ 2,675,926.0</b>	<b>\$ 1,500,000.0</b>	<b>\$ 600,000.0</b>	<b>Subtotal</b>
<b>VARIOUS TRUST GROUP</b>						
\$ 490,074.0	\$ 480,117.0	\$ 499,888.0	\$ 543,329.0	\$ 413,417.0	\$ 413,417.0	<b>Departmental Trust Fund</b>
128,399.0	95,860.0	104,194.0	120,810.0	99,449.0	99,449.0	<b>Payroll Revolving Fund</b>
33,394.0	33,409.0	33,416.0	33,436.0	33,000.0	33,000.0	<b>Asset Dev't Implementation FD</b>
8,502.0	8,909.0	8,906.0	9,333.0	8,313.0	8,313.0	<b>Productivity Investment Fund</b>
4,178.0	4,032.0	3,747.0	3,691.0	1,852.0	1,852.0	<b>ACO Fund-Motor Vehicle/ISD</b>
157.0	40.0	199.0	168.0	131.0	131.0	<b>Civic Center Parking</b>
740.0	1,149.0	866.0	619.0	753.0	753.0	<b>Reporters Salary Fund</b>
5,500.0	5,847.0	5,938.0	5,952.0	4,859.0	4,859.0	<b>Cable TV Franchise Fund</b>
25,639.0	25,936.0	26,390.0	26,843.0	21,225.0	21,225.0	<b>Megaflex-Variou</b>
<b>\$ 696,583.0</b>	<b>\$ 655,299.0</b>	<b>\$ 683,544.0</b>	<b>\$ 744,181.0</b>	<b>\$ 583,000.0</b>	<b>\$ 583,000.0</b>	<b>Subtotal</b>
<b>HOSPITAL GROUP</b>						
\$ 1,026.0	\$ (1,299.0)	\$ 508.0	\$ 727.0	\$ 1,000.0	\$ 0.0	<b>Harbor/UCLA Medical Center</b>
161.0	763.0	335.0	2,211.0	1,000.0	0.0	<b>Olive View Medical Center</b>
1,658.0	1,657.0	(305.0)	744.0	2,000.0	0.0	<b>LAC + USC Medical Center</b>
1,408.0	1,755.0	3,429.0	(281.0)	0.0	0.0	<b>Martin Luther King Jr., Hospital</b>
0.0	0.0	0.0	0.0	0.0	0.0	<b>High Desert Hospital</b>
929.0	812.0	(221.0)	386.0	1,000.0	0.0	<b>South/West Network Hospital</b>
114,831.0	115,311.0	115,977.0	116,177.0	116,500.0	117,000.0	<b>ACO-LAC+USC Med Equip Fund</b>
<b>\$ 120,013.0</b>	<b>\$ 118,999.0</b>	<b>\$ 119,723.0</b>	<b>\$ 119,964.0</b>	<b>\$ 121,500.0</b>	<b>\$ 117,000.0</b>	<b>Subtotal</b>
<b>\$ 2,670,441.0</b>	<b>\$ 1,938,375.0</b>	<b>\$ 2,033,019.0</b>	<b>\$ 3,540,071.0</b>	<b>\$ 2,204,500.0</b>	<b>\$ 1,300,000.0</b>	<b>GRAND TOTAL</b>



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**COUNTY OF LOS ANGELES  
GENERAL FUND CASH FLOW STATEMENTS**

**2005-06: 12 MONTHS ACTUAL  
2006-07: 10 MONTHS ACTUAL**

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**COUNTY OF LOS ANGELES**  
**GENERAL FUND CASH FLOW ANALYSIS**  
**FISCAL YEAR 2005-06**  
(in thousands of \$)

	July 2005	August 2005	September 2005	October 2005	November 2005	December 2005
<b>BEGINNING BALANCE</b>	\$ 1,241,153.0	\$ 1,261,166.0	\$ 1,032,306.0	\$ 763,434.0	\$ 340,692.0	\$ (94,322.0)
<b>RECEIPTS</b>						
PROPERTY TAXES	\$ 52,225.0	\$ 79,621.0	\$ (19.0)	\$ 5,763.0	\$ 40,201.0	\$ 718,159.0
Sales and Other Taxes	13,068.0	23,525.0	16,732.0	19,960.0	16,103.0	13,573.0
Licenses, Permits & Franchises	2,862.0	11,348.0	615.0	2,403.0	1,510.0	2,719.0
Fines, Forfeitures & Penalties	27,414.0	21,724.0	15,135.0	13,221.0	19,338.0	12,586.0
Use of Money & Property	22,746.0	9,581.0	11,104.0	15,831.0	10,885.0	13,088.0
Intergovernmental Revenue	301,715.0	165,935.0	260,081.0	261,839.0	184,223.0	283,070.0
Charges for Current Services	107,406.0	99,224.0	63,743.0	49,284.0	41,810.0	119,916.0
Other Revenue	3,870.0	34,970.0	12,346.0	12,697.0	8,049.0	9,151.0
Expenditure Transfers and Reimbursements	30,889.0	207.0	61,951.0	0.0	38,466.0	19,797.0
Welfare Advances	392,874.0	217,790.0	321,969.0	338,682.0	237,563.0	247,934.0
Other Receipts	42,202.0	31,065.0	2,930.0	2,700.0	1,143.0	1,554.0
Intrafund Transfers	0.0	0.0	0.0	0.0	0.0	0.0
TRANS Sold	500,000.0	0.0	0.0	0.0	0.0	0.0
TRANS Reserve	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total Receipts</b>	\$ 1,497,271.0	\$ 694,990.0	\$ 766,587.0	\$ 722,380.0	\$ 599,291.0	\$ 1,441,547.0
<b>DISBURSEMENTS</b>						
Welfare Warrants	\$ 268,705.0	\$ 181,077.0	\$ 218,488.0	\$ 230,363.0	\$ 189,683.0	\$ 209,461.0
Salaries & Employee Benefits	732,326.0	422,115.0	412,974.0	303,452.0	431,301.0	417,817.0
Services & Supplies and Fixed Assets	246,833.0	194,716.0	240,977.0	329,967.0	266,866.0	254,192.0
Interfund Billings	229,394.0	125,942.0	163,020.0	281,340.0	146,455.0	117,657.0
TRANS Pledge Transfer	0.0	0.0	0.0	0.0	0.0	174,000.0
TRANS Repayment	0.0	0.0	0.0	0.0	0.0	0.0
Intrafund Transfer Repayment	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total Disbursements</b>	\$ 1,477,258.0	\$ 923,850.0	\$ 1,035,459.0	\$ 1,145,122.0	\$ 1,034,305.0	\$ 1,173,127.0
<b>ENDING BALANCE</b>	\$ 1,261,166.0	\$ 1,032,306.0	\$ 763,434.0	\$ 340,692.0	\$ (94,322.0)	\$ 174,098.0

**TRANS Repayment Fund**

Beginning Balance	0.0	0.0	0.0	0.0	0.0	0.0
Receipts	0.0	0.0	0.0	0.0	0.0	174,000.0
Disbursements	0.0	0.0	0.0	0.0	0.0	0.0
<b>Ending Balance</b>	0.0	0.0	0.0	0.0	0.0	174,000.0

\*Detail may not add due to rounding.

January 2006	February 2006	March 2006	April 2006	May 2006	June 2006	Total 2005 -06
\$ 174,098.0	\$ 559,038.0	\$ 471,091.0	\$ 380,571.0	\$ 498,427.0	\$ 871,220.9	
\$ 685,338.0	\$ 183,576.0	\$ 18,383.0	\$ 521,643.0	\$ 593,293.0	\$ 35,049.0	\$ 2,933,232.0
17,244.0	23,755.0	17,204.0	17,421.0	15,854.0	10,450.0	204,889.0
3,419.0	12,029.0	2,999.0	9,154.0	3,640.0	3,496.0	56,194.0
12,575.0	23,281.0	16,008.0	19,314.0	28,527.0	17,981.0	227,104.0
14,661.0	14,537.0	17,980.0	14,922.0	14,519.0	20,657.0	180,511.0
264,424.0	353,639.0	247,040.0	231,895.0	388,903.0	312,899.0	3,255,663.0
139,889.0	72,756.0	177,675.0	86,120.0	159,457.0	197,245.0	1,314,525.0
8,210.0	10,895.0	14,067.0	112,598.0	11,340.0	13,529.0	251,722.0
15,561.0	84,505.0	219,749.0	6,894.0	186,418.0	781,862.0	1,446,299.0
350,326.0	249,872.0	366,012.0	341,651.0	272,755.0	408,017.0	3,745,445.0
11,254.0	18,919.0	6,237.0	4,738.0	35,271.0	59,502.0	217,515.0
0.0	0.0	0.0	0.0	0.0	0.0	0.0
0.0	0.0	0.0	0.0	0.0	519,944.0	1,019,944.0
0.0	0.0	0.0	0.0	0.0	0.0	0.0
\$ 1,522,901.0	\$ 1,047,764.0	\$ 1,103,354.0	\$ 1,366,350.0	\$ 1,709,976.9	\$ 2,380,631.1	\$ 14,853,043.0
\$ 169,398.0	\$ 219,470.0	\$ 219,407.0	\$ 216,763.0	\$ 174,004.0	\$ 129,190.0	\$ 2,426,009.0
446,709.0	466,691.0	423,698.0	465,380.0	447,515.0	379,653.0	5,349,631.0
209,051.0	240,196.0	258,733.0	230,038.0	254,784.0	377,572.0	3,103,925.0
222,803.0	152,354.0	231,036.0	198,369.0	460,880.0	227,737.0	2,556,987.0
90,000.0	57,000.0	61,000.0	137,944.0	0.0	0.0	519,944.0
0.0	0.0	0.0	0.0	0.0	519,944.0	519,944.0
0.0	0.0	0.0	0.0	0.0	0.0	0.0
\$ 1,137,961.0	\$ 1,135,711.0	\$ 1,193,874.0	\$ 1,248,494.0	\$ 1,337,183.0	\$ 1,634,096.0	\$ 14,476,440.0
\$ 559,038.0	\$ 471,091.0	\$ 380,571.0	\$ 498,427.0	\$ 871,220.9	\$ 1,617,756.0	
174,000.0	264,000.0	321,000.0	382,000.0	519,944.0	519,944.0	0.0
90,000.0	57,000.0	61,000.0	137,944.0	0.0	0.0	519,944.0
0.0	0.0	0.0	0.0	0.0	519,944.0	519,944.0
264,000.0	321,000.0	382,000.0	519,944.0	519,944.0	0.0	0.0

**COUNTY OF LOS ANGELES**  
**GENERAL FUND CASH FLOW ANALYSIS**  
**FISCAL YEAR 2006-07**  
(in thousands of \$)

	July 2006	August 2006	September 2006	October 2006	November 2006	December 2006
<b>BEGINNING BALANCE</b>	\$ 1,617,756.0	\$ 1,494,833.0	\$ 1,238,335.0	\$ 885,254.0	\$ 476,851.4	\$ 307,807.4
<b>RECEIPTS</b>						
PROPERTY TAXES	\$ 168,832.0	\$ 86,300.0	\$ (21.0)	\$ -	\$ 44,607.0	\$ 854,464.0
Sales and Other Taxes	13,547.0	22,186.0	21,203.0	5,429.0	12,092.0	25,388.0
Licenses, Permits & Franchises	1,855.0	6,952.0	3,124.0	3,487.0	398.0	2,264.0
Fines, Forfeitures & Penalties	14,371.0	20,796.0	13,315.0	13,530.0	19,133.0	13,045.0
Use of Money & Property	42,247.0	17,478.0	23,841.0	17,843.0	13,694.0	18,459.0
Intergovernmental Revenue	255,158.0	179,501.0	207,505.0	293,019.0	313,482.0	329,431.0
Charges for Current Services	109,678.0	122,896.0	65,233.0	96,431.0	66,676.0	149,150.0
Other Revenue	14,312.0	11,316.0	6,289.0	11,671.0	6,797.0	33,836.0
Expenditure Transfers and Reimbursements	5,236.0	26,903.0	65,914.0	7,915.0	224,555.0	7,050.0
Welfare Advances	224,925.0	209,508.0	202,426.0	402,969.0	261,442.0	341,840.0
Other Receipts	28,157.0	33,402.0	24,044.0	(19,109.0)	9,164.0	39,860.0
Intrafund Transfers	0.0	0.0	0.0	0.0	0.0	0.0
TRANS Sold	500,000.0	0.0	0.0	0.0	0.0	0.0
TRANS Reserve	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total Receipts</b>	\$ 1,378,318.0	\$ 737,238.0	\$ 632,873.0	\$ 833,185.0	\$ 972,040.0	\$ 1,814,787.0
<b>DISBURSEMENTS</b>						
Welfare Warrants	\$ 178,996.0	\$ 173,823.0	\$ 183,570.0	\$ 277,564.0	\$ 190,212.0	\$ 194,735.0
Salaries & Employee Benefits	784,859.0	322,574.0	466,436.0	437,786.0	471,178.0	476,961.0
Services & Supplies and Fixed Assets	383,281.0	262,123.0	230,525.0	297,194.0	325,588.0	244,610.0
Interfund Billings	154,105.0	235,216.0	105,423.0	229,044.0	154,106.0	186,460.0
TRANS Pledge Transfer	0.0	0.0	0.0	0.0	0.0	174,000.0
TRANS Repayment	0.0	0.0	0.0	0.0	0.0	0.0
Intrafund Transfer Repayment		0.0	0.0	0.0	0.0	0.0
<b>Total Disbursements</b>	\$ 1,501,241.0	\$ 993,736.0	\$ 985,954.0	\$ 1,241,588.0	\$ 1,141,084.0	\$ 1,276,766.0
<b>ENDING BALANCE</b>	\$ 1,494,833.0	\$ 1,238,335.0	\$ 885,254.0	\$ 476,851.0	\$ 307,807.4	\$ 845,828.4

TRANS Repayment Fund

Beginning Balance	0.0	0.0	0.0	0.0	0.0	0.0
Receipts	0.0	0.0	0.0	0.0	0.0	174,000.0
Disbursements	0.0	0.0	0.0	0.0	0.0	0.0
<b>Ending Balance</b>	0.0	0.0	0.0	0.0	0.0	0.0

\*Detail may not add due to rounding.

January 2007	February 2007	March 2007	April 2007	Estimated May 2007	Estimated June 2007	Total 2006 -07
\$ 845,828.4	\$ 1,244,232.4	\$ 1,026,082.4	\$ 733,242.4	\$ 822,218.4	\$ 1,432,864.0	
\$ 733,442.0	\$ 132,852.0	\$ 21,095.0	\$ 639,829.0	\$ 630,287.7	\$ 33,735.1	\$ 3,345,422.8
16,101.0	22,527.0	15,938.0	9,774.0	17,078.7	13,640.3	194,904.0
1,761.0	1,731.0	16,041.0	2,370.0	7,755.7	6,761.3	54,500.0
12,596.0	24,664.0	19,194.0	14,361.0	29,433.4	29,281.6	223,720.0
17,888.0	19,663.0	30,721.0	18,839.0	15,135.7	19,951.3	255,760.0
266,928.0	308,603.0	315,151.0	255,547.0	351,775.3	365,030.5	3,441,130.8
106,052.0	80,865.0	146,898.0	91,016.0	148,151.9	157,811.6	1,340,858.5
20,798.0	9,750.0	6,145.0	106,852.0	7,793.9	7,525.1	243,085.0
239,004.0	50,512.0	33,326.0	7,012.0	199,746.0	13,828.7	881,001.7
339,605.0	227,158.0	277,132.0	296,446.0	293,324.1	295,665.1	3,372,440.2
(4,258.0)	15,761.0	7,202.0	4,782.0	6,060.0	4,935.0	150,000.0
0.0	0.0	0.0	0.0	0.0	0.0	0.0
0.0	0.0	0.0	0.0	0.0	0.0	500,000.0
0.0	0.0	0.0	0.0	0.0	522,250.0	522,250.0
\$ 1,749,917.0	\$ 894,086.0	\$ 888,843.0	\$ 1,446,828.0	\$ 1,706,542.5	\$ 1,470,415.6	\$ 14,525,073.0
\$ 191,932.0	\$ 202,489.0	\$ 186,830.0	\$ 194,378.0	\$ 198,154.2	\$ 193,316.8	\$ 2,366,000.0
494,324.0	508,597.0	463,181.0	494,877.0	494,572.6	465,296.4	5,880,642.0
277,258.0	249,656.0	249,324.0	266,821.0	312,694.7	300,925.3	3,400,000.0
297,999.0	94,494.0	221,348.0	261,526.0	90,475.4	164,423.8	2,194,619.8
90,000.0	57,000.0	61,000.0	140,250.0	0.0	0.0	522,250.0
0.0	0.0	0.0	0.0	0.0	522,250.0	522,250.0
0.0	0.0	0.0	0.0	0.0	0.0	0.0
\$ 1,351,513.0	\$ 1,112,236.0	\$ 1,181,683.0	\$ 1,357,852.0	\$ 1,095,896.9	\$ 1,646,212.3	\$ 14,885,761.8
\$ 1,244,232.4	\$ 1,026,082.4	\$ 733,242.4	\$ 822,218.4	\$ 1,432,864.0	\$ 1,257,067.2	
174,000.0	264,000.0	321,000.0	382,000.0	522,250.0	522,250.0	0.0
90,000.0	57,000.0	61,000.0	140,250.0	0.0	0.0	522,250.0
0.0			0.0	0.0	522,250.0	522,250.0
264,000.0	321,000.0	382,000.0	522,250.0	522,250.0	0.0	0.0

## LOS ANGELES COUNTY POOLED SURPLUS INVESTMENTS

The Treasurer and Tax Collector (the Treasurer) of Los Angeles County has the delegated authority to invest funds on deposit in the County Treasury (the Treasury Pool). As of April 30, 2007, investments in the Treasury Pool were held for local agencies including school districts, community college districts, special districts and discretionary depositors such as cities and independent districts in the following amounts:

Local Agency	Invested Funds (in Billions)
County of Los Angeles and Special Districts	\$ 8.860
Schools and Community Colleges	10.684
Independent Public Agencies	1.606
<b>Total</b>	<b>\$21.150</b>

Of these entities, the involuntary participants accounted for approximately 92.41%, and all discretionary participants accounted for 7.59% of the total Treasury Pool.

Decisions on the investment of funds in the Treasury Pool are made by the County Investment Officer in accordance with established policy, with certain transactions requiring the Treasurer's prior approval. In Los Angeles County, investment decisions are governed by Chapter 4 (commencing with Section 53600) of Part 1 of Division 2 of Title 5 of the California Government Code, which governs legal investments by local agencies in the State of California, and by a more restrictive Investment Policy developed by the Treasurer and adopted by the Los Angeles County Board of Supervisors on an annual basis. The Investment Policy adopted on April 10, 2007, reaffirmed the following criteria and order of priority for selecting investments:

1. Safety of Principal
2. Liquidity
3. Return on Investment

The Treasurer prepares a monthly Report of Investments (the Investment Report) summarizing the status of the Treasury Pool, including the current market value of all investments. This report is submitted monthly to the Board of Supervisors. According to the Investment Report dated May 23, 2007, the April 30, 2007 book value of the Treasury Pool was approximately \$21.150 billion and the corresponding market value was approximately \$21.146 billion.

An internal controls system for monitoring cash accounting and investment practices is in place. The Treasurer's Compliance Auditor, who operates independently from the Investment Officer, reconciles cash and investments to fund balances daily. The Compliance Auditor's staff also reviews each investment trade for accuracy and compliance with the Board adopted Investment Policy. The County Auditor-Controller's Office performs similar cash and investment reconciliation on a quarterly basis and regularly reviews investment transactions for conformance with the approved policies. Additionally, the County's outside independent auditor annually accounts for all investments.

The Treasury Pool is highly liquid. As of April 30, 2007, approximately 49.79% of the investments mature within 60 days,

with an average of 486.87 days to maturity for the entire portfolio. The following table identifies the types of securities held by the Treasury Pool as of April 30, 2007:

Type of Investment	% of Pool
U.S. Government and Agency Obligations	46.53
Certificates of Deposit	21.37
Commercial Paper	28.46
Bankers Acceptances	0.00
Municipal Obligations	0.14
Corporate Notes & Deposit Notes	3.45
Asset Backed Instruments	0.00
Repurchase Agreements	0.00
Other	0.05

Pursuant to Section 27131 of the Government Code, all counties investing surplus funds are encouraged to establish a county treasury oversight committee. On January 16, 1996, the Board of Supervisors approved the establishment of the County Treasury Oversight Committee and subsequently confirmed the five Committee members nominated by the Treasurer in accordance with that Section. The Committee meets quarterly to review and monitor for compliance the investment policies prepared by the Treasurer.

### FINANCIAL STATEMENTS-GAAP BASIS

Since Fiscal Year 1980-81, the County has prepared its general purpose financial statements in conformity with generally accepted accounting principles (GAAP) for State and local governments and they have been audited by independent certified public accountants.

The basic financial statements for the fiscal year ended June 30, 2005, and the unqualified opinion of KPMG LLP are attached hereto as Appendix B. The County's Comprehensive Annual Financial Reports (CAFRs) since the fiscal year ended June 30, 1982 have received a Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association.

Fiscal Year 2005-06 is the fifth year that the County has applied Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. Certain reclassifications and adjustments have been made to the prior year balances to conform to the current year's presentation format.

The County's budget is prepared in accordance with the County Budget Act prior to the issuance of GAAP financial statements. The 2006-07 County Budget has been adopted and included an available (unreserved and undesignated) fund balance of \$1,069,828,000 as of June 30, 2006 for the General Fund.

The amounts presented for the General Fund in accordance with GAAP 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:

- 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.
- 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 GAAP basis, revenues are not recognized until the qualifying expenditures are incurred.
- Under the budgetary basis, property tax revenues are recognized to the extent that they are collectible within one year after year-end. Under the GAAP 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 GAAP basis, the effects of such fair value changes have been recognized.
- In conjunction with the sale of Tobacco Bonds, the County sold a portion of its future tobacco settlement revenues. Under the budgetary basis, the bond proceeds are recognized as revenues. Under the modified accrual basis, the bond proceeds are recorded as a sale of future revenues and are being recognized over the duration of the sale agreement, in accordance with GASB Statement No. 48. This matter is also discussed in Note 10 to the 2005-06 CAFR, under the caption, "Tobacco Settlement Asset-Backed Bonds."
- In conjunction with the sale of pension obligation bonds in 1994-1995, the County sold the right to future investment income on debt service deposits. Under the budgetary basis, the proceeds were included in 1994-1995 revenues. Under the GAAP basis, the proceeds were recorded as deferred revenue and are being amortized over the life of the bonds.

The following table provides a reconciliation of the General Fund's June 30, 2006 fund balance (unreserved and undesignated) on a budgetary and GAAP basis.

The tables on the following pages summarize the audited balance sheet for the General Fund since 2001-02 and provide a history of revenue and expenditure statement for the General Fund over the same period.

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COUNTY OF LOS ANGELES  
GENERAL FUND  
RECONCILIATION OF FUND BALANCE FROM BUDGETARY TO GAAP BASIS  
JUNE 30, 2006 (in thousands of \$)

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Actual Available (Unreserved and Undesignated) Fund Balance - Budgetary Basis	\$	1,069,828
Adjustments:		
Reversal of budgetary liabilities for litigation and self-insurance claims which are not required by GAAP		116,404
Reversal of liabilities for accrued vacation and sick leave, which are not required by GAAP		38,435
Change in revenue accruals related to encumbrances		(34,646)
Deferral of property tax receivables		(105,393)
Deferral of unearned investment income		(15,694)
Deferral of sale of tobacco settlement revenue		(283,392)
Change in fair value of Investments		(3,816)
		<hr/>
Available (Unreserved and Undesignated) Fund Balance - GAAP Basis	\$	781,726

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**COUNTY OF LOS ANGELES**  
**BALANCE SHEET AT JUNE 30, 2002, 2003, 2004, 2005 and 2006.**  
**GENERAL FUND-GAAP BASIS (in thousands of \$)**

**ASSETS**

	June 30, 2002	June 30, 2003	June 30, 2004	June 30, 2005	June 30, 2006
Pooled Cash and Investments	\$ 1,531,721	\$ 1,566,544	\$ 1,767,764	\$ 2,134,177	\$ 2,506,016
Other Investments	7,954	7,490	7,116	6,594	6,502
Taxes Receivable	158,447	165,472	169,996	187,441	208,279
Other Receivables	944,358	922,382	979,784	1,102,712	1,285,684
Due from Other Funds	266,588	447,456	454,899	556,210	219,448
Advances to Other Funds	33,139	304,528	272,228	445,337	541,699
Inventories	36,740	33,230	29,843	39,713	42,562
<b>Total Assets</b>	<b>\$ 2,978,947</b>	<b>\$ 3,447,102</b>	<b>\$ 3,681,630</b>	<b>\$ 4,472,184</b>	<b>\$ 4,810,190</b>

**LIABILITIES**

Accounts Payable	\$ 304,943	\$ 304,857	\$ 238,415	\$ 241,753	\$ 272,245
Accrued Payroll	300,728	310,698	314,676	328,578	350,421
Other Payables	194,405	188,952	218,132	62,092	67,912
Due to Other Funds	283,710	524,204	615,635	1,001,456	800,615
Deferred Revenue	251,541	231,357	216,796	259,897	275,198
Advances Payable	105,629	162,673	167,613	235,029	286,860
Estimated Liability to Third-Party Payers	25,637	26,631	22,636	16,650	18,661
<b>Total Liabilities</b>	<b>\$ 1,466,593</b>	<b>\$ 1,749,372</b>	<b>\$ 1,793,903</b>	<b>\$ 2,145,455</b>	<b>\$ 2,071,912</b>

**EQUITY**

Fund Balance (Deficit)					
Reserved	\$ 358,765	\$ 382,758	\$ 350,565	\$ 400,627	\$ 422,055
Unreserved					
Designated	595,040	668,807	659,006	1,017,026	1,522,411
Undesignated	558,549	646,165	878,156	909,076	793,812
<b>Total Unreserved</b>	<b>1,153,589</b>	<b>1,314,972</b>	<b>1,537,162</b>	<b>1,926,102</b>	<b>2,316,223</b>
<b>Total Equity</b>	<b>1,512,354</b>	<b>1,697,730</b>	<b>1,887,727</b>	<b>2,326,729</b>	<b>2,738,278</b>
<b>Total Liabilities and Equity</b>	<b>\$ 2,978,947</b>	<b>\$ 3,447,102</b>	<b>\$ 3,681,630</b>	<b>\$ 4,472,184</b>	<b>\$ 4,810,190</b>

Sources: Comprehensive Annual Financial Reports for fiscal years ended June 30, 1999, 2000, 2001, 2002 and 2003.

COUNTY OF LOS ANGELES

STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
 GENERAL FUND-GAAP BASIS FISCAL YEARS 2001-02 THROUGH 2005-06 (in thousands of \$)

	2001-02	2002-03	2003-04	2004-05	2005-06
<b>REVENUES:</b>					
Taxes	\$ 1,708,877	\$ 1,813,882	\$ 1,987,861	\$ 2,816,095	\$ 3,217,726
Licenses, Permits & Franchises	45,876	53,915	57,236	58,422	61,080
Fines, Forfeitures and Penalties	192,427	189,982	202,648	220,622	232,762
Use of Money and Property	109,658	77,518	62,919	103,863	226,005
Aid from Other Government	7,149,587	7,268,697	7,218,003	6,818,550	7,025,205
Charges for Services	1,174,812	1,206,260	1,221,951	1,272,536	1,357,380
Miscellaneous Revenues	232,164	233,379	255,183	207,201	211,059
<b>TOTAL</b>	<b>\$ 10,613,401</b>	<b>\$ 10,843,633</b>	<b>\$ 11,005,801</b>	<b>\$ 11,497,289</b>	<b>\$ 12,331,217</b>
<b>EXPENDITURES</b>					
General	\$ 565,562	\$ 633,292	\$ 657,184	\$ 634,113	\$ 751,214
Public Protection	3,006,920	2,956,753	3,095,417	3,239,152	3,473,835
Health and Sanitation	1,682,256	1,743,716	1,813,290	1,844,546	2,004,361
Public Assistance	4,228,408	4,328,436	4,203,618	4,257,038	4,333,920
Recreation and Cultural Services	154,485	162,201	170,171	172,338	197,749
Debt Service	220,540	234,982	239,648	256,826	285,640
Capital Outlay	47,568	21,480	28,312	7,329	22,533
<b>Total</b>	<b>\$ 9,905,739</b>	<b>\$ 10,080,860</b>	<b>\$ 10,207,640</b>	<b>\$ 10,411,342</b>	<b>\$ 11,069,252</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>\$ 707,662</b>	<b>\$ 762,773</b>	<b>\$ 798,161</b>	<b>\$ 1,085,947</b>	<b>\$ 1,261,965</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Operating Transfers from (to) Other Funds-Net	\$ (586,682)	\$ (600,548)	\$ (639,110)	\$ (657,058)	\$ (874,946)
Sales of Capital Assets	1,347	1,671	2,634	2,784	1,997
Capital Leases	47,568	21,480	28,312	7,329	22,533
<b>OTHER FINANCING SOURCES (USES)-Net</b>	<b>\$ (537,767)</b>	<b>\$ (577,397)</b>	<b>\$ (608,164)</b>	<b>\$ (646,945)</b>	<b>\$ (850,416)</b>
Excess (Deficiency) of Revenues and other Sources Over Expenditures and Other Uses	\$ 169,895	\$ 185,376	\$ 189,997	\$ 439,002	\$ 411,549
Beginning Fund Balance	1,342,459 (1)	1,512,354	1,697,730	1,887,727	2,326,729
Residual Equity Transfers from (to) Other Funds-Net	0	0	0	0	0
<b>Ending Fund Balance</b>	<b>\$ 1,512,354</b>	<b>\$ 1,697,730</b>	<b>\$ 1,887,727</b>	<b>\$ 2,326,729</b>	<b>\$ 2,738,278</b>

(1) Beginning Fund Balance was restated in 2001-02 from amount previously reported due to implementation of GASB Statement No. 34  
 Sources: Comprehensive Annual Financial Reports for fiscal years ended June 30, 2002, 2003, 2004, 2005 and 2006.

# DEBT SUMMARY

## INTRODUCTION

The County has issued various types of notes, bonds, and certificates to finance and refinance its cash management requirements, the replacement of essential equipment, and the acquisition, construction and/or improvement of governmental buildings and public facilities.

## OUTSTANDING OBLIGATIONS

As of July 1, 2006, approximately \$1.8 billion in intermediate and long-term obligations were outstanding. The General Fund is responsible for \$0.7 billion of the outstanding debt. Voter approved ad valorem taxes secured \$8.4 million in general obligation bonds. State and federal subventions secured \$199.4 million in outstanding obligations. Revenues from special districts, special funds, enterprise funds, and trust funds secured the remaining \$0.9 billion in outstanding obligations.

Of the \$540.8 million in payments due in 2006-07 for obligations outstanding as of July 1, 2006, only \$197.7 million are funded by the General Fund. The table below identifies the funding sources for the debt payments due in 2006-07.

## COUNTY OF LOS ANGELES SUMMARY OF OUTSTANDING PRINCIPAL

As of May 1, 2007 (in thousands)

Type of Obligation	Outstanding Principal
Total County	
Short-Term Obligations:	
Tax and Revenue Anticipation Notes	\$ 500,000.0
Bond Anticipation Notes	30,000.0
Tax-Exempt Commercial Paper	2,500.0
Intermediate & Long-Term Obligations	
General Obligation Bonds	8,395.0
Pension Obligations	(1) 546,849.1
Lease Obligations	902,662.0
<b>Total Outstanding Principal</b>	<b>\$ 1,990,406.1</b>

(1) Does not include \$190.2 million in principal payments that were deposited with trustees in advance, but will not be disbursed to bondholders until June 30, 2007.

Source: Los Angeles County Chief Administrative Office

The tables at the end of this section provide a detailed summary of the funding sources for the County's outstanding obligations and future debt service payments.

## SHORT-TERM OBLIGATIONS

### Tax and Revenue Anticipation Notes

In 1977, the County implemented a cash management program to finance its General Fund cash flow shortages, which occur periodically during the fiscal year. Since the program's inception, the County has annually sold tax anticipation notes and tax and revenue anticipation notes (including commercial paper) in varying amounts.

Pursuant to a resolution adopted by the Board of Supervisors on May 16, 2006, the County, on July 3, 2006, issued its 2006-07 Tax and Revenue Anticipation Notes (the "2006-07 Notes") in the principal amount of \$500.0 million, and with a maturity date of June 29, 2007. The 2006-07 Notes are secured by a pledge of the first unrestricted taxes, income, revenue, and cash receipts received by the County during the 2006-07 fiscal year in amounts, and on dates specified in the Cash Management Section of this Appendix. Under the authorization for the 2006-07 Notes, the County retains the ability to issue up to an additional \$500.0 million in 2006-07 Notes. The County does not intend to issue any additional 2006-07 Tax and Revenue Anticipation Notes. Deposit obligations to the Repayment Fund for the 2006-07 Notes were satisfied in full as of April 23, 2007.

## COUNTY OF LOS ANGELES ADDITIONAL FUNDING SOURCES FOR REPAYMENT OF COUNTY INTERMEDIATE AND LONG-TERM OBLIGATIONS

### 2006-07 Payments (As of July 1, 2006)

Funding Source	2006-07 Payment
Total 2006-07 Payment Obligation	\$540,814,748
Less: Sources of Non-General Fund Entities:	
General Obligation Bond Taxes:	9,056,106
Hospital Enterprise Fund	136,812,234
Courthouse Construction Funds	34,614,761
Special Districts/Special Funds	39,895,889
Trial Court Trust Fund	19,596,644
Private Entities/Endowments	0
State & Federal Subventions	103,132,946
<b>Net 2006-07 General Fund Obligation</b>	<b>\$197,706,168</b>

Source: Los Angeles County Chief Administrative Office

The County's outstanding General County intermediate and long-term debt declined to approximately \$1.5 billion in principal as of May 1, 2007 reflecting debt issuance and payment activity during the fiscal year. An additional \$500.0 million in Tax and Revenue Anticipation Notes, \$30.0 million in Bond Anticipation Notes, and \$2.5 million in Tax-Exempt Commercial Paper were also outstanding as of May 1, 2007. The table below summarizes the outstanding General County debt and note obligations.

**Bond Anticipation Notes**

The County is currently utilizing the proceeds from the issuance of Bond Anticipation Notes ("BANs") to provide an interim source of funding for the acquisition of equipment on behalf of the County General Fund. The BANs are issued by the Los Angeles County Capital Asset Leasing Corporation ("LAC-CAL") and are purchased by the County Treasury Pool under terms and conditions established by the Board of Supervisors. The BANs are payable within three years of their initial issuance from the proceeds of long-term bonds or other available funds. Repayment is secured by lease agreements between the County and LAC-CAL and a pledge of the acquired equipment. As of May 1, 2007, \$30.0 million in BANs remained outstanding. The County expects to pay in full these outstanding BANs with the proceeds of long-term bonds to be issued by LAC-CAL in June 2008.

**Tax-Exempt Commercial Paper**

The County has authorized a maximum of \$335.0 million of tax-exempt commercial paper ("TECP") to finance and refinance construction costs on various capital projects. Repayment of the TECP is secured by an Irrevocable, Direct-Pay Letter of Credit issued by WestLB AG, Bayerische Landesbank, and JPMorgan Chase Bank and a sublease of nineteen County-owned properties. The subleased properties have useful lives ranging from ten to forty-seven years and have been appraised at an aggregate value in excess of the \$335.0 million authorized by the Board of Supervisors. The Letter of Credit is scheduled to expire on December 15, 2015. As of May 1, 2007, \$2.5 million in TECP Notes are outstanding. The County maintains its TECP capacity to provide both interim funding for capital projects pending construction and long-term financing.

**LONG-TERM OBLIGATIONS**

**General Obligation Debt**

On June 11, 1987, the County issued \$96.0 million of direct, general obligation bonded indebtedness to fund the construction of adult and juvenile detention facilities. As of May 1, 2007, \$8.4 million in principal amount of general obligation bonds are outstanding. The County does not presently have any additional general obligation authorization. The stated final maturity on the County's general obligation bonds is June 1, 2007.

**Pension Obligations**

The County has periodically issued bonds or certificates to fund its unfunded actuarial accrued liability for the retirement benefits of its employees. The obligation of the County to make payments with respect to these bonds and certificates represents an absolute and unconditional obligation imposed by law and is not limited to any special source of funds. As of May 1, 2007, the County had approximately \$737.1 million in outstanding bonds and certificates that were issued to finance unfunded actuarial accrued liabilities to its retirement system. Payment of approximately \$190.2 million of these bonds and certificates was provided for in July 2006 by the County for those obligations maturing on June 30, 2007. The stated final maturity on the County's pension bonds and certificates is June 2011.

**Lease Obligations**

Since 1962, the County has financed its capital project and equipment replacement program through various lease arrangements with joint powers authorities and nonprofit corporations, which have issued lease revenue bonds or certificates of participation. As of May 1, 2007, approximately \$0.9 billion in principal remained outstanding on such obligations. The County's lease obligations are secured by revenues from various funding

sources, including the General Fund, and are subject to annual appropriation. The County's 2006-07 Budget contains sufficient appropriations to fund its 2006-07 payment obligations. The County's Board of Supervisors has never failed to appropriate funds for such obligations, nor has the County abated payments on any lease-financed facility to date.

**DEBT RATIOS**

The ratio of the General Fund's outstanding debt to total assessed valuations decreased from 0.305% in 2005 to 0.180% in 2006. The following table provides the ratio of the General Fund's outstanding debt to total assessed valuation over the past ten years.

<b>COUNTY OF LOS ANGELES</b>			
<b>DEBT RATIOS - Principal as a percent of total valuation on July 1</b>			
<b>INTERMEDIATE AND LONG-TERM OBLIGATIONS</b>			
<b>Year</b>	<b>Outstanding Principal</b>	<b>Total Assessed Valuation</b>	<b>% of Principal to Valuation</b>
1997	\$4,281,455,241	\$456,119,926,899	0.939%
1998	4,389,430,735	468,476,629,007	0.937%
1999	4,147,139,371	497,014,083,986	0.834%
2000	4,006,333,171	531,023,420,236	0.754%
2001	3,703,638,147	567,296,327,872	0.653%
2002	3,404,067,514	605,942,874,836	0.562%
2003	3,093,060,550	656,073,063,881	0.471%
2004	2,785,149,946	709,671,759,735	0.392%
2005	2,387,949,433	783,342,364,874	0.305%
2006	1,570,958,212	872,103,795,877	0.180%

Source: Los Angeles County Chief Administrative Office and Auditor-Controller

**DEBT SUMMARY TABLES**

The tables on the following pages provide:

1. A summary of the combined principal and interest payments due on General County obligations and the aggregate principal outstanding for each fiscal year by obligation type;
2. A summary of the combined principal and interest payments due on General County obligations and the aggregate principal outstanding for each fiscal year by funding source;
3. A detail of the 2006-07 payments on General County obligations by funding source and debt issue;
4. A detail of the principal outstanding in 2006-07 on General County debt issues by funding source and debt issue;
5. A summary of the outstanding principal, future payments and current year payments due on General County long and intermediate term debt obligations as of May 1, 2007; and
6. The County's overlapping debt statement as of May 1, 2007.

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COUNTY OF LOS ANGELES  
DEBT SUMMARY TABLES

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REPORTS AS OF JULY 1, 2006

COMBINED PRINCIPAL AND INTEREST OBLIGATIONS AND OUTSTANDING PRINCIPAL

COMBINED PRINCIPAL AND INTEREST OBLIGATIONS AND OUTSTANDING PRINCIPAL BY FUNDING SOURCE

ENTIRE CURRENT FISCAL YEAR DEBT SERVICE OBLIGATIONS BY FUNDING SOURCE

OUTSTANDING PRINCIPAL BY FUNDING SOURCE

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REPORTS AS OF MAY 1, 2007

SUMMARY OF OUTSTANDING GENERAL FUND AND SPECIAL FUND OBLIGATIONS

ESTIMATED OVERLAPPING DEBT STATEMENT

COUNTY OF LOS ANGELES COMBINED PRINCIPAL AND INTEREST OBLIGATIONS AS OF JULY 1, 2006					
Fiscal Year	General Obligation Bonds	Special Fund Obligations	Pension Obligation Certificates	Other Bonds	Total Debt Service
2006-07	\$9,056,106	-	\$381,235,406	\$150,523,236	\$540,814,748
2007-08	-	-	381,602,899	147,400,264	529,003,163
2008-09	-	-	320,338,646	130,740,233	451,078,878
2009-10	-	-	358,165,000	122,013,605	480,178,605
2010-11	-	-	372,130,000	108,705,768	480,835,768
2011-12	-	-	-	108,468,139	108,468,139
2012-13	-	-	-	97,156,232	97,156,232
2013-14	-	-	-	98,018,528	98,018,528
2014-15	-	-	-	93,911,879	93,911,879
2015-16	-	-	-	73,311,163	73,311,163
2016-17	-	-	-	52,907,133	52,907,133
2017-18	-	-	-	41,182,553	41,182,553
2018-19	-	-	-	42,063,946	42,063,946
2019-20	-	-	-	42,964,281	42,964,281
2020-21	-	-	-	43,895,263	43,895,263
2021-22	-	-	-	44,872,025	44,872,025
2022-23	-	-	-	41,891,444	41,891,444
2023-24	-	-	-	17,710,063	17,710,063
2024-25	-	-	-	17,700,813	17,700,813
2025-26	-	-	-	17,695,325	17,695,325
2026-27	-	-	-	17,686,944	17,686,944
2027-28	-	-	-	17,674,131	17,674,131
2028-29	-	-	-	17,674,850	17,674,850
2029-30	-	-	-	17,661,675	17,661,675
2030-31	-	-	-	10,201,700	10,201,700
2031-32	-	-	-	10,198,531	10,198,531
2032-33	-	-	-	7,684,731	7,684,731
2033-34	-	-	-	7,686,613	7,686,613
2034-35	-	-	-	-	-
2035-36	-	-	-	-	-
2036-37	-	-	-	-	-
2037-38	-	-	-	-	-
2038-39	-	-	-	-	-
<b>Total</b>	<b>\$ 9,056,106</b>	<b>\$ -</b>	<b>\$ 1,813,471,950</b>	<b>\$ 1,599,601,064</b>	<b>\$3,422,129,121</b>

COUNTY OF LOS ANGELES OUTSTANDING PRINCIPAL OBLIGATIONS AS OF JULY 1, 2006					
Fiscal Year	General Obligation Bonds	Special Fund Obligations	Pension Obligation Certificates	Other Bonds	Total Outstanding Principal
2006-07	\$8,395,000	-	\$737,087,396	\$1,041,021,969	\$1,786,504,365
2007-08	-	-	546,849,148	942,651,956	1,489,501,104
2008-09	-	-	352,255,398	843,682,785	1,195,938,184
2009-10	-	-	235,690,862	757,736,193	993,427,055
2010-11	-	-	118,486,192	677,445,838	795,932,030
2011-12	-	-	-	605,317,754	605,317,754
2012-13	-	-	-	533,172,758	533,172,758
2013-14	-	-	-	469,687,515	469,687,515
2014-15	-	-	-	403,027,430	403,027,430
2015-16	-	-	-	338,070,289	338,070,289
2016-17	-	-	-	291,713,098	291,713,098
2017-18	-	-	-	268,408,779	268,408,779
2018-19	-	-	-	253,543,152	253,543,152
2019-20	-	-	-	238,095,857	238,095,857
2020-21	-	-	-	222,023,886	222,023,886
2021-22	-	-	-	196,955,000	196,955,000
2022-23	-	-	-	161,440,000	161,440,000
2023-24	-	-	-	127,115,000	127,115,000
2024-25	-	-	-	115,555,000	115,555,000
2025-26	-	-	-	103,400,000	103,400,000
2026-27	-	-	-	90,615,000	90,615,000
2027-28	-	-	-	77,170,000	77,170,000
2028-29	-	-	-	63,035,000	63,035,000
2029-30	-	-	-	48,160,000	48,160,000
2030-31	-	-	-	32,545,000	32,545,000
2031-32	-	-	-	23,795,000	23,795,000
2032-33	-	-	-	14,595,000	14,595,000
2033-34	-	-	-	7,490,000	7,490,000
2034-35	-	-	-	-	-
2035-36	-	-	-	-	-
2036-37	-	-	-	-	-
2037-38	-	-	-	-	-
2038-39	-	-	-	-	-

Source: Los Angeles County Chief Administrative Office

**COUNTY OF LOS ANGELES  
COMBINED PRINCIPAL AND INTEREST OBLIGATIONS BY FUNDING SOURCE  
AS OF JULY 1, 2006**

Fiscal Year	General		Hospital Enterprise Fund	Courthouse		Special Districts / Special Funds	Trial Court Trust Fund	State/Federal Subvention	Total Annual Debt Service
	General Fund	Obligation Bond Fund		Construction Fund					
2006-07	\$197,706,168	\$9,056,106	\$136,812,234	\$34,614,761	\$39,895,889	\$19,596,644	\$103,132,946	\$540,814,748	
2007-08	196,584,647	-	135,152,127	34,440,889	39,977,605	19,615,534	103,232,361	529,003,163	
2008-09	173,888,036	-	106,191,507	34,604,283	33,269,712	16,466,367	86,658,971	451,078,878	
2009-10	181,030,713	-	112,681,604	34,458,675	36,704,987	18,410,755	96,891,870	480,178,605	
2010-11	173,546,692	-	114,862,326	34,548,340	38,080,088	19,128,598	100,669,724	480,835,768	
2011-12	53,002,105	-	18,400,555	33,846,132	3,219,346	-	-	108,468,139	
2012-13	47,205,976	-	17,098,045	29,566,565	3,285,646	-	-	97,156,232	
2013-14	47,849,798	-	17,098,477	29,722,531	3,347,721	-	-	98,018,527	
2014-15	45,488,565	-	16,118,727	28,888,878	3,415,709	-	-	93,911,879	
2015-16	30,936,886	-	14,471,134	24,417,059	3,486,084	-	-	73,311,162	
2016-17	20,801,284	-	5,684,932	22,866,083	3,554,834	-	-	52,907,133	
2017-18	19,814,394	-	-	17,743,000	3,625,159	-	-	41,182,553	
2018-19	20,624,681	-	-	17,742,625	3,696,640	-	-	42,063,946	
2019-20	21,454,019	-	-	17,736,513	3,773,750	-	-	42,964,281	
2020-21	22,321,744	-	-	17,727,269	3,846,250	-	-	43,895,263	
2021-22	23,224,363	-	-	17,720,663	3,927,000	-	-	44,872,025	
2022-23	24,171,488	-	-	17,719,956	-	-	-	41,891,444	
2023-24	-	-	-	17,710,063	-	-	-	17,710,063	
2024-25	-	-	-	17,700,813	-	-	-	17,700,813	
2025-26	-	-	-	17,695,325	-	-	-	17,695,325	
2026-27	-	-	-	17,686,944	-	-	-	17,686,944	
2027-28	-	-	-	17,674,131	-	-	-	17,674,131	
2028-29	-	-	-	17,674,850	-	-	-	17,674,850	
2029-30	-	-	-	17,661,675	-	-	-	17,661,675	
2030-31	-	-	-	10,201,700	-	-	-	10,201,700	
2031-32	-	-	-	10,198,532	-	-	-	10,198,531	
2032-33	-	-	-	7,684,731	-	-	-	7,684,731	
2033-34	-	-	-	7,686,613	-	-	-	7,686,613	
2034-35	-	-	-	-	-	-	-	-	
2035-36	-	-	-	-	-	-	-	-	
2036-37	-	-	-	-	-	-	-	-	
2037-38	-	-	-	-	-	-	-	-	
2038-39	-	-	-	-	-	-	-	-	
2039-40	-	-	-	-	-	-	-	-	
<b>Total</b>	<b>\$1,299,651,559</b>	<b>\$9,056,106</b>	<b>\$694,571,666</b>	<b>\$607,939,597</b>	<b>\$227,106,420</b>	<b>\$93,217,899</b>	<b>\$490,585,872</b>	<b>\$3,422,129,120</b>	

**COUNTY OF LOS ANGELES  
OUTSTANDING PRINCIPAL OBLIGATIONS BY FUNDING SOURCE  
AS OF JULY 1, 2006**

Fiscal Year	General		Hospital Enterprise Fund	Courthouse		Special Districts / Special Funds	Trial Court Trust Fund	State/Federal Subvention	Total Outstanding Principal
	General Fund	Obligation Bond Fund		Construction Fund					
2006-07	\$683,297,547	\$8,395,000	\$376,960,746	\$371,625,194	\$108,938,281	\$37,888,503	\$199,399,094	\$1,786,504,365	
2007-08	571,714,280	-	297,576,098	355,434,443	88,731,324	28,109,687	147,935,272	1,489,501,104	
2008-09	458,417,376	-	217,462,104	338,693,886	67,694,647	18,106,984	95,293,187	1,195,668,184	
2009-10	371,676,065	-	169,540,332	320,963,411	55,372,230	12,115,217	63,759,799	993,427,055	
2010-11	288,500,120	-	123,999,461	302,524,920	42,763,744	6,090,546	32,053,240	795,932,030	
2011-12	215,951,861	-	78,874,248	283,071,645	29,910,000	-	-	607,807,754	
2012-13	180,539,292	-	63,799,178	263,389,288	28,050,000	-	-	535,777,758	
2013-14	150,010,877	-	49,377,538	247,019,099	26,040,000	-	-	472,447,515	
2014-15	118,158,618	-	34,279,455	229,639,358	23,875,000	-	-	405,952,430	
2015-16	87,988,277	-	19,440,996	212,186,017	21,550,000	-	-	341,165,289	
2016-17	72,115,806	-	5,556,353	198,275,939	19,050,000	-	-	294,998,098	
2017-18	66,818,779	-	-	185,215,000	16,375,000	-	-	268,408,779	
2018-19	63,298,152	-	-	176,725,000	13,520,000	-	-	253,543,152	
2019-20	59,820,857	-	-	167,800,000	10,475,000	-	-	238,095,857	
2020-21	56,388,886	-	-	158,410,000	7,225,000	-	-	222,023,886	
2021-22	44,695,000	-	-	148,520,000	3,740,000	-	-	196,955,000	
2022-23	23,340,000	-	-	138,100,000	-	-	-	161,440,000	
2023-24	-	-	-	127,115,000	-	-	-	127,115,000	
2024-25	-	-	-	115,555,000	-	-	-	115,555,000	
2025-26	-	-	-	103,400,000	-	-	-	103,400,000	
2026-27	-	-	-	90,615,000	-	-	-	90,615,000	
2027-28	-	-	-	77,170,000	-	-	-	77,170,000	
2028-29	-	-	-	63,035,000	-	-	-	63,035,000	
2029-30	-	-	-	48,160,000	-	-	-	48,160,000	
2030-31	-	-	-	32,545,000	-	-	-	32,545,000	
2031-32	-	-	-	23,795,000	-	-	-	23,795,000	
2032-33	-	-	-	14,595,000	-	-	-	14,595,000	
2033-34	-	-	-	7,490,000	-	-	-	7,490,000	
2034-35	-	-	-	-	-	-	-	-	
2035-36	-	-	-	-	-	-	-	-	
2036-37	-	-	-	-	-	-	-	-	
2037-38	-	-	-	-	-	-	-	-	
2038-39	-	-	-	-	-	-	-	-	
2039-40	-	-	-	-	-	-	-	-	

Source: Los Angeles County Chief Administrative Office

**COUNTY OF LOS ANGELES  
COMBINED PRINCIPAL AND INTEREST OBLIGATIONS BY FUNDING SOURCE  
AS OF JULY 1, 2006**

Title	Total Debt Service	General Fund	General Obligation Bond Fund	Hospital Enterprise Fund	Courthouse Construction Fund	Special Districts / Special Funds	Trial Court Trust Fund	State / Federal Subvention
<b>Long-Term Obligations</b>								
General Obligation Bonds								
1987 GO Bonds: Justice Facility	9,056,106		9,056,106					
Pension Obligation Certificates								
1986 Pension Ob Certs, Ser A: LACERA Funding	5,571,060	1,810,817		1,443,985		522,788	286,369	1,507,100
1994 Pension Ob Certs, Ser A: LACERA Funding	0	0		0		0	0	0
1994 Pension Ob Certs, Ser C: LACERA Funding	255,815,000	83,150,108		66,305,713		24,005,680	13,149,658	69,203,841
1994 Pension Ob Certs, Ser D: LACERA Funding	44,501,567	14,464,789		11,534,539		4,176,027	2,287,514	12,038,697
1996 Pension Ob Refg Bonds: LACERA Funding	75,347,779	24,491,042		19,529,692		7,070,635	3,873,102	20,383,307
Total Pension Obligation Certificates	381,235,406	123,916,756	0	98,813,930	0	35,775,130	19,596,644	103,132,946
<b>Long-Term Capital Projects</b>								
1992 Lease Rev Refg Bonds, 1992 Master Refg Proj:								
Civic Center Heating & Refrigeration Plant	5,870,328	5,870,328						
Downey Courthouse	981,528				981,528			
LeSage Complex	400,888	400,888						
Olive View Medical Center	10,319,688			10,319,688				
Sheriffs Training Academy	823,766	823,766						
San Fernando Court	1,379,752				1,379,752			
Total 1992 Lease Rev Refg Bonds, 1992 Master Refg Proj	19,855,948	7,174,981	0	10,319,688	2,361,279	0	0	0
1993 COPs: Disney Parking Project	8,240,000	8,240,000						
1996 Lease Rev Refg Bonds Ser A, 1996 Master Refg Proj:								
Lynwood Regional Justice Center	12,140,333	12,140,333						
Los Hills Sheriffs Station	1,111,088	1,111,088						
Mira Loma Boy's Camp	3,377,812	3,377,812						
Mid Valley Health Center	950,832			950,832				
LAC/USC Intensive Care Unit	243,637			243,637				
Martin Luther King, Jr. Medical Center Parking Structure	547,213			547,213				
East Los Angeles Courthouse	1,449,394				1,449,394			
Fire Command and Control System	686,850					686,850		
Total 1996 Lease Rev Refg Bonds Ser A, 1996 Master Refg Proj	20,507,158	16,629,232	0	1,741,681	1,449,394	686,850	0	0
1996 Lease Rev Refg Bonds Ser B, 1996 Master Refg Proj: Central Jail	11,445,785	11,445,785						
1997 Lease Rev Refg Bonds Ser A, 1997 Master Refg Proj:								
Hollywood Courthouse								
Long Beach Comprehensive Health Center								
Van Nuys Courthouse	4,335,286				4,335,286			
Pitchess Honor Rancho: Medium Security - N Facility Air Conditioning	891,545	891,545						
Pitchess Honor Rancho: Medium Security - N Facility Sewer System	271,797	271,797						
Pitchess Honor Rancho: Medium Security - N Facility Water Treatment	1,089,944	1,089,944						
Pitchess Honor Rancho: Medium Security - N Facility Debris Basin	251,757	251,757						
Pitchess Honor Rancho: Vehicle Maintenance Facility	639,525	639,525						
Men's Central Jail Parking Structure	2,870,319	2,870,319						
Mira Loma Men's Medium Security Facility	514,722	514,722						
Pitchess Honor Rancho Laundry Expansion	287,828	287,828						
Pitchess Honor Rancho Visitors Center	712,211	712,211						
Pomona Municipal Courthouse	595,425				595,425			
Hutton Building - Registrar / Recorder Headquarters	3,713,189	3,713,189						
Temple City Sheriff Station	1,222,918	1,222,918						
Public Library Headquarters	516,275					516,275		
Total 1997 Lease Rev Refg Bonds Ser A, 1997 Master Refg Proj	17,912,740	12,465,755	0	0	4,930,710	516,275	0	0
1998 Refg COPs: Disney Parking Project	3,071,383	3,071,383						
2000 COPs, Ser A: Antelope Valley Courthouse	7,686,561				7,686,561			
2002 Lease Rev Bonds Ser A: Edmund D. Edelman Children's Court	3,625,025				3,625,025			
2002 Lease Rev Bonds Ser B:								
Downey Courthouse	320,365				320,365			
Sheriffs Training Academy	264,469	264,469						
San Fernando Court	442,967				442,967			
Total 2002 Lease Rev Bonds Ser B	1,027,800	264,469	0	0	763,331	0	0	0
2005 Lease Rev Refg Bonds Ser A:								
Music Center Improvements	774,797	774,797						
Alhambra Courthouse	585,791				585,791			
Burbank Courthouse	760,853				760,853			
Ameron Building (Sheriff Headquarters)	2,509,947	2,509,947						
Biscailuz Center	223,890	223,890						
Emergency Operations Center	1,965,266	1,965,266						
Harbor/UCLA Medical Center - Primary Care & Diagnostic Center	1,486,925			1,486,925				
Martin Luther King Medical Center - Trauma Center	6,226,302			6,226,302				
Martin Luther King Medical Center - Modular Building (Ped. Trauma)	105,477			105,477				
Rancho Los Amigos Medical Center - 150 Bed Inpatient Unit A	4,398,794			4,398,794				
Rancho Los Amigos Medical Center - Parking Structure	1,640,371			1,640,371				
Rancho Los Amigos Medical Center - Master Plan II (Utilities)	686,120			686,120				
San Fernando Valley Juvenile Hall	973,340	973,340						
LAC/USC Medical Center Marengo Street Parking Garage	2,599,191			2,599,191				
LAX Area Courthouse	6,949,213				6,949,213			
San Fernando Valley Courthouse (Chatsworth)	5,502,604				5,502,604			
Harbor Med Center E.P.S.	1,253,356			1,253,356				
Total 2005 Lease Rev Refg Bonds Ser A	38,642,239	6,447,241	0	18,396,537	13,798,461	0	0	0
2005 Lease Revenue Bonds: Calabasas Landfill Project	2,917,634					2,917,634		
Total Long-Term Capital Projects	134,932,271	65,738,845	0	30,457,906	34,614,761	4,120,759	0	0
Total Long-Term Obligations	\$525,223,782	\$189,655,601	\$9,056,106	\$129,271,836	\$34,614,761	\$39,895,889	\$19,596,644	\$103,132,946
<b>Intermediate-Term Obligations</b>								
Equipment								
2002 Lease Rev Bonds Ser A (LAC-CAL): LAC-CAL Equipment Program	1,447,266	834,531		612,734				
2004 Lease Rev Bonds Ser A (LAC-CAL): LAC-CAL Equipment Program	2,709,225	1,625,535		1,083,690				
2006 Lease Rev Bonds Ser A (LAC-CAL): LAC-CAL Equipment Program	11,434,475	5,590,501		5,843,974				
Total Equipment	15,590,966	8,050,567	0	7,540,398	0	0	0	0
Total Intermediate-Term Obligations	\$15,590,966	\$8,050,567	\$0	\$7,540,398	\$0	\$0	\$0	\$0
Total Obligations	\$540,814,748	\$197,706,168	\$9,056,106	\$136,812,234	\$34,614,761	\$39,895,889	\$19,596,644	\$103,132,946

Source: Los Angeles County Chief Administrative Office

COUNTY OF LOS ANGELES  
 OUTSTANDING PRINCIPAL BY FUNDING SOURCE  
 AS OF JULY 1, 2006

Title	Total Outstanding Principal	General Fund	General Obligation Bond Fund	Hospital Enterprise Fund	Courthouse Construction Fund	Special Districts / Special Funds	Trial Court Trust Fund	State / Federal Subvention
<b>Long-Term Obligations</b>								
General Obligation Bonds								
1987 GO Bonds: Justice Facility	8,395,000		8,395,000					
Pension Obligation Certificates								
1986 Pension Ob Certs, Ser A: LACERA Funding	80,740,000	26,243,730		20,927,324		7,576,642	4,150,278	21,842,027
1994 Pension Ob Certs, Ser A: LACERA Funding	0	0		0		0	0	0
1994 Pension Ob Certs, Ser C: LACERA Funding	248,395,233	80,738,386		64,382,554		23,309,409	12,768,260	67,196,623
1994 Pension Ob Certs, Ser D: LACERA Funding	337,452,163	109,685,451		87,465,576		31,666,511	17,346,054	91,288,572
1996 Pension Ob Refg Bonds: LACERA Funding	70,500,000	22,915,320		18,273,177		6,615,720	3,623,911	19,071,872
Total Pension Obligation Certificates	737,087,396	239,582,887	0	191,048,630	0	69,168,281	37,888,503	199,399,094
<b>Long-Term Capital Projects</b>								
1992 Lease Rev Refg Bonds, 1992 Master Refg Proj:								
Civic Center Heating & Refrigeration Plant	20,880,000	20,880,000						
Downey Courthouse	4,225,000				4,225,000			
LeSage Complex	1,150,000	1,150,000						
Olive View Medical Center	19,465,000			19,465,000				
Sheriffs Training Academy	3,538,409	3,538,409						
San Fernando Court	5,926,591				5,926,591			
Total 1992 Lease Rev Refg Bonds, 1992 Master Refg Proj	55,185,000	25,568,409	0	19,465,000	10,151,591	0	0	0
1993 COPs: Disney Parking Project	48,296,969	48,296,969						
1996 Lease Rev Refg Bonds Ser A, 1996 Master Refg Proj:								
Lynwood Regional Justice Center	90,100,000	90,100,000						
Los Hills Sheriffs Station	3,076,753	3,076,753						
Mira Loma Boy's Camp	9,358,811	9,358,811						
Mid Valley Health Center	2,633,804			2,633,804				
LAC/USC Intensive Care Unit	681,052			681,052				
Martin Luther King, Jr. Medical Center Parking Structure	1,514,580			1,514,580				
East Los Angeles Courthouse	11,915,000				11,915,000			
Fire Command and Control System	1,290,000					1,290,000		
Total 1996 Lease Rev Refg Bonds Ser A, 1996 Master Refg Proj	120,570,000	102,535,563	0	4,829,437	11,915,000	1,290,000	0	0
1996 Lease Rev Refg Bonds Ser B, 1996 Master Refg Proj: Central Jail	85,120,000	85,120,000						
1997 Lease Rev Refg Bonds Ser A, 1997 Master Refg Proj:								
Hollywood Courthouse								
Long Beach Comprehensive Health Center					30,028,000			
Van Nuys Courthouse	30,028,000							
Pitchess Honor Rancho: Medium Security - N Facility Air Conditioning	3,156,477	3,156,477						
Pitchess Honor Rancho: Medium Security - N Facility Sewer System	962,287	962,287						
Pitchess Honor Rancho: Medium Security - N Facility Water Treatment	3,858,902	3,858,902						
Pitchess Honor Rancho: Medium Security - N Facility Debris Basin	891,335	891,335						
Pitchess Honor Rancho: Vehicle Maintenance Facility	2,267,000	2,267,000						
Men's Central Jail Parking Structure	10,161,000	10,161,000						
Mira Loma Men's Medium Security Facility	2,596,000	2,596,000						
Pitchess Honor Rancho Laundry Expansion	1,455,000	1,455,000						
Pitchess Honor Rancho Visitors Center	3,591,000	3,591,000						
Pomona Municipal Courthouse	3,004,000				3,004,000			
Hutton Building - Registrar / Recorder Headquarters	18,707,000	18,707,000						
Temple City Sheriff Station	6,167,000	6,167,000						
Public Library Headquarters	1,105,000					1,105,000		
Total 1997 Lease Rev Refg Bonds Ser A, 1997 Master Refg Proj	87,950,000	53,813,000	0	0	33,032,000	1,105,000	0	0
1998 Refg COPs: Disney Parking Project	59,655,000	59,655,000						
2000 COPs, Ser A: Antelope Valley Courthouse	111,940,000				111,940,000			
2002 Lease Rev Bonds Ser A: Edmund D. Edelman Children's Court	18,715,000				18,715,000			
2002 Lease Rev Bonds Ser B:								
Downey Courthouse	5,339,414				5,339,414			
Sheriffs Training Academy	4,407,809	4,407,809						
San Fernando Court	7,382,777				7,382,777			
Total 2002 Lease Rev Bonds Ser B	17,130,000	4,407,809	0	0	12,722,191	0	0	0
2005 Lease Rev Refg Bonds Ser A:								
Music Center Improvements	6,163,011	6,163,011						
Alhambra Courthouse	3,920,046				3,920,046			
Burbank Courthouse	6,060,959				6,060,959			
Ameron Building (Sheriff Headquarters)	16,827,957	16,827,957						
Biscailuz Center	1,499,511	1,499,511						
Emergency Operations Center	14,448,945	14,448,945						
Harbor/UCLA Medical Center - Primary Care & Diagnostic Center	10,943,145			10,943,145				
Martin Luther King Medical Center - Trauma Center	53,144,021			53,144,021				
Martin Luther King Medical Center - Modular Building (Ped. Trauma)	708,076			708,076				
Rancho Los Amigos Medical Center - 150 Bed Inpatient Unit A	35,062,910			35,062,910				
Rancho Los Amigos Medical Center - Parking Structure	13,086,544			13,086,544				
Rancho Los Amigos Medical Center - Master Plan II (Utilities)	4,614,264			4,614,264				
San Fernando Valley Juvenile Hall	8,326,118	8,326,118						
LAC/USC Medical Center Marengo Street Parking Garage	20,728,572			20,728,572				
LAX Area Courthouse	89,954,211				89,954,211			
San Fernando Valley Courthouse (Chatsworth)	73,214,196				73,214,196			
Harbor Med Center E.P.S.	6,597,513			6,597,513				
Total 2005 Lease Rev Refg Bonds Ser A	365,300,000	47,265,543	0	144,885,045	173,149,412	0	0	0
2005 Lease Revenue Bonds: Calabasas Landfill Project	37,375,000					37,375,000		
Total Long-Term Capital Projects	1,007,236,969	426,862,293	0	169,179,481	371,625,194	39,770,000	0	0
Total Long-Term Obligations	\$1,752,719,365	\$666,245,180	\$8,395,000	\$360,228,111	\$371,625,194	\$108,938,281	\$37,888,503	\$199,399,094
<b>Intermediate-Term Obligations</b>								
Equipment								
2002 Lease Rev Bonds Ser A (LAC-CAL): LAC-CAL Equipment Program	1,425,000	821,693		603,307				
2004 Lease Rev Bonds Ser A (LAC-CAL): LAC-CAL Equipment Program	3,685,000	2,211,000		1,474,000				
2006 Lease Rev Bonds Ser A (LAC-CAL): LAC-CAL Equipment Program	28,675,000	14,019,674		14,655,326				
Total Equipment	33,785,000	17,052,366	0	16,732,634	0	0	0	0
Total Intermediate-Term Obligations	\$33,785,000	\$17,052,366	\$0	\$16,732,634	\$0	\$0	\$0	\$0
Total Obligations	\$1,786,504,365	\$683,297,547	\$8,395,000	\$376,960,746	\$371,625,194	\$108,938,281	\$37,888,503	\$199,399,094

Source: Los Angeles County Chief Administrative Office

**COUNTY OF LOS ANGELES  
SUMMARY OF OUTSTANDING GENERAL FUND AND SPECIAL FUND OBLIGATIONS  
AS OF MAY 1, 2007**

Title	Outstanding Principal	Total Future Payments	2006-07 FY Payment Remaining
Long-Term Obligations			
General Obligation Bonds			
1987 GO Bonds: Justice Facility	\$8,395,000	\$8,725,553	\$8,725,553
Pension Obligation Certificates			
1986 Pension Obligation Certificates, Series A	\$80,740,000	\$86,311,060	\$0
1994 Pension Obligation Bonds, Series A (Current Interest Bonds)	0	0	0
1994 Pension Obligation Bonds, Series C (Capital Appreciation Bonds)	164,996,984	588,085,000	0
1994 Pension Obligation Bonds, Series D (Variable Rate Bonds)	301,112,163	757,840,485	0
1996 Pension Obligation Refunding Bonds	0	0	0
Total Pension Obligation Certificates	\$546,849,148	\$1,432,236,545	\$0 (1)
Long-Term Capital Projects			
1992 Lease Rev Refg Bonds, 1992 Master Refunding Project	\$38,125,000	\$42,491,445	\$1,142,074
1993 COPs: Disney Parking Project	44,946,956	189,315,000	0
1996 Lease Rev Refg Bonds Ser A, 1996 Master Refunding Project (2)	0	0	0
1996 Lease Rev Refg Bonds Ser B, 1996 Master Refunding Project (2)	0	0	0
1997 Lease Rev Refg Bonds Ser A, 1997 Master Refunding Project (2)	0	0	0
1998 Refg COPs: Disney Parking Project	59,405,000	100,049,940	0
2000 COPs, Series A: Antelope Valley Courthouse (2)	0	0	0
2002 Lease Rev Bonds Series A - Edmund D. Edelman Court Project Refunding	15,925,000	18,136,600	0
2002 Lease Rev Bonds Series B - 2002 Master Refunding Project	17,130,000	25,011,300	513,900
2005 Lease Rev Refg Bonds Series A - 2005 Master Refunding Project	343,075,000	482,751,621	0 (3)
2005 Lease Rev Bonds Series A - 2005 Calabasas Landfill Project	37,375,000	53,533,941	2,091,317
2006 Lease Rev Refg Bonds Series A - 2006 Master Refunding Project	217,585,000	259,149,312	0
2006 Lease Rev Refg Bonds Series B - 2006 Master Refunding Project	103,410,000	186,799,217	0
Total Long-Term Capital Projects	\$876,976,956	\$1,357,238,375	\$3,747,291
Total Long-Term Obligations	\$1,432,221,104	\$2,798,200,473	\$12,472,844
Intermediate-Term Obligations			
Equipment			
2002 Lease Rev Bonds Series A - LAC-CAL Equipment Program	\$0	\$0	\$0
2004 Lease Rev Bonds Series A - LAC-CAL Equipment Program	2,085,000	2,126,925	1,048,613
2006 Lease Rev Bonds Series A - LAC-CAL Equipment Program	23,600,000	25,036,000	5,872,000
Total Equipment	\$25,685,000	\$27,162,925	\$6,920,613
Total Intermediate-Term Obligations	\$25,685,000	\$27,162,925	\$6,920,613
Total Obligations	\$1,457,906,104	\$2,825,363,398	\$19,393,456

COPs = Certificates of Participation

- (1) Does not include \$190,238,248 in principal and \$190,997,157 in interest payment amounts remaining for FY 2006-07 that were deposited with the respective trustees in advance on July 15 or 30, 2005 as required by the individual Trust Agreements.
- (2) Obligations refunded on December 13, 2006 by the Los Angeles County Public Works Financing Authority Lease Revenue Refunding Bonds (Master Refunding Project 2006) Series A and B.
- (3) Does not include \$7,996,357 in unpaid interest remaining for FY 2006-07 that was deposited with the trustee in advance on April 15, 2007 as required by the Indenture of Trust.

Source: Los Angeles County Chief Administrative Office

<b>COUNTY OF LOS ANGELES</b>		
<b>ESTIMATED OVERLAPPING DEBT STATEMENT AS OF MAY 1, 2007</b>		
Full Cash Value (2006-07): \$822,026,657,186 (after deducting \$111,489,615,303 redevelopment incremental valuation; including unitary utility valuation)		
	Applicable %	Debt as of 5/1/07
<b>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT</b>		
<b>Los Angeles County</b>	<b>100.000 %</b>	<b>\$ 8,395,000</b>
Los Angeles County Flood Control District	100.000	113,560,000
Metropolitan Water District	46.196	165,896,765
Los Angeles Community College District	100.000	1,005,200,000
Other Community College Districts	Various	1,151,471,218
Beverly Hills Unified School District	100.000	140,344,198
Glendale Unified School District	100.000	148,150,000
Inglewood Unified School District	100.000	123,590,000
Long Beach Unified School District	100.000	247,115,000
Los Angeles Unified School District	100.000	6,504,880,000
Pasadena Unified School District	100.000	205,175,000
Pomona Unified School District	100.000	153,225,000
Other Unified School Districts	100.000	2,310,454,547
High School and School Districts	Various (1)	960,650,982
City of Los Angeles	100.000	1,411,898,000
City of Los Angeles Special Tax Lease Revenue Bonds	100.000	126,485,000
City of Industry	100.000	197,945,000
Other Cities	100.000	45,735,000
Special Districts	100.000	10,130,000
Community Facilities Districts	100.000	816,898,019
Los Angeles County Regional Park & Open Space Assessment District	100.000	304,235,000 (2)
1915 Act and Benefit Assessment Bonds - Estimate	100.000	220,803,406
Los Angeles County Metropolitan Transportation Authority Benefit Assessment District Bonds	100.000	63,640,000
<b>TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT</b>		<b>\$ 16,435,877,135</b>
<b>DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT</b>		
<b>Los Angeles County General Fund Obligations</b>	<b>100.000 %</b>	<b>\$ 1,086,701,959 (3)</b>
<b>Los Angeles County Pension Obligations</b>	<b>100.000</b>	<b>737,082,395</b>
Los Angeles County Office of Education Certificates of Participation	100.000	19,817,270
Community College District Certificates of Participation	Various (1)	99,399,667
Los Angeles Unified School District Certificates of Participation	100.000	402,219,455
Pomona Unified School District Certificates of Participation	100.000	65,910,000
Other Unified School District Certificates of Participation	100.000	454,915,698
High School and School District General Fund Obligations	Various (4)	177,847,310
City of Beverly Hills General Fund Obligations	100.000	217,015,000
City of Los Angeles General Fund and Judgment Obligations	100.000	1,492,290,000
City of Long Beach General Fund Obligations	100.000	302,400,000
City of Long Beach Pension Obligations	100.000	91,865,000
City of Pasadena General Fund Obligations	100.000	407,699,972
City of Pasadena Pension Obligations	100.000	134,145,000
Other Cities' General Fund Obligations	100.000	1,192,924,853
Los Angeles County Sanitation Districts General Fund Obligations	100.000	390,990,000
Walnut Valley Water District General Fund Obligations	100.000	14,075,000
<b>TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT</b>		<b>\$ 7,287,298,579</b>
Less: School District self-supporting bonds		(43,847,905)
Cities' self-supporting bonds		(179,252,871)
Walnut Valley Water District General Fund Obligations		(14,075,000)
<b>TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT</b>		<b>\$ 7,050,122,803</b>
<b>GROSS COMBINED TOTAL DEBT</b>		<b>\$ 23,723,175,714 (4)</b>
<b>NET COMBINED TOTAL DEBT</b>		<b>\$ 23,485,999,938</b>
<p>(1) All 100%, or almost 100%, except for Antelope Valley Joint Union High School District, Fullerton Union High School District and Community College District, and the schools and special districts included in them.</p> <p>(2) Excludes refunding issue to be sold.</p> <p>(3) Excludes tax and revenue anticipation notes to be sold.</p> <p>(4) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.</p>		
<b>RATIOS TO 2006-07 ASSESSED VALUATION</b>		
<b>Direct Debt (\$8,395,000)</b>	<b>0.001 %</b>	
Total Direct and Overlapping Tax and Assessment Debt	1.760 %	
<b>RATIOS TO FULL CASH VALUE (ADJUSTED ASSESSED VALUATION)</b>		
<b>Combined Gross Direct Debt (\$1,832,179,354)</b>	<b>0.220 %</b>	
<b>Net Combined Direct Debt (\$1,832,179,354)</b>	<b>0.220 %</b>	
Gross Combined Total Debt	2.890 %	
Net Combined Total Debt	2.860 %	
<b>STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/06:</b>	<b>\$ 884,789</b>	
Source: California Municipal Statistics. The above report is included for general information purposes only. The County has not reviewed the debt report for completeness or accuracy and makes no representations in connection therewith.		

# ECONOMIC AND DEMOGRAPHIC INFORMATION

## Economic Overview

With a 2005 Gross Product of \$418 billion, Los Angeles County's economy is larger than that of 42 states and all but 16 countries. Los Angeles County serves as the central trade district for the western United States and controls nearly three-quarters 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 at a solid pace in 2006, but is expected to see lower growth through 2007-2008 with a slow-down in the housing sector being the primary impediment to stronger growth.

Since 2003, Los Angeles County has experienced a steady recovery in the job market with a third consecutive year of lower unemployment rates in 2006. The 2006 unemployment rate of 4.8% was the lowest in the County since 1988. In 2007, the County's economy is expected to experience moderate job growth in non-farm employment of approximately 1.1%, or 43,700 jobs. The continued improvement in the job market is being supported by \$33 billion in major construction projects, including the expansion of port facilities, light rail projects, school construction programs, the "LA Live" entertainment complex and the Grand Avenue redevelopment project.

In terms of its industrial base, diversity continues to be Los Angeles County's greatest strength, with continued job growth projected for most major sectors of the economy in 2007. The continuing increase in international trade has made the ports of Los Angeles and Long Beach the busiest and most productive in the nation. As measured by the value of two-way trade, Los Angeles continues to be the number one customs district in the nation for international trade. In 2006, the value of two-way trade continued to grow at a strong pace to a record level of \$329.4 billion, or a 12% increase from 2005.

## Quality of Life

### Higher Education

Los Angeles County is home to 198 colleges and universities including the California Institute of Technology, the Claremont Colleges, Occidental College, the University of California at Los Angeles, the University of Southern California, five campuses of the California State University system, the Art Center College of Design, California Institute of the Arts, and the Otis College of Art and Design.

### Culture

Los Angeles County is the cultural center of the western United States offering world-class museums, theaters, and music venues. The County is home to over 1,000 performing arts organizations and 150,000 working artists, creating one of the largest concentrations of arts activity in the United States.

Los Angeles County has among the largest number of museums per capita relative to other large metropolitan areas in the world. The area's museums showcase some of the world's finest collections of art, sculpture, manuscripts, and antiquities; as well as providing a historical overview of the area's ethnic heritage and experience. Major institutions include the acclaimed Los Angeles County Museum of Art, the Los Angeles County

Museum of Natural History, the George C. Page Museum, the Anderson Gallery, the Norton Simon Museum, the J. Paul Getty Museum, the Museum of Contemporary Art, and the Huntington Library.

Los Angeles County features more annual theatrical productions and has more weekly openings than most major cities in the world. The County is home to the Los Angeles Philharmonic Orchestra, which is recognized as one of the finest symphony orchestras in the world. The area also supports numerous regional orchestras such as the Long Beach Symphony, Pasadena Symphony, and Santa Monica Symphony orchestras.

### Recreation

Due to its geographic size, location, topography, and mild climate (an average of 329 days of sunshine per year), Los Angeles County offers a full spectrum of recreational activities that are enjoyed by residents and visitors on a year-round basis. The County owns and maintains the world's largest man-made recreational harbor at Marina del Rey, which is home to more than 5,000 pleasure boats, and manages 63,000 acres of parks, trails, natural habitat and the world's largest public golf course system. Each year, millions of people visit Los Angeles County's 31 miles of public beaches stretching along the County's 75-mile shoreline, and bike enthusiasts are able to enjoy the County's 22-mile beach bikeway.

Millions of visitors continue to enjoy the County's multitude of amusement parks, zoos, museums, theaters, motion picture and television studios, regional campgrounds and parklands, and world-renowned restaurants and retail centers. In addition, the County is the host to a number of major annual events such as the January 1st Rose Parade and Rose Bowl game, and the Academy Awards show. Los Angeles County has been a prior host to major sporting events such as the Summer Olympics, the World Cup, and the Super Bowl.

## Population

The County of Los Angeles is the most populous county in the U.S. with over 10.3 million people estimated to be residing within its borders. The County's population makes it equivalent to the eighth largest state in the nation and accounts for approximately 27% of the total population of California. The demographic profile of the County indicates that 44.6% of the population is Hispanic; 31.1% White non-Hispanic; 12.6% Asian-Pacific Islander; and 9.7% African American. The County is also home to the greatest number of foreign-born residents in the nation (3.4 million) and has the largest population of persons of Filipino, Guatemalan, Korean, Mexican, Salvadoran and Thai descent outside their native countries. It is estimated that 70% of the adult population has a high school diploma or higher, while 25% has a bachelor's degree or higher. Table B illustrates the recent historical growth of the County's population.

## Employment

After three years of rising unemployment rates from 2000-2003, the County experienced its third consecutive year of an improving job market in 2006. The unemployment rate decreased from 7.0% in 2003 to 6.5% and 5.3% in 2004 and 2005 respectively, and to a cyclical low of 4.8% in 2006. The unemployment rate is projected to increase to 5.1% in 2007,

reflecting the slower rate of growth expected for the regional economy. Non-agricultural employment grew at a modest rate of 1.2% in 2006, reflecting an increase of 46,400 jobs from 2005. The steady pace of job growth is projected to continue at a rate of 1.1% in 2007 and 1.3% in 2008, representing an increase of 43,700 and 51,800 non-agricultural jobs, respectively, from 2006. Due in part to the lower value of the U.S dollar relative to foreign currencies and its positive impact on tourism, the Leisure & Hospitality sector is expected to see continued job growth in 2007 (+8,000 jobs). Other sectors of the economy expecting strong job growth in 2007 are Professional, Scientific & Technical Services (+7,000 jobs) and Health Care & Social Assistance (+6,500 jobs). On the negative side of the employment picture, the Construction sector is projected to see a decrease of 4,000 jobs in 2007, reflecting the slow-down in the residential construction industry after 4 consecutive years of steady job growth. The Manufacturing sector is expected to see a net loss of 2,000 jobs in 2007, reflecting the continued decline of this sector since 1997. However, the Manufacturing sector has made significant strides to improve efficiency, thus resulting in higher productivity despite the net loss of jobs. Table F details the County's employment by sector since 2003.

### **Personal Income**

Total personal income in Los Angeles County is projected to grow at a solid pace in 2007, to an estimated \$379.8 billion, or a 4.9% increase from 2006. The County's total personal income in 2007 represents an estimated 25.2% of the total personal income generated in California. The sustained growth in personal income represents a 22.5% increase since 2003, and reflects the solid growth and positive economic conditions of both the State and regional economies over the last several years. Table C provides a summary of the personal income levels in Los Angeles County since 2003.

### **Consumer Spending**

Los Angeles County is a national leader in consumer spending. In 2007, the County will generate an estimated \$102.9 billion in retail sales, representing an increase of 5.5% from 2006 and 29.7% from 2003 levels. Table D provides a summary of the recent growth of retail sales in Los Angeles County.

### **Industry**

With a Gross Product larger than all but 16 countries and eight states, Los Angeles County is the leading center for business and commerce in the western United States. Its Gross Product of \$418 billion in 2005 represents approximately 26% of the total economic output in California and nearly 3.4% of the Gross Product of the United States. The County's business environment is distinguished by its diversity and balance, and is recognized as a world leader in the high-technology, electronic, energy, communication, and entertainment industries. Table A provides summary information on the Gross Product of Los Angeles County.

Los Angeles County is the largest major manufacturing center in the United States, with over 464,000 workers estimated to be employed in this sector as of 2007. The largest components of the manufacturing sector include apparel, fabricated metal products, computer and electronics, and transportation equipment. The steady decline in industrial market vacancy rates (from 4.5% in 2001 to 1.5% by the end of 2006) is an indication of the continued strength of the Manufacturing sector, despite the loss of jobs.

### **International Trade**

Due to its strategic location, broad transportation network and extensive cargo facilities, Los Angeles has positioned itself as the nation's busiest center of international commerce as measured by the dollar value of two-way trade. International trade has been a leading factor in the solid economic growth of the region since 2002. The value of two-way trade through the Los Angeles Customs District has increased by over 55% since 2002 to a record level of \$329.4 billion in 2006. The trend should continue in 2007, where the value of two-way trade is expected to grow by over 13% to another record level of \$373.4 billion. In 2006, direct international trade created 35,000 additional jobs in the Los Angeles five-county area. The estimated 485,000 workers employed in relation to international trade accounted for 6.8% of total non-farm employment in the five-county region in 2006.

### **Transportation/Infrastructure**

Los Angeles County is one of the world's largest transportation centers. The region's ports, airports, integrated rail and highway facilities are part of an extensive transportation infrastructure that provides valuable service to residents, visitors, and industry.

#### *Airports and Harbors*

All transcontinental airlines and many international carriers serve the Los Angeles area through major air terminals at the Los Angeles International Airport, Long Beach Airport and the Bob Hope Airport in Burbank. Los Angeles International Airport is the third busiest and one of the most modern air terminals in the nation.

The Ports of Los Angeles and Long Beach are adjacent ports that encompass the nation's largest port complex in terms of annual cargo tonnage and container volume. Together, they represent the fifth busiest port complex in the world after Singapore, Hong Kong, Shanghai and Shenzhen. Both ports are owned and operated by their respective cities. The combined Los Angeles/Long Beach port complex is also the fastest growing port facility in the United States. The top trading region is East Asia, which accounts for over 90% of the total shipments passing through the ports. The primary trading partners are China, Japan, South Korea and Taiwan. The combined port complex is a powerful economic force in the region, with a direct connection to hundreds of thousands of jobs in Southern California and billions of dollars in state and local tax revenue.

The Port of Los Angeles is one of the largest man-made harbors in the world. As measured by annual container volume, it ranks as the busiest container port in the United States, and the eighth busiest in the world. The port facilities cover over 7,500 acres and include 43 miles of waterfront. The port has 27 major cargo terminals, including facilities to handle automobiles, containers, dry bulk products and liquid bulk products. For the fiscal year ended June 30, 2006, the port handled over 181 million metric revenue tons of cargo, with an estimated value of over \$205 billion; and processed over 7.8 million equivalent cargo container units, representing a 7.3% increase in container volume from fiscal year 2005.

The Port of Long Beach is also among the world's busiest container ports, and ranks behind the Port of Los Angeles as the second busiest port in the nation, and the twelfth busiest in the world. The port covers over 3,200 acres, with 35 miles of waterfront and 8 major container terminals. In calendar year 2006, the port handled 169.8 million metric revenue tons of cargo and processed nearly 7.3 million equivalent cargo

container units, representing increases of 6.7% and 8.7%, respectively from 2005.

### *Port Expansion*

The Ports of Los Angeles and Long Beach are currently in the process of major ongoing expansion programs (\$1.1 and \$1.4 billion, respectively) that will facilitate further growth and expansion of trade activity. The expansion of port facilities will continue to have a positive economic impact on the region through the creation of new jobs in the trade-related sectors of the local economy. The various expansion related projects will enable the region to more effectively manage the growing volume of imports and exports and provide a faster and more efficient system for the transportation of cargo from the port complex to markets nationwide.

### *Metro System*

The Metro System, a multi-modal and integrated passenger transportation system provides service to the greater Los Angeles area. The Metro System was designed to meet the travel needs of the area's diverse population centers through a variety of transportation alternatives that will be implemented over a 30-year period. The integrated Metro System is administered and operated by the Los Angeles County Metropolitan Transportation Authority (MTA). Formed in 1993 from the merger of the Southern California Rapid Transit District and the Los Angeles County Transportation Commission, the MTA is responsible for the planning, design, construction and operation of the public transportation system for Los Angeles County. The 2007 operating budget for the MTA is \$3.012 billion, which is primarily funded through voter approved State and local sales taxes, State gasoline taxes, and various Federal, State and local grants.

### **Visitor and Convention Business**

Tens of millions of visitors travel to Southern California each year, providing a significant contribution to the County's economy. In 2006, the Los Angeles Convention and Visitors Bureau estimated that 25.7 million overnight visitors stayed in Los Angeles, with total visitor expenditures of \$13.6 billion during this period. Los Angeles is the fourth most frequent destination for domestic travelers in the United States, according to the Travel Industry Association of America; and the second ranked destination for international visitors behind only New York, according to the International Trade Administration. It is estimated that each 1% increase in the number of visitors generates an additional \$280 million in travel spending. According to the Los Angeles Economic Development Corporation (LAEDC), travel and tourism provides employment for over 263,000 area residents, making travel and tourism the second largest industry in Los Angeles County.

### **Real Estate and Construction**

After peaking toward the end of 2005, the residential housing market in Los Angeles County experienced a noticeable slow-down in 2006. Despite signs of a slow-down, favorable underlying economic fundamentals continue to support the housing market in Los Angeles County. With a limited housing inventory relative to demand, less land available for new home construction and a strong economic base reflected in the positive employment picture, the County continued to experience an increase in home values in 2006, but at a much slower rate of growth. The average median price of new and existing homes increased from \$467,714 in 2005 to \$510,732 in 2006, which

represents an annual increase of 9.2% from 2005, compared to the average annual increase of 20.5% from 2001 to 2005. Moreover, the rate of appreciation appears to have slowed significantly over the last 6 months of 2006 and was virtually flat in the fourth quarter.

As measured by the number of new building permits issued, residential construction activity increased by 2.7% from 2005 to 2006. The increase in construction activity was driven by an 18% increase in the number of permits issued for multi-family units (condos and apartments), which accounted for 61% of the total residential building permits in 2006. The increase in permits for multi-family units helped to offset a 15% decrease in permits issued for single-family units, which experienced its first such decline since 2001. Residential construction activity is expected to decrease in 2007, but will be partially offset by modest gains in non-residential construction.

The factors indicating a slow-down in the housing market in 2006 include decreases in residential purchase lending, new and existing home sales and building permits for new single family homes; and increases in notices of default recorded and the inventory of unsold new housing. Residential purchase lending decreased by 8.7% in 2006, the first such decline since 1995. New and existing home sales decreased by nearly 18% in 2006 to the lowest level since 1997. As an indication that builders are having a much more difficult time selling new homes, the inventory of unsold new housing increased to 3,630 units at the end of 2006, which is over three times larger than the 2005 year-end inventory of 1,115 units.

The rising interest rate environment and the resulting impact on adjustable rate mortgages has put a significant number of borrowers at greater risk of default on homes they can no longer afford as their mortgages "reset" at higher rates. In 2006, the number of default notices recorded increased by nearly 10,000 or 61% from 2005. In particular, the number of default notice recordings accelerated in the fourth quarter of 2006, increasing by over 91% from the corresponding period in 2005. Although the number of default notices and resulting foreclosures were significantly lower in 2006 compared to the 1990's, the year-over-year increases may continue during 2007. According to DataQuick Information Systems, a real estate information service, default notices in the seven-county region of Southern California increased by 23% in the first quarter of 2007 compared to the previous quarter, and by 148% from the first quarter of 2006.

As the direct result of a solid economic base with high employment growth and low unemployment rates, the non-residential real estate market continued its steady performance in 2006. Construction lending in Los Angeles County increased by over 24% in 2006, which is consistent with the 25% annual growth rate since 2002. As firms expand and/or relocate to bigger spaces to accommodate continued growth and improved productivity, the vacancy rates for the office and industrial markets have decreased steadily since 2002. The average office market vacancy rate decreased from 17.3% in 2003 to 9.4% at the end of 2006, which is below the 10% level that is considered to reflect a "balanced" market. With an industrial market vacancy rate that decreased from 4.5% in 2001 to 1.5% in 2006, the County is now the tightest industrial market in the nation. The decreasing supply of quality industrial space could have a negative impact on future business growth and expansion as this trend is expected to continue in 2007 and 2008.

The housing market in Los Angeles County has been the dominant factor behind the unprecedented growth in the County's gross Assessment Roll, which is the basis for

calculating property tax revenue. The record \$950 billion gross Assessment Roll for 2006 reflects an increase of \$94 billion or 11% from 2005. The increase in the 2006 Assessment Roll compares favorably to the previous year's growth of \$74 billion or 9.6% from 2004.

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COUNTY OF LOS ANGELES  
ECONOMIC AND DEMOGRAPHIC STATISTICAL TABLES

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GROSS PRODUCT

POPULATION LEVELS

TOTAL PERSONAL INCOME

TAXABLE RETAIL SALES

UNEMPLOYMENT RATES

AVERAGE ANNUAL EMPLOYMENT

SUMMARY OF AIRPORT AND PORT ACTIVITY

VALUE OF INTERNATIONAL TRADE AT MAJOR U.S. CUSTOMS DISTRICTS

TOTAL TONNAGE OF MAJOR WEST COAST PORTS

INTERNATIONAL CONTAINER TRAFFIC AT MAJOR U.S. PORTS

REAL ESTATE AND CONSTRUCTION INDICATORS

BUILDING PERMITS AND VALUATIONS

LARGEST PRIVATE SECTOR EMPLOYERS

**TABLE A: GROSS PRODUCT OF LOS ANGELES COUNTY (in millions of \$)**

	2001	2002	2003	2004	2005
Los Angeles County	\$341,900	\$354,800	\$371,000	\$397,500	\$418,700
State of California	1,318,000	1,352,800	1,417,100	1,524,900	1,628,000
United States	10,128,000	10,469,600	10,971,200	11,734,300	12,455,800
Los Angeles County as a % of California	25.94%	26.23%	26.18%	26.07%	25.72%

Source: Los Angeles Economic Development Corporation

**TABLE B: POPULATION LEVELS**

	2003	2004	2005	2006	*2007
Los Angeles County	10,049,200	10,155,800	10,229,200	10,292,700	10,352,700
State of California	35,990,100	36,522,000	36,981,900	37,444,400	37,904,400
Los Angeles County as a % of California	27.92%	27.81%	27.66%	27.49%	27.31%

\* Estimated

Source: Los Angeles Economic Development Corporation

**TABLE C: TOTAL PERSONAL INCOME: HISTORICAL SUMMARY BY COUNTY (in millions of \$)**

	2003	2004	2005	2006	*2007
Los Angeles County	\$310,043	\$329,048	\$344,184	\$362,082	\$379,824
Orange County	116,998	124,854	133,594	142,278	149,676
Riverside and San Bernardino Counties	89,307	97,560	103,944	108,933	113,835
Ventura County	27,980	30,047	31,692	33,213	34,375
State of California	1,184,265	1,262,306	1,338,181	1,422,486	1,504,990
Los Angeles County as a % of California	26.18%	26.07%	25.72%	25.45%	25.24%

\* Estimated

Source: Los Angeles Economic Development Corporation

**TABLE D: TAXABLE RETAIL SALES IN LOS ANGELES COUNTY (in millions of \$)**

	2003	2004	2005	2006	*2007
Los Angeles County	\$79,427	\$86,497	\$92,271	\$97,623	\$102,991
State of California	320,217	350,173	375,808	399,860	423,452
Los Angeles County as a % of California	24.80%	24.70%	24.55%	24.41%	24.32%

\* Estimated

Source: Los Angeles Economic Development Corporation

**TABLE E: UNEMPLOYMENT RATES**

	2003	2004	2005	2006	*2007
Los Angeles County	7.0%	6.5%	5.3%	4.8%	5.1%
State of California	6.7%	6.2%	5.4%	4.8%	5.1%
United States	6.0%	5.5%	5.1%	4.6%	4.5%

\* Estimated

Source: Los Angeles Economic Development Corporation

**TABLE F: ESTIMATED AVERAGE ANNUAL EMPLOYMENT IN LOS ANGELES COUNTY BY SECTOR****Non-Agricultural Wage and Salary Workers (in thousands)**

<b>Employment Sector</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>*2007</b>
Wholesale & Retail Trade	613.4	620.5	630.8	635.3	641.5
Government	599.3	587.1	583.8	588.8	593.6
Manufacturing	500.0	483.6	470.4	466.3	464.3
Leisure & Hospitality	362.6	372.8	377.4	386.6	394.6
Health Care & Social Assistance	365.6	371.6	371.7	377.3	383.8
Professional, Scientific & Technical Services	233.5	237.7	248.7	255.4	262.4
Administrative & Support Services	249.1	253.6	252.8	253.0	254.0
Information	202.3	211.9	209.6	211.0	216.0
Finance & Insurance	165.0	165.0	165.9	168.7	171.2
Transportation & Utilities	161.5	161.1	161.9	165.2	168.2
Construction	134.6	140.2	148.2	152.4	148.4
Educational Services	94.8	95.4	98.0	101.0	104.1
Real Estate	74.8	76.7	77.8	78.7	79.0
Management of Enterprises	77.4	71.2	70.0	70.4	70.6
Other	149.3	148.5	149.7	152.9	155.0
<b>Total</b>	<b>3,982.9</b>	<b>3,996.5</b>	<b>4,016.6</b>	<b>4,063.0</b>	<b>4,106.7</b>

\*Estimated

Source: California Employment Development Department

**TABLE G: SUMMARY OF AIRPORT AND PORT ACTIVITY (in thousands)**

<b>Type of Activity</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
<b>International Air Cargo (Tons)</b>					
Los Angeles International Airport	974.8	987.9	1,070.0	1,123.9	1,113.6
As Percentage of Total Air Cargo	49.68%	48.85%	50.59%	52.60%	52.95%
<b>Total Air Cargo (Tons)</b>					
Los Angeles International Airport	1,962.4	2,022.1	2,115.3	2,136.7	2,103.1
Bob Hope Airport (Burbank)	43.1	47.6	49.6	52.9	57.6
<b>Total</b>	<b>2,005.4</b>	<b>2,069.7</b>	<b>2,164.9</b>	<b>2,189.5</b>	<b>2,160.7</b>
<b>International Air Passengers</b>					
Los Angeles International Airport	14,842.0	14,623.9	16,476.1	17,486.3	16,911.1
As Percentage of Total Passengers	26.40%	26.60%	27.14%	28.44%	27.70%
<b>Total Air Passengers</b>					
Los Angeles International Airport	56,220.2	54,982.8	60,704.6	61,489.5	61,041.1
Bob Hope Airport (Burbank)	4,620.7	4,729.9	4,916.8	5,512.6	5,689.3
<b>Total</b>	<b>60,840.9</b>	<b>59,712.8</b>	<b>65,621.4</b>	<b>67,002.1</b>	<b>66,730.4</b>
<b>Container Volume (TEUs)</b>					
Port of Los Angeles	6,105.9	7,178.9	7,321.4	7,484.6	8,469.9
Port of Long Beach	4,526.4	4,658.1	5,779.9	6,709.8	7,290.4
<b>Total</b>	<b>10,632.2</b>	<b>11,837.1</b>	<b>13,101.3</b>	<b>14,194.4</b>	<b>15,760.2</b>

Source: Los Angeles Economic Development Corporation

**TABLE H: VALUE OF INTERNATIONAL TRADE AT MAJOR CUSTOMS DISTRICTS (in millions of \$)**

Customs District	2002	2003	2004	2005	2006
Los Angeles	\$214,300	\$235,000	\$264,200	\$293,900	\$329,400
New York	209,800	219,600	245,100	267,500	295,000
Detroit	179,300	186,500	205,600	228,500	238,500
Houston	69,400	80,800	104,600	136,100	162,200
Laredo	114,300	115,400	130,800	139,100	157,500
New Orleans	87,700	95,100	115,600	129,700	153,000
Chicago	72,500	79,600	95,200	108,700	120,600
Seattle	76,100	75,900	87,200	100,400	119,900

Source: Los Angeles Economic Development Corporation

**TABLE I: TOTAL TONNAGE OF MAJOR WEST COAST PORTS (in thousands)**

Port	2002	2003	2004	2005	2006
Los Angeles-Long Beach	152,231	163,996	177,555	186,528	210,399
San Francisco-Oakland	23,594	26,152	29,945	32,796	33,976
Tacoma	24,262	27,594	30,738	34,193	32,516
Seattle	18,239	19,815	23,975	29,515	28,692
Portland	17,459	18,997	20,360	18,734	20,176
San Diego	4,093	4,498	4,704	5,309	6,704
Port Hueneme	3,586	3,413	4,042	4,603	4,571

Source: Los Angeles Economic Development Corporation

**TABLE J: INTERNATIONAL CONTAINER TRAFFIC AT MAJOR U.S. PORTS (in thousands)**

Port	2002	2003	2004	2005	2006
Los Angeles-Long Beach	7,250	7,820	8,610	9,270	10,510
New York	2,630	2,820	3,150	3,390	3,670
Savannah	1,020	1,130	1,290	1,480	1,600
Charleston	1,210	1,250	1,410	1,510	1,510
Norfolk	990	1,100	1,200	1,320	1,420
Oakland	980	1,070	1,190	1,370	1,410
Houston	850	940	1,090	1,230	1,290
Seattle	850	820	1,040	1,340	1,220
Tacoma	770	940	940	1,150	1,100

Source: Los Angeles Economic Development Corporation

**TABLE K: REAL ESTATE AND CONSTRUCTION INDICATORS IN LOS ANGELES COUNTY**

Indicator	2002	2003	2004	2005	2006
1. Construction Lending (in millions)	\$3,537	\$4,486	\$6,237	\$6,986	\$8,695
2. Residential Purchase Lending (in millions)	\$35,714	\$42,987	\$53,813	\$62,485	\$57,046
3. New & Existing Median Home Prices (in millions)	\$260,299	\$317,890	\$394,274	\$467,714	\$510,732
4. New & Existing Home Sales	126,737	136,128	137,565	133,111	109,612
5. Notices of Default Recorded	27,154	21,313	16,528	16,299	26,296
6. Unsold New Housing (at year-end)	545	528	628	1,115	3,630
7. Office Market Vacancy Rates	16.7%	17.3%	14.8%	11.2%	9.4%
8. Industrial Market Vacancy Rates	4.0%	3.2%	2.4%	2.0%	1.5%

Source: Real Estate Research Council of Southern California

**TABLE L: BUILDING PERMITS AND VALUATIONS**

Type of Building	2002	2003	2004	2005	2006
<b>1. New Residential Permits (Units)</b>					
a. New Single Family	8,217	10,217	11,752	11,911	10,114
b. New Multi-Family	11,147	11,096	15,183	13,736	16,227
<b>Total New Residential Permits</b>	<b>19,364</b>	<b>21,313</b>	<b>26,935</b>	<b>25,647</b>	<b>26,341</b>
<b>2. Residential Valuations (in millions of \$)</b>					
a. Single Family	2,032	2,585	2,924	2,916	2,560
b. Multi-Family	1,095	1,179	1,916	1,810	2,200
c. Alterations and Additions	1,172	1,390	1,728	1,962	1,986
Subtotal (Residential Valuations)	4,299	5,154	6,568	6,688	6,746
<b>3. Non-Residential Valuations (in millions of \$)</b>					
a. Office Buildings	209	182	307	233	241
b. Retail Buildings	459	356	484	552	482
c. Hotels and Motels	63	27	63	93	119
d. Industrial Buildings	225	276	178	277	174
e. Alterations and Additions	1,297	1,366	1,404	1,669	1,696
f. Other	667	724	738	1,000	1,177
Subtotal (Non-Residential Valuations)	2,920	2,931	3,174	3,824	3,889
<b>Total Building Valuations (in millions)</b>	<b>7,219</b>	<b>8,085</b>	<b>9,741</b>	<b>10,512</b>	<b>10,634</b>

Source: Real Estate Research Council of Southern California

**TABLE M: LARGEST PRIVATE SECTOR EMPLOYERS IN LOS ANGELES COUNTY (2006)**

Company	Industry	Headquarters	No. of Employees	
			L.A. County	Total
Kaiser Permanente	Health Care Provider	Oakland, CA	32,180	152,814
Northrop Grumman Corp.	Aerospace/Defense Contractor	Los Angeles, CA	21,000	123,600
Boeing Co.	Aerospace/Defense Contractor	Chicago, IL	15,825	155,139
Kroger Co.	Supermarket Operator	Cincinnati, OH	14,000	290,000
University of Southern California	Education-Private University	Los Angeles, CA	12,379	12,379
Bank of America Corp.	Banking and Financial Services	Charlotte, NC	12,200	205,000
Vons	Supermarket Operator	Pleasanton, CA	12,116	31,827
Target Corp.	Retailer	Minneapolis, MN	12,066	338,000
AT&T Inc.	Telecommunications	San Antonio, TX	9,500	179,420
Cedars-Sinai Medical Center	Medical Center	Los Angeles, CA	8,817	8,817
Wells Fargo	Banking and Financial Services	San Francisco, CA	8,458	161,586
California Institute of Technology	Education-Private University	Pasadena, CA	8,453	8,453
Amgen Inc.	Biotechnology	Thousand Oaks, CA	8,000	18,000
Fedex Corp.	Delivery Services	Memphis, TN	7,976	260,000
Albertson's Inc.	Supermarket Operator	Eden Prairie, MN	7,431	230,000
ABM Industries, Inc.	Building Maint. & Engineering Svcs.	San Francisco, CA	7,221	73,000
Providence Health System	Health Care Provider	Seattle, WA	7,058	33,940
Edison International	Electric Utility	Rosemead, CA	6,768	16,978
Catholic Healthcare West	Health Care Provider	San Francisco, CA	6,338	42,636
UPS	Delivery Services	Atlanta, GA	6,295	407,200
Washington Mutual Inc.	Banking and Financial Services	Seattle, WA	6,000	52,800
Long Beach Memorial Medical Ctr.	Medical Center	Huntington Beach, CA	5,262	10,209
Sempra Energy	Energy Services/Electric Utility	San Diego, CA	4,151	14,084
Adventist Health	Health Care Provider	Roseville, CA	4,029	19,026
Children's Hospital Los Angeles	Medical Center	Los Angeles, CA	3,814	3,814

Source: Los Angeles Business Journal: "The Lists 2007"

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**APPENDIX B**

**COUNTY OF LOS ANGELES FINANCIAL STATEMENTS**

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COUNTY OF LOS ANGELES  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
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## Independent Auditors' Report

The Honorable Members of the 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 (the County), as of and for the year ended June 30, 2006, 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), Los Angeles County Employees' Retirement Association (LACERA), and First 5 LA (previously the Children and Families First Commission), which represent the following percentages, respectively, of the assets, net assets or fund balance, and revenues of the following opinion units:

<u>Opinion units</u>	<u>Assets</u>	<u>Net assets or fund balance</u>	<u>Revenues</u>
Governmental activities	1%	1%	1%
Business-type activities	4%	8%	10%
Discretely presented component unit	100%	100%	100%
Aggregate remaining fund information	72%	74%	12%

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, LACERA, and First 5 LA, are based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the 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 of Los Angeles, California, as of June 30, 2006, and the respective changes in financial position, and where applicable, cash flows, thereof and the respective budgetary comparisons 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 U.S. generally accepted accounting principles.

As discussed in notes 2 and 6 of the notes to the basic financial statements, the County adopted the remaining provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, effective July 1, 2005.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 22, 2007 on our consideration of the County’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 should be considered in assessing the results of our audit.

The management’s discussion and analysis on pages 3 through 20 and the schedule of funding progress on page 99 are not a required part of the basic financial statements, but are supplementary information required by the U.S. generally accepted accounting principles. 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County of Los Angeles’ basic financial statements. The accompanying information identified in the table of contents as the introductory section, combining and individual fund statements and schedules, and the statistical section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The combining and individual fund statements and schedules have been subjected to the auditing procedures applied by us and other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of the other auditors, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory section and statistical section 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 express no opinion on them.

KPMG LLP

January 22, 2007

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

This section of the County's Comprehensive Annual Financial Report (CAFR) presents a narrative overview and analysis of financial activities for the fiscal year ended June 30, 2006. 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 \$15.654 billion. However, net assets are classified into three categories and the unrestricted component is negative \$1.285 billion. See further discussion on page 7.

During the current year, the County's net assets increased by a total of \$1.275 billion. Net assets related to governmental activities increased by \$881 million, while net assets related to business-type activities increased by \$394 million.

At the end of the current year, the County's General Fund reported a total fund balance of \$2.738 billion. The amount of unreserved fund balance was \$2.316 billion. Of the unreserved total, \$1.522 billion was designated.

The County's capital asset balances were \$16.647 billion at year-end and increased by \$140 million during the year. During the current year, the County implemented retroactive reporting of its infrastructure assets. Accordingly, \$11.999 billion of infrastructure assets, net of depreciation, have been recognized and recorded as adjustments to the beginning balances for the current year.

During the current year, the County's total long-term debt decreased by \$206 million. Bond maturities of \$851 million exceeded the \$645 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, previously known as the Children and Families First Commission, 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 by 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 fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. Governmental funds include the General Fund, as well as Special Revenue Funds, Debt Service Funds, Capital Project Funds, and Permanent Funds.
- **Proprietary Funds** - These funds are used to account for functions that were classified as "business type activities" in the government-wide financial statements. The County's Internal Service Funds are also reported within the proprietary fund section. The County's five Hospital Funds and Waterworks Funds are all considered major funds for presentation purposes. The remaining proprietary funds are combined in a single column, with individual fund details presented elsewhere in this report.
- **Fiduciary Funds** - These funds are used to report assets held in a trustee or agency capacity for others and cannot be used to support the County's programs. The Pension Trust Fund, the Investment Trust Funds, and Agency funds are reported in this fund category, using the accrual basis of accounting.

NOTES TO THE BASIC FINANCIAL STATEMENTS

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

REQUIRED SUPPLEMENTARY INFORMATION

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

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

**Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the County, assets exceeded liabilities by \$15.654 billion at the close of the most recent fiscal year.

Summary of Net Assets  
As of June 30, 2005 and 2006  
(in thousands)

	Governmental		Business-type		Total	
	Activities		Activities			
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 7,056,499	\$ 5,927,652	\$ 957,836	\$ 1,167,043	\$ 8,014,335	\$ 7,094,695
Capital assets	<u>14,432,994</u>	<u>3,354,024</u>	<u>2,213,544</u>	<u>1,153,680</u>	<u>16,646,538</u>	<u>4,507,704</u>
Total assets	<u>21,489,493</u>	<u>9,281,676</u>	<u>3,171,380</u>	<u>2,320,723</u>	<u>24,660,873</u>	<u>11,602,399</u>
Current and other liabilities	1,244,728	1,073,978	199,773	180,493	1,444,501	1,254,471
Long-term liabilities	<u>6,139,202</u>	<u>6,070,908</u>	<u>1,423,405</u>	<u>1,897,117</u>	<u>7,562,607</u>	<u>7,968,025</u>
Total liabilities	<u>7,383,930</u>	<u>7,144,886</u>	<u>1,623,178</u>	<u>2,077,610</u>	<u>9,007,108</u>	<u>9,222,496</u>
Net assets:						
Invested in capital assets, net of related debt	13,567,513	2,556,556	1,827,225	793,517	15,394,738	3,350,073
Restricted net assets	1,378,439	1,152,845	165,427	74,173	1,543,866	1,227,018
Unrestricted net assets (deficit)	<u>(840,389)</u>	<u>(1,572,611)</u>	<u>(444,450)</u>	<u>(624,577)</u>	<u>(1,284,839)</u>	<u>(2,197,188)</u>
Total net assets	<u>14,105,563</u>	<u>2,136,790</u>	<u>1,548,202</u>	<u>243,113</u>	<u>15,653,765</u>	<u>2,379,903</u>
Total liabilities and net assets	<u>\$ 21,489,493</u>	<u>\$ 9,281,676</u>	<u>\$ 3,171,380</u>	<u>\$ 2,320,723</u>	<u>\$ 24,660,873</u>	<u>\$ 11,602,399</u>

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

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

Capital Assets, Net of Related Debt

The largest portion of the County's net assets (\$15.395 billion) represents its investment in capital assets (e.g., land, structures and improvements, infrastructure, and equipment), less any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The County began to capitalize newly acquired infrastructure assets during 2001-2002 in accordance with GASB 34. In the current year, the County has implemented GASB 34 provisions that require the reporting of infrastructure assets acquired prior to July 1, 2001. As indicated in Note 6 to the basic financial statements, the County recognized \$11.999 billion of such infrastructure assets, net of depreciation.

Restricted Net Assets

The County's restricted net assets at year-end were \$1.544 billion. Asset restrictions are primarily due to external restrictions imposed by State legislation and bond covenants. Net assets that pertain to the various separate legal entities included in the basic financial statements are also generally restricted because their funding sources require that funds be used for specific purposes.

Unrestricted Net Assets (Deficit)

The County's unrestricted net assets are negative \$1.285 billion. Both governmental and business-type activities reported deficits in this category of \$840 million and \$445 million, respectively. The deficits are primarily due to unfunded liabilities related to workers' compensation, accrued vacation and sick leave, and litigation and self-insurance claims. For the business-type activities, medical malpractice liabilities and third party payor liabilities are additional factors. At June 30, 2006, there were \$4.032 billion of liabilities recorded for all of the items noted above and for all activities. Of this amount, the County's budget had funded approximately \$232 million as of June 30, 2006, which consists of \$155 million related to governmental activities and \$77 million related to business-type activities. The \$155 million represents the County's policy of funding the General Fund's share of liabilities that are payable within one year from the balance sheet date and is applied to accrued vacation and sick leave as well as litigation and self-insurance claims. The budgetary funding of \$77 million that has been provided for the business-type activities pertains to estimated third party payor liabilities for the County's hospitals.

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

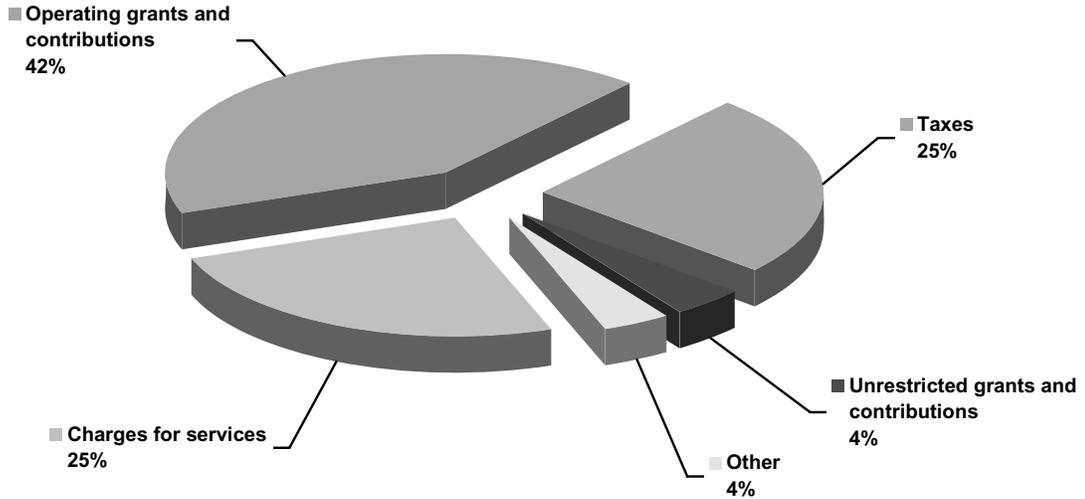
The following table indicates the changes in net assets for governmental and business-type activities:

Summary of Changes in Net Assets  
For the Years Ended June 30, 2005 and 2006  
(in thousands)

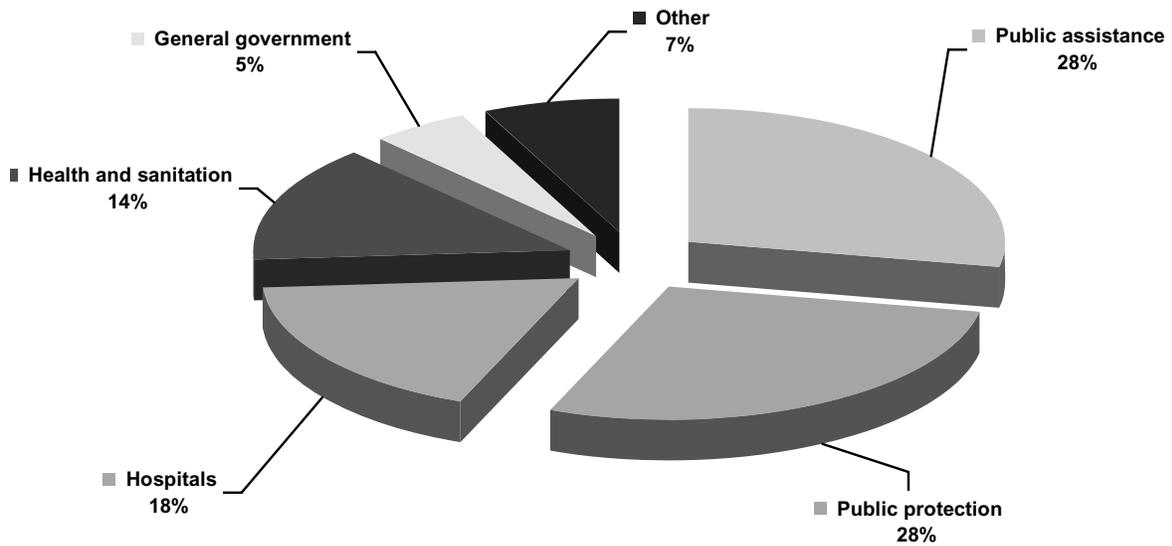
	Governmental		Business-type		Total	
	Activities		Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>Revenues:</b>						
<b>Program revenues:</b>						
Charges for services	\$ 2,337,634	\$ 2,087,578	\$ 2,004,419	\$ 2,458,921	\$ 4,342,053	\$ 4,546,499
Operating grants and contributions	6,801,256	6,551,225	309,526	262,636	7,110,782	6,813,861
Capital grants and contributions	64,258	44,072	74,821	138,723	139,079	182,795
<b>General revenues:</b>						
Taxes	4,292,919	3,804,859	743	701	4,293,662	3,805,560
Unrestricted grants and contributions	730,516	731,767	34	34	730,550	731,801
Investment earnings	244,005	137,382	9,703	6,416	253,708	143,798
Miscellaneous	171,049	130,904	58,804	54,103	229,853	185,007
<b>Total revenues</b>	<u>14,641,637</u>	<u>13,487,787</u>	<u>2,458,050</u>	<u>2,921,534</u>	<u>17,099,687</u>	<u>16,409,321</u>
<b>Expenses:</b>						
General government	795,290	666,778			795,290	666,778
Public protection	4,443,432	4,159,675			4,443,432	4,159,675
Public ways and facilities	360,980	249,065			360,980	249,065
Health and sanitation	2,151,515	1,941,315			2,151,515	1,941,315
Public assistance	4,465,520	4,398,391			4,465,520	4,398,391
Education	92,867	86,707			92,867	86,707
Recreation and cultural services	240,274	236,421			240,274	236,421
Interest on long-term debt	221,838	223,696			221,838	223,696
Hospitals			2,778,251	3,235,176	2,778,251	3,235,176
Aviation			5,236	5,747	5,236	5,747
Waterworks			67,563	43,444	67,563	43,444
Community Development Commission			202,298	217,560	202,298	217,560
<b>Total expenses</b>	<u>12,771,716</u>	<u>11,962,048</u>	<u>3,053,348</u>	<u>3,501,927</u>	<u>15,825,064</u>	<u>15,463,975</u>
<b>Excess (deficiency) before transfers and special item</b>	<u>1,869,921</u>	<u>1,525,739</u>	<u>(595,298)</u>	<u>(580,393)</u>	<u>1,274,623</u>	<u>945,346</u>
Transfers	(989,117)	(686,549)	989,117	686,549		
Special item		188,493				188,493
<b>Changes in net assets</b>	<u>880,804</u>	<u>1,027,683</u>	<u>393,819</u>	<u>106,156</u>	<u>1,274,623</u>	<u>1,133,839</u>
<b>Net assets – beginning, as restated</b>	<u>13,224,759</u>	<u>1,109,107</u>	<u>1,154,383</u>	<u>136,957</u>	<u>14,379,142</u>	<u>1,246,064</u>
<b>Net assets – ending</b>	<u>\$ 14,105,563</u>	<u>\$ 2,136,790</u>	<u>\$ 1,548,202</u>	<u>\$ 243,113</u>	<u>\$ 15,653,765</u>	<u>\$ 2,379,903</u>

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

REVENUES BY SOURCE – ALL ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2006



EXPENSES BY TYPE – ALL ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2006



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

The County's net assets increased by \$1.275 billion overall during the current fiscal year. The increases for governmental and business-type activities were \$881 million and \$394 million, respectively. Following are specific major factors that resulted in the net asset changes.

Governmental Activities

Revenues from governmental activities grew by \$1.154 billion (8.6%) over the prior year. The most significant changes in revenue were experienced in the following areas:

- Taxes, the County's largest general revenue source, were \$488 million higher than the previous year. The additional growth in tax revenues was concentrated in property taxes and was bolstered by strength in the real estate market and continued upward trend in the County's assessed property values.
- Operating grants and contributions are the County's largest source of program revenues and grew by \$250 million. The growth in this revenue source was primarily associated with reimbursable activities in the health and sanitation area, which increased by \$113 million. There were also increases in the areas of public assistance and public protection, where revenues grew by \$61 million in each area.
- Program revenues recognized from charges for services increased by \$250 million. The increases were related to a newly established special revenue fund (Registrar-Recorder Improvement Fund) which recognized \$97 million of revenues in the current year. There were also revenue increases of \$91 million in this category that were associated with health related programs. Charges for services also increased for road and highway programs (\$26 million) and the remaining variance of \$36 million was attributable to various other programs.
- Current year investment earnings increased by \$107 million, or 77.6%. The yield from the County's Treasury Pool improved from 2.16% in the prior year to 3.95% in the current year.

Expenses related to governmental activities increased by \$810 million (6.8%) during the current year. Expenses were higher across all areas in the current year when compared with the prior year, except for interest on long-term debt, which declined by nearly \$2 million. The pattern of cost increases was generally reflective of overall inflationary increases in salaries, benefits, services and supplies. Although there was no significant program expansion in most areas during the current year, new funding was targeted for the area of public protection. Funding in this area was intended to restore services that were curtailed in previous years due to uncertainties with the State's financial condition. The passage of State Proposition 1A in November 2004 has enabled the County to develop a spending plan without the threat of the State's reliance on local property tax revenues during times of State fiscal crisis.

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

Governmental Activities -Continued

Net transfers from Governmental Activities to Business-Type Activities increased by \$303 million in the current year. As discussed in Note 10 to the basic financial statements, the County utilized a component unit entity to sell rights to receive future tobacco settlement revenues by issuing Tobacco Bonds totaling \$320 million in the current year, of which \$32 million was used to establish a Debt Service Fund. Net proceeds of \$268 million were transferred from the County's Governmental Activities to Business-Type Activities and were used to redeem outstanding short-term debt related to the construction of the LAC+USC Medical Center. The remaining \$20 million of debt proceeds were used to augment capital improvement funds for health care related facilities.

Business-type Activities

Revenues and expenses from business-type activities decreased in comparison to the prior year by \$463 million and \$449 million, respectively. As discussed in Note 13 to the basic financial statements, the Hospitals transitioned to a new reimbursement methodology in the current year. This change significantly reduced (by \$628 million) the amount of intergovernmental transfer expenses in the Hospitals and the corresponding revenues associated with such transfers. Accordingly, absent this factor, revenues and expenses were higher in the current year by \$165 million and \$179 million, respectively.

In the current year, Hospital salaries and employee benefits increased by \$56 million. This increase was largely due to negotiated salary increases and bonuses for nursing positions and increased funding for technology positions. Hospital expenses in the area of "other professional services" also increased by \$69 million.

**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 \$5.194 billion, an increase of \$1.031 billion in comparison with the prior year. Of the total fund balance, \$1.447 billion is reserved to indicate the extent that funds have been committed or are otherwise unavailable for spending. An additional \$1.832 billion has been designated and set aside for intended spending purposes as indicated in the financial statements. The remaining \$1.915 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 \$14.616 billion, an increase of \$1.198 billion (8.9%) from the previous year. Expenditures for all governmental funds in the current year were \$13.021 billion, an increase of \$793 million (6.5%) from the previous year. In addition, other financing uses exceeded other financing sources by \$563 million as compared to \$628 million in the prior year.

The General Fund is the County's principal operating fund. During the current year, the fund balance in the General Fund increased by \$412 million (17.7%). At the end of the current fiscal year, the General Fund's total fund balance was \$2.738 billion. Of this amount, \$422 million was reserved and therefore unavailable for spending. Of the unreserved total of \$2.316 billion, \$1.522 billion has been designated (earmarked) and the remaining \$794 million is considered both unreserved and undesignated.

General Fund revenues during the current year were \$12.331 billion, an increase of \$834 million (7.3%) from the previous year. General Fund expenditures during the current year were \$11.069 billion, an increase of \$658 million (6.3%) from the previous year. Other financing sources/uses-net was negative \$850 million in the current year as compared to negative \$647 million in the prior year.

Following are significant changes in General Fund revenues and expenditures:

- Revenues from taxes increased by \$402 million, primarily from property taxes. The increase was attributable to ongoing growth in property values and their related tax levies. In both the current and prior years, the General Fund was required to forego \$103 million of property tax revenues due to a State-imposed property tax shift.
- Intergovernmental revenues increased by \$207 million. A large portion of this increase was concentrated in the areas of public social services (\$69 million) and mental health services (\$64 million), which each received additional federal and State revenues during the current year. The remaining increase in this revenue category (\$74 million) was recognized in several other areas, especially the Sheriff's Department, the Probation Department, and the Department of Children and Family Services.
- Investment income increased by 92%, as current year revenues were \$169 million in comparison with the prior year amount of \$88 million. As previously mentioned, the yield on investments during the current year was considerably higher than the prior year's yield.

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

Governmental Funds-Continued

- Current expenditures increased by \$614 million and there were increases in all functional areas. The most significant increase was in the area of public protection, where expenditures were higher by \$235 million. As previously mentioned, there were additional funds allocated to the public safety area and expenditures were notably higher in the Sheriff's Department (\$135 million) and Probation Department (\$54 million). Expenditures also increased in the areas of health and sanitation (\$160 million) and general government (\$117 million).

The Fire Protection District reported a year-end fund balance of \$152 million, which represented an increase of \$49 million from the previous year. This increase coincided with \$38 million and \$13 million year-to-year increases in revenues from taxes and charges for services, respectively.

Proprietary Funds

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

The County's principal proprietary funds are the five hospital enterprise funds and each one has been reported as a major fund. Each hospital enterprise fund incurred a net loss prior to contributions and transfers. The County is legally required to provide local matching funds to the health care system in order to remain eligible for federal and State assistance. Such funds were provided to the hospitals as operating subsidies from the County General Fund during the year. The total subsidy amount was \$588 million and is reflected in the Statement of Revenues, Expenses and Changes in Fund Net Assets as "transfers in." Additional "transfers in" of \$146 million were recognized from the Health Services Measure B Special Revenue Fund ("Measure B Fund"), which provides funding for trauma and emergency services.

As discussed in Note 10 to the basic financial statements, the County issued Tobacco Bonds during the current year. The LAC+USC Medical Center recognized a "transfer in" of \$268 million from the General Fund in conjunction with the bond issuance. The purpose of the transfer was to facilitate the redemption of short-term debt (commercial paper) that had been issued to finance construction of the facilities that will replace the current medical center.

The average daily census for the County's Hospitals slightly declined from the previous year's average of 1,504 to the current year average of 1,493. There was continued focus on Martin Luther King/Drew Medical Center (MLK/Drew), where quality control issues were examined and contingency plans were undertaken in the event of regulatory sanctions. As discussed in Note 19 of the basic financial statements, the County was notified of federal sanctions and has developed a corrective action plan that is intended to address the sanctions and mitigate the potential annual loss of an estimated \$200 million of federal funds.

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

**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 increase of \$161 million in the General Fund's available (unreserved and undesignated) fund balance from the previous year.

Budgetary Summary - Revenues/Financing Sources

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

<u>Category</u>	Increase (Decrease) From Original <u>Budget</u>	Final Budget <u>Amount</u>	Actual <u>Amount</u>	Variance- Positive <u>(Negative)</u>
Taxes	\$ 324,660	\$ 3,250,530	\$ 3,255,426	\$ 4,896
Intergovernmental revenues	128,678	7,487,960	6,992,857	(495,103)
Charges for services	7,261	1,465,466	1,385,767	(79,699)
All other revenues	190,378	675,260	748,406	73,146
Other sources and transfers	<u>(151,989)</u>	<u>487,140</u>	<u>101,789</u>	<u>(385,351)</u>
Total	<u>\$ 498,988</u>	<u>\$13,366,356</u>	<u>\$12,484,245</u>	<u>\$(882,111)</u>

Changes from Amounts Originally Budgeted

During the year, net increases in budgeted revenues and other financing sources approximated \$499 million. The most significant increases occurred in the following areas:

- The budget for tax revenues was increased by \$325 million. During the fiscal year, the County increased budgeted tax revenues to finance \$314 million of designations and to increase capital project appropriations of \$11 million. The most significant designations were related to jail construction (\$167 million), programs for the homeless (\$60 million), and health services (\$47 million).

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

Changes from Amounts Originally Budgeted-Continued

- Estimated revenues from intergovernmental sources were increased by \$129 million. During the fiscal year, budgeted revenues were increased by \$38 million to more accurately reflect actual State realignment funds realized for social service programs. Estimated revenues from local governmental agencies were increased by \$21 million and were used to augment a designation and various appropriations. Estimated revenues from Homeland Security grant funds (\$13 million) also increased during the fiscal year to fund the County's emergency preparedness and response operations. Various other changes comprised the remaining \$57 million that was increased from the amounts originally budgeted from intergovernmental revenues.
- The increase of \$190 million related to "all other revenues" was mostly concentrated in two revenue categories, miscellaneous revenues and investment income. The budgeted amount of miscellaneous revenues was increased by \$102 million, of which \$94 million was attributable to tobacco settlement revenues. The County's policy is to budget tobacco settlement revenues after they have been received. Estimated revenues from investment income were increased by \$73 million as a result of higher than anticipated yield on cash and investments throughout the year.
- The amount budgeted for "other sources and transfers" was reduced during the year by \$152 million. The original amount budgeted for "transfers in" was reduced by \$212 million due to a change in the method of budgeting for the recovery of intergovernmental transfer payments that are made on behalf of the Hospital Funds. This amount was offset by a \$60 million increase in the amount of budgeted "transfers in" to reflect additional funding from other funds for mental health services (\$21 million) and various capital projects (\$39 million).

Actual Revenues/Financing Sources Compared with Final Budget Amounts

Actual revenues and other financing sources recognized by the General Fund were approximately \$882 million, or 6.6%, lower than budget. As discussed below, most of this variance was concentrated in the areas of intergovernmental revenues and "other sources and transfers."

- Actual intergovernmental revenues were \$495 million lower than the amount budgeted. Social service programs accounted for approximately \$150 million of this variance, which was mostly attributable to lower than anticipated caseloads and reimbursable social service related expenditures. An additional \$163 million pertained to anticipated reimbursement of capital improvement and disaster recovery projects that were not completed prior to year-end. Approximately \$52 million (mostly federal assistance) was associated with mental health services, due to lower than expected reimbursable costs. The remaining variance of \$130 million was related to a variety of other programs that received intergovernmental revenues.

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

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

- The actual amount of “other sources and transfers” was \$385 million lower than the amount budgeted. Of this amount, “transfers in” totaling \$218 million were assumed in the budget for the recovery of intergovernmental transfer payments that are made on behalf of the Hospital Funds. This amount was not realized due to a change in the method of budgeting and this variance was offset by a similar amount of unspent appropriations. The remaining variance of \$167 million was mostly related to capital improvements that did not incur expected costs. Accordingly, the “transfers in” were not realized.

Budgetary Summary - Expenditures/Other Financing Uses

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

<u>Category</u>	<u>Increase (Decrease) From Original Budget</u>	<u>Final Budget Amount</u>	<u>Actual Amount</u>	<u>Variance- Positive</u>
General government	\$ (106,706)	\$ 1,019,171	\$ 739,456	\$ 279,715
Public protection	43,454	3,809,843	3,656,910	152,933
Health and sanitation	(223,764)	2,371,995	2,028,206	343,789
Public assistance	59,079	4,700,283	4,445,967	254,316
All other expenditures	119,674	1,088,204	334,617	753,587
Transfers out	97,916	690,506	677,821	12,685
Contingencies	89,993	89,993		89,993
Reserves/designations-net	<u>419,342</u>	<u>504,971</u>	<u>440,050</u>	<u>64,921</u>
Total	<u>\$ 498,988</u>	<u>\$ 14,274,966</u>	<u>\$ 12,323,027</u>	<u>\$1,951,939</u>

Changes from Amounts Originally Budgeted

During the year, net increases in General Fund appropriations, reserves and designations were approximately \$499 million. As discussed below, the most significant changes occurred in the following areas:

- Provisions for net reserves and designations were increased during the year by \$419 million. Of this amount, \$139 million was related to designations established for health services. New designations of \$188 million were established for jail construction and security enhancements at existing jails. There was also a net increase of \$60 million to the designation for programs for the homeless. Miscellaneous additions of approximately \$32 million were made to other designations.

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

Changes from Amounts Originally Budgeted-Continued

- Appropriations were increased for “all other expenditures” by approximately \$120 million, all of which was associated with capital outlay for critical needs throughout the County.
- Overall appropriations were reduced for the health and sanitation category by \$224 million. At the end of the fiscal year, the budget was realigned to reflect actual spending requirements in this area. The most significant change in this area was a \$212 million reduction of appropriations for intergovernmental transfer payments made on behalf of the Hospital Funds. The reduction coincided with a budgetary change which shifted the payment requirements from the General Fund to the Hospital Funds. Appropriations for various other General Fund health care programs were reduced by \$12 million.

Actual Expenditures/Other Financing Uses Compared with Final Budget Amount

Actual expenditures/other financing uses for the current year were \$1.952 billion lower (approximately 13.7%) than the final total budget of \$14.275 billion. Although there were budgetary savings in all categories, following are the functional areas that recognized the largest variations from the final budget:

- The category referred to as “all other expenditures” reflected actual spending of \$754 million less than the budgeted amount. Nearly all (\$738 million) 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.
- Overall expenditures for the health and sanitation category were \$344 million less than the budgeted amount. A significant portion (\$218 million) of this variance was related to unused appropriations associated with intergovernmental transfer payments made on behalf of the Hospital Funds. Appropriations related to mental health services exceeded actual expenditures by \$76 million, primarily due to less than anticipated costs for services and supplies. The remaining variance of \$50 million was associated with health services administration, managed care and other health related programs.
- Actual public assistance expenditures were \$254 million lower than the final budget. Most of this variance (\$203 million) was concentrated in programs operated by the Department of Public Social Services. Factors that led to this variance included lower than anticipated caseload volume and cost per caseload decreases for the CalWORKs program. There were lower than anticipated caseloads also associated with the General Relief program. Administrative costs for social service programs were also lower than budgeted due to staffing vacancies, hiring delays, and budgetary savings in information technology costs and contracted program services. The remaining variance of \$51 million was concentrated in other social service programs that were primarily focused on children and family services.

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

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

- The general government function reported actual expenditures that were \$280 million less than the amount budgeted. Of this amount, \$180 million represented budgetary savings for items that are not associated with specific County departments, such as provisional appropriations and extraordinary maintenance and repairs. The remaining \$100 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.

**Capital Assets**

The County's capital assets for its governmental and business type activities as of June 30, 2006 were \$16.647 billion (net of depreciation). Capital assets include land, easements, buildings and improvements, equipment, and infrastructure. During the current year, the County fully implemented provisions of GASB 34 to recognize infrastructure assets that were acquired prior to July 1, 2001. As indicated in Note 6 to the basic financial statements, the recognition of retroactive infrastructure assets added \$11.999 billion of capital assets, net of depreciation, to the County's basic financial statements as of the beginning of the current year.

The total increase in the County's capital assets (net of depreciation) for the current fiscal year was \$140 million, as shown in the table below.

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

	<u>Current Year</u>	<u>Prior Year, as restated</u>	<u>Increase (Decrease)</u>
Land and easements	\$ 7,080,469	\$ 7,067,799	\$ 12,670
Buildings and improvements	2,892,361	2,971,787	(79,426)
Infrastructure	5,299,612	5,388,498	(88,886)
Equipment	317,449	249,754	67,695
Construction-in-progress	<u>1,056,647</u>	<u>829,105</u>	<u>227,542</u>
Total	<u>\$16,646,538</u>	<u>\$16,506,943</u>	<u>\$ 139,595</u>

The County's most significant capital asset activity during the current year was the continuation of the rebuilding of the LAC+USC Medical Center. The overall project cost is estimated at \$830 million. During the year, \$164 million of costs were capitalized.

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

**Debt Administration**

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

Changes in Long-Term Debt Primary Government - All activities (in thousands)			
	Current Year	Prior Year	Increase (Decrease)
Bonds and Notes Payable	\$ 1,998,099	\$ 1,983,844	\$ 14,255
Pension Bonds Payable	<u>1,408,441</u>	<u>1,628,575</u>	<u>(220,134)</u>
Total	<u>\$ 3,406,540</u>	<u>\$ 3,612,419</u>	<u>\$(205,879)</u>

During the current year, the County's liabilities for long-term debt decreased by \$206 million, or 5.7%. Specific changes related to governmental and business-type activities are presented in Note 10 to the basic financial statements. During the current year, significant long-term debt transactions were as follows:

- New debt of \$320 million was issued in exchange for the rights to receive future tobacco settlement revenues. A portion of the new debt proceeds were used to redeem \$268 million of short-term commercial paper that was previously issued to finance the ongoing construction of the new LAC+USC Medical Center.
- New debt of \$21 million was issued to finance the seismic retrofitting of the Los Angeles County Public Works Headquarters Building and \$38 million was issued to finance capital improvements associated with landfill related activities.
- New debt of \$29 million was issued to finance the acquisition of equipment. Equipment debt totaling \$11 million was redeemed during the year in accordance with maturity schedules.
- Pension bonds totaling \$313 million were redeemed during the year. This amount was offset by \$93 million related to the accretion of interest on outstanding bonds.

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, 2006, and by periodic borrowing from available trust funds.

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

Bond Ratings

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

	<u>Moody's</u>	<u>Standard and Poor's</u>	<u>Fitch</u>
General Obligation Bonds	Aa3	A+	
Pension Bonds	A1	A	
Facilities	A2	A	A
Equipment/Non-Essential Leases	A3	A	A
Short-Term	MIG1	SP-1+	F-1+
Commercial Paper	P-1	A-1+	
Flood Control District General Obligation Bonds	Aa1	AA	AA
Flood Control District Revenue Bonds	Aa1	AA-	AA
Regional Park and Open Space District Bonds	Aa3	AA	AA

**Economic Conditions and Outlook**

The Board of Supervisors adopted the County's 2006-2007 Budget on June 26, 2006. The Budget was adopted based on estimated fund balances that would be available at the end of 2005-2006. The Board updated the Budget on September 26, 2006 to reflect final 2005-2006 fund balances and other pertinent financial information. For the County's General Fund, the 2006-2007 Budget, as updated in September 2006, utilized \$1.07 billion of available fund balance, which exceeded the previously estimated fund balance of \$832 million. The additional fund balance of \$238 million was used to appropriate \$4 million to carryover lapsed appropriations and \$234 million was appropriated or designated for one-time needs which were predominately capital improvements.

The County's 2006-2007 Budget continued to focus on initiatives that began in the previous year, such as public protection and health services needs. Funding has also been provided to enhance critical children's programs and to augment the homeless services provided by the County. Overall, the County continues to maintain a conservative budgetary approach because a sharp slowdown in the resale housing market presents a risk as property taxes are a significant source of locally-generated revenues 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, 2006 (in thousands)

	PRIMARY GOVERNMENT			COMPONENT UNIT
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	FIRST 5 LA
<b>ASSETS</b>				
Pooled cash and investments: (Notes 1 and 5)				
Operating (Note 1)	\$ 3,357,903	\$ 180,044	\$ 3,537,947	\$ 79,135
Other (Note 1)	1,216,272	44,803	1,261,075	
Total pooled cash and investments	<u>4,574,175</u>	<u>224,847</u>	<u>4,799,022</u>	<u>79,135</u>
Other investments (Note 5)	347,158	49,135	396,293	696,729
Taxes receivable	288,358	717	289,075	
Accounts receivable - net		576,881	576,881	
Interest receivable	39,788	1,420	41,208	6,399
Other receivables	1,435,771	24,290	1,460,061	40,872
Internal balances (Note 14)	68,765	(68,765)		
Inventories	99,508	25,836	125,344	
Restricted assets (Note 5)	4,463	54,503	58,966	
Net pension obligation (Note 7)	198,513	68,972	267,485	
Capital assets: (Notes 6 and 9)				
Capital assets, not being depreciated	7,178,367	958,749	8,137,116	2,039
Capital assets, net of accumulated depreciation	<u>7,254,627</u>	<u>1,254,795</u>	<u>8,509,422</u>	<u>11,756</u>
Total capital assets	<u>14,432,994</u>	<u>2,213,544</u>	<u>16,646,538</u>	<u>13,795</u>
<b>TOTAL ASSETS</b>	<u>21,489,493</u>	<u>3,171,380</u>	<u>24,660,873</u>	<u>836,930</u>
<b>LIABILITIES</b>				
Accounts payable	347,141	93,502	440,643	21,122
Accrued payroll	407,773	90,130	497,903	
Other payables	72,209	7,934	80,143	
Accrued interest payable	16,953	857	17,810	
Unearned revenue (Note 7)	103,662	7,350	111,012	191
Advances payable	296,990		296,990	
Noncurrent liabilities: (Notes 7, 9, 10, 13 and 17)				
Due within one year	798,672	191,147	989,819	55
Due in more than one year	<u>5,340,530</u>	<u>1,232,258</u>	<u>6,572,788</u>	<u>166</u>
<b>TOTAL LIABILITIES</b>	<u>7,383,930</u>	<u>1,623,178</u>	<u>9,007,108</u>	<u>21,534</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt (Notes 6 and 10)	13,567,513	1,827,225	15,394,738	13,795
Restricted for:				
Capital projects	203,666		203,666	
Debt service	5,112	117,799	122,911	
Expendable trust	2,200		2,200	
Nonexpendable trust	3,332		3,332	
Special purpose	1,164,129	47,628	1,211,757	801,601
Unrestricted (deficit)	<u>(840,389)</u>	<u>(444,450)</u>	<u>(1,284,839)</u>	
<b>TOTAL NET ASSETS</b>	<u>\$ 14,105,563</u>	<u>\$ 1,548,202</u>	<u>\$ 15,653,765</u>	<u>\$ 815,396</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, 2006 (in thousands)

FUNCTIONS	EXPENSES	PROGRAM REVENUE		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
<b>PRIMARY GOVERNMENT:</b>				
Governmental activities:				
General government	\$ 795,290	\$ 500,233	\$ 44,018	\$ 53,032
Public protection	4,443,432	1,118,277	1,141,277	3,898
Public ways and facilities	360,980	55,602	177,707	6
Health and sanitation	2,151,515	469,450	1,404,846	2,607
Public assistance	4,465,520	23,955	4,030,695	
Education	92,867	4,137	1,729	
Recreation and cultural services	240,274	165,980	984	4,715
Interest on long-term debt	221,838			
Total governmental activities	<u>12,771,716</u>	<u>2,337,634</u>	<u>6,801,256</u>	<u>64,258</u>
Business-type activities:				
Hospitals	2,778,251	1,913,815	83,098	72,988
Aviation	5,236	2,857	699	1,833
Waterworks	67,563	77,101	193	
Community Development Commission	202,298	10,646	225,536	
Total business-type activities	<u>3,053,348</u>	<u>2,004,419</u>	<u>309,526</u>	<u>74,821</u>
Total primary government	<u>\$ 15,825,064</u>	<u>\$ 4,342,053</u>	<u>\$ 7,110,782</u>	<u>\$ 139,079</u>
<b>COMPONENT UNIT -</b>				
First 5 LA	<u>\$ 126,979</u>	<u>\$</u>	<u>\$ 149,467</u>	<u>\$</u>

**GENERAL REVENUES:**

Taxes:

Property taxes  
Sales and use taxes  
Utility users taxes  
Voter approved taxes  
Documentary transfer taxes  
Other taxes

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, 2005, as restated (Note 2)

NET ASSETS, JUNE 30, 2006

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
\$ (198,007)	\$	\$ (198,007)	
(2,179,980)		(2,179,980)	
(127,665)		(127,665)	
(274,612)		(274,612)	
(410,870)		(410,870)	
(87,001)		(87,001)	
(68,595)		(68,595)	
(221,838)		(221,838)	
(3,568,568)		(3,568,568)	
	(708,350)	(708,350)	
	153	153	
	9,731	9,731	
	33,884	33,884	
	(664,582)	(664,582)	
(3,568,568)	(664,582)	(4,233,150)	
			\$ 22,488
3,774,145	743	3,774,888	
77,243		77,243	
60,630		60,630	
252,111		252,111	
87,497		87,497	
41,293		41,293	
730,516	34	730,550	
244,005	9,703	253,708	30,800
171,049	58,804	229,853	314
(989,117)	989,117		
4,449,372	1,058,401	5,507,773	31,114
880,804	393,819	1,274,623	53,602
13,224,759	1,154,383	14,379,142	761,794
\$ 14,105,563	\$ 1,548,202	\$ 15,653,765	\$ 815,396

FUNCTIONS

PRIMARY GOVERNMENT:

Governmental activities:

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

Business-type activities:

- Hospitals
- Aviation
- Waterworks
- Community Development Commission
- Total business-type activities

Total primary government

COMPONENT UNIT -

Total - First 5 LA

GENERAL REVENUES:

Taxes:

- Property taxes
- Sales and use taxes
- Utility users taxes
- Voter approved taxes
- Documentary transfer taxes
- Other taxes

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, 2005, as restated (Note 2)

NET ASSETS, JUNE 30, 2006

COUNTY OF LOS ANGELES  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006 (in thousands)

	GENERAL FUND	FIRE PROTECTION DISTRICT	FLOOD CONTROL DISTRICT	PUBLIC LIBRARY
<b>ASSETS:</b>				
Pooled cash and investments: (Notes 1 and 5)				
Operating (Note 1)	\$ 1,618,871	102,429	119,386	19,306
Other (Note 1)	887,145	52,280	17,661	5,752
Total pooled cash and investments	<u>2,506,016</u>	<u>154,709</u>	<u>137,047</u>	<u>25,058</u>
Other investments (Notes 4 and 5)	6,502			121
Taxes receivable	208,279	45,345	13,718	6,185
Interest receivable	28,841	493	778	157
Other receivables	1,256,843	24,880	10,419	264
Due from other funds (Note 14)	219,448	4,876	8,363	239
Advances to other funds (Note 14)	541,699		6,213	
Inventories	42,562	5,095		1,142
<b>TOTAL ASSETS</b>	<u>\$ 4,810,190</u>	<u>235,398</u>	<u>176,538</u>	<u>33,166</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Accounts payable	\$ 272,245	3,753	4,907	3,528
Accrued payroll	350,421	34,961		3,666
Other payables	67,912	1,471		217
Due to other funds (Note 14)	800,615	5,426	19,844	6,131
Unearned revenue (Note 7)	275,198	36,467	16,097	4,908
Advances payable	286,860			
Third party payor liability (Notes 10 and 13)	18,661	1,455		
<b>TOTAL LIABILITIES</b>	<u>2,071,912</u>	<u>83,533</u>	<u>40,848</u>	<u>18,450</u>
<b>FUND BALANCES:</b>				
Reserved for:				
Encumbrances	352,523	47,632	104,637	6,668
Inventories	42,562	5,095		1,142
Housing programs				
Debt service				
Endowments and annuities				
Assets unavailable for appropriation	26,970	25	15,211	15
Unreserved, designated for:				
Budget uncertainties	375,511	54,000		
Program expansion	497,370	10,000		1,708
Health services	459,346			
Capital projects	190,184		13,849	
Special revenue funds - program expansion				
Unreserved, undesignated, reported in:				
General fund	793,812			
Special revenue funds		35,113	1,993	5,183
Capital projects funds				
<b>TOTAL FUND BALANCES</b>	<u>2,738,278</u>	<u>151,865</u>	<u>135,690</u>	<u>14,716</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 4,810,190</u>	<u>235,398</u>	<u>176,538</u>	<u>33,166</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
\$ 245,059	1,409,945		\$ 3,514,996
6,409	45,781		1,015,028
<u>251,468</u>	<u>1,455,726</u>		<u>4,530,024</u>
	658,743	(325,710)	339,656
2,796	12,035		288,358
1,727	7,560		39,556
4,054	83,995		1,380,455
	313,667		546,593
	11,034		558,946
	43,187		91,986
<u>\$ 260,045</u>	<u>2,585,947</u>	<u>(325,710)</u>	<u>\$ 7,775,574</u>
\$ 2,011	62,887		\$ 349,331
	454		389,502
	788		70,388
7,090	210,918		1,050,024
4,855	68,156		405,681
	7,977		294,837
	1,775		21,891
<u>13,956</u>	<u>352,955</u>		<u>2,581,654</u>
79,624	175,914		766,998
	43,187		91,986
	2,117		2,117
	834,089	(325,710)	508,379
	3,332		3,332
	31,621		73,842
	37,344		466,855
35,422			544,500
			459,346
			204,033
	156,968		156,968
			793,812
131,043	619,524		792,856
	328,896		328,896
<u>246,089</u>	<u>2,232,992</u>	<u>(325,710)</u>	<u>5,193,920</u>
\$ 260,045	2,585,947	(325,710)	\$ 7,775,574

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)

Unearned revenue (Note 7)

Advances payable

Third party payor liability (Notes 10 and 13)

TOTAL LIABILITIES

FUND BALANCES:

Reserved for:

Encumbrances

Inventories

Housing programs

Debt service

Endowments and annuities

Assets unavailable for appropriation

Unreserved, designated for:

Budget uncertainties

Program expansion

Health services

Capital projects

Special revenue funds - program expansion

Unreserved, undesignated, reported in:

General fund

Special revenue funds

Capital projects funds

TOTAL FUND BALANCES

TOTAL LIABILITIES AND FUND BALANCES

COUNTY OF LOS ANGELES  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2006 (in thousands)

Fund balances - total governmental funds (page B-27) \$ 5,193,920

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

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

Land & Easements	\$	6,835,954	
Construction-in-progress		342,413	
Buildings and improvements - net		2,445,974	
Equipment - net		201,476	
Infrastructure - net		<u>4,531,347</u>	14,357,164

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

Unearned revenue - taxes	\$	236,116	
Long-term receivables		<u>122,408</u>	358,524

The net pension obligation (an asset) pertaining to governmental fund types is not recorded in governmental fund statements. 185,205

Accrued interest payable is not recognized in governmental funds. (16,953)

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	\$	(1,790,787)	
Pension bonds payable		(975,193)	
Capital lease obligations		(123,363)	
Accrued vacation/sick leave		(596,092)	
Workers' compensation		(1,947,917)	
Litigation/self-insurance		(457,135)	
Third party payors		<u>(977)</u>	(5,891,464)

Assets and liabilities of the internal service funds are included in governmental activities in the accompanying statement of net assets. (80,833)

Net assets of governmental activities (page B-23) \$ 14,105,563

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, 2006 (in thousands)

	GENERAL FUND	FIRE PROTECTION DISTRICT	FLOOD CONTROL DISTRICT	PUBLIC LIBRARY
<b>REVENUES:</b>				
Taxes	\$ 3,217,726	540,588	74,908	62,111
Licenses, permits and franchises	61,080	9,419	395	
Fines, forfeitures and penalties	232,762	3,009	1,184	531
Revenue from use of money and property:				
Investment income (Note 5)	169,255	1,574	4,298	646
Rents and concessions (Note 9)	56,412	73	6,762	16
Royalties	338		266	
Intergovernmental revenues:				
Federal	2,617,924	7,967	4,095	92
State	4,329,646	14,059	8,036	2,161
Other	77,635	20,473	2,609	840
Charges for services	1,357,380	143,569	113,296	2,368
Miscellaneous	211,059	619	869	847
<b>TOTAL REVENUES</b>	<b>12,331,217</b>	<b>741,350</b>	<b>216,718</b>	<b>69,612</b>
<b>EXPENDITURES:</b>				
Current:				
General government	751,214			
Public protection	3,473,835	668,249	191,937	
Public ways and facilities				
Health and sanitation	2,004,361			
Public assistance	4,333,920			
Education				92,105
Recreation and cultural services	197,749			
Debt service:				
Principal	203,274	10,077		2,238
Interest and other charges	52,742	1,412		314
Capital leases	29,624			
Capital outlay	22,533			
<b>TOTAL EXPENDITURES</b>	<b>11,069,252</b>	<b>679,738</b>	<b>191,937</b>	<b>94,657</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>1,261,965</b>	<b>61,612</b>	<b>24,781</b>	<b>(25,045)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in (Note 14)	166,512		28	30,339
Transfers out (Note 14)	(1,041,458)	(13,046)	(20,024)	(1,016)
Issuance of debt (Note 10)			8,852	
Capital leases (Note 9)	22,533			
Sales of capital assets	1,997	110	757	13
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(850,416)</b>	<b>(12,936)</b>	<b>(10,387)</b>	<b>29,336</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>411,549</b>	<b>48,676</b>	<b>14,394</b>	<b>4,291</b>
FUND BALANCE, JULY 1, 2005	2,326,729	103,189	121,296	10,425
<b>FUND BALANCE, JUNE 30, 2006</b>	<b>\$ 2,738,278</b>	<b>151,865</b>	<b>135,690</b>	<b>14,716</b>

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
\$	250,371		\$ 4,145,704
	6,110		77,004
1,202	71,274		309,962
10,391	74,183	(17,150)	243,197
	6,125		69,388
	11		615
	115,825		2,745,903
	296,590		4,650,492
	19,975		121,532
78,580	232,488		1,927,681
	110,666		324,060
<u>90,173</u>	<u>1,183,618</u>	<u>(17,150)</u>	<u>14,615,538</u>
	27,192		778,406
	79,625		4,413,646
	287,544		287,544
	125,147		2,129,508
	123,902		4,457,822
			92,105
45,444	4,652		247,845
	199,136	(23,980)	390,745
	88,712	(17,150)	126,030
			29,624
	45,184		67,717
<u>45,444</u>	<u>981,094</u>	<u>(41,130)</u>	<u>13,020,992</u>
<u>44,729</u>	<u>202,524</u>	<u>23,980</u>	<u>1,594,546</u>
	319,613		516,492
(37,442)	(391,150)		(1,504,136)
	380,571		389,423
			22,533
	9,759		12,636
<u>(37,442)</u>	<u>318,793</u>		<u>(563,052)</u>
7,287	521,317	23,980	1,031,494
238,802	1,711,675	(349,690)	4,162,426
<u>\$ 246,089</u>	<u>2,232,992</u>	<u>(325,710)</u>	<u>\$ 5,193,920</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)
Issuance of debt (Note 10)
Capital leases (Note 9)
Sales of capital assets
TOTAL OTHER FINANCING SOURCES (USES)

NET CHANGE IN FUND BALANCES

FUND BALANCE, JULY 1, 2005
FUND BALANCE, JUNE 30, 2006

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, 2006 (in thousands)

Net change in fund balances - total governmental funds (page B-31) \$ 1,031,494

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	\$ 272,525	
Less - current year depreciation expense	<u>(270,242)</u>	2,283

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 increase financial resources. Thus, the change in net assets differs from the change in fund balance. (32,439)

Revenue timing differences result in less revenue in government-wide statements. (360,421)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of assets:

Pension bonds	\$ 215,589	
General obligation bonds	8,995	
Certificates of participation	137,720	
Assessment bonds	24,358	
Other long term notes and loans	<u>31,525</u>	418,187

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	\$ 90,023	
Change in litigation/self-insurance	(76,099)	
Change in accrued vacation/sick leave	(24,019)	
Change in third party payors	84	
Change in accrued interest payable	440	
Accretion of tobacco settlement bonds	(5,600)	
Accretion of pension bonds	<u>(65,011)</u>	(80,182)

The change in the net pension obligation (an asset) is not recognized in governmental funds. (100,484)

The portion of internal service funds that is reported with governmental activities. 2,366

Change in net assets of governmental activities (page B-25) \$ 880,804

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

COUNTY OF LOS ANGELES  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL ON BUDGETARY BASIS  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2006 (in thousands)

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL ON BUDGETARY BASIS	VARIANCE FROM FINAL BUDGET OVER (UNDER)
REVENUES:				
Taxes	\$ 2,925,870	3,250,530	3,255,426	4,896
Licenses, permits and franchises	55,694	61,427	61,080	(347)
Fines, forfeitures and penalties	192,355	202,355	232,762	30,407
Revenue from use of money and property:				
Investment income	75,488	148,515	165,675	17,160
Rents and concessions	48,833	48,833	56,412	7,579
Royalties	200	200	338	138
Intergovernmental revenues:				
Federal	3,123,487	3,065,373	2,618,928	(446,445)
State	4,133,850	4,299,463	4,289,177	(10,286)
Other	101,945	123,124	84,752	(38,372)
Charges for services	1,458,205	1,465,466	1,385,767	(79,699)
Miscellaneous	112,312	213,930	232,139	18,209
<b>TOTAL REVENUES</b>	<b>12,228,239</b>	<b>12,879,216</b>	<b>12,382,456</b>	<b>(496,760)</b>
EXPENDITURES:				
Current:				
General government	1,125,877	1,019,171	739,456	(279,715)
Public protection	3,766,389	3,809,843	3,656,910	(152,933)
Health and sanitation	2,595,759	2,371,995	2,028,206	(343,789)
Public assistance	4,641,204	4,700,283	4,445,967	(254,316)
Recreation and cultural services	221,324	220,704	204,961	(15,743)
Debt Service-				
Interest	13,077	13,077	13,077	
Capital Outlay	734,129	854,423	116,579	(737,844)
<b>TOTAL EXPENDITURES</b>	<b>13,097,759</b>	<b>12,989,496</b>	<b>11,205,156</b>	<b>(1,784,340)</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(869,520)</b>	<b>(110,280)</b>	<b>1,177,300</b>	<b>1,287,580</b>
OTHER FINANCING SOURCES (USES):				
Sales of capital assets	604	604	1,997	1,393
Transfers in	638,525	486,536	99,792	(386,744)
Transfers out	(592,590)	(690,506)	(677,821)	12,685
Appropriation for contingencies		(89,993)		89,993
Changes in reserves and designations	(85,629)	(504,971)	(440,050)	64,921
<b>OTHER FINANCING SOURCES (USES) - NET</b>	<b>(39,090)</b>	<b>(798,330)</b>	<b>(1,016,082)</b>	<b>(217,752)</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(908,610)</b>	<b>(908,610)</b>	<b>161,218</b>	<b>1,069,828</b>
<b>FUND BALANCE, JULY 1, 2005 (Note 15)</b>	<b>908,610</b>	<b>908,610</b>	<b>908,610</b>	
<b>FUND BALANCE, JUNE 30, 2006 (Note 15)</b>	<b>\$</b>		<b>1,069,828</b>	<b>1,069,828</b>

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 -  
BUDGET AND ACTUAL ON BUDGETARY BASIS  
FIRE PROTECTION DISTRICT  
FOR THE YEAR ENDED JUNE 30, 2006 (in thousands)

	FIRE PROTECTION DISTRICT			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL ON BUDGETARY BASIS	VARIANCE FROM FINAL BUDGET OVER (UNDER)
REVENUES:				
Taxes	\$ 544,095	547,269	546,144	(1,125)
Licenses, permits and franchises	8,282	8,282	9,419	1,137
Fines, forfeitures and penalties	2,560	2,560	3,008	448
Revenue from use of money and property:				
Investment income	67	67	1,409	1,342
Rents and concessions	86	86	73	(13)
Intergovernmental revenues:				
Federal	12,821	12,821	7,967	(4,854)
State	14,213	14,213	14,059	(154)
Other	24,205	24,205	20,473	(3,732)
Charges for services	133,776	135,722	143,569	7,847
Miscellaneous	498	498	619	121
TOTAL REVENUES	740,603	745,723	746,740	1,017
EXPENDITURES:				
Current-Public protection:				
Salaries and employee benefits	602,245	603,040	592,630	(10,410)
Services and supplies	93,643	121,090	89,615	(31,475)
Other charges	1,411	1,274	1,149	(125)
Capital assets	17,351	22,564	10,791	(11,773)
TOTAL EXPENDITURES	714,650	747,968	694,185	(53,783)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	25,953	(2,245)	52,555	54,800
OTHER FINANCING SOURCES (USES):				
Sales of capital assets	97	97	111	14
Transfers out	(12,351)	(12,376)	(12,376)	
Appropriation for contingencies	(3,648)	(3,175)		3,175
Changes in reserves and designations	(40,000)	(12,250)	(11,537)	713
OTHER FINANCING SOURCES (USES) - NET	(55,902)	(27,704)	(23,802)	3,902
NET CHANGE IN FUND BALANCE	(29,949)	(29,949)	28,753	58,702
FUND BALANCE, JULY 1, 2005 (Note 15)	29,949	29,949	29,949	
FUND BALANCE, JUNE 30, 2006 (Note 15)	\$		58,702	58,702

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 -  
BUDGET AND ACTUAL ON BUDGETARY BASIS  
FLOOD CONTROL DISTRICT  
FOR THE YEAR ENDED JUNE 30, 2006 (in thousands)

	FLOOD CONTROL DISTRICT			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL ON BUDGETARY BASIS	VARIANCE FROM FINAL BUDGET OVER (UNDER)
REVENUES:				
Taxes	\$ 68,714	76,786	75,850	(936)
Licenses, permits and franchises	800	800	394	(406)
Fines, forfeitures and penalties	1,600	1,600	1,184	(416)
Revenue from use of money and property:				
Investment income	2,000	2,000	4,298	2,298
Rents and concessions	6,125	6,125	6,762	637
Royalties	700	700	267	(433)
Intergovernmental revenues:				
Federal	13,945	13,945	4,095	(9,850)
State	9,279	9,279	8,036	(1,243)
Other	1,600	1,600	2,609	1,009
Charges for services	116,428	116,628	113,204	(3,424)
Miscellaneous	230	230	869	639
<b>TOTAL REVENUES</b>	<b>221,421</b>	<b>229,693</b>	<b>217,568</b>	<b>(12,125)</b>
EXPENDITURES:				
Current-Public protection:				
Services and supplies	207,908	194,808	194,444	(364)
Other charges	20,523	20,523	19,369	(1,154)
Capital assets	29,855	30,135	15,961	(14,174)
<b>TOTAL EXPENDITURES</b>	<b>258,286</b>	<b>245,466</b>	<b>229,774</b>	<b>(15,692)</b>
<b>DEFICIENCY OF REVENUES OVER EXPENDITURES</b>	<b>(36,865)</b>	<b>(15,773)</b>	<b>(12,206)</b>	<b>3,567</b>
OTHER FINANCING SOURCES (USES):				
Sales of capital assets	150	150	757	607
Transfers in	23,454	23,454	8,880	(14,574)
Transfers out	(1,382)	(1,382)	(1,026)	356
Appropriation for contingencies	(5,389)	(12,261)		12,261
Changes in reserves and designations	6,550	(7,670)	(2,245)	5,425
<b>OTHER FINANCING SOURCES (USES) - NET</b>	<b>23,383</b>	<b>2,291</b>	<b>6,366</b>	<b>4,075</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(13,482)</b>	<b>(13,482)</b>	<b>(5,840)</b>	<b>7,642</b>
<b>FUND BALANCE, JULY 1, 2005 (Note 15)</b>	<b>13,482</b>	<b>13,482</b>	<b>13,482</b>	
<b>FUND BALANCE, JUNE 30, 2006 (Note 15)</b>	<b>\$</b>		<b>7,642</b>	<b>7,642</b>

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 -  
BUDGET AND ACTUAL ON BUDGETARY BASIS  
PUBLIC LIBRARY  
FOR THE YEAR ENDED JUNE 30, 2006 (in thousands)

	PUBLIC LIBRARY			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL ON BUDGETARY BASIS	VARIANCE FROM FINAL BUDGET OVER (UNDER)
REVENUES:				
Taxes	\$ 61,262	63,038	62,680	(358)
Fines, forfeitures and penalties			531	531
Revenue from use of money and property:				
Investment income	80	80	615	535
Rents and concessions	40	40	16	(24)
Intergovernmental revenues:				
Federal	129	129	92	(37)
State	2,224	2,297	2,162	(135)
Other	1,189	1,189	840	(349)
Charges for services	2,527	2,527	2,368	(159)
Miscellaneous	1,260	1,530	846	(684)
<b>TOTAL REVENUES</b>	<b>68,711</b>	<b>70,830</b>	<b>70,150</b>	<b>(680)</b>
EXPENDITURES:				
Current-Education:				
Salaries and employee benefits	66,533	66,531	58,255	(8,276)
Services and supplies	45,035	45,884	36,771	(9,113)
Other charges	849	891	775	(116)
Capital assets	291	306	245	(61)
<b>TOTAL EXPENDITURES</b>	<b>112,708</b>	<b>113,612</b>	<b>96,046</b>	<b>(17,566)</b>
<b>DEFICIENCY OF REVENUES OVER EXPENDITURES</b>	<b>(43,997)</b>	<b>(42,782)</b>	<b>(25,896)</b>	<b>16,886</b>
OTHER FINANCING SOURCES (USES):				
Sales of capital assets			13	13
Transfers in	40,694	41,255	30,339	(10,916)
Transfers out	(500)	(500)	(500)	
Appropriation for contingencies		(1,776)		1,776
Changes in reserves and designations	(606)	(606)	(323)	283
<b>OTHER FINANCING SOURCES (USES) - NET</b>	<b>39,588</b>	<b>38,373</b>	<b>29,529</b>	<b>(8,844)</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(4,409)</b>	<b>(4,409)</b>	<b>3,633</b>	<b>8,042</b>
<b>FUND BALANCE, JULY 1, 2005 (Note 15)</b>	<b>4,409</b>	<b>4,409</b>	<b>4,409</b>	
<b>FUND BALANCE, JUNE 30, 2006 (Note 15)</b>	<b>\$</b>		<b>8,042</b>	<b>8,042</b>

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 -  
BUDGET AND ACTUAL ON BUDGETARY BASIS  
REGIONAL PARK AND OPEN SPACE DISTRICT  
FOR THE YEAR ENDED JUNE 30, 2006 (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	\$ 984	984	1,202	218
Revenue from use of money and property-				
Investment income	3,423	3,426	10,435	7,009
Charges for services	78,010	78,010	78,621	611
TOTAL REVENUES	82,417	82,420	90,258	7,838
EXPENDITURES:				
Current-Recreation and cultural services:				
Services and supplies	4,020	4,023	3,460	(563)
Other charges	160,475	160,475	31,772	(128,703)
TOTAL EXPENDITURES	164,495	164,498	35,232	(129,266)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(82,078)	(82,078)	55,026	137,104
OTHER FINANCING SOURCES (USES):				
Transfers in	60,577	60,577	63,409	2,832
Transfers out	(107,824)	(107,824)	(100,851)	6,973
Appropriation for contingencies	(5,268)	(5,268)		5,268
Changes in reserves and designations	6,059	6,059	7,957	1,898
OTHER FINANCING SOURCES (USES) - NET	(46,456)	(46,456)	(29,485)	16,971
NET CHANGE IN FUND BALANCE	(128,534)	(128,534)	25,541	154,075
FUND BALANCE, JULY 1, 2005 (Note 15)	129,047	129,047	129,047	
FUND BALANCE, JUNE 30, 2006 (Note 15)	\$ 513	513	154,588	154,075

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, 2006 (in thousands)

	BUSINESS-TYPE ACTIVITIES -				
	Harbor UCLA Medical Center	Olive View UCLA Medical Center	LAC+USC Medical Center	M. L. King/Drew Medical Center	Rancho Los Amigos Medical Center
<b>ASSETS</b>					
Current assets:					
Pooled cash and investments: (Notes 1 and 5)					
Operating (Note 1)	\$ 67	91	111,943	145	45
Other (Note 1)	9,153	8,858	15,924	6,047	2,313
Total pooled cash and investments	<u>9,220</u>	<u>8,949</u>	<u>127,867</u>	<u>6,192</u>	<u>2,358</u>
Other investments (Note 5)					
Taxes receivable					
Accounts receivable - net	91,906	76,079	213,616	115,538	69,502
Interest receivable	9	8	925	5	5
Other receivables	3,779	4,671	10,723	3,738	1,384
Due from other funds (Note 14)	113,365	145,311	375,296	93,063	15,347
Advances to other funds (Note 14)					
Inventories	3,440	4,546	12,484	4,410	956
Total current assets	<u>221,719</u>	<u>239,564</u>	<u>740,911</u>	<u>222,946</u>	<u>89,552</u>
Noncurrent assets:					
Restricted assets (Note 5)	3,793	6,820	39,774	160	589
Net pension obligation (Note 7)	10,900	9,457	28,622	12,147	7,846
Capital assets: (Notes 6 and 9)					
Land and easements	1,001	15,171	18,183	2,277	217
Buildings and improvements	77,672	152,940	164,111	195,357	187,179
Equipment	37,008	20,214	77,234	42,369	10,573
Infrastructure					
Construction in progress	16,169		682,313		6,550
Less accumulated depreciation	(78,357)	(93,237)	(192,805)	(131,702)	(94,933)
Total capital assets - net	<u>53,493</u>	<u>95,088</u>	<u>749,036</u>	<u>108,301</u>	<u>109,586</u>
Total noncurrent assets	<u>68,186</u>	<u>111,365</u>	<u>817,432</u>	<u>120,608</u>	<u>118,021</u>
<b>TOTAL ASSETS</b>	<u>289,905</u>	<u>350,929</u>	<u>1,558,343</u>	<u>343,554</u>	<u>207,573</u>
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable	10,899	7,239	47,905	18,201	2,173
Accrued payroll	18,360	14,433	36,747	14,295	6,295
Other payables	1,193	1,039	1,967	1,184	622
Accrued interest payable	100	97	123	293	244
Due to other funds (Note 14)	16,601	30,264	175,247	22,736	25,327
Advances from other funds (Note 14)	99,280	112,268	202,439	88,267	35,856
Unearned revenue (Note 7)	979	849	3,166	1,091	705
Current portion of long-term liabilities (Note 10)	27,574	33,875	66,299	38,761	17,233
Total current liabilities	<u>174,986</u>	<u>200,064</u>	<u>533,893</u>	<u>184,828</u>	<u>88,455</u>
Noncurrent liabilities:					
Accrued vacation and sick leave (Note 10)	22,134	15,573	39,037	15,284	7,861
Bonds and notes payable (Note 10)	13,241	10,025	18,015	47,949	44,414
Pension bonds payable (Notes 7 and 10)	49,644	43,069	130,353	55,323	35,735
Capital lease obligations (Notes 9 and 10)					397
Workers' compensation (Notes 10 and 17)	33,312	29,395	141,656	71,840	25,611
Litigation and self-insurance (Notes 10 and 17)	30,148	21,127	95,850	45,785	13,036
Third party payors (Notes 10 and 13)	43,434	89,147	11,615	13,929	250
Total noncurrent liabilities	<u>191,913</u>	<u>208,336</u>	<u>436,526</u>	<u>250,110</u>	<u>127,304</u>
<b>TOTAL LIABILITIES</b>	<u>366,899</u>	<u>408,400</u>	<u>970,419</u>	<u>434,938</u>	<u>215,759</u>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt (Notes 6 and 10)	40,703	82,946	502,686	59,586	64,342
Restricted:					
Debt service	3,693	6,723	39,651	(133)	345
Special purpose					
Unrestricted (Deficit)	(121,390)	(147,140)	45,587	(150,837)	(72,873)
<b>TOTAL NET ASSETS (DEFICIT) (Note 3)</b>	<u>\$ (76,994)</u>	<u>(57,471)</u>	<u>587,924</u>	<u>(91,384)</u>	<u>(8,186)</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	
\$ 63,328	3,128	\$ 178,747	\$ 38,270	
2,475	1	44,771	7,210	
65,803	3,129	223,518	45,480	
	49,135	49,135	7,502	
717		717		
		566,641		
389		1,341	311	
7,244	2,995	34,534	160	
798	1	743,181	58,212	
1,164		1,164		
		25,836	7,522	
76,115	55,260	1,646,067	119,187	
		51,136	7,830	
		68,972	13,308	
7,916	199,750	244,515		
143,835	176,406	1,097,500	1,734	
225	2,382	190,005	202,926	
1,092,128	38,673	1,130,801		
7,491	1,711	714,234		
(411,472)	(180,468)	(1,182,974)	(109,367)	
840,123	238,454	2,194,081	95,293	
840,123	238,454	2,314,189	116,431	
916,238	293,714	3,960,256	235,618	
4,201	2,330	92,948	5,445	
		90,130	18,271	
	1,828	7,833	993	
		857	226	
4,757	203	275,135	22,827	
		538,110	22,000	
140	420	7,350	1,354	
15	1,146	184,903	36,934	
9,113	5,927	1,197,266	108,050	
	162	100,051	30,629	
121	5,202	138,967	29,265	
		314,124	60,606	
		397	181	
		301,814	63,141	
		205,946	19,693	
		158,375		
121	5,364	1,219,674	203,515	
9,234	11,291	2,416,940	311,565	
839,987	232,592	1,822,842	60,041	
67,017		117,296	2,608	
	47,628	47,628		
	2,203	(444,450)	(138,596)	
\$ 907,004	282,423	1,543,316	\$ (75,947)	
		4,886		
		\$ 1,548,202		

ASSETS

Current assets:

Pooled cash and investments: (Notes 1 and 5)

Operating (Note 1)

Other (Note 1)

Total pooled cash and investments

Other investments (Note 5)

Taxes receivable

Accounts receivable - net

Interest receivable

Other receivables

Due from other funds (Note 14)

Advances to other funds (Note 14)

Inventories

Total current assets

Noncurrent assets:

Restricted assets (Note 5)

Net pension obligation (Note 7)

Capital assets: (Notes 6 and 9)

Land and easements

Buildings and improvements

Equipment

Infrastructure

Construction in progress

Less accumulated depreciation

Total capital assets - net

Total noncurrent assets

TOTAL ASSETS

LIABILITIES

Current liabilities:

Accounts payable

Accrued payroll

Other payables

Accrued interest payable

Due to other funds (Note 14)

Advances from other funds (Note 14)

Unearned revenue (Note 7)

Current portion of long-term liabilities (Note 10)

Total current liabilities

Noncurrent liabilities:

Accrued vacation and sick leave (Note 10)

Bonds and notes payable (Note 10)

Pension bonds payable (Notes 7 and 10)

Capital lease obligations (Notes 9 and 10)

Workers' compensation (Notes 10 and 17)

Litigation and self-insurance (Notes 10 and 17)

Third party payors (Notes 10 and 13)

Total noncurrent liabilities

TOTAL LIABILITIES

NET ASSETS

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

Restricted:

Debt service

Special purpose

Unrestricted (Deficit)

TOTAL NET ASSETS (DEFICIT) (Note 3)

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

NET ASSETS OF BUSINESS-TYPE ACTIVITIES (PAGE B-23)

COUNTY OF LOS ANGELES  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2006 (in thousands)

	BUSINESS-TYPE ACTIVITIES -				
	Harbor UCLA Medical Center	Olive View UCLA Medical Center	LAC+USC Medical Center	M. L. King/Drew Medical Center	Rancho Los Amigos Medical Center
OPERATING REVENUES:					
Net patient service revenues (Note 13)	\$ 387,240	243,496	797,140	344,441	\$ 157,155
Rentals					
Charges for services					
Other	16,108	12,590	56,441	13,020	9,322
<b>TOTAL OPERATING REVENUES</b>	<b>403,348</b>	<b>256,086</b>	<b>853,581</b>	<b>357,461</b>	<b>166,477</b>
OPERATING EXPENSES:					
Salaries and employee benefits	268,852	216,831	536,704	217,767	96,968
Services and supplies	76,683	74,300	166,743	51,043	17,491
Other professional services	88,142	87,747	255,684	149,006	26,359
Depreciation and amortization (Note 6)	2,206	2,656	2,091	3,094	2,335
Medical malpractice	3,098	662	3,764	7,307	197
Rent	4,377	3,740	10,584	4,152	2,138
Provision for bad debts	1,882	5,805	7,684	4,564	3,707
<b>TOTAL OPERATING EXPENSES</b>	<b>445,240</b>	<b>391,741</b>	<b>983,254</b>	<b>436,933</b>	<b>149,195</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(41,892)</b>	<b>(135,655)</b>	<b>(129,673)</b>	<b>(79,472)</b>	<b>17,282</b>
NONOPERATING REVENUES (EXPENSES):					
Taxes					
Interest income	410	471	5,202	412	242
Interest expense	(10,593)	(9,429)	(24,741)	(13,499)	(9,114)
Intergovernmental transfers expense (Note 13)	(52,068)	(33,558)	(126,792)	(63,827)	(10,527)
Intergovernmental revenues:					
State					
Federal					
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>(62,251)</b>	<b>(42,516)</b>	<b>(146,331)</b>	<b>(76,914)</b>	<b>(19,399)</b>
<b>INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS</b>	<b>(104,143)</b>	<b>(178,171)</b>	<b>(276,004)</b>	<b>(156,386)</b>	<b>(2,117)</b>
Capital contributions			72,988		
Transfers in (Note 14)	105,343	217,107	656,415	227,498	18,490
Transfers out (Note 14)	(31)	(299)	(188,010)	(3)	(39,014)
<b>CHANGE IN NET ASSETS</b>	<b>1,169</b>	<b>38,637</b>	<b>265,389</b>	<b>71,109</b>	<b>(22,641)</b>
<b>TOTAL NET ASSETS (DEFICIT), JULY 1, 2005, as restated (Note 2)</b>	<b>(78,163)</b>	<b>(96,108)</b>	<b>322,535</b>	<b>(162,493)</b>	<b>14,455</b>
<b>TOTAL NET ASSETS (DEFICIT), JUNE 30, 2006</b>	<b>\$ (76,994)</b>	<b>(57,471)</b>	<b>587,924</b>	<b>(91,384)</b>	<b>\$ (8,186)</b>

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

ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES	
Waterworks Funds	Nonmajor Enterprise Funds	Total	Internal Service Funds	
\$		\$ 1,929,472	\$	OPERATING REVENUES:
	13,124	13,124	24,335	Net patient service revenues (Note 13)
77,074	378	77,452	354,152	Rentals
	1,057	108,538		Charges for services
				Other
77,074	14,559	2,128,586	378,487	TOTAL OPERATING REVENUES
		1,337,122	274,549	OPERATING EXPENSES:
41,124	202,522	629,906	53,004	Salaries and employee benefits
2,064	446	609,448	9,159	Services and supplies
24,360	4,195	40,937	29,426	Other professional services
		15,028		Depreciation and amortization (Note 6)
		24,991		Medical malpractice
		23,642		Rent
67,548	207,163	2,681,074	366,138	Provision for bad debts
9,526	(192,604)	(552,488)	12,349	TOTAL OPERATING EXPENSES
				OPERATING INCOME (LOSS)
743		743		NONOPERATING REVENUES (EXPENSES):
2,008	1,129	9,874	1,137	Taxes
(15)	(371)	(67,762)	(9,175)	Interest income
		(286,772)		Interest expense
34	44	78		Intergovernmental transfers expense (Note 13)
193	226,968	227,161	408	Intergovernmental revenues:
				State
				Federal
2,963	227,770	(116,678)	(7,630)	TOTAL NONOPERATING REVENUES (EXPENSES)
12,489	35,166	(669,166)	4,719	INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS
		72,988		Capital contributions
(356)	(6,226)	1,224,853	3,364	Transfers in (Note 14)
		(233,939)	(6,634)	Transfers out (Note 14)
12,133	28,940	394,736	1,449	CHANGE IN NET ASSETS
894,871	253,483		(77,396)	TOTAL NET ASSETS (DEFICIT), JULY 1, 2005, as restated (Note 2)
\$ 907,004	282,423		\$ (75,947)	TOTAL NET ASSETS (DEFICIT), JUNE 30, 2006
		(917)		Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds
		\$ 393,819		CHANGE IN NET ASSETS OF BUSINESS-TYPE ACTIVITIES (PAGE B-25)

COUNTY OF LOS ANGELES  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2006 (in thousands)

	BUSINESS-TYPE ACTIVITIES -				
	Harbor UCLA Medical Center	Olive View UCLA Medical Center	LAC+USC Medical Center	M. L. King/Drew Medical Center	Rancho Los Amigos Medical Center
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Cash received from patient services	\$ 410,631	236,784	1,013,582	341,266	151,455
Rentals received					
Cash received from charges for services					
Other operating revenues	16,112	12,600	56,445	13,020	9,329
Cash received for services provided to other fund	10,165	13,513	20,414	13,659	353
Cash paid for salaries and employee benefits	(270,269)	(219,515)	(546,607)	(223,943)	(99,946)
Cash paid for services and supplies	(74,825)	(94,192)	(301,062)	(60,449)	10,845
Other operating expenses	(96,282)	(94,485)	(272,259)	(156,389)	(28,687)
Cash paid for services from other funds	(31,794)	(32,368)	(85,116)	(39,582)	(16,956)
Net cash provided by (required for) operating activities	<u>(36,262)</u>	<u>(177,663)</u>	<u>(114,603)</u>	<u>(112,418)</u>	<u>26,393</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>					
Cash advances received from other funds	257,123	205,390	595,571	205,925	90,131
Cash advances paid/returned to other funds	(253,740)	(190,155)	(511,721)	(234,910)	(67,753)
Interest paid on pension bonds	(5,572)	(4,138)	(14,633)	(6,211)	(4,011)
Interest paid on advances	(4,045)	(3,890)	(8,791)	(4,471)	(1,231)
Intergovernmental transfers	(52,068)	(33,558)	(126,792)	(63,827)	(10,527)
Intergovernmental receipts					
Transfers in	105,343	217,107	656,415	227,498	18,490
Transfers out	(31)	(299)	(188,010)	(3)	(39,014)
Net cash provided by (required for) noncapital financing activities	<u>47,010</u>	<u>190,457</u>	<u>402,039</u>	<u>124,001</u>	<u>(13,915)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Proceeds from taxes					
Capital contributions			72,988		
Proceeds from bonds and notes	2,500		90,000		
Interest paid on capital borrowing	(967)	(1,445)	(1,309)	(3,038)	(4,010)
Principal payments on bonds and notes	(2,655)	(9,963)	(276,143)	(6,500)	(8,170)
Principal payments on capital leases	(228)	(36)	(39)	(13)	(105)
Proceeds from refunding bonds	(123)		(116)	(340)	(517)
Acquisition and construction of capital assets	(7,197)	(1,489)	(166,261)	(2,653)	(179)
Net cash provided by (required for) capital and related financing activities	<u>(8,670)</u>	<u>(12,933)</u>	<u>(280,880)</u>	<u>(12,544)</u>	<u>(12,981)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES -</b>					
Interest income received	134	198	3,884	104	41
Net increase (decrease) in cash and cash equivalents	2,212	59	10,440	(857)	(462)
Cash and cash equivalents, July 1, 2005, as restated	<u>10,801</u>	<u>15,710</u>	<u>157,201</u>	<u>7,209</u>	<u>3,409</u>
Cash and cash equivalents, June 30, 2006	<u>\$ 13,013</u>	<u>15,769</u>	<u>167,641</u>	<u>6,352</u>	<u>2,947</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
\$		\$ 2,153,718	\$
	12,764	12,764	27,647
76,451	346	76,797	343,975
	1,057	108,563	
		58,104	
	(230)	(1,360,510)	(277,021)
(39,818)	(184,592)	(744,093)	(53,928)
(2,064)	(446)	(650,612)	(9,159)
		(205,816)	
<u>34,569</u>	<u>(171,101)</u>	<u>(551,085)</u>	<u>31,514</u>
		1,354,140	
(5)		(1,258,284)	
		(34,565)	(6,803)
		(22,428)	
		(286,772)	
227	227,012	227,239	408
		1,224,853	3,364
(356)	(6,226)	(233,939)	(6,634)
<u>(134)</u>	<u>220,786</u>	<u>970,244</u>	<u>(9,665)</u>
1,179		1,179	
		72,988	
		92,500	58,675
(15)	(371)	(11,155)	(2,544)
(45)	(609)	(304,085)	(55,545)
		(421)	(161)
		(1,096)	
<u>(5,590)</u>	<u>(20,582)</u>	<u>(203,951)</u>	<u>(34,276)</u>
<u>(4,471)</u>	<u>(21,562)</u>	<u>(354,041)</u>	<u>(33,851)</u>
<u>1,685</u>	<u>1,129</u>	<u>7,175</u>	<u>674</u>
31,649	29,252	72,293	(11,328)
<u>34,154</u>	<u>23,012</u>	<u>251,496</u>	<u>72,140</u>
\$ <u>65,803</u>	<u>52,264</u>	\$ <u>323,789</u>	\$ <u>60,812</u>

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

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

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:  
Proceeds from taxes  
Capital contributions  
Proceeds from bonds and notes  
Interest paid on capital borrowing  
Principal payments on bonds and notes  
Principal payments on capital leases  
Proceeds from refunding bonds  
Acquisition and construction of capital assets  
Net cash provided by (required for) capital and related financing activities

CASH FLOWS FROM INVESTING ACTIVITIES -  
Interest income received

Net increase (decrease) in cash and cash equivalents

Cash and cash equivalents, July 1, 2005, as restated

Cash and cash equivalents, June 30, 2006

Continued...

COUNTY OF LOS ANGELES  
STATEMENT OF CASH FLOWS - Continued  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2006 (in thousands)

	BUSINESS-TYPE ACTIVITIES -				
	Harbor UCLA Medical Center	Olive View UCLA Medical Center	LAC+USC Medical Center	M. L. King/Drew Medical Center	Rancho Los Amigos Medical Center
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (REQUIRED FOR) OPERATING ACTIVITIES:					
Operating income (loss)	\$ (41,892)	(135,655)	(129,673)	(79,472)	17,282
Adjustments to reconcile operating income (loss) to net cash provided by (required for) operating activities:					
Depreciation and amortization	2,206	2,656	2,091	3,094	2,335
Other charges - net	2,350	25	(1,928)	(1,084)	50
(Increase) decrease in:					
Accounts receivable - net	24,942	27,320	11,801	(1,667)	(20,523)
Interest receivable					
Other receivables	(396)	91	(1,869)	(116)	774
Due from other funds	57,293	(8,944)	341,781	33,418	38,999
Inventories	(167)	(715)	814	(473)	57
Net pension obligation	5,942	5,622	15,601	6,621	4,278
Increase (decrease) in:					
Accounts payable	2,622	765	12,057	4,506	(247)
Accrued payroll	1,184	895	1,286	(935)	(73)
Other payables	140	115	206	133	63
Accrued vacation and sick leave	734	468	999	(1,580)	(128)
Due to other funds	(33,971)	(51,699)	(229,243)	(51,810)	11,656
Unearned revenue			(906)		
Pension bonds payable	(8,971)	(9,624)	(23,555)	(9,995)	(6,459)
Workers' compensation liability	(4,288)	(3,702)	(10,934)	(5,069)	(1,304)
Litigation and self-insurance liability	2,411	580	3,136	8,598	523
Third party payor liability	(46,401)	(5,861)	(106,267)	(16,587)	(20,890)
<b>TOTAL ADJUSTMENTS</b>	<b>5,630</b>	<b>(42,008)</b>	<b>15,070</b>	<b>(32,946)</b>	<b>9,111</b>
<b>NET CASH PROVIDED BY (REQUIRED FOR) OPERATING ACTIVITIES</b>	<b>\$ (36,262)</b>	<b>(177,663)</b>	<b>(114,603)</b>	<b>(112,418)</b>	<b>26,393</b>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS:					
Pooled cash and investments	\$ 9,220	8,949	127,867	6,192	2,358
Other investments					
Restricted assets	3,793	6,820	39,774	160	589
<b>TOTAL</b>	<b>\$ 13,013</b>	<b>15,769</b>	<b>167,641</b>	<b>6,352</b>	<b>2,947</b>

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	
9,526	(192,604)	\$ (552,488)	\$ 12,349	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:
24,360	4,195	40,937	29,426	Depreciation and amortization
16	18,356	17,785	225	Other charges - net
		41,873		(Increase) decrease in:
			(70)	Accounts receivable - net
(692)	(432)	(2,640)	1,573	Interest receivable
45	11	462,603	(8,282)	Other receivables
		(484)	(762)	Due from other funds
		38,064	7,253	Inventories
				Net pension obligation
911	(68)	20,546	1,245	Increase (decrease) in:
		2,357	67	Accounts payable
	(321)	336	112	Accrued payroll
	(230)	263	88	Other payables
379	(37)	(354,725)	(1,187)	Accrued vacation and sick leave
24	29	(853)	(86)	Due to other funds
		(58,604)	(10,952)	Unearned revenue
		(25,297)	(1,696)	Pension bonds payable
		15,248	2,211	Workers' compensation liability
		(196,006)		Litigation and self-insurance liability
				Third party payor liability
25,043	21,503	1,403	19,165	TOTAL ADJUSTMENTS
\$ 34,569	(171,101)	\$ (551,085)	\$ 31,514	NET CASH PROVIDED BY (REQUIRED FOR) OPERATING ACTIVITIES
				RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS:
\$ 65,803	3,129	\$ 223,518	\$ 45,480	Pooled cash and investments
	49,135	49,135	7,502	Other investments
		51,136	7,830	Restricted assets
\$ 65,803	52,264	\$ 323,789	\$ 60,812	TOTAL

COUNTY OF LOS ANGELES  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2006 (in thousands)

	PENSION TRUST FUND	INVESTMENT TRUST FUNDS	AGENCY FUNDS
<b>ASSETS</b>			
Pooled cash and investments (Note 5)	\$ 29,746	\$ 9,387,061	\$ 1,778,916
Other investments: (Note 5)		1,091,142	44,329
Stocks	18,883,133		
Bonds	8,978,511		
Short-term investments	1,412,210		
Real estate	3,553,426		
Mortgages	231,195		
Alternative assets	2,198,244		
Collateral on loaned securities	2,906,455		
Taxes receivable			200,704
Interest receivable	118,188	111,861	950
Other receivables	297,948		
<b>TOTAL ASSETS</b>	<b>38,609,056</b>	<b>10,590,064</b>	<b>\$ 2,024,899</b>
<b>LIABILITIES</b>			
Accounts payable	391,503		
Other payables (Note 5)	3,031,964		
Due to other governments			2,024,899
<b>TOTAL LIABILITIES</b>	<b>3,423,467</b>		<b>\$ 2,024,899</b>
<b>NET ASSETS</b>			
Held in trust for pension benefits and investment trust participants	<b>\$ 35,185,589</b>	<b>\$ 10,590,064</b>	

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, 2006 (in thousands)

	PENSION TRUST FUND	INVESTMENT TRUST FUNDS
ADDITIONS:		
Contributions:		
Pension trust contributions:		
Employer	\$ 676,667	\$
Member	296,176	
Contributions to investment trust funds		38,178,595
Total contributions	<u>972,843</u>	<u>38,178,595</u>
Investment earnings:		
Interest	3,107,323	446,404
Net increase in the fair value of investments	1,078,066	
Securities lending income (Note 5)	162,282	
Total investment earnings	<u>4,347,671</u>	<u>446,404</u>
Less - Investment expenses:		
Expense from investing activities	102,415	
Expense from securities lending activities (Note 5)	152,846	
Total net investment expense	<u>255,261</u>	
Net investment earnings	<u>4,092,410</u>	<u>446,404</u>
Miscellaneous	<u>3,877</u>	
<b>TOTAL ADDITIONS</b>	<u>5,069,130</u>	<u>38,624,999</u>
DEDUCTIONS:		
Salaries and employee benefits	29,844	
Services and supplies	14,847	
Benefit payments	1,845,149	
Distribution from investment trust funds		38,261,864
Miscellaneous	19,806	
<b>TOTAL DEDUCTIONS</b>	<u>1,909,646</u>	<u>38,261,864</u>
<b>CHANGE IN NET ASSETS</b>	<u>3,159,484</u>	<u>363,135</u>
<b>NET ASSETS HELD IN TRUST, JULY 1, 2005</b>	<u>32,026,105</u>	<u>10,226,929</u>
<b>NET ASSETS HELD IN TRUST, JUNE 30, 2006</b>	<u>\$ 35,185,589</u>	<u>\$ 10,590,064</u>

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 (the County) is a legal subdivision of the State of California (the State) charged with general governmental powers. The County's powers are exercised through an elected Board of Supervisors (the 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 Los Angeles County Securitization Corporation (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 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), previously known as the Children and Families First Commission, was established by the County as a separate legal entity to administer the County's share of tobacco taxes levied by the State pursuant to Proposition 10. The County's Board established First 5 with nine voting members and four non-voting representatives. Of the nine voting members, one is a member of the Board of Supervisors, two are heads of County Departments (Health Services and Mental Health), one is an early childhood education expert, and five are public members appointed by the Board. The non-voting representatives are from other County commissions and planning groups.

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

Component Unit Financial Statements

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

Government-wide Financial Statements

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

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

Net assets are classified into the following three categories, 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted. Net assets are reported as restricted when their use has been constrained by externally imposed conditions. Such conditions include limitations imposed by creditors (such as through debt covenants), grantors or laws or regulations of other governments. Net assets are also reported as restricted when imposed by law through constitutional provisions or enabling legislation. Net assets "restricted for special purpose," are principally related to special revenue funds and the restrictions on their net asset use in accordance with the provisions mentioned above. Of the \$1,164,129,000 "restricted for special purpose," \$451,619,000 is imposed by enabling legislation.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Government-wide Financial Statements-Continued

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

Fund Financial Statements

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

The County reports the following major governmental funds:

General Fund

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

Fire Protection District Fund

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

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.

Public Library Fund

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

Regional Park and Open Space District Fund

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

The County's major enterprise funds consist of five Hospital Funds and a Waterworks Enterprise Fund. The Hospital Enterprise funds provide health services to County residents. Revenues are principally patient service fees. Subsidies are also received from the General Fund. In conjunction with the retroactive reporting of infrastructure assets, the total assets of the Waterworks Enterprise Fund significantly increased and this Fund has been reclassified as a major fund for 2005-2006. The Waterworks Enterprise Fund provides water services to County residents. Revenues are derived primarily from the sale of water and water service standby charges. A description of each Enterprise Fund is provided below:

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Fund Financial Statements-Continued

Harbor/UCLA Medical Center

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

Olive View/UCLA Medical Center

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

M. L. King/Drew Medical Center

The M. L. King/Drew Medical Center (MLK/D) provides acute and intensive care unit medical/surgical inpatient and outpatient services, emergency room services, psychiatric services, dental services, pediatric and obstetric services.

Rancho Los Amigos Medical Center

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

Waterworks Funds

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

The following fund types have also been reported:

Internal Service Funds

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

Fiduciary Fund Types

Pension Trust Fund

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

Investment Trust Funds

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Fund Financial Statements-Continued

Agency Funds

The Agency Funds are used primarily to account for assets held by the County in an agency capacity pending transfer or distribution to individuals, private organizations, other governmental entities, and other funds.

Basis of Accounting

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

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Basis of Accounting-Continued

The County applies all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, in accounting and reporting for operations of the enterprise funds. FASB pronouncements issued after November 30, 1989, have not been applied unless specifically adopted in a GASB pronouncement.

Budgetary Data

In accordance with the provisions of Sections 29000-29144 of the Government Code of the State of California (the 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).

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 \$22.5 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 at June 30, 2006. The County prepares a separate budgetary document, the County Budget, which demonstrates legal compliance with budgetary control.

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

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

Property Taxes

All jurisdictions within California derive their taxing authority from the State Constitution and various legislative provisions contained in the Government Code and Revenue and Taxation Code. Property is assessed at 100% of full cash or market value (with some exceptions) pursuant to Article XIII A of the California State Constitution and statutory provisions by the County Assessor and State Board of Equalization. The total 2005-2006 gross assessed valuation of the County of Los Angeles was \$868 billion.

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Property Taxes-Continued

The County is divided into 11,067 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 January 1 and become delinquent, if unpaid, on August 31.

Deposits and Investments

In accordance with GASB Statement 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.

Other Pooled Cash and Investments

This account represents amounts identified in various agency funds as of June 30, 2006 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.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Deposits and Investments-Continued

Other Investments

"Other Investments" represent Pension Trust Fund investments, investments of the Community Development Commission, various JPAs, NPC, and Public Buildings, 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, \$43,187,000 represents land held for resale by the Community Development Commission (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. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation.

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.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Capital Assets-Continued

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

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

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

Advances Payable

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

Vacation and Sick Leave Benefits

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

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

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).

Accounting Reclassifications

Certain reclassifications have been made to amounts previously reported to conform to the current year's report format. Such reclassifications had no effect on previously reported changes in net assets.

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

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

As discussed below, the County implemented the following GASB Statements in the 2005-2006 fiscal year:

Governmental Accounting Standards Board Statement No. 42

GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries," provides guidance on reducing the carrying value of a capital asset other than through the use of depreciation. Applying the GASB's note that "the provisions of this Statement need not be applied to immaterial items," GASB 42 did not have an impact on the County's financial statements for the year ended June 30, 2006.

Governmental Accounting Standards Board Statement No. 44

For the fiscal year ended June 30, 2006, the County implemented GASB Statement No. 44, "Economic Condition Reporting: The Statistical Section." This Statement enhances and updates the statistical section that accompanies a local government's basic financial statements to reflect the significant changes that have taken place in the government. The statistical section is comprised of schedules presenting trend information about revenue source, outstanding debt, economics and demographics, and operating information. Implementation of GASB Statement No. 44 did not have an impact on the County's financial statements for the year ended June 30, 2006, but required additional disclosures in the statistical section of the Comprehensive Annual Financial Report.

Governmental Accounting Standards Board Statement No. 46

For the fiscal year ended June 30, 2006, the County implemented GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation - an amendment of GASB Statement No. 34." This Statement requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. A legally enforceable enabling legislation restriction is one that a party external to the County - such as citizens, public interest groups, or the judiciary - can compel a government to honor. Implementation of GASB Statement No. 46 did not have an impact on the County's financial statements for the year ended June 30, 2006, but required additional disclosure (see Note 1- "Government-wide Financial Statements" segment).

Governmental Accounting Standards Board Statement No. 47

GASB Statement No. 47, "Accounting for Termination Benefits," provides guidance on how employers should account for benefits associated with either voluntary or involuntary terminations. GASB Statement No. 47 did not have an impact on the County's financial statements for the year ended June 30, 2006.

Governmental Accounting Standards Board Statement No. 48

For the year ended June 30, 2006, the County implemented GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues." This Statement establishes accounting and financial reporting standards for transactions in which a government receives, or is entitled to, resources in exchange for future cash flows generated by collecting specific receivables or specific future revenues. Provisions of GASB 48 were applied in conjunction with the sale of future Tobacco Settlement revenues, as discussed in Note 10 ("Tobacco Settlement Asset Backed Bonds").

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

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

Restatement of Fund Balance/Net Assets

As required by GASB Statement 34, the County restated beginning balances to reflect the retroactive recognition of the remaining infrastructure assets and easements acquired prior to July 1, 2001. The effects of the changes are as follows (in thousands):

	<u>Net Assets, July 1, 2005 as previously reported</u>	<u>Effect of Infrastructure Assets</u>	<u>Net Assets July 1, 2005 as restated</u>
Government-wide:			
Governmental activities	\$ 2,136,790	\$11,087,969	\$13,224,759
Business-type activities	243,113	911,270	1,154,383
Proprietary funds:			
Major Enterprise funds-			
Waterworks	116,121	778,750	894,871
Non Major Enterprise funds-			
Aviation	32,025	132,520	164,545

3. NET ASSET DEFICITS

The following funds had net asset deficits at June 30, 2006 (in thousands):

	<u>Accumulated Deficit</u>
Enterprise Funds:	
Harbor/UCLA Medical Center	\$ 76,994
Olive View/UCLA Medical Center	57,471
M. L. King/Drew Medical Center	91,384
Rancho Los Amigos Medical Center	8,186
Internal Service Fund-	
Public Works	89,495

The Enterprise and Internal Service Funds' deficits result primarily from the recognition of certain liabilities including accrued vacation and sick leave, workers' compensation, self-insurance and, for the enterprise funds, medical malpractice and third party payor liabilities, as required by GAAP. Deficits are expected to continue until such liabilities are retired through user charges or otherwise funded. Enterprise funds' deficits are further explained in Note 13.

4. ELIMINATIONS

The Regional Park and Open Space District (District), 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 District executed a financing agreement with the Public Works Financing Authority, another blended component unit referred to in the basic financial statements as "Joint Powers Authority" (JPA). Under the terms of the agreement, the District sold \$510,185,000 of bonds in 1997 that were acquired as an investment by the JPA. The JPA 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 District's bonds relative to principal and interest maturities and interest rates. This series of transactions was conducted to facilitate the issuance of District related bonds and to minimize the County's overall interest cost. Pursuant to the financing agreement with the JPA, the District has pledged all available tax assessments necessary to ensure the timely payment of principal and interest on the bonds issued by the JPA. The transactions between the two component units have been accounted for as follows:

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

4. ELIMINATIONS-Continued

Fund Financial Statements

At June 30, 2006, the Fund Financial Statements reflect an investment asset (referred to as "Other Investments") held by the JPA of \$325,710,000 that has been recorded in the Nonmajor Governmental Funds. The Fund Financial Statements do not reflect a liability for the related Bonds Payable (\$325,710,000), 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 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 (\$325,710,000 for each) and Investment Earnings and Interest Expense (\$17,150,000 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 \$325,710,000 that were publicly issued are included among the liabilities presented in the Government-wide Financial Statements. Disclosures related to those outstanding bonds appear in Note 10 and are captioned "Assessment Bonds."

5. CASH AND INVESTMENTS

Investments in the County's cash and investment pool, other cash and investments, and Pension Trust Fund investments, are stated at fair value. Aggregate pooled cash and investments and other cash and investments are as follows at June 30, 2006 (in thousands):

	Pooled Cash and Investments	Other Investments	Restricted Assets		Total
			Pooled Cash and Investments	Other Investments	
Governmental Funds	\$ 4,530,024	\$ 339,656			\$ 4,869,680
Proprietary Funds	268,998	56,637	\$ 47,098	\$ 11,868	384,601
Fiduciary Funds (excluding Pension Trust Fund)	11,165,977	1,135,471			12,301,448
Pension Trust Fund	29,746	38,163,174			38,192,920
Component Unit	79,135	696,729			775,864
Total	<u>\$ 16,073,880</u>	<u>\$ 40,391,667</u>	<u>\$ 47,098</u>	<u>\$ 11,868</u>	<u>\$56,524,513</u>

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

5. CASH AND INVESTMENTS-Continued

Deposits-Custodial Credit Risk

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

At June 30, 2006, the carrying amount of the County's deposits was \$97,844,000 and the balance per various financial institutions was \$93,741,000. The County's deposits are not exposed to custodial credit risk since all its deposits are either covered by federal depository insurance or collateralized with securities held by the County or its agent in the County's name, in accordance with California Government Code Section 53652.

At June 30, 2006, the carrying amount of Pension Trust Fund deposits was \$65,724,000. Pension Trust Fund deposits are held in the Fund's custodial bank and, therefore, are not exposed to custodial credit 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 investments in obligations of the United States Treasury, federal agencies, municipalities, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, bankers' acceptances, negotiable certificates of deposit, floating rate notes, repurchase agreements and reverse repurchase agreements.

The investments are managed by the County Treasurer who reports on a monthly basis to the Board of Supervisors. In addition, the function of the County Treasury Oversight Committee is to review and monitor the County's investment policy. The committee membership includes the Treasurer and Tax Collector, the Auditor-Controller, Superintendent of Schools, Chief Administrative Officer, and a non-County representative.

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

The Pension Trust Fund is managed by LACERA. Pension Trust Fund investments are authorized by State Statutes which are referred to as the "County Employees' Retirement Law of 1937." Statutes authorize a "Prudent Expert" guideline as to form and types of investments which may be purchased. Examples of the Fund's investments are obligations of the various agencies of the federal government, corporate and private placement bonds, global bonds, domestic and global stocks, domestic and global convertible debentures and real estate. Detailed deposit and investment risk disclosures are included in Note H of LACERA's Report on Audited Financial Statements for the year ended June 30, 2006.

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

5. CASH AND INVESTMENTS-Continued

Investments-Continued

The School Districts and the Superior Court are required by legal provisions to participate in the County's investment pool. Eighty-five percent (85%) of the Treasurer's external investment pool consists of these involuntary participants. Voluntary participants in the County's external investment pool include the Sanitation Districts, Metropolitan Transportation Authority, the South Coast Air Quality Management District and other special districts with independent governing boards. The deposits held for both involuntary and voluntary entities are included in the External Pooled Investment Trust Fund. Certain specific investments have been made by the County, as directed by external depositors. This investment activity occurs separately from the County's investment pool and is reported in the Specific Investment Trust Fund. The pool is not registered as an investment company with the Securities and Exchange Commission (SEC) nor is it an SEC Rule 2a7-like pool. California Government Code statutes and the County Treasury Oversight Committee set forth the various investment policies that the County Treasurer must follow.

County pooled and other investments (excluding Pension Trust Fund other investments) at June 30, 2006 (in thousands) are as follows:

	Fair Value
U.S. Government securities	\$ 9,007,312
Negotiable certificates of deposit	3,077,250
Commercial paper	4,383,275
Corporate and deposit notes	829,626
Municipal bonds	5,435
Repurchase agreements	20,377
Los Angeles County securities	10,000
Guaranteed investment contracts	610,220
Investment in money market funds	193,724
Investment in State and local agency investment funds	125,209
1st and 2nd mortgages	1,067
Total	\$ 18,263,495

Pension Trust Fund investments are reported in the basic financial statements at fair value at June 30, 2006 (in thousands) and are as follows:

	Fair Value
Domestic and international equity	\$ 21,723,864
Fixed income	8,978,511
Real estate	3,553,426
Private equity	2,198,244
Short term investments	1,412,210
Mortgages	231,195
Total	\$ 38,097,450

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

5. CASH AND INVESTMENTS-Continued

Investments-Continued

The Pension Trust Fund also had deposits with the Los Angeles County Treasury Pool at June 30, 2006 totaling \$29,746,000. 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 fiscal year ended June 30, 2006 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 investments held by the Treasurer's Pool 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>
U. S. Government securities	\$ 8,098,530	\$ 8,136,810	1.875% - 9.25%	07/07/06 - 06/26/11	1.33
Negotiable certificates of deposit	2,883,326	2,885,689	4.25% - 5.455%	07/05/06 - 08/06/07	0.17
Commercial paper	4,253,206	4,248,934	4.89% - 5.33%	07/03/06 - 09/07/06	0.05
Corporate and deposit notes	795,637	796,503	3.50% - 5.499%	07/06/06 - 04/20/09	0.52
Los Angeles County securities	10,000	10,000	5.658%	06/30/08	2.00
Other	5,101	5,153			0.50
Deposits	<u>75,178</u>	<u>75,178</u>			
	<u>\$ 16,120,978</u>	<u>\$ 16,158,267</u>			

A summary of other (non-pooled) 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	\$ 125,209	\$ 125,324			0.50
Commercial paper	130,069	129,993	4.98% - 5.34%	07/05/06 - 11/30/06	0.08
Corporate and deposit notes	33,989	34,000	5.06%	08/09/06	0.11
Mortgage trust deeds	1,067	1,067	4.5% - 5.5%	08/01/12 - 04/01/17	8.27
Municipal bonds	5,435	5,435	5%	09/02/21	15.19
Negotiable certificates of deposit	193,925	194,000	4.67% - 5.095%	08/09/06 - 09/14/06	0.11
Guaranteed investment contract	610,219	610,219	4.072% - 4.73%	07/31/06 - 06/30/09	0.79
U.S. agency securities	379,727	381,048	2.16% - 5.24%	07/07/06 - 08/25/10	0.63
U.S treasury securities	484,715	487,152	2.75% - 11.25%	07/15/06 - 05/15/16	0.96
U.S. treasury bills	44,330	44,330	4.53% - 4.93%	08/17/06 - 12/14/06	0.14
Repurchase agreements	20,377	20,377	4.652%	01/06/09	2.52
Money market mutual funds	188,634	188,634	4.25% - 4.83%	08/10/06	
Deposits	<u>22,666</u>	<u>22,666</u>			
	<u>\$ 2,240,362</u>	<u>\$ 2,244,245</u>			

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

5. CASH AND INVESTMENTS-Continued

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The 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 asset investments to maturity. The County's investment guidelines limit the weighted average maturity of its portfolios to less than 18 months. Of the Pooled Cash and Investments and Other Investments at June 30, 2006, over 55% have a maturity of six months or less. Of the remainder, less than 18% have a maturity of more than one year.

As of June 30, 2006, variable-rate notes comprised 3.92% of the Treasury Pool and Other Investment portfolios. The notes are tied to one-month and three-month London Interbank Offered Rate (LIBOR) with monthly and quarterly coupon resets. The fair value of variable-rate coupon resets back to the market rate on a periodic basis. Effectively, at each reset date, a variable-rate investment reprices back to par value, eliminating interest rate risk at each periodic reset.

Custodial Credit Risk

Custodial credit risk for investments is the risk that the County will not be able to recover the value of investment securities that are in the possession of an outside party. All securities owned by the County are deposited in trust for safekeeping with a custodial bank different from the County's primary bank, except for Bond Anticipation Notes, certain long-term debt proceeds issued by Los Angeles County entities, investment in the State's Local Area Investment Fund, and mortgage trust deeds which are held in the County Treasurer's vault. Securities are not held in broker accounts. At June 30, 2006, the County's external investment pools and specific investments did not have any securities exposed to custodial credit risk and there was no securities lending.

Credit Risk and Concentration of Credit Risk

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

The County's investment policy establishes minimum acceptable credit ratings for investments from any two nationally recognized statistical rating organizations. For an issuer of short-term debt, the rating must be no less than A-1 (S&P) or P-1 (Moody's) while an issuer of long-term debt shall be rated no less than an "A." At June 30, 2006, the County was invested in the Local Agency Investment Fund which is unrated as to credit quality.

At June 30, 2006, the County did not exceed the County investment policy limitations that state that no more than 5% of total market value of the pooled funds may be invested in securities of any one issuer, except for obligations of the United States government, U.S. government agencies or government-sponsored enterprises. No more than 10% may be invested in one money market mutual fund.

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, 2006:

	<u>S &amp; P</u>	<u>Moody's</u>	<u>% of Portfolio</u>
Pooled Cash and Investments:			
Commercial paper	A-1	P-1	26.53%
Corporate and deposit notes	A-1	P-1	4.96%
Los Angeles County securities	AAA	Aaa	0.06%
Negotiable certificates of deposit	A-1	P-1	17.98%
U.S. agency securities	AAA	Aaa	39.76%
U.S. treasury securities	AAA	Aaa	10.68%
Other (Cal Trust medium-term account)	AAA	P-1	0.03%
			<u>100.00%</u>
Other Investments:			
Local agency investment fund	Not rated	Not rated	3.55%
Commercial paper	A-1+	P-1	5.68%
Corporate and deposit notes	A-1+	P-1	1.89%
Mortgage trust deeds	AAA	Aaa	0.06%
Municipal bonds	AAA	Aaa	0.30%
Negotiable certificates of deposit	A-1+	P-1	10.80%
Guaranteed investment contracts	A-1+	P-1	33.99%
U.S. agency securities	AAA	Aaa	16.73%
U.S. treasury securities	AAA	Aaa	27.00%
			<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, 2006 was 3.95%.

A separate financial report is not issued for the external investment pool. The following represents a condensed statement of net assets and changes in net assets for the Treasurer's Pool as of June 30, 2006 (in thousands):

Statement of Net Assets	
Net assets held in trust for all pool participants	\$ <u>16,120,978</u>
Equity of internal pool participants	\$ 6,630,134
Equity of external pool participants	<u>9,490,844</u>
Total equity	\$ <u>16,120,978</u>
Statement of Changes in Net Assets	
Net assets at July 1, 2005	\$ 15,381,506
Net change in investments by pool participants	<u>739,472</u>
Net assets at June 30, 2006	\$ <u>16,120,978</u>

The unrealized loss on investments held in the Treasurer's Pool was \$37,289,000 as of June 30, 2006. This amount takes into account all changes in fair value (including purchases, sales and redemptions) that occurred during the year.

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

5. CASH AND INVESTMENTS-Continued

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, 2006, there were approximately \$631,350,000 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, 2006, forward currency contracts receivable and payable totaled \$28,749,000 and \$28,813,000, respectively.

Securities Lending Transactions

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

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

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

5. CASH AND INVESTMENTS-Continued

Securities Lending Transactions-Continued

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, 2006, 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, 2006. 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 cash collateral received.

As of June 30, 2006, the fair value of securities on loan was \$2.84 billion. The value of the cash collateral received for those securities was \$2.91 billion and the non cash collateral was \$2.20 million. Securities lending assets (Other Investments) and liabilities (Other Payables) of \$2.9 billion are recorded in the Pension Trust Fund. Pension Trust Fund income, net of expenses, from securities lending was \$9.44 million for the year ended June 30, 2006.

For the year ended June 30, 2006, 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, 2006 (in thousands):

	<u>County</u>	<u>Pension Trust Fund</u>	<u>Total</u>
Deposits	\$ 97,844	\$ 65,724	\$ 163,568
Investments	<u>18,263,495</u>	<u>38,097,450</u>	<u>56,360,945</u>
	<u>\$ 18,361,339</u>	<u>\$ 38,163,174</u>	<u>\$ 56,524,513</u>

6. CAPITAL ASSETS

Pursuant to GASB 34, an extended period of deferral (fiscal year beginning July 1, 2005) was available before the requirement to record and depreciate infrastructure assets acquired prior to July 1, 2001 was effective. As of July 1, 2005, the County has recorded the remaining infrastructure assets acquired prior to July 1, 2001 and those assets that were either completed since July 1, 2001 or considered to be construction in progress at year-end. Such infrastructure assets are recorded in governmental and business-type activities in the accompanying government-wide and proprietary funds financial statements as of June 30, 2006. All capitalized infrastructure is subject to depreciation.



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

6. CAPITAL ASSETS-Continued

Capital assets activity for the year ended June 30, 2006 is as follows (in thousands):

	<u>Balance July 1, 2005 as previously reported</u>	<u>Adjustments Note 2</u>	<u>Balance July 1, 2005 as restated</u>
<u>Governmental Activities</u>			
Capital assets, not depreciated:			
Land	\$ 286,549	\$ 1,886,633	\$ 2,173,182
Easements		4,650,102	4,650,102
Construction in progress-buildings and improvements	85,963		85,963
Construction in progress-infrastructure	<u>61,392</u>	<u>134,477</u>	<u>195,869</u>
Subtotal	<u>433,904</u>	<u>6,671,212</u>	<u>7,105,116</u>
Capital assets, depreciated:			
Buildings and improvements	3,723,634		3,723,634
Equipment	801,005		801,005
Infrastructure	<u>208,427</u>	<u>6,589,340</u>	<u>6,797,767</u>
Subtotal	<u>4,733,066</u>	<u>6,589,340</u>	<u>11,322,406</u>
Less accumulated depreciation for:			
Buildings and improvements	(1,208,921)		(1,208,921)
Equipment	(581,586)		(581,586)
Infrastructure	<u>(22,439)</u>	<u>(2,172,583)</u>	<u>(2,195,022)</u>
Subtotal	<u>(1,812,946)</u>	<u>(2,172,583)</u>	<u>(3,985,529)</u>
Total capital assets, being depreciated, net	<u>2,920,120</u>	<u>4,416,757</u>	<u>7,336,877</u>
Governmental activities capital assets, net	<u>\$ 3,354,024</u>	<u>\$ 11,087,969</u>	<u>\$ 14,441,993</u>
<u>Business-type Activities</u>			
Capital assets, not depreciated:			
Land	\$ 117,373	\$ 99,380	\$ 216,753
Easements		27,762	27,762
Construction in progress-buildings and improvements	541,737	(904)	540,833
Construction in progress-infrastructure	<u>        </u>	<u>6,440</u>	<u>6,440</u>
Subtotal	<u>659,110</u>	<u>132,678</u>	<u>791,788</u>
Capital assets, being depreciated:			
Buildings and improvements	1,109,160	(13,511)	1,095,649
Equipment	221,585		221,585
Infrastructure	<u>        </u>	<u>1,126,258</u>	<u>1,126,258</u>
Subtotal	<u>1,330,745</u>	<u>1,112,747</u>	<u>2,443,492</u>
Less accumulated depreciation for:			
Buildings and improvements	(644,925)	6,350	(638,575)
Equipment	(191,250)		(191,250)
Infrastructure	<u>        </u>	<u>(340,505)</u>	<u>(340,505)</u>
Subtotal	<u>(836,175)</u>	<u>(334,155)</u>	<u>(1,170,330)</u>
Total capital assets, being depreciated, net	<u>494,570</u>	<u>778,592</u>	<u>1,273,162</u>
Business-type activities capital assets, net	<u>1,153,680</u>	<u>911,270</u>	<u>2,064,950</u>
Total Capital Assets, net	<u>\$ 4,507,704</u>	<u>\$ 11,999,239</u>	<u>\$ 16,506,943</u>

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

6. CAPITAL ASSETS-Continued

<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2006</u>
\$ 24,286	\$ (21,632)	\$ 2,175,836
10,016		4,660,118
63,004	(2,423)	146,544
<u>97,306</u>	<u>(24,055)</u>	<u>195,869</u>
8,470	(16,919)	3,715,185
162,338	(70,027)	893,316
79,604	(63,061)	6,814,310
<u>250,412</u>	<u>(150,007)</u>	<u>11,422,811</u>
(64,433)	5,272	(1,268,082)
(79,464)	43,911	(617,139)
<u>(146,935)</u>	<u>58,994</u>	<u>(2,282,963)</u>
<u>(290,832)</u>	<u>108,177</u>	<u>(4,168,184)</u>
(40,420)	(41,830)	7,254,627
<u>\$ 56,886</u>	<u>\$ (65,885)</u>	<u>\$ 14,432,994</u>
\$	\$	\$ 216,753
		27,762
167,065	(104)	707,794
<u>167,065</u>	<u>(104)</u>	<u>6,440</u>
		<u>958,749</u>
1,851		1,097,500
25,421	(21,230)	225,776
4,543		1,130,801
<u>31,815</u>	<u>(21,230)</u>	<u>2,454,077</u>
(13,667)		(652,242)
(14,075)	20,821	(184,504)
<u>(22,031)</u>	<u>20,821</u>	<u>(362,536)</u>
<u>(49,773)</u>	<u>20,821</u>	<u>(1,199,282)</u>
(17,958)	(409)	1,254,795
<u>149,107</u>	<u>(513)</u>	<u>2,213,544</u>
<u>\$ 205,993</u>	<u>\$ (66,398)</u>	<u>\$ 16,646,538</u>

Governmental Activities

Capital assets, not depreciated:

Land  
Easements  
Construction in progress-buildings and improvements  
Construction in progress-infrastructure  
Subtotal

Capital assets, depreciated:

Buildings and improvements  
Equipment  
infrastructure  
Subtotal

Less accumulated depreciation for:

Buildings and improvements  
Equipment  
Infrastructure  
Subtotal

Total capital assets, being depreciated, net

Governmental activities capital assets, net

Business-type Activities

Capital assets, not depreciated:

Land  
Easements  
Construction in progress-buildings and improvements  
Construction in progress-infrastructure  
Subtotal

Capital assets, being depreciated:

Buildings and improvements  
Equipment  
Infrastructure  
Subtotal

Less accumulated depreciation for:

Buildings and improvements  
Equipment  
Infrastructure  
Subtotal

Total capital assets, being depreciated, net

Business-type activities capital assets, net

Total Capital Assets, net

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	\$ 13,017
Public protection	141,450
Public ways and facilities	86,939
Health and sanitation	8,045
Public assistance	6,240
Education	1,531
Recreation and cultural services	13,020
Capital assets held by the County's internal service funds are charged to the various functions based on their usage of the assets	<u>20,590</u>
Total depreciation expense, governmental activities	<u>\$ 290,832</u>
Business-type activities:	
Hospitals	\$ 12,382
Aviation	2,124
Waterworks	24,360
Community Development Commission	2,071
Capital assets held by the County's internal service funds are charged to the various functions based on their usage of the assets	<u>8,836</u>
Total depreciation expense, business-type activities	<u>\$ 49,773</u>

Discretely Presented Component Unit

Capital assets activity for the First 5 LA component unit for the year ended June 30, 2006 was as follows (in thousands):

	<u>Balance</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2006</u>
Capital assets, not depreciated:				
Land	\$ 2,039	\$	\$	\$ 2,039
Capital assets, depreciated:				
Buildings and improvements	15,800	873		16,673
Equipment	<u>1,165</u>	<u>20</u>		<u>1,185</u>
Subtotal	<u>16,965</u>	<u>893</u>		<u>17,858</u>
Less accumulated depreciation for:				
Buildings and improvements	(5,417)	(229)		(5,646)
Equipment	<u>(220)</u>	<u>(236)</u>		<u>(456)</u>
Subtotal	<u>(5,637)</u>	<u>(465)</u>		<u>(6,102)</u>
Total capital assets being depreciated, net	<u>11,328</u>	<u>428</u>		<u>11,756</u>
Component unit capital assets, net	<u>\$ 13,367</u>	<u>\$ 428</u>	<u>\$</u>	<u>\$ 13,795</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 employees. Benefits are authorized in accordance with the California Constitution, the County Employees' Retirement Law, the bylaws, procedures and policies adopted by LACERA's Boards of Retirement and Investments and Board of Supervisors' resolutions.

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

Funding Policy

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

The following employer rates were in effect for 2005-2006:

	A	B	C	D	E
General Members	21.42%	14.53%	14.16%	14.25%	14.33%
Safety Members	28.21%	23.65%			

The rates were determined by the actuarial valuation performed as of June 30, 2004 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 2005-2006, the County did not pay LACERA the full amount of the ARC. LACERA applied \$179,368,000 in excess earnings reserves towards the County's required contribution.

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, computed in accordance with GASB 27, for 2005-2006 were as follows (in thousands):

Annual required contribution (ARC):	
County	\$ 855,392
Non County entities	<u>139</u>
Total ARC	855,531
Interest on net pension obligation	<u>(33,063)</u>
Annual pension cost	<u>822,468</u>
Contributions made:	
County	676,024
Other Contributions	504
Non County entities	<u>139</u>
Total contributions	<u>676,667</u>
Cost in excess of contributions	145,801
Net pension obligation (asset), July 1, 2005	<u>(413,286)</u>
Net pension obligation (asset), June 30, 2006	<u>\$ (267,485)</u>

Fiscal Year <u>Ended</u>	<u>Trend Information (in thousands)</u>		Net Pension Obligation (Asset)
	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	
June 30, 2004	\$ 468,967	84.2%	\$ (588,730)
June 30, 2005	703,254	75.1%	(413,286)
June 30, 2006	822,468	82.3%	(267,485)

The annual required contribution was calculated based upon an actuarial valuation performed as of June 30, 2004 using the entry age normal method. The valuation assumed an annual investment rate of return of 7.75%, and projected salary increases ranging from 4.01% to 9.98%, with both assumptions including a 3.5% inflation factor. The valuation also assumed post-retirement benefit increases of between 2% and 3%, in accordance with the provisions of the specific benefit options. The actuarial value of assets was determined utilizing a three-year smoothed method based on the difference between the expected market value and the actual market value of assets as of the valuation date.

The June 30, 2005 valuation determined the funding ratio to be 85.8% and recognized an unfunded actuarial accrued liability (UAAL) of \$4.88 billion. The County contribution rate (effective for the 2006 - 2007 fiscal year) was, therefore, increased by 5.33% of payroll (using the level percentage of payroll amortization method, over a 30-year open period) over the normal cost rate of 9.53%.

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.

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

7. PENSION PLAN-Continued

Pension Obligation Bonds and Certificates

During 1994-95 the County sold approximately \$1,965,230,000 in par value pension bonds and utilized the proceeds to fund LACERA. A portion of the bonds (\$1,365,230,000) were fixed rate. The remaining \$600,000,000 were variable rate bonds, which were restructured into fixed rate bonds during 1995-96. In conjunction with the 1994-95 issuance of the pension bonds, the County entered into debt service advance agreements. Under the agreements, the County received \$79,022,000 in exchange for future interest that the County would have earned on deposits with the trustee between the time the County is required to pay debt service payments to the trustee and the time the trustee pays the bondholders. These proceeds have been recorded as unearned revenue and are being amortized over the life of the bonds on the basis of annual debt service requirements. As of June 30, 2006, the unamortized balance was \$24,032,000.

The outstanding principal balance of the bonds (including accreted interest on deep discount bonds) as of June 30, 2006 was \$1,295,708,000. The bonds have interest rates varying from 6.92% to 9.19%.

In 1986, the County issued \$461,493,000 in fixed rate pension obligation certificates to purchase annuity contracts to provide pension benefits to a specified group of LACERA members. Variable rate bonds totaling \$327,400,000 were issued in May 1996 to advance refund \$327,405,000 of the certificates. Interest rates on the bonds are reset weekly and varied during 2005-2006 from 1.89% to 3.90%. The fixed rate certificates which remain outstanding have a rate of 6.875%. At June 30, 2006, the total outstanding principal (including accreted interest) for the refunding bonds and remaining fixed rate certificates was \$112,733,000 and has been included in the financial statements as pension bonds payable.

For the year ended June 30, 2006, the combined principal and interest payments for both the bonds and certificates were \$280,981,000 and \$75,902,000, respectively. For governmental activities, the total debt service was \$263,714,000. For business-type activities, the total debt service was \$93,169,000. At June 30, 2006, the total outstanding principal, including accreted interest of \$709,861,000 on both bonds and certificates, was \$1,408,441,000.

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>
2007	\$ 141,753	\$ 141,525	\$ 48,484	\$ 49,461
2008	115,664	167,121	40,423	58,406
2009	86,377	151,001	30,188	52,773
2010	86,851	178,557	30,354	62,403
2011	87,801	187,956	30,685	65,688
Total	<u>\$ 518,446</u>	<u>\$ 826,160</u>	<u>\$ 180,134</u>	<u>\$ 288,731</u>
Accretions	<u>526,818</u>		<u>183,043</u>	
Total Pension Bonds Payable	<u>\$1,045,264</u>		<u>\$ 363,177</u>	

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

7. PENSION PLAN-Continued

Swap Transaction Related to Pension Bonds

In conjunction with the issuance of \$327,400,000 of variable pension refunding bonds in 1996, the County entered into a swap transaction to create a synthetic fixed interest rate. The County also received an up-front payment of \$19,036,000 from the counterparty.

The bonds, and the related swap agreement, mature on June 30, 2007. As of June 30, 2006, the swap's notional amount of \$70,500,000 was the same as the principal amount of the outstanding bonds. Under the swap, the County is obligated to pay the counterparty a fixed rate of 6.48% and receives a variable payment based on the market interest rate of the variable bonds. The market interest rate is reset on a weekly basis and the rate as of June 30, 2006 was 3.87%.

"Credit risk" refers to the risk that the counterparty will not fulfill its obligations. As of June 30, 2006, the County was not exposed to credit risk because the swap transaction had a negative fair value of \$2,085,000. However, should interest rates change, and the fair value of the swap becomes positive, the County would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated Aaa and AAA by Moody's and Standard and Poor's, respectively. If the counterparty's credit rating falls below Aa3 or AA-, or if the rating is suspended or withdrawn, the fair value of the swap will be fully collateralized by either U.S. Government or Government Guaranteed Agency securities. Collateral would be posted with a third-party trustee.

The following is a summary of future funding requirements related to the variable rate pension bonds, net of swap payments associated with those bonds (in thousands):

Year Ending June 30	Variable-Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
2007	\$ 70,500	\$ 2,728	\$ 1,840	\$ 75,068

8. POSTEMPLOYMENT BENEFITS

In addition to providing pension benefits, the County provides funding for certain health care benefits for all retired employees and their eligible dependents or survivors. There are approximately 51,000 retirees presently eligible to receive such benefits. LACERA is responsible for administering the benefits to the retirees.

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

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

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

8. POSTEMPLOYMENT BENEFITS-Continued

The cost of retiree health care is recognized when the County makes payments to LACERA. For the year ended June 30, 2006, the amounts of such payments were approximately \$196,902,000, for governmental activities, and \$44,098,000, for business-type activities. These amounts exclude \$66,156,000 of LACERA excess earnings reserves, which were utilized to offset a portion of the total funding requirements.

The Governmental Accounting Standards Board ("GASB") has issued two statements that address other postemployment benefits (OPEB), which are defined to include post retirement health care benefits.

GASB Statement No. 43, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans," establishes financial reporting standards for OPEB in a manner similar to those currently in effect for pension benefits. GASB 43 is focused on the entity that administers such benefits (currently LACERA), requires an actuarial valuation to determine the funded status of benefits accrued, and must be implemented no later than the year ending June 30, 2007.

GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions," establishes financial reporting standards designed to measure, recognize, and display OPEB costs. GASB 45 is focused on the County's financial statements and related note disclosures. OPEB costs would become measurable on an accrual basis of accounting, and contribution rates (actuarially determined) would be prescribed for funding such costs. The County's financial statements must comply with provisions of GASB 45 no later than the year ending June 30, 2008.

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, 2006 (in thousands):

<u>Year Ending June 30</u>	<u>Governmental Activities</u>
2007	\$ 73,856
2008	61,721
2009	51,282
2010	30,831
2011	19,893
2012-2016	57,734
2017-2021	14,017
2022-2026	31
Total	<u>\$ 309,365</u>

Rent expenditures related to operating leases were \$85,836,000 for the year ended June 30, 2006.

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

9. LEASES-Continued

Capital Leases

The following is a schedule of future minimum lease payments under capital leases together with the present value of future minimum lease payments as of June 30, 2006 (in thousands):

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2007	\$ 28,633	\$ 314
2008	28,522	149
2009	24,122	145
2010	19,462	147
2011	13,352	
2012-2016	43,962	
2017-2021	29,895	
2022-2026	29,755	
2027-2031	29,755	
2032-2036	<u>1,367</u>	
Total	248,825	755
Less: Amount representing interest	<u>125,149</u>	<u>80</u>
Present value of future minimum lease payments	<u>\$ 123,676</u>	<u>\$ 675</u>

The following is a schedule of property under capital leases by major classes at June 30, 2006 (in thousands):

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Land	\$ 5,710	
Buildings and improvements	125,406	\$ 1,200
Equipment	60,435	1,731
Accumulated depreciation	<u>(54,790)</u>	<u>(2,088)</u>
Total	<u>\$ 136,761</u>	<u>\$ 843</u>

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 82 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 29 years and are also accounted for in the General Fund. The Marina del Rey leases cover remaining periods ranging from 1 to 61 years and are accounted for in the Debt Service Funds as a result of the issuance of certificates of participation related to the Marina del Rey Project area.

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 future minimum rental receipts on noncancelable leases as of June 30, 2006 (in thousands):

<u>Year Ending June 30</u>	<u>Governmental Activities</u>
2007	\$ 36,030
2008	35,472
2009	35,047
2010	35,004
2011	34,933
Thereafter	<u>1,247,807</u>
Total	<u>\$ 1,424,293</u>

The following is a schedule of rental income for these operating leases for the year ended June 30, 2006 (in thousands):

	<u>Governmental Activities</u>
Minimum rentals	\$ 36,506
Contingent rentals	<u>19,127</u>
Total	<u>\$ 55,633</u>

10. LONG-TERM OBLIGATIONS

Long-term obligations of the County consist of bonds, notes and loans payable, pension bonds payable (see Note 7), 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, 2006</u>
Los Angeles County General Obligation Detention Facilities Bonds, 6.5% to 7.875%	\$ 96,000	\$ 8,395
Los Angeles County Flood Control District Storm Drain General Obligation Bonds, 2.5% to 8.5%	81,800	1,080
Los Angeles County Flood Control District Refunding Bonds 2.5% to 5.0%	143,195	107,140
Los Angeles County Flood Control District Revenue Bonds 4.0% to 4.12%	20,540	19,620
Regional Park and Open Space District Bonds (issued by Public Works Financing Authority), 3% to 6%	349,690	344,871
Community Development Commission Notes Payable, 2.31% to 7.91%	61,045	40,896

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

10. LONG-TERM OBLIGATIONS-Continued

	<u>Original Par Amount of Debt</u>	<u>Balance June 30, 2006</u>
NPC Bond Anticipation Notes 5.658%	5,700	5,700
NPC Bonds 2.4% to 4.0%	35,255	19,257
Marina del Rey Loans Payable, 4.5% to 4.7%	23,000	21,341
Public Buildings Certificates of Participation, 2.8% to 7.75%	1,360,776	922,017
Los Angeles County Securitization Corporation Tobacco Settlement Asset-Backed Bonds 5.25% to 6.65%	<u>319,827</u>	<u>325,427</u>
Total	<u>\$ 2,496,828</u>	<u>\$ 1,815,744</u>

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

	<u>Original Par Amount of Debt</u>	<u>Balance June 30, 2006</u>
NPC Bond Anticipation Notes, 5.658%	\$ 4,300	\$ 4,300
NPC Bonds 2.4% to 4.0%	26,595	14,528
Public Buildings Certificates of Participation, 2.8% to 7.0%	252,623	155,029
Commercial Paper, 3.61% to 3.62%	2,500	2,500
Waterworks District Bonds, 3.3% to 8.0%	280	136
Community Development Commission Mortgage Notes, 0.00% to 7.3%	<u>11,384</u>	<u>5,862</u>
Total	<u>\$ 297,682</u>	<u>\$ 182,355</u>

General Obligation Bonds

The County issued general obligation bonds in 1986 to finance detention facilities. The Flood Control District issued general obligation bonds to finance flood control projects. Waterworks Districts issued general obligation bonds to finance water system projects. Revenue for retirement of such bonds is provided from ad valorem taxes on property within the jurisdiction of the governmental unit issuing the bonds. Principal and interest requirements on general obligation long-term debt are as follows (in thousands):

Year Ending June 30	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 9,105	\$ 704	\$ 15	\$ 12
2008	370	9	17	11
2009			18	9
2010			19	7
2011			21	5
2012-2016	<u>          </u>	<u>          </u>	<u>46</u>	<u>5</u>
Total	<u>\$ 9,475</u>	<u>\$ 713</u>	<u>\$ 136</u>	<u>\$ 49</u>

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

10. LONG-TERM OBLIGATIONS-Continued

Assessment Bonds

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

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

Year Ending June 30	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 21,475	\$ 16,021
2008	22,630	14,835
2009	23,670	13,644
2010	24,835	12,441
2011	26,075	11,185
2012-2016	151,445	34,194
2017-2021	55,580	5,909
Total	<u>\$ 325,710</u>	<u>\$ 108,229</u>

Certificates of Participation

The County has issued certificates of participation through various financing entities that have been established by, and are component units of, the County. The debt proceeds have been used to finance the acquisition of County facilities and equipment. The County makes annual payments to the financing entities for the use of the property and the debt is secured by the underlying capital assets that have been financed. Principal and interest requirements on certificates of participation are as follows (in thousands):

Year Ending June 30	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 85,067	\$ 48,338	\$ 26,873	\$ 9,333
2008	86,599	45,415	26,350	8,118
2009	85,880	42,216	14,572	7,154
2010	82,189	39,285	13,196	6,422
2011	72,898	36,482	12,586	5,823
2012-2016	290,916	144,199	63,028	20,159
2017-2021	101,205	125,201	4,043	1,642
2022-2026	111,765	34,097		
2027-2031	66,820	14,079		
2032-2036	23,795	1,775		
Total	<u>\$ 1,007,134</u>	<u>\$ 531,087</u>	<u>\$160,648</u>	<u>\$ 58,651</u>

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

10. LONG-TERM OBLIGATIONS-Continued

Tobacco Settlement Asset-Backed Bonds

The County entered into a Joint Powers Agreement with the LACSC under which the County relinquishes to the LACSC its future tobacco settlement revenues (TSRs) for the next 41 years. The County received from the 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 2041. The residual certificate represents the County's ownership interest in excess TSRs to be received by the LACSC during the term of the sales agreement. The total TSRs sold, based on the projected payment schedule in the Master Settlement Agreement and adjusted for historical trends, is estimated to be \$1,437,932,000. Residuals are expected to be approximately \$433,035,000. 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.

On February 8, 2006, the California County Tobacco Securitization Agency issued \$319,827,000 bonds on behalf of the LACSC, a blended component unit of the County of Los Angeles. The LACSC borrowed from the California County Tobacco Securitization Agency (CCTSA) the proceeds of Series 2006 Tobacco Settlement Asset-Backed bonds issued by the CCTSA. Loan repayments will be funded by future tobacco settlement revenues. The proceeds were used to redeem \$267,600,000 of tax exempt commercial paper notes. Additionally, \$20,235,000 was set aside for capital projects in the nonmajor governmental capital projects fund (the Accumulative Capital Outlay fund), and \$31,992,000 was set aside for the nonmajor governmental debt service fund (the LA County Securitization Corporation). However, in the event of a decline in the tobacco settlement revenues for any reason, including the default or bankruptcy of a participating cigarette manufacturer, resulting in a decline in the tobacco settlement revenues and possible default on the Tobacco Bonds, neither the California County Tobacco Securitization Agency, the County nor the LACSC has any liability to make up any such shortfall.

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

Year Ending <u>June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2011	\$	\$ 21,197
2012-2016		105,987
2017-2021	60,280	105,987
2022-2026		85,680
2027-2031	46,370	75,859
2032-2036	62,196	69,311
2037-2041	53,157	49,287
2042-2046	<u>97,824</u>	<u>24,260</u>
Total	<u>\$ 319,827</u>	<u>\$ 537,568</u>
Accretions	<u>5,600</u>	
Total Tobacco Settlement Asset-Backed Bonds	<u>\$ 325,427</u>	

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

10. LONG-TERM OBLIGATIONS-Continued

Notes, Loans, and Commercial Paper

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

Community Development Commission 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 of the LAC+USC Medical Center replacement facility. Repayment of the TECP is secured by a letter of credit and a sublease of twenty-one County-owned properties. Pursuant to the underlying leases, the County is able to amortize the remaining TECP over the useful life of the underlying assets. The term of individual commercial paper notes may not exceed 270 days.

Principal and interest requirements on notes, loans, and commercial paper are as follows (in thousands):

Year Ending June 30	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 16,900	\$ 2,502	\$ 3,160	\$ 200
2008	7,692	2,405	5,010	151
2009	2,096	2,300	830	99
2010	1,926	2,196	355	45
2011	2,038	2,093	350	13
2012-2016	12,714	8,397		
2017-2021	12,792	4,812	968	
2022-2026	7,614	1,798		
2027-2031	4,165	378		
Indeterminate maturity			1,989	
Total	<u>\$ 67,937</u>	<u>\$ 26,881</u>	<u>\$ 12,662</u>	<u>\$ 508</u>

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

10. LONG-TERM OBLIGATIONS-Continued

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	\$ 9,475	713	\$ 136	49
Assessment Bonds	325,710	108,229		
Certificates of Participation	1,007,134	531,087	160,648	58,651
Tobacco Settlement Asset- Backed Bonds	319,827	537,568		
Notes, Loans, and Commercial Paper	<u>67,937</u>	<u>26,881</u>	<u>12,662</u>	<u>508</u>
Subtotal	<u>1,730,083</u>	<u>1,204,478</u>		<u>59,208</u>
Add: Accreted Interest Unamortized Bond Premiums	73,191	36,346	8,909	
Less: Unamortized Loss on Advance Refunding of Debt	<u>(23,876)</u>			
Total Bonds and Notes Payable	<u>\$ 1,815,744</u>		<u>\$ 182,355</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.

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, 2006, the amount of outstanding bonds and certificates of participation considered defeased was \$666,100,000. All of this amount was related to governmental activities.

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

10. LONG-TERM OBLIGATIONS-Continued

Changes in Long-term Liabilities

The following is a summary of long-term liabilities and corresponding activity for the year ended June 30, 2006 (in thousands):

	<u>Balance</u> <u>July 1, 2005</u>	<u>Additions/</u> <u>Accretions</u>	<u>Transfers/</u> <u>Maturities</u>	<u>Balance</u> <u>June 30, 2006</u>	<u>Due Within</u> <u>One Year</u>
Governmental activities:					
Bonds and notes payable	\$ 1,592,593	\$ 434,213	\$ 211,062	\$ 1,815,744	\$ 136,720
Pension bonds payable (Note 7)	1,206,794	69,632	231,162	1,045,264	141,185
Capital lease obligations (Note 9)	130,928	22,533	29,785	123,676	16,704
Accrued vacation and sick leave	606,563	70,627	46,520	630,670	46,602
Workers' compensation liability (Note 17)	2,110,126	164,162	255,881	2,018,407	310,671
Litigation and self-insurance liability (Note 17)	403,287	131,163	51,353	483,097	124,899
Third party payor liability	<u>20,617</u>	<u>5,363</u>	<u>3,636</u>	<u>22,344</u>	<u>21,891</u>
Total governmental activities	<u>\$6,070,908</u>	<u>\$ 897,693</u>	<u>\$ 829,399</u>	<u>\$ 6,139,202</u>	<u>\$ 798,672</u>
Business-type activities:					
Bonds and notes payable	\$ 391,251	\$ 117,736	\$ 326,632	\$ 182,355	\$ 30,804
Pension bonds payable (Note 7)	421,781	23,254	81,858	363,177	49,053
Capital lease obligations (Note 9)	1,097		422	675	279
Accrued vacation and sick leave	110,104	9,595	9,332	110,367	10,316
Workers' compensation liability (Note 17)	377,592	14,635	39,932	352,295	50,481
Litigation and self-insurance liability (Note 17)	224,075	39,675	24,427	239,323	33,377
Third party payor liability (Note 13)	<u>371,217</u>	<u>19,248</u>	<u>215,252</u>	<u>175,213</u>	<u>16,837</u>
Total business-type activities	<u>\$ 1,897,117</u>	<u>\$ 224,143</u>	<u>\$ 697,855</u>	<u>\$ 1,423,405</u>	<u>\$ 191,147</u>

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

Bond interest accretions for deep discount bonds have been included in the amounts reported for Bonds and Notes Payable and Pension Bonds Payable. Amounts accreted in previous years were paid during 2005-2006 thereby decreasing liabilities for Bonds and Notes Payable by \$5,046,000 for governmental activities. Liabilities for Pension Bonds Payable were increased for governmental and business-type activities by \$69,632,000 and \$23,254,000, respectively, for interest accretions. Note 17 contains information about changes in the combined current and long-term liabilities for workers' compensation and litigation and self-insurance liabilities.

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

11. SHORT-TERM DEBT

On July 1, 2005, the County issued \$500,000,000 of short-term Tax and Revenue Anticipation Notes at an effective interest rate of 2.54%. 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 2005. The notes matured and were redeemed on June 30, 2006.

12. CONDUIT DEBT OBLIGATIONS

Community Facilities and Improvement District Bonds

As of June 30, 2006, various community facilities and improvement districts established by the County had outstanding special tax bonds payable totaling \$91,519,000 and limited obligation improvement bonds totaling \$16,912,000. The bonds were issued to finance the cost of various construction activities and infrastructure improvements which have a regional or direct benefit to the related property owners.

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

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

Residential Mortgage Revenue Bonds

Residential Mortgage Revenue Bonds have been issued to provide funds to purchase mortgage loans secured by first trust deeds on newly constructed and existing single family residences in the County. The purpose of this program is to provide low interest rate home mortgage loans to persons who are unable to qualify for conventional mortgages at market rates. Multi-Family Mortgage Revenue Bonds have been issued to provide permanent financing for apartment projects located in the County to be partially occupied by persons of low or moderate income. The amount of Mortgage Revenue Bonds issued since inception of the programs approximates \$1,317,463,000. The amount of bonds outstanding as of June 30, 2006 was not determinable.

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

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

12. CONDUIT DEBT OBLIGATIONS-Continued

Industrial Development and Other Conduit Bonds

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

As of June 30, 2006, the amount of industrial development and other conduit bonds outstanding was \$15,940,000.

13. HOSPITAL AND OTHER PROGRAM REVENUES

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

Medi-Cal Hospital / Uninsured Care Demonstration Project

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

The Demonstration Project was negotiated between the State of California's Department of Health Services (SDHS) and the federal Centers for Medicare and Medicaid Services (CMS) last year, 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 applies to payments Statewide (which includes 23 public hospitals, including all University of California owned hospitals, identified as Designated Public Hospitals, and private and non-designated public safety net hospitals that serve large numbers of Medi-Cal patients).

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

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

13. HOSPITAL AND OTHER PROGRAM REVENUES-Continued

Medi-Cal Hospital / Uninsured Care Demonstration Project-Continued

Under the Demonstration, payments for the public hospitals are comprised of: 1) FFS cost-based reimbursement for inpatient hospital services (exclusive of physician component); 2) DSH payments; and 3) distribution from a newly created pool of federal funding for uninsured care, known as the Safety Net Care Pool (SNCP), which is capped Statewide at \$586 million for FY 2005-06. The nonfederal share of these three types of payments will be provided by the public hospitals rather than the State, primarily through certified public expenditures (CPE) whereby the hospital would expend its local funding for services to draw down the federal financial participation (FFP), currently provided at a 50% match. For the inpatient hospital cost-based reimbursement, each hospital will provide its own CPE and receive all of the resulting federal match. For the DSH and SNCP distributions, the CPEs of all the public hospitals will be used in the aggregate to draw down the federal match. It is therefore possible for one hospital to receive the federal match that results from another hospital's CPE. In this situation, the first hospital is referred to as a "recipient" hospital, while the second is referred to as a "donor" hospital. A recipient hospital is required to "retain" the FFP amounts resulting from donated CPEs.

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

The County of Los Angeles provides funding for the State's share of the Demonstration Project by transferring funds to the State. These transferred funds are referred to as intergovernmental transfers (IGT) and are used by the State to draw down federal matching funds. The IGT funds transferred to the State by each hospital Enterprise Fund and the matching federal funds are utilized by the State to provide supplemental funding to these funds for Health Care Expenditures.

The County recognizes the supplemental funding received for each hospital as net patient services revenue as reflected in the Statement of Revenues, Expenses, and Changes in Net Assets. The IGT payments are reflected as non-operating expenses by each Hospital in the Statement of Revenues, Expenses, and Changes in Fund Net Assets. For the year ended June 30, 2006, the cost of the IGTs and the related revenues recognized are as follows (in thousands):

<u>Program</u>	<u>Intergovernmental Transfers Expense</u>	<u>Revenues</u>
Medicaid Demonstration	\$ 286,772	\$ 721,857

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

13. HOSPITAL AND OTHER PROGRAM REVENUES-Continued

Baseline Payments

The Demonstration 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 2005-06 fiscal year is established at each hospital's total net Medi-Cal inpatient payments for 2004-05. The State DHS estimates the aggregate baseline funding for the 23 Statewide designated public hospitals to be \$2.092 billion. The FY 2005-06 baseline for Los Angeles County hospitals is as follows (in thousands):

<u>Hospital Name</u>	<u>Baseline Amount</u>
LAC+USC Medical Center	\$ 326,306,000
Harbor/UCLA Medical Center	150,965,000
M.L. King/Drew Medical Center	146,859,000
Rancho Los Amigos Medical Center	70,182,000
Olive View /UCLA Medical Center	<u>93,612,000</u>
Total	<u>\$ 787,924,000</u>

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

- 1) Medi-Cal inpatient FFS cost-based reimbursement: The FFP which is paid to the hospital represents approximately half of the facility-specific costs or CPE. The hospital's amounts will fluctuate based on the number of facility-specific Medi-Cal patients served and the facility-specific cost-computations that will be adjusted on an interim and final basis.
- 2) DSH funds: These payments are made to hospitals to take into account the uncompensated costs of care delivered to the uninsured, including undocumented immigrants, as well as shortfalls between Medi-Cal psychiatric and Medi-Cal managed care payments and the cost of care delivered. The non-federal share of these funds will be a combination of CPEs for these services and IGTs and as such are subject to interim and final cost settlement. There is an annual fixed allotment of federal DSH Funds. The waiver allocates almost all of these funds to public hospitals. (The State DHS estimates the aggregate value of federal DSH funds for the Statewide designated public hospitals to be \$1.025 billion as of June 30, 2006.)
- 3) SNCP Distributions: These Federal payments are made to public hospitals and clinics for uncompensated care delivered to uninsured patients and for certain designated non-hospital costs, such as drugs and supplies for the uninsured. The non-federal share of these funds will be based on CPEs for these services and as such are subject to interim and final cost settlement.

Stabilization Payments

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

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

13. HOSPITAL AND OTHER PROGRAM REVENUES-Continued

Stabilization Payments-Continued

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

Reported CPEs Subject to Audit

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

Medi-Cal and Medicare Programs

Services to inpatient Medicare program beneficiaries are primarily paid under prospectively determined rates-per-discharge based upon diagnostic related groups (DRGs). Cost Based Reimbursement Clinics (CBRC) funding became effective on July 1, 2000, as part of the 1115 Waiver Extension, and was scheduled to expire on June 30, 2005. A new State Plan Amendment to extend CBRC to be effective on July 1, 2005 is pending with the federal government. CBRC reimburses at 100 percent of reasonable costs for Medi-Cal outpatient services provided to Medi-Cal beneficiaries at hospital-based clinics and health centers (excluding clinics that provide predominately public health services). Certain other services to Medicare beneficiaries are reimbursed based on a fee schedule or other rates. Revenues from Medi-Cal and Medicare programs represent approximately 78% and 9% respectively, of net patient care revenue for the year ended June 30, 2006.

Medi-Cal field audits have been completed for FY 2002-03 at all hospitals and health centers. Audit reports have been issued except for Martin Luther King, Jr./Drew Medical Center, Harbor-UCLA Medical Center, and Rancho Los Amigos National Rehabilitation Center; however, the State is expected to issue the outstanding audit reports during fiscal year 2006-07. FY 2003-04 Medi-Cal audits are in progress.

The Medicare audits have been completed for FYs 1998-99 through 2000-01 at all hospitals. The notices of program reimbursement have been received for all hospitals. For FY 2001-02, Medicare audits have been completed for Rancho Los Amigos National Rehabilitation Center (Rancho) and Olive View/UCLA Medical Center (OV/UCLA). The notices of program reimbursement have been received for these hospitals. Audits for Harbor/UCLA Medical Center (H/UCLA) and Martin Luther King, Jr./Drew Medical Center (MLK/D) are currently in progress. The audit for LAC+USC Medical Center (LAC+USC) has not been scheduled for FY 2001-02. For FY 2002-03, the audit for OV/UCLA has been completed and the notice of program reimbursement has been issued. The audits for MLK/D and Rancho are currently in progress. The audits for LAC+USC and H/UCLA have not been scheduled for FY 2002-03. The audits for FYs 2003-04 and beyond have not been scheduled.

The Hospitals have various outstanding appeals pertaining to Medi-Cal and Medicare audit settlements. The Medi-Cal FY 2000-01 informal level appeals have been resolved and \$4.86 million has been paid to the County as a result of the resolution of those appeals. There are also outstanding Medi-Cal appeals related to health centers. These amounts have not been recorded, as the outcome is not certain. The County believes the final resolution of the appeals will be in the County's favor but will not have a material effect on its financial condition.

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

13. HOSPITAL AND OTHER PROGRAM REVENUES-Continued

Office of Inspector General

The Office of Inspector General (OIG) performed an audit to verify that Medi-Cal's Fiscal Year (FY) 1997-98 Disproportionate Share Hospital (DSH) payments to the Los Angeles County hospitals did not exceed their OBRA '93 limits. The OIG Audit found that the DSH payments to four of the County's hospitals exceeded their respective FY 1997-98 OBRA '93 limits by more than a total of \$195 million (\$98 million federal share). According to the OIG, the excess payments occurred because the State's DSH payment formula did not limit hospitals' total operating expenses to amounts that would be allowable under Medicare cost principles. The State and the County strongly disagreed with the audit findings and submitted written objections to many of the points raised by the OIG.

The OIG recommended that the State work with CMS to address and resolve the DSH payments in excess of the limits. In its approval of the State's application for renewal of its Selective Provider Contracting Program (SPCP) waiver for the period of January 1, 2003 through December 31, 2004, CMS agreed to permit the State to make DSH payments to the Los Angeles County hospitals without applying Medicare cost principles, but required the State to exclude any amounts not related to patient care from its calculations of the hospitals' operating expenses and to modify its treatment of bad debt. CMS has agreed not to pursue retroactive recovery of overpayments found by the OIG as long as the State corrects the formula in its State Plan prospectively.

The State has complied with the CMS requirement to submit a State Plan Amendment ("SPA") regarding bad debt and CMS has accepted the SPA. Beginning with FY 2005-06, the State's regulatory reporting data and the required cost exclusions are no longer in effect. The DSH State Plan provisions were substantially amended to implement the terms and conditions of the new Section 1115 Medi-Cal Hospital/Uninsured Care Demonstration. These State Plan Amendments were approved by CMS. Because the new State Plan provisions require the hospital-specific OBRA 1993 limits to be based on and reconciled to the Medi-Cal cost reports, the issues raised in the Audit Report will not occur in the future. It is therefore California Department of Health Service's position that all conditions of the February 2003 agreement with CMS have been satisfied. The County believes that this issue has been satisfactorily resolved. During 2005-06, \$193 million of previously established liabilities for this matter have been removed from the Statement of Net Assets.

Other Program Revenues

Proposition 99 imposes an additional State excise tax on cigarettes and other tobacco products. The increased taxes on tobacco products generate additional revenues for health care, research, health education, and public resources. State Assembly Bill 75 allocates these revenues to health care providers based upon their share of the financial burden for providing care to persons who are uninsured or otherwise unable to pay for care. The County's share of the AB 75 California Healthcare for the Indigent Program (CHIP) revenues for the year ended June 30, 2006 was \$16.3 million.

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

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

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, 2006, based on established rates, is as follows (in thousands):

Charges forgone	\$1,408,581
Less: Federal and State subventions	<u>16,337</u>
Net charges forgone	<u>\$1,392,244</u>

Litigation Regarding Reduction in Health Services

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

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, 2006.

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, 2006 are as follows (in thousands):

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Fire Protection District	\$ 5,257
	Flood Control District	5,751
	Public Library	5,624
	Regional Park and Open Space District	7,089
	Internal Service Funds	7,129
	Waterworks Enterprise	326
	Harbor UCLA Medical Center	12,534
	Olive View UCLA Medical Center	13,699
	LAC+USC Medical Center	34,640
	M.L. King/Drew Medical Center	19,297
	Rancho Los Amigos Medical Center	5,882
	Nonmajor Enterprise Funds	90
	Nonmajor Governmental Funds	<u>102,130</u>
	<u>219,448</u>	
Fire Protection District	General Fund	3,607
	Flood Control District	20
	Internal Service Funds	1
	LAC+USC Medical Center	1
	Nonmajor Governmental Funds	<u>1,247</u>
	<u>4,876</u>	
Flood Control District	General Fund	1
	Internal Service Funds	8,012
	Nonmajor Governmental Funds	<u>350</u>
	<u>8,363</u>	
Public Library	General Fund	34
	Nonmajor Governmental Funds	<u>205</u>
	<u>239</u>	
Internal Service Funds	General Fund	10,271
	Fire Protection District	23
	Flood Control District	13,953
	Public Library	7
	Regional Park and Open Space District	1
	Waterworks Enterprise	4,431
	Harbor UCLA Medical Center	1
	LAC+USC Medical Center	5
M. L. King/Drew Medical Center	7	

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-Continued	Rancho Los Amigos Medical Center	34
	Nonmajor Enterprise Funds	105
	Nonmajor Governmental Funds	<u>29,374</u>
		<u>58,212</u>
Waterworks Enterprise	General Fund	196
	Internal Service Funds	<u>602</u>
		<u>798</u>
Harbor UCLA Medical Center	General Fund	51,171
	Fire Protection District	51
	Olive View UCLA Medical Center	12,622
	LAC+USC Medical Center	34,478
	M.L. King/Drew Medical Center	157
	Rancho Los Amigos Medical Center	27
	Nonmajor Governmental Funds	<u>14,859</u>
	<u>113,365</u>	
Olive View UCLA Medical Center	General Fund	47,887
	Harbor UCLA Medical Center	29
	LAC+USC Medical Center	88,597
	Rancho Los Amigos Medical Center	15
	Nonmajor Governmental Funds	<u>8,783</u>
	<u>145,311</u>	
LAC+USC Medical Center	General Fund	318,622
	Fire Protection District	6
	Harbor UCLA Medical Center	4,019
	Olive View UCLA Medical Center	3,644
	M.L. King/Drew Medical Center	3,101
	Rancho Los Amigos Medical Center	19,347
	Nonmajor Governmental Funds	<u>26,557</u>
	<u>375,296</u>	
M. L. King/Drew Medical Center	General Fund	53,967
	Fire Protection District	88
	Harbor UCLA Medical Center	17
	LAC+USC Medical Center	17,522
	Rancho Los Amigos Medical Center	22
	Nonmajor Governmental Funds	<u>21,447</u>
	<u>93,063</u>	
Rancho Los Amigos Medical Center	General Fund	15,168
	Harbor UCLA Medical Center	1
	LAC+USC Medical Center	4
	M.L. King/Drew Medical Center	<u>174</u>
	<u>15,347</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>
Nonmajor Enterprise Funds	Internal Service Funds	<u>1</u>
Nonmajor Governmental Funds	General Fund	299,691
	Fire Protection District	1
	Flood Control District	120
	Public Library	500
	Internal Service Funds	7,082
	Olive View UCLA Medical Center	299
	Nonmajor Enterprise Funds	8
	Nonmajor Governmental Funds	<u>5,966</u>
		<u>313,667</u>
Total Interfund Receivables/Payables		<u>\$ 1,347,986</u>

Interfund Transfers

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

Interfund transfers to/from other funds for the year ended June 30, 2006 are as follows (in thousands):

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>
General Fund	Public Library	\$ 29,888
	Internal Service Funds	159
	Harbor UCLA Medical Center	61,671
	Olive View UCLA Medical Center	82,863
	LAC+USC Medical Center	559,088
	M.L. King/Drew Medical Center	133,135
	Rancho Los Amigos Medical Center	18,490
	Nonmajor Governmental Funds	<u>156,164</u>
		<u>1,041,458</u>
Fire Protection District	General Fund	25
	Nonmajor Governmental Funds	<u>13,021</u>
		<u>13,046</u>
Flood Control District	Internal Service Funds	841
	Nonmajor Governmental Funds	<u>19,183</u>
		<u>20,024</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>
Public Library	Nonmajor Governmental Funds	<u>1,016</u>
Regional Park and Open Space District	Nonmajor Governmental Funds	<u>37,442</u>
Internal Service Funds	General Fund	6,367
	Nonmajor Governmental Funds	<u>267</u>
		<u>6,634</u>
Waterworks Enterprise	General Fund	176
	Internal Service Funds	<u>180</u>
		<u>356</u>
Harbor UCLA Medical Center	Nonmajor Governmental Funds	<u>31</u>
Olive View UCLA Medical Center	Nonmajor Governmental Funds	<u>299</u>
LAC+USC Medical Center	Harbor UCLA Medical Center	12,742
	Olive View UCLA Medical Center	113,174
	M.L. King/Drew Medical Center	62,065
	Nonmajor Governmental Funds	<u>29</u>
		<u>188,010</u>
M. L. King/Drew Medical Center	Nonmajor Governmental Funds	<u>3</u>
Rancho Los Amigos Medical Center	LAC+USC Medical Center	39,013
	Nonmajor Governmental Funds	<u>1</u>
		<u>39,014</u>
Nonmajor Enterprise Funds	Nonmajor Governmental Funds	<u>6,226</u>
Nonmajor Governmental Funds	General Fund	159,944
	Flood Control District	28
	Public Library	451
	Internal Service Funds	2,184
	Harbor UCLA Medical Center	30,930
	Olive View UCLA Medical Center	21,070
	LAC+USC Medical Center	58,314
	M.L. King/Drew Medical Center	32,298
	Nonmajor Governmental Funds	<u>85,931</u>
		<u>391,150</u>
Total Interfund Transfers		<u>\$1,744,709</u>

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

14. INTERFUND TRANSACTIONS-Continued

Short-term Advances

Advances from/to other funds at June 30, 2006 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	99,280
	Olive View UCLA Medical Center	112,268
	LAC+USC Medical Center	202,439
	M.L. King/Drew Medical Center	88,267
	Rancho Los Amigos Medical Center	<u>35,856</u>
		<u>541,699</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>\$ 560,110</u>

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.

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:

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

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

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

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

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

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

	General Fund	Fire Protection District	Flood Control District	Public Library	Regional Park and Open Space District
Fund balance - budgetary basis	\$1,069,828	\$ 58,702	\$ 7,642	\$ 8,042	\$ 154,588
Reserves and designations	<u>1,956,552</u>	<u>116,752</u>	<u>133,697</u>	<u>9,533</u>	<u>92,911</u>
Subtotal	<u>3,026,380</u>	<u>175,454</u>	<u>141,339</u>	<u>17,575</u>	<u>247,499</u>
Adjustments:					
Reversal of estimated liability for litigation and self-insurance claims	116,404	(559)		50	
Reversal of accrued vacation and sick leave benefits	38,435				
Deferral of unearned investment income	(15,694)	(774)		(172)	
Deferral of sale of tobacco settlement revenue	(283,392)				
Change in revenue accruals	<u>(143,855)</u>	<u>(22,256)</u>	<u>(5,649)</u>	<u>(2,737)</u>	<u>(1,410)</u>
Subtotal	<u>(288,102)</u>	<u>(23,589)</u>	<u>(5,649)</u>	<u>(2,859)</u>	<u>(1,410)</u>
Fund balance - GAAP basis	<u>\$2,738,278</u>	<u>\$151,865</u>	<u>\$135,690</u>	<u>\$14,716</u>	<u>\$ 246,089</u>

16. COMMITMENTS

Construction Commitments

At June 30, 2006, the LAC+USC Medical Center Hospital Enterprise Fund had contractual commitments of approximately \$151,247,501 to provide for the construction of the LAC+USC Medical Center replacement facility. The construction is currently being financed by commercial paper and a grant from the Federal Emergency Management Agency.

LACERA Capital Commitments

At June 30, 2006, LACERA had outstanding capital commitments to various investment managers, approximating \$2,550,000,000. Subsequent to June 30, 2006, LACERA funded \$138,000,000 of these capital commitments.

Investment Purchase Commitments

At June 30, 2006, the County had open trade commitments with various brokers to purchase investments approximating \$238,005,000 with settlement dates subsequent to year end. These investment transactions had not been recorded as of June 30, 2006 since the County neither takes delivery of the securities nor earns interest on the investments until the settlement date. By July 1, 2006, the County had purchased such investments.

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

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 2004-2005 or 2005-2006.

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

As indicated in the following table, the County's workers' compensation liabilities as of June 30, 2006 were approximately \$2.371 billion. This amount is undiscounted and is based on an actuarial study of the County's self-insured program as of June 30, 2006. Approximately \$248,532,000 of the total liabilities pertain to salary continuation payments and other related costs mandated by the State Labor Code.

As of June 30, 2006, the County's best estimate of these liabilities is \$3.093 billion. Changes in the reported liability since July 1, 2004 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>2004-2005</u>				
Workers' Compensation	\$ 2,556,601	\$ 244,726	\$(313,609)	\$ 2,487,718
Other	<u>606,793</u>	<u>77,285</u>	<u>(56,716)</u>	<u>627,362</u>
Total 2004-2005	<u>\$ 3,163,394</u>	<u>\$ 322,011</u>	<u>\$(370,325)</u>	<u>\$ 3,115,080</u>
<u>2005-2006</u>				
Workers' Compensation	\$ 2,487,718	\$ 178,797	\$(295,813)	\$ 2,370,702
Other	<u>627,362</u>	<u>170,838</u>	<u>(75,780)</u>	<u>722,420</u>
Total 2005-2006	<u>\$ 3,115,080</u>	<u>\$ 349,635</u>	<u>\$(371,593)</u>	<u>\$ 3,093,122</u>

In addition to the above estimated liabilities, the County has determined that claims seeking damages of approximately \$229.5 million are possible of creating adverse judgments against the County. Because of the uncertainty of their outcome, no loss has been accrued for these claims.

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

17. RISK MANAGEMENT-Continued

Litigation Related to Pension Benefits

In addition to the aforementioned claims, the County and LACERA have been named as defendants in a number of lawsuits that seek to expand the types of benefits to be applied in determining pension compensation.

The most significant of these items resulted in a series of Court decisions. The Board authorized an agreement with all parties to the litigation in December 2004. The settlement established the County's actuarial liability for this matter at \$176.9 million, amortized over thirty years.

The second matter pertained to the effect of certain employee benefits (commonly known as "flexible benefits") on final pension compensation. In March 2004, the Board authorized an appeal to the trial court's holding that cash actually received in lieu of purchasing such benefits should be included as pensionable earnings. On July 29, 2005, the Court of Appeals affirmed the trial court's decision. The County's liability is \$18 million, amortized over thirty years.

The third issue pertained to a group of employees classified as temporary or recurrent. This group also sought enhanced pension benefits. The Board approved a settlement in May 2005. Should all affected employees take advantage of the settlement, the maximum potential liability is \$36 million (\$1.2 million per year for thirty years).

18. PROPOSITIONS 218 AND 62

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

In September 1995, the California Supreme Court upheld the constitutionality of Proposition 62, which requires voter approval of all new local taxes. Taxes imposed without voter approval after the 1986 effective date of Proposition 62 may be invalidated. The Court did not provide clarification about whether the decision would apply only prospectively to all new taxes or retrospectively to all taxes since the effective date of the Proposition. Accordingly, there is uncertainty about the validity of taxes currently being collected and as of June 30, 2006, a portion (\$218.9 million) of the General Fund's designation for budgetary uncertainties pertained to such collections.

19. SUBSEQUENT EVENTS

Tax and Revenue Anticipation Notes ("TRANS")

On July 3, 2006, the County issued \$500,000,000 in 2005-06 TRANS which will mature on June 29, 2007. The TRANS are collateralized by taxes and other revenues attributable to the 2006-07 fiscal year and were issued in the form of Fixed Rate Notes at an effective interest rate of 3.5%.

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

19. SUBSEQUENT EVENTS -Continued

Capital Asset Leasing Corporation Bond Anticipation Notes

On both August 29, 2006 and November 8, 2006, the Corporation issued a \$5,000,000 Bond Anticipation Note each with an initial interest rate of 5.658%. The rate is adjustable on January 2 and July 1 of each year. The notes were purchased by the Los Angeles County Treasury Pool and are due on June 30, 2009. Proceeds of the notes are being used to purchase equipment. The notes are to be repaid from the proceeds of lease revenue bonds.

Public Works Financing Authority-2006 Master Refunding, Series A and Series B

On December 13, 2006, the Authority issued \$217,585,000 in lease revenue refunding Series A bonds, maturing from 2007 to 2016, with yields ranging from 3.4% to 3.69%. Proceeds from the sale of the Series A bonds, together with monies on hand, were used to provide for the current refunding of all of the Authority's outstanding 1996 and 1997 Master Refunding Project Lease Revenue Refunding Bonds.

Also on December 13, 2006, the Authority issued \$103,410,000 in lease revenue refunding Series B, bonds maturing from 2007 to 2033, with yields ranging from 3.4% to 4.1%. Proceeds from the sale of the Series B bonds, together with monies on hand, were used to refund all of the outstanding Antelope Valley Courthouse Project Series 2000A bonds.

MetroCare Implementation Plan

On September 22, 2006, the Centers for Medicare and Medicaid Services (CMS) notified the County that it would discontinue funding to the M.L. King/Drew (MLK/D) Medical Center after November 30, 2006. The County issued an implementation plan to CMS on November 13, 2006 to substantially restructure the service system at MLK/D. CMS has granted the County an extension to continue funding MLK/D through March 31, 2007. The MetroCare Implementation Plan specifically recommends the transformation of the current MLK/D to Harbor-MLK Medical Center. Harbor-MLK Medical Center will be a non-teaching facility that will provide general adult medical, surgical, and gynecologic care using 114 beds and with an expected census of 100 patients when the transition is completed.

The County estimates that discontinued federal funding would result in an annualized loss of approximately \$200 million of revenues to MLK/D. This amount is nearly half of this facility's annual operating expenses. Given such a loss, the current services and service levels at MLK/D would not be sustainable. The County's corrective action plan is designed to establish a service model that is acceptable to CMS and provide needed care to those served by this facility. The County is aggressively working with CMS to obtain approval of the MetroCare Implementation Plan in order to remain eligible for federal funding at this facility.

REQUIRED SUPPLEMENTARY INFORMATION  
(Unaudited - See accompanying independent auditors' report)

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded/ (Overfunded) AAL [UAAL/(OAAL)] (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL/(OAAL) as a Percentage of Covered Payroll ((b-a)/c)
06/30/03	26,564,328	30,474,025	3,909,697	87.2%	4,933,615	79.2%
06/30/04	27,089,440	32,700,505	5,611,065	82.8%	4,919,531	114.1%
06/30/05	29,497,485	34,375,949	4,878,464	85.8%	4,982,084	97.9%



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**APPENDIX C**

**PROPOSED FORM OF BOND COUNSEL OPINION**

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## PROPOSED FORM OF BOND COUNSEL OPINION

July 2, 2007

Board of Supervisors  
County of Los Angeles  
Los Angeles, California

**Re:     \$500,000,000 County of Los Angeles 2007-08  
       Tax and Revenue Anticipation Notes**

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance and sale by the County of Los Angeles, California (the "Issuer") of \$500,000,000 aggregate principal amount of notes designated "2007-08 Tax and Revenue Anticipation Notes" (the "Notes"). The Notes are issued under Article 7.6 of Chapter 4, Part 1, Division 2, Title 5 of the California Government Code, being Sections 53850 through 53858 inclusive (the "Act") and pursuant to a resolution adopted by the Issuer on May 15, 2007 (the "Resolution") and a Financing Certificate of the Treasurer and Tax Collector of the Issuer entitled "Financing Certificate Providing for the Terms and Conditions of Issuance and Sale of 2007-08 Tax and Revenue Anticipation Notes" (the "Financing Certificate") dated as of the date hereof. Pursuant to the terms of the Resolution and the Financing Certificate, the Issuer has pledged certain amounts to the repayment of the principal amount of the Notes and the interest thereon. Except as otherwise indicated, capitalized terms used in this opinion and defined in the Financing Certificate will have the meanings given in the Financing Certificate.

As bond counsel, we have examined copies, certified to us as being true and complete copies, of the proceedings of the Issuer for the authorization and issuance of the Notes. In this connection we have also examined such certificates of public officials and officers of the Issuer as we have considered necessary for the purposes of this opinion.

We have, with your approval, assumed that all items submitted to us as originals are authentic and that all items submitted as copies conform to the originals.

On the basis of such examination, our reliance upon the assumptions contained herein and our consideration of those questions of law we considered relevant, and subject to the limitations and qualifications in this opinion, we are of the opinion that:

1. The Financing Certificate has been duly authorized, executed and delivered by the Issuer and constitutes the legally valid and binding obligation of the Issuer, enforceable in accordance with its terms.
2. The Notes have been duly authorized and issued and constitute legally valid and binding obligations of the Issuer, enforceable in accordance with their terms and the terms of the Resolution and the Financing Certificate.
3. The Notes are payable solely from certain taxes, income, revenues, cash receipts and other moneys of the Issuer for the fiscal year ending June 30, 2008 and lawfully available for the payment of the Notes and the interest thereon and are secured by a pledge of certain moneys specified in the Resolution and the Financing Certificate.

4. The Resolution has been duly authorized by the Issuer and constitutes the legally valid and binding obligation of the Issuer, enforceable in accordance with its terms. The Notes are entitled to the benefits of the Resolution and the Financing Certificate.

5. Under existing statutes, regulations, rulings and court decisions, interest on the Notes is excluded from gross income for federal income tax purposes pursuant to Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code"). In addition, the Notes are not "private activity bonds" within the meaning of Section 141(a) of the Code and, therefore, the interest on the Notes is not a specific item of tax preference for purposes of the Code's alternative minimum tax provisions. However, interest on the Notes received by a corporation will be included in adjusted current earnings for purposes of computing such corporation's alternative minimum tax liability.

6. The interest on the Notes is exempt from personal income taxes of the State of California under present state law.

The opinions set forth in paragraphs 1, 2, 3 and 4 above are subject to (a) applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting creditors' rights generally (including, without limitation, fraudulent conveyance laws) and (b) the effect of general principles of equity, including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing and the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or at law. We express no opinion as to any provision in the Resolution, the Financing Certificate or the Notes with respect to the priority of any pledge or security interest, or as to any provision therein purporting to provide for indemnification by the Issuer of others.

In rendering the opinion in paragraph 5 above, we are relying upon representations and covenants of the Issuer in the Resolution, the Financing Certificate and in the Issuer's Tax and Nonarbitrage Certificate of even date herewith concerning the investment and use of Note proceeds and the rebate to the federal government of certain earnings thereon. In addition, we have assumed that all such representations are true and correct and that the Issuer will comply with such covenants (including the covenant that rebate payments due the federal government, if any, will be timely made). We express no opinion with respect to the exclusion of the interest on the Notes from gross income under Section 103(a) of the Code in the event that any of such representations are untrue or the Issuer should fail to comply with any of such covenants (including the covenant that rebate payments due the federal government, if any, will be timely made), unless such failure to comply is based on our advice or opinion. Except as stated above, we express no opinion as to any federal tax consequences of the ownership of, receipt of interest on, or disposition of the Notes.

No opinion is expressed herein on the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Notes.

We call attention to the fact that the opinions expressed herein may be affected by actions taken or omitted or events occurring or failing to occur after the date hereof. We have not undertaken to determine, or inform any person, whether any such actions are taken, omitted, occur or fail to occur.

Respectfully submitted,

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**APPENDIX D**

**BOOK-ENTRY ONLY SYSTEM**

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## **BOOK-ENTRY ONLY SYSTEM**

The information in this Appendix D concerning The Depository Trust Company (“DTC”), New York, New York, and DTC’s Book-Entry system has been obtained from DTC and the County and the Paying Agent take no responsibility for the completeness or accuracy thereof. The County and the Paying Agent cannot and do not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Notes, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Notes, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Notes, or that they will do so on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix D. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedures” of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Notes. The Notes will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered security certificate will be issued for each maturity of the Notes, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non- U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non- U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation (respectively, “NSCC,” “FICC,” and “EMCC,” also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non- U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of the Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Notes on DTC’s records. The ownership interest of each actual purchaser of each Note (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the

Notes are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Notes, except in the event that use of the book-entry system for the Notes is discontinued. To facilitate subsequent transfers, all Notes deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Notes may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Notes, such as redemptions, tenders, defaults, and proposed amendments to the Note documents. For example, Beneficial Owners of the Notes may wish to ascertain that the nominee holding the Notes for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. The conveyance of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect Participants and by DTC Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Any failure of DTC to advise any DTC Participant, or of any DTC Participant or Indirect Participant to notify a Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of the Notes called for redemption or of any other action premised on such notice. Redemption of portions of the Notes by the County will reduce the outstanding principal amount of the Notes held by DTC. In such event, DTC will implement, through its book-entry system, redemption by lot of interests in the Notes held for the account of DTC Participants in accordance with its own rules or other agreements with DTC Participants and then DTC Participants and Indirect Participants will implement redemption of the Notes for the Beneficial Owners.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Notes unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the County as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of, premium, if any, and interest evidenced by the Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the County or the Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Paying Agent, or the County, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, premium, if any, and interest

evidenced by the Notes to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the County or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

NEITHER THE COUNTY NOR THE PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS OR THE SELECTION OF NOTES FOR PREPAYMENT.

Neither the County nor the Paying Agent can or do give any assurances that DTC, the Participants or others will distribute payments of principal, interest or premium, if any, evidenced by the Notes paid to DTC or its nominee as the registered owner, or will distribute any redemption notices or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. Neither the County nor the Paying Agent is responsible or liable for the failure of DTC or any Participant to make any payment or give any notice to a Beneficial Owner with respect to the Notes or an error or delay relating thereto.

DTC may discontinue providing its services as depository with respect to the Notes at any time by giving reasonable notice to the County or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, security certificates are required to be printed and delivered.

The County may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, security certificates will be printed and delivered. In the event that the book-entry system is discontinued as described above, the requirements of the Resolution will apply.

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