

In the opinion of Fulbright & Jaworski L.L.P., Los Angeles, California, Bond Counsel to the County and the Corporation, under existing law, interest on the Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the tax covenants described herein, interest on the Bonds is excluded pursuant to section 103(a) of the Internal Revenue Code of 1986 (the "Code") from the gross income of the owners thereof for federal income tax purposes and is not an item of preference for purposes of the federal alternative minimum tax. See "Tax Matters" herein.

NEW ISSUE - BOOK-ENTRY-ONLY

Ratings:
Fitch: "A"
Moody's: "A2"
Standard & Poor's: "A+"
(See "RATINGS" herein.)



\$25,360,000
LOS ANGELES COUNTY
CAPITAL ASSET LEASING CORPORATION
LEASE REVENUE BONDS, 2008 SERIES A
(LAC-CAL Equipment Program)

Dated: Date of Delivery

Due: June 1 and December 1, as shown below.

The Los Angeles County Capital Asset Leasing Corporation Lease Revenue Bonds, 2008 Series A (LAC-CAL Equipment Program) (the "Bonds"), are being issued to finance the acquisition of certain equipment, machinery, vehicles and other tangible personal property to be leased to the County of Los Angeles, California (the "County") pursuant to a Lease Agreement, dated as of March 1, 2008 (the "Lease") by and between the County, as lessee, and the Los Angeles County Capital Asset Leasing Corporation, as lessor (the "Corporation"). Principal of and interest on the Bonds are payable from Base Rental payments to be made by the County pursuant to the Lease and from certain other sources, as described herein. See "Security and Sources of Payment for the Bonds."

The Bonds will be issued in authorized denominations of \$5,000 and any integral multiple thereof. Interest on the Bonds will be payable semiannually each June 1 and December 1, commencing on June 1, 2008. See "The Bonds" herein. The Bonds will be delivered in fully registered form only, and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Bonds. Ownership interests in the Bonds may be purchased in book-entry form only. Principal of and interest on the Bonds will be paid by the Trustee to DTC or its nominee, which will in turn remit such payments to its Participants (as defined herein) for subsequent disbursement to the beneficial owners of the Bonds. See "The Bonds - Book-Entry System."

The Bonds are not subject to optional redemption prior to maturity. The Bonds are subject to mandatory redemption prior to maturity, as described herein. See "The Bonds-Redemption."

THE BONDS ARE SPECIAL OBLIGATIONS OF THE CORPORATION PAYABLE SOLELY FROM BASE RENTAL PAYMENTS RECEIVED PURSUANT TO THE LEASE AND FROM AMOUNTS HELD BY THE TRUSTEE IN CERTAIN FUNDS AND ACCOUNTS ESTABLISHED BY THE INDENTURE. THE OBLIGATION OF THE COUNTY TO PAY BASE RENTAL AND ADDITIONAL RENTAL UNDER THE LEASE DOES NOT CONSTITUTE AN OBLIGATION OF THE COUNTY FOR WHICH THE COUNTY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE COUNTY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE BONDS NOR THE OBLIGATION OF THE COUNTY TO PAY BASE RENTAL OR ADDITIONAL RENTAL UNDER THE LEASE CONSTITUTES AN INDEBTEDNESS OF THE COUNTY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF THE CONSTITUTION OF THE STATE OF CALIFORNIA. UNDER CERTAIN CIRCUMSTANCES, BASE RENTAL MAY BE ABATED UNDER THE LEASE.

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

The Bonds will be offered when, as and if issued subject to the approval as to their legality by Fulbright & Jaworski L.L.P., Los Angeles, California, Bond Counsel to the County and the Corporation. Certain legal matters will be passed upon for the County and the Corporation by County Counsel. It is anticipated that the Bonds will be available for delivery to DTC on or about March 13, 2008.

Dated: March 4, 2008

Maturity Schedule
Base CUSIP[†]: 54466L

Maturity	Principal Amount	Interest Rate	Yield	CUSIP [†]
June 1, 2008	\$2,365,000	3.00%	2.75%	DY0
December 1, 2008	5,215,000	3.00	2.75	DZ7
June 1, 2009	4,970,000	3.00	3.00	EA1
December 1, 2009	3,925,000	3.00	3.00	EB9
June 1, 2010	3,415,000	3.25	3.25	EC7
December 1, 2010	3,010,000	3.25	3.25	ED5
June 1, 2011	2,460,000	3.50	3.50	EE3

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COUNTY OF LOS ANGELES

**LOS ANGELES COUNTY CAPITAL ASSET LEASING CORPORATION
LEASE REVENUE BONDS, 2008 SERIES A
(LAC-CAL Equipment Program)**

Board of Supervisors

Yvonne B. Burke
Second District, Chair

Gloria Molina
First District

Zev Yaroslavsky
Third District

Don Knabe
Fourth District

Michael D. Antonovich
Fifth District

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

County Officials

William T Fujioka
Chief Executive Officer

Raymond G. Fortner, Jr.
County Counsel

J. Tyler McCauley
Auditor-Controller

Mark J. Saladino
Treasurer and Tax Collector

Lamont Financial Services Corporation
Financial Advisor

Deutsche Bank National Trust Company
Trustee

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 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement. If given or made, such other information or representations must not be relied upon as having been authorized by the County or the Corporation.

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. 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 representations of facts.

Certain of the information set forth herein has been obtained from official sources which are believed to be reliable. The information and expressions of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale of Bonds made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the County or the Corporation since the date hereof. This Official Statement is submitted with respect to the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the County. All summaries of the documents and laws are made subject to the provisions thereof and do not purport to be complete statements of any or all such provisions. Preparation of this Official Statement and its distribution have been duly authorized and approved by the County and the Corporation.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE COUNTY, THE CORPORATION 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 PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE. IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVER ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS, INSTITUTIONAL INVESTORS AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE HEREOF AND SUCH PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

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\$25,360,000
LOS ANGELES COUNTY CAPITAL ASSET LEASING CORPORATION
LEASE REVENUE BONDS, 2008 SERIES A
(LAC-CAL Equipment Program)

INTRODUCTION

This introduction contains only a brief summary of certain of the terms of the Bonds being offered, and a brief description of the entire Official Statement. All statements contained in this introduction are qualified in their entirety by reference to the entire Official Statement. References to, and summaries of, provisions of the Constitution and laws of the State of California and any documents referred to in this Official Statement do not purport to be complete and such references are qualified in their entirety by reference to the complete provisions. All capitalized terms used in this Official Statement and not otherwise defined herein shall have the meanings set forth in the Indenture and the Lease. See Appendix C - "Summary of Principal Legal Documents - Definitions."

General Description

This Official Statement, including the cover page and attached Appendices (the "Official Statement"), provides certain information concerning the issuance of the Los Angeles County Capital Asset Leasing Corporation Lease Revenue Bonds, 2008 Series A (LAC-CAL Equipment Program) (the "Bonds") in the aggregate principal amount of \$25,360,000. The Bonds will be issued pursuant to Chapter 10 (commencing with Section 5800) of Division 6 of Title 1 of the California Government Code and an Indenture of Trust, dated as of March 1, 2008 (the "Indenture"), by and between the Los Angeles County Capital Asset Leasing Corporation (the "Corporation") and Deutsche Bank National Trust Company, as Trustee (the "Trustee"). The proceeds of the Bonds will be used to (1) redeem certain bond anticipation notes of the County (the "BANs"), whose proceeds were originally used to finance the acquisition of certain equipment, machinery, vehicles, and other tangible personal property (the "Equipment"), (ii) fund the Reserve Fund established pursuant to the Indenture and (iii) pay the costs of issuance of the Bonds. See "Estimated Sources and Uses of Funds." The Equipment will be leased pursuant to the Lease Agreement, dated as of March 1, 2008 (the "Lease"), by and between the Corporation and the County of Los Angeles (the "County").

General Terms of the Bonds

The Bonds are dated and will mature on the dates and in the principal amounts and will bear interest at the respective rates per annum, all as set forth on the cover page of this Official Statement. Interest on the Bonds is payable on June 1 and December 1, commencing on June 1, 2008 (the "Interest Payment Dates"). The Bonds will be issued in denominations of \$5,000 and any integral multiple thereof. See "The Bonds - General Provisions." The Bonds are not subject to optional redemption. The Bonds are subject to mandatory redemption as set forth under the caption, "The Bonds - Redemption" herein.

Book-Entry System

The Bonds will be delivered in book-entry form only and when issued and authenticated, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Individual purchases of the Bonds will be made in book-entry form only. Purchasers of the Bonds will not receive Bonds representing their ownership interests in the Bonds purchased. Principal of and interest on the Bonds are payable directly to DTC by the Trustee. Upon receipt of payments of principal and interest, DTC will in turn distribute such payments to its Participants for subsequent disbursement to the beneficial owners of the Bonds. See Appendix F – "Book-Entry System."

Security and Sources of Payment for the Bonds

Under the Lease, in consideration for the use and possession of the Equipment, the County is required to make certain payments designated as Base Rental ("Base Rental") in the amounts, at the times and in the manner set forth in the Lease. The County is also required to make certain payments designated as Additional Rental ("Additional Rental") pursuant to the Lease. Pursuant to the Indenture, the Trustee will apply Base Rental payments received from the County to pay principal of and interest on the Bonds.

The County has covenanted in the Lease to pay the Base Rental due thereunder from any source of legally available funds, and to take such action as may be necessary to include all Base Rental and Additional Rental in its annual budget, and to make the necessary annual appropriations for all such Base Rental and Additional Rental (except to the extent such payments are abated as described herein). However, the County is not obligated to levy or pledge any form of taxation in order to pay such Base Rental and Additional Rental for the rental of the Equipment, nor has the County done so.

Payments under the Lease, except for certain moneys more particularly described in the Lease, will be abated in whole or in part during any period in which, by reason of damage, destruction or theft, there is substantial interference with the County's right of use or possession of the Equipment or any portion thereof. See "Security and Sources of Payment for the Bonds" herein.

The County

The County was established by an act of the California State Legislature on February 18, 1850, as one of the 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 10.3 million in 2007, the County is the largest of 58 counties in California and is more populous than 43 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 for the Fiscal Year Ended June 30, 2007."

Limited Liability

THE BONDS ARE SPECIAL OBLIGATIONS OF THE CORPORATION PAYABLE SOLELY FROM BASE RENTAL PAYMENTS RECEIVED PURSUANT TO THE LEASE AND FROM AMOUNTS HELD BY THE TRUSTEE IN CERTAIN FUNDS AND ACCOUNTS ESTABLISHED BY THE INDENTURE. THE OBLIGATION OF THE COUNTY TO PAY BASE RENTAL AND ADDITIONAL RENTAL UNDER THE LEASE DOES NOT CONSTITUTE AN OBLIGATION OF THE COUNTY FOR WHICH THE COUNTY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE COUNTY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE BONDS NOR THE OBLIGATION OF THE COUNTY TO PAY BASE RENTAL OR ADDITIONAL RENTAL UNDER THE LEASE CONSTITUTES AN INDEBTEDNESS OF THE COUNTY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF THE CONSTITUTION OF THE STATE OF CALIFORNIA. UNDER CERTAIN CIRCUMSTANCES, BASE RENTAL MAY BE ABATED UNDER THE LEASE.

Continuing Disclosure

The County has covenanted to provide, or cause to be provided to each nationally recognized municipal securities information repository or the Municipal Securities Rulemaking Board and any public or private repository or entity designated by the State as a state repository for purposes of Rule 15c2-12 promulgated by the U.S. Securities and Exchange Commission, certain annual financial information and operating data and, in a timely manner, notice of certain material events. These covenants have been made in order to assist the Underwriter of the Bonds in complying with Rule 15c2-12. See "Continuing Disclosure" herein for a description of the specific nature

of the annual report and notices of material events and a summary description of the terms of the Continuing Disclosure Certificate pursuant to which such reports are to be made.

ESTIMATED SOURCES AND USES OF FUNDS

The Bond proceeds and other funds are expected to be applied approximately as set forth below:

SOURCES:

Principal Amount of Bonds	\$25,360,000.00
Original Issue Premium	10,157.15
County Contribution	<u>16,318,018.43</u>
TOTAL	<u>\$41,688,175.58</u>

USES:

Redemption of BANs	\$40,441,840.00
Debt Service Reserve Fund	1,000,000.00
Costs of Issuance Account ⁽¹⁾	127,153.72
Underwriter's Discount	<u>119,181.86</u>
TOTAL	<u>\$41,688,175.58</u>

⁽¹⁾ Includes rating agency fees, certain legal fees, financial advisory fees, trustee fees, electronic bid fees and printing costs.

THE BONDS

The following is a summary of certain provisions of the Bonds. Reference is made to the Bonds for the complete text thereof and to the Indenture for a more detailed description of such provisions. The discussion herein is qualified by such reference.

General Provisions

The Bonds will be dated, will mature on the dates in the respective principal amounts, and will bear interest at the respective rates per annum, all as set forth on the cover page of this Official Statement. Interest on the Bonds will be computed using a year of 360 days comprised of twelve 30-day months and is payable on June 1 and December 1 of each year, commencing on June 1, 2008 (each such date being an "Interest Payment Date"). The Bonds will be delivered in fully registered form only and, when executed and delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Bonds. Ownership interests in the Bonds may be purchased in book-entry form only, in each case in the denominations of \$5,000 or any integral multiple thereof. See Appendix F – "Book-Entry System."

Redemption

Optional Redemption. The Bonds are not subject to optional redemption prior to maturity.

Mandatory Redemption. The Bonds are subject to mandatory redemption prior to maturity in whole on any date or in part on any Interest Payment Date at a redemption price equal to the principal amount thereof plus accrued but unpaid interest on the redemption date, without premium, from proceeds of insurance deposited in the Redemption Account of the Bond Fund established under the Indenture. The Bonds are only subject to mandatory redemption to the extent that Base Rental payments with respect to the remaining Outstanding Bonds do not exceed the fair rental value for the use and possession of the portions of the Equipment not damaged or destroyed.

Selection of Bonds for Redemption. Whenever less than all of the Outstanding Bonds are to be redeemed, the Trustee must select the Bonds for redemption proportionately among all maturities. Within a maturity, the

Trustee will select Bonds for redemption by lot. The redeemed portion of any Bond to be redeemed in part must be in denominations of \$5,000 or any integral multiple thereof. So long as a book-entry system is used for the Bonds, selection of Bonds for redemption will be made according to DTC's practices. See "The Bonds - Book-Entry System."

Notice of Redemption. Whenever redemption is required under the Indenture, the Trustee must give notice, at the expense of the County, of the redemption of the Bonds; provided, however, that neither failure of any Bondowner to receive a redemption notice or any defect in a redemption notice shall affect the sufficiency of the proceedings for the redemption of Bonds. The redemption notice must be given to the Bondowners by first class mail, postage prepaid, at least 30 but not more than 60 days prior to the redemption date at their addresses appearing on the Bond Register as of the close of business on the day before such redemption notice is given. The redemption notice must also be given to certain securities depositories and information services as provided in the Indenture. From and after such redemption date, if amounts sufficient to pay such Bonds are held by the Trustee, interest on the principal amount of the Bonds to be redeemed will cease to accrue.

Base Rental and Additional Rental

The Lease requires the County to pay Base Rental for the use and possession of the Equipment and to pay, as Additional Rental, any taxes, assessments and insurance premiums with respect to the Equipment and to the extent not paid out of proceeds of the Bonds, the fees and expenses of the Trustee and any paying agent in connection with the authentication of the Bonds and the performance and enforcement of the Lease and the Indenture. The County has agreed to deposit the Base Rental payable under the Lease on each Lease Payment Date with the Trustee at least one Business Day prior to that Lease Payment Date. The County's obligation to pay Base Rental under the Lease shall commence on the date of issuance of the Bonds. The County has covenanted in the Lease to pay Base Rental from any source of legally available funds, and to take such action as may be necessary to include all Base Rental and Additional Rental Payments for the Equipment in its annual budgets and to make the necessary annual appropriations therefor (except to the extent such payments are abated as permitted under the Lease). See Appendix C - "Summary of Principal Legal Documents - Lease - Abatement."

Base Rental payments are scheduled to be paid as set forth below:

<u>Lease Payment Date⁽¹⁾</u>	<u>Principal Component</u>	<u>Interest Component</u>	<u>Base Rental Payment</u>
June 1, 2008	\$2,365,000	\$170,985	\$2,535,985
December 1, 2008	5,215,000	359,106	5,574,106
June 1, 2009	4,970,000	280,881	5,250,881
December 1, 2009	3,925,000	206,331	4,131,331
June 1, 2010	3,415,000	147,456	3,562,456
December 1, 2010	3,010,000	91,963	3,101,963
June 1, 2011	2,460,000	43,050	2,503,050

⁽¹⁾ Due on the Business Day immediately preceding June 1 and December 1 of each year, commencing on June 1, 2008, except if such Lease Payment Date is on a date which is not a Business Day then the Lease Payment Date will be the next preceding Business Day.

Pursuant to the Indenture, the Corporation has assigned to the Trustee, for the benefit of the Bondowners, all of its rights in and to the Lease, including the right to receive Base Rental payments and the right to enforce payment of Base Rental when due, but excluding the Corporation's rights to the payment of its expenses, to indemnification and certain other rights set forth in the Indenture. See Appendix C - "Summary of Principal Legal Documents - Indenture."

The Bonds are special obligations of the Corporation payable solely from Base Rental payments received pursuant to the Lease and from amounts held by the Trustee in certain funds and accounts established by the

Indenture. The obligation of the County to pay Base Rental and Additional Rental under the Lease does not constitute an obligation of the County for which the County is obligated to levy or pledge any form of taxation or for which the County has levied or pledged any form of taxation. Neither the Bonds nor the obligation of the County to pay Base Rental or Additional Rental under the Lease constitutes an indebtedness of the County, the State of California or any of its political subdivisions within the meaning of the Constitution of the State of California. Under certain circumstances, Base Rental may be abated under the Lease.

Any component of the Equipment may be modified for the County's use after the execution and delivery of the Lease, provided that such modification is in compliance with the terms of the Lease, which requires, among other things, that any such modification will not cause the modified Equipment to have a value less than its value prior to the modification.

Reserve Fund

Amounts on deposit in the Reserve Fund established pursuant to the Indenture are pledged to pay principal of and interest on the Bonds. The Reserve Fund will initially be funded from the proceeds of the Bonds in the amount of \$1,000,000 which is equal to the Reserve Requirement. If the amount on deposit in the Reserve Fund is determined by the Trustee to be less than the Reserve Requirement, the Trustee will promptly notify the County of such fact. Upon receipt of such notice, the County will transfer to the Trustee for deposit into the Reserve Fund all funds legally available for such use until the amount on deposit in the Reserve Fund equals the Reserve Requirement. If on any Interest Payment Date, the amount on deposit in the Interest Account and/or the Principal Account is less than the principal and interest payments due with respect to the Bonds on such date, then the Trustee shall transfer from the Reserve Fund for credit to such account or accounts sufficient amounts if available to make up the deficiencies. See Appendix C - "Summary of Principal Legal Documents - Indenture - Funds and Accounts."

Abatement

A proportionate amount of Base Rental shall be abated during any period in which, by reason of damage, destruction, theft or otherwise, there is substantial interference with the use and possession of any component of the Equipment by the County. There shall be no abatement of Base Rental to the extent that moneys are (a) on deposit in the Reserve Fund, (b) on deposit in the Base Rental Account, Interest Account or Principal Account of the Bond Fund and (c) otherwise legally available to the County and transferred to the Trustee for the purpose of making Base Rental, and are available to pay the amount which would otherwise be abated. The amount of any abatement shall be such that the resulting Base Rental in any Fiscal Year during which such interference continues, excluding any amounts described in clauses (a) through (c) above, does not exceed the fair rental value for the use and possession of the portions of the Equipment not damaged or destroyed. Such abatement shall commence on the date of theft, damage or destruction and shall end with the substantial completion of the work of repair of the Equipment or any affected portion of the Equipment, or the delivery of replacement Equipment or portions thereof. Additional Rental shall not be abated so long as a significant portion of the Equipment or portions thereof remains available for the use and possession of the County. Except as provided in the Lease, in the event of any such theft, damage or destruction, the Lease shall continue in full force and effect and the County waives any right to terminate the Lease by virtue of any such theft, damage or destruction. See Appendix C - "Summary of Principal Legal Documents - Lease - Abatement."

Insurance

The County has agreed to obtain certain types of insurance, including rental interruption insurance and all-risk insurance including theft insurance, from private insurers, as long as such insurance is commercially available at a reasonable cost. No assurance can be given that such insurance will be commercially available at a reasonable cost during the entire term of the Lease. If any such insurance is not commercially available at a reasonable cost, the County has covenanted in the Lease to self-insure, and has further covenanted in the Lease that reserves for such self-insurance, other than with respect to workers' compensation insurance, will, in the opinion of the County's risk manager, be adequate. The County may not self-insure for rental interruption insurance.

Investment of Funds and Accounts

County General Fund moneys are generally deposited into the County Treasury to the credit of the County and invested in accordance with County investment policies. Pursuant to the Indenture, moneys held by the Trustee in any fund or account under the Indenture shall be invested in Qualified Investments pending application as provided therein, which investment may include the County Treasury Pool. See Appendix A - "The County of Los Angeles Information Statement - Los Angeles County Pooled Surplus Investments" and Appendix C - "Summary of Principal Legal Documents."

Description of the Equipment

The proceeds of the Bonds are to be used to refinance the acquisition of certain equipment, machinery, vehicles and other tangible personal property used by various departments of the County of Los Angeles, including the Sheriff's Department, the Department of Health Services, the Department of Parks and Recreation, the Probation Department, the Department of Coroner, the Department of Beaches and Harbors and the Internal Services Department. Such property consists of more than nine hundred individual items and includes motor vehicles, medical equipment, and computer systems. The cost of each item of such equipment ranges from \$547.75 to \$1,560,589.36. The aggregate average useful life of such equipment will not be less than the weighted average maturity of the Bonds, and the individual useful life of such equipment ranges from three years to five years.

THE CORPORATION

The Los Angeles County Capital Asset Leasing Corporation is a California nonprofit corporation organized under the Nonprofit Public Benefit Corporation Law of the State of California (constituting Title 1, Division 2, Part 2 of the California Corporations Code). The Corporation was formed in February 1983 to assist the County, among other things, in financing the purchase of necessary equipment.

The Corporation is a separate legal entity from the County. It is governed by a five-member Board of Directors (the "Board") appointed by the Board of Supervisors of the County. The Board members receive no compensation. The Corporation has no employees. All staff work is performed by employees of the County.

RISK FACTORS

The following factors, along with all other information in this Official Statement, should be considered by potential investors in evaluating the Bonds.

Not a Pledge of Taxes

The Bonds are special obligations of the Corporation payable solely from Base Rental payments received pursuant to the Lease and from amounts held by the Trustee in certain funds and accounts established by the Indenture. The obligation of the County to pay Base Rental and Additional Rental under the Lease does not constitute an obligation of the County for which the County is obligated to levy or pledge any form of taxation or for which the County has levied or pledged any form of taxation. Neither the Bonds nor the obligation of the County to pay Base Rental or Additional Rental under the Lease constitutes an indebtedness of the County, the State of California or any of its political subdivisions within the meaning of the constitution of the State of California. Under certain circumstances, Base Rental may be abated under the Lease.

Although the Lease does not create a pledge, lien or encumbrance upon the funds of the County, the County is obligated under the Lease to pay Base Rental from any source of legally available funds (subject to certain exceptions) and the County has covenanted in the Lease that, for as long as the Equipment is available for its use and possession, the County will take such action as may be necessary to include all Base Rental payments due under the Lease in any Fiscal Year during the term of the Lease in its annual budgets for the Fiscal Year and to

make the necessary annual appropriations for all such Base Rental payments. The County is currently liable on other obligations payable from general revenues.

Additional Obligations of the County

The County has the capability to enter into other obligations which may constitute additional charges against its revenues. To the extent that additional obligations are incurred by the County, the funds available to make Base Rental payments may be decreased.

The Base Rental payments and other payments due under the Lease (including payment of costs of repair and maintenance of the Equipment, taxes and other governmental charges levied against the Equipment) are payable from funds lawfully available to the County. In the event that the amounts which the County is obligated to pay in a Fiscal Year exceed the County's revenues for such year, the County may choose to make some payments rather than making other payments, including Base Rental payments, based on the perceived needs of the County. The same result could occur if, because of California constitutional limits on expenditures, the County is not permitted to appropriate and spend all of its available revenues. In such event, the County may not have sufficient funds available to pay principal of and interest on the Bonds when due.

Limitations on Remedies

In the event of a default, there is no remedy of acceleration of the total Base Rental payments due over the term of the Lease and the Trustee is not empowered to sell the Equipment and use the proceeds of such sale to redeem the Bonds or pay debt service thereon or repossess the Equipment in any way. More specifically, the Trustee does not have the right: (i) to demand that the County return the Equipment; (ii) to enter upon the premises where the Equipment is located and take possession of or remove the same by summary proceedings or in any other manner; (iii) to terminate the Lease and sell the Equipment or otherwise dispose of, hold, use, operate, lease to others or keep idle the Equipment; or (iv) to retake possession of the Equipment in any manner.

Under the terms of the Lease, the Trustee has the right to recover Base Rental payments as they become due under the Lease. The County will be liable only for Base Rental payments on an annual basis, and the Trustee would be required to seek a separate judgment each year for that year's defaulted Base Rental payments. Any such suit for money damages would be subject to limitations on legal remedies against counties in the State, including a limitation on enforcement of judgments against funds of a Fiscal Year other than the Fiscal Year in which the Base Rental payments were due and against funds needed to serve the public welfare and interest.

Additionally, enforceability of the rights and remedies of the Bondowners, and the obligations incurred by the Corporation and the County, may become subject to the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditor's rights generally, now or hereafter in effect, equity principles which may limit the specific enforcement under State law of certain remedies, the exercise by the United States of America of the powers delegated to it by the Constitution, the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose and the limitations on remedies against counties in the State. Bankruptcy proceedings, or the exercise of powers by the federal or state government, if initiated, could subject the Bondowners to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation, or modification of their rights.

Adequacy of County Insurance Reserves or Insurance Proceeds

The County may self-insure for certain types of insurance required under the Lease. See "Security and Sources of Payment for the Bonds - Insurance." The County intends to self-insure for workers' compensation insurance and general liability insurance with respect to the Equipment. If the County elects to self-insure against other risks, no assurance can be given that the insurance reserves established by the County will be sufficient to satisfy any loss which the County may experience. If the County's self-insurance reserves are inadequate or if the

County receives insufficient commercial insurance proceeds to repair or replace any portion of the Equipment which is damaged or destroyed, the amount of Base Rental payable under the Lease could be abated. See “Security and Sources of Payment for the Bonds - Abatement” and “Risk Factors - Abatement.”

Abatement

Except to the extent of amounts held in the Base Rental Account, Interest Account or Principal Account of the Bond Fund and in the Reserve Fund, amounts received from rental interruption insurance, and amounts which may otherwise be legally available to the County and transferred to the Trustee for the purpose of paying Base Rental payments under the Lease will be abated in whole in part during any period in which, by reason of damage, destruction or theft, there is substantial interference with the County’s right of use or possession of the Equipment or any portion thereof. In the event of an abatement, the amount of rental abatement will be such that the resulting total Base Rental payments do not exceed the total fair rental value of the remaining portions of the Equipment not damaged, destroyed or taken. Abatement will continue for the period commencing with the date of damage, destruction or theft and shall end with the substantial completion of the work of repair or the delivery of a replacement for the affected portion of the Equipment.

Such reduced or abated Base Rental, together with other moneys available to the Trustee, may not be sufficient, after depletion of amounts in the Reserve Fund and expiration of rental interruption insurance with respect to the Equipment, if any, to pay principal of and interest on the Bonds in the amounts and at the rates set forth thereon. In such an event, all Bondowners would forfeit the right to receive a pro rata portion of interest attributable to abated Base Rental in any year of abatement and, to the extent Bonds matured during a period of abatement, such Bondowners would forfeit the right to receive a pro rata portion of principal attributable to such abated Base Rental. The failure to make such payments of principal and interest under such circumstances would not constitute a default under the Lease or the Indenture.

State Budget

The State of California, upon which the County relies for a substantial portion of its revenues, is experiencing severe budget shortfalls. As a consequence, the Governor of the State has announced budget cuts for the current Fiscal Year. Decreases in State revenues may significantly affect appropriations made by the State to counties and the timing of payment to counties by the State may depend upon the ability of the State to access the credit markets with respect to its own cash flow borrowings. It is not yet clear what impact, if any, the 2008-09 State budget, and the anticipated reductions in expenditures reflected therein, will have on the State funding received by the County. See “Appendix A-THE COUNTY OF LOS ANGELES INFORMATION STATEMENT”

TAX MATTERS

The Internal Revenue Code of 1986 (the “Code”) imposes certain requirements that must be met subsequent to the issuance and delivery of the Bonds for interest thereon to be and remain excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Noncompliance with such requirements could cause the interest on the Bonds to be included in the gross income of the owners thereof for federal income tax purposes retroactive to the date of issuance of the Bonds. The Corporation and the County have covenanted in the Lease to maintain the exclusion of the interest on the Bonds from the gross income of the owners thereof for federal income tax purposes.

In the opinion of Fulbright & Jaworski L.L.P., Bond Counsel to the Corporation, under existing law interest on the Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the aforementioned covenant, interest on the Bonds is excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Bond Counsel is also of the opinion that, assuming compliance with the aforementioned covenant, the Bonds are not “specified private activity bonds” within the meaning of section 57(a)(5) of the Code and, therefore, the interest on the Bonds will not be treated as an item of tax preference for purposes of computing the alternative minimum tax imposed by section 55 of the Code.

The receipt or accrual of interest on the Bonds owned by a corporation may affect the computation of its alternative minimum taxable income, upon which the alternative minimum tax is imposed, to the extent that such interest is taken into account in determining the adjusted current earnings of that corporation (75% of the excess, if any, of such adjusted current earnings over the alternative minimum taxable income being an adjustment to alternative minimum taxable income (determined without regard to such adjustment or to the alternative tax net operating loss deduction)).

To the extent that a purchaser of a Bond acquires that Bond at a price that exceeds the aggregate amount of payments (other than payments of qualified stated interest within the meaning of section 1.1273-1 of the Treasury Regulations) to be made on the Bonds (determined, in the case of a callable Bond, under the assumption described below), such excess will constitute “bond premium” under the Code. Section 171 of the Code, and the Treasury Regulations promulgated thereunder, provide generally that bond premium on a tax-exempt obligation must be amortized on a constant yield, economic accrual, basis; the amount of premium so amortized will reduce the owner’s basis in such obligation for federal income tax purposes, but such amortized premium will not be deductible for federal income tax purposes. In the case of a purchase of a Bond that is callable, the determination whether there is amortizable bond premium, and the computation of the accrual of that premium, must be made under the assumption that the Bond will be called on the redemption date that would minimize the purchaser’s yield on the Bond (or that the Bond will not be called prior to maturity if that would minimize the purchaser’s yield). The rate and timing of the amortization of the bond premium and the corresponding basis reduction may result in an owner realizing a taxable gain when a Bond owned by such owner is sold or disposed of for an amount equal to or in some circumstances even less than the original cost of the Bond to the owner.

The excess, if any, of the stated redemption price at maturity of Bonds of a maturity over the initial offering price to the public of the Bonds of that maturity set forth on the inside cover of this Official Statement is “original issue discount.” Such original issue discount accruing on a Bond is treated as interest excluded from the gross income of the owner thereof for federal income tax purposes and exempt from California personal income tax to the same extent as would be the stated interest on the Bonds. Original issue discount on any Bond purchased at such initial offering price and pursuant to such initial offering will accrue on a semiannual basis over the term of the Bond on the basis of a constant yield method and, within each semiannual period, will accrue on a ratable daily basis. The amount of original issue discount on such a Bond accruing during each period is added to the adjusted basis of such Bond to determine taxable gain upon disposition (including sale, redemption or payment on maturity) of such Bond. The Code includes certain provisions relating to the treatment of accrued original issue discount in the case of purchasers of Bonds who purchase such Bonds other than at the initial offering price and pursuant to the initial offering: these provisions are not addressed herein and are not within the scope of the opinion of Bond Counsel.

Any person considering purchasing a Bond at a price that includes bond premium should consult his or her own tax advisors with respect to the amortization and treatment of such bond premium, including, but not limited to, the calculation of gain or loss upon the sale, redemption or other disposition of the Bond. Any person considering purchasing a Bond of a maturity having original issue discount should consult his or her own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering and at the original offering price, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such Bonds under federal individual and corporate alternative minimum taxes.

Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance of the Bonds may affect the tax status of interest on the Bonds or the tax consequences of the ownership of the Bonds. No assurance can be given that pending or future legislation, or amendments to the Code, if enacted into law, or any proposed legislation or amendments to the Code, will not contain provisions that could directly or indirectly reduce the benefit of the exemption of interest on the Bonds from personal income taxation by the State of California or of the exclusion of the interest on the Bonds from the gross income of the owners thereof for federal income tax purposes. Furthermore, Bond Counsel expresses no opinion as to any federal, state or local tax law consequences with respect to the Bonds, or the interest thereon, if any action is taken with respect to the Bonds or the proceeds

thereof predicated or permitted upon the advice or approval of bond counsel if such advice or approval is given by counsel other than Bond Counsel.

Although Bond Counsel is of the opinion that interest on the Bonds is exempt from personal income tax by the State of California and excluded from the gross income of the owners thereof for federal income tax purposes, an owner's federal, state or local tax liability may be otherwise affected by the ownership or disposition of the Bonds. The nature and extent of these other tax consequences will depend upon the owner's other items of income or deduction. Without limiting the generality of the foregoing, prospective purchasers of the Bonds should be aware that (i) section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds or, in the case of a financial institution, that portion of an owner's interest expense allocated to interest on the Bonds, (ii) with respect to insurance companies subject to the tax imposed by section 831 of the Code, section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15% of the sum of certain items, including interest on the Bonds, (iii) interest on the Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by section 884 of the Code, (iv) passive investment income, including interest on the Bonds, may be subject to federal income taxation under section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income, (v) section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining the taxability of such benefits, receipts or accruals of interest on the Bonds, and (vi) under section 32(i) of the Code, receipt of investment income, including interest on the Bonds, may disqualify the recipient thereof from obtaining the earned income credit. Bond Counsel has expressed no opinion regarding any such other tax consequences.

Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the County and the Corporation described above. No ruling has been sought from the Internal Revenue Service (the "Service") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Bonds is commenced, under current procedures the Service is likely to treat the Corporation as the "taxpayer," and the owners would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the Corporation may have different or conflicting interests from the owners of the Bonds. Further, the disclosure of the initiation of an audit of the Bonds may adversely affect the market price and liquidity of the Bonds regardless of the final disposition of the audit.

CERTAIN LEGAL MATTERS

Legal matters incident to the issuance of the Bonds by the Corporation are subject to the approval of Fulbright & Jaworski L.L.P., Los Angeles, California, Bond Counsel to the County and the Corporation. A complete copy of the proposed form of opinion of Bond Counsel is contained in Appendix D hereto. Certain legal matters will be passed upon for the County and the Corporation by the County Counsel.

FINANCIAL ADVISOR

Lamont Financial Services Corporation served as Financial Advisor in connection with the issuance of the Bonds. The Financial Advisor has not been engaged, nor have they undertaken, to make an independent verification or assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement.

LITIGATION

No litigation is pending, or to the best knowledge of the County and the Corporation, threatened against the County or the Corporation concerning the validity of the Bonds or challenging any action taken by the County or the Corporation in connection with the authorization of the Indenture or the Lease or any other document relating to the Bonds to which the County or the Corporation is or is to become a party or the performance by the County or the Corporation of any of their obligations under any of the foregoing.

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. In the opinion of the County Counsel, such suits and claims as are presently pending will not materially impair the ability of the County to make Base Rental payments. See also Note 16 of "Notes to the Basic Financial Statements" included in APPENDIX B. See also Appendix A – "County of Los Angeles Information Statement."

RATINGS

Fitch, Inc. ("Fitch") has assigned the Bonds a rating of "A," Moody's Investors Service ("Moody's") has assigned the Bonds a rating of "A2" and Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("Standard & Poor's") has assigned the Bonds a rating of "A+." Such ratings reflect only the views of Fitch, Moody's and Standard & Poor's, and do not constitute a recommendation to buy, sell or hold the Bonds. Explanation of the significance of such ratings may be obtained only from the respective organizations at: Fitch, Inc., One State Street Plaza, New York, New York 10004, telephone number (212) 908-0500; Moody's Investors Service, Inc., 7 World Trade Center, 250 Greenwich Street, New York, New York 10007, telephone number (212) 553-0300; and Standard & Poor's Ratings Services, 55 Water Street, New York, New York 10041, telephone number (212) 438-2124. There is no assurance that any such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by the respective rating agencies, if in the judgment of any such rating agency circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

CONTINUING DISCLOSURE

Pursuant to a Continuing Disclosure Certificate (the "Disclosure Certificate"), the County has agreed to provide, or cause to be provided, not later than February 1 in each year, commencing with the report for the County's fiscal year ended June 30, 2008, to each nationally recognized municipal securities information repository and any public or private repository or entity designated by the State as a state repository for purposes of Rule 15c2-12 (each, a "Repository") certain annual financial information and operating data, including (i) assessed valuations, tax levies and delinquencies for real property located in the County for the fiscal year of the County most recently ended; (ii) summary financial information on revenues, expenditures and fund balances for the County's total budget funds for the Fiscal Year of the County most recently ended; (iii) summary financial information on the proposed and adopted budgets of the County for the current Fiscal Year and any changes in the adopted budget; (iv) summary of aggregate annual debt obligations of the County as of the beginning of the current Fiscal Year; (v) summary of annual outstanding principal obligations of the County as of the beginning of the current Fiscal Year; and (vi) the ratio of the County's outstanding debt to total assessed valuations as of the end of the Fiscal Year of the County most recently ended. See Appendix E - "Form of Continuing Disclosure Certificate."

In addition, the County has agreed to provide, or cause to be provided, to each Repository in a timely manner notice of the following "Listed Events" if determined by the County to be material: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on the debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the security; (7) modifications to rights of security holders; (8) optional, contingent or unscheduled bond calls; (9) defeasances; (10) release, substitution, or sale of property securing

repayment of the securities; and (11) rating changes. These covenants have been made in order to assist the Underwriters in complying with Rule 15c2-12. The County has never failed to comply in all material respects with any previous undertakings with regard to Rule 15c2-12 to provide annual reports or notices of material events.

The County may amend the Disclosure Certificate, and any provision of the Disclosure Certificate may be waived, provided that the following conditions are satisfied: (a) if the amendment or waiver relates to the provisions of the Disclosure Certificate in connection with the provisions and content of the Annual Reports or Listed Events it may only be made in connection with a change in circumstances that arises from a change in legal requirements, a change in law, or a change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted; (b) the undertakings, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and (c) the amendment or waiver either (1) is approved by the Bondowners in the same manner as provided in the Indenture for amendments to the Indenture with the consent of the Bondowners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of Bondowners or Beneficial Owners of the Bonds. The County shall describe such amendment and the reason therefor in its next annual report filed with the Repositories.

In addition, the County's obligations under the Disclosure Certificate shall terminate upon a legal defeasance, prior redemption or payment in full of all of the Bonds. In the event of a failure of the County to comply with any provision of the Disclosure Certificate, any Bondowner or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the County to comply with its obligations under the Disclosure Certificate. A default under the Disclosure Certificate shall not be deemed an Event of Default under the Indenture with respect to the Bonds, and the sole remedy under the Disclosure Certificate in the event of any failure of the County to comply with the Disclosure Certificate shall be an action to compel performance, and no person or entity shall be entitled to recover monetary damages under the Disclosure Certificate.

ADDITIONAL INFORMATION

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

The County regularly prepares a variety of reports, including audits, budgets, and related documents, as well as certain monthly activity reports. Any Bondowner may obtain a copy of any such report, as available, from the County at the address set forth below.

This Official Statement and its distribution have been duly authorized and approved by the Board of Supervisors of the County and the Board of Directors of the Corporation.

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

APPENDIX A

**THE COUNTY OF LOS ANGELES
INFORMATION STATEMENT**



THE COUNTY OF LOS ANGELES

Information Statement

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 two 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 two 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 five 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, Local 721 members will receive a 10% salary increase between October 1, 2006 and January 1, 2009, with the salary range for most employees being extended by an additional 5.5% increase. 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.

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, 2007 was 151,399. This membership consisted of 63,980 active vested members, 28,116 nonvested active members, 51,392 retired members and 7,911 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 the fiscal year ending June 30, 2007, the Board of Investments adopted a new series of economic and

demographic assumptions to be used in LACERA's actuarial valuations. Economic assumptions for the Investment Return Rate and Price Inflation will remain unchanged at 7.75% and 3.50%, respectively. The assumed Wage Growth rate, however, will increase from 3.75% to 4.00%. Changes to the demographic assumptions included higher merit salary increases for safety members with 20 or more years of service, an increase in retirement rates and lower mortality rates for disabled retirees. The net effect of these new actuarial assumptions will be to increase both the Actuarial Accrued Liability ("AAL") for the Plan and the total County contribution rate.

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 was completed on February 4, 2008 for the fiscal year ending June 30, 2007. In Fiscal Year 2006-07, Retirement Fund assets achieved a rate of return of 19.1%. This rate of return, combined with the recognition of a portion of the deferred gains from 2005 and 2006 caused a \$2.19 billion gain in actuarial assets in 2007. 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 90.5% on June 30, 2006 to 93.8% on June 30, 2007. The increased funded ratio has resulted in a reduction in the required County contribution rate from 12.91% to 12.40% of covered payroll in Fiscal Year 2008-09.

The June 30, 2007 Actuarial Valuation reported that the actuarial accrued liability had increased by 8.9% to \$39.503 billion. Despite the increase in actuarial liabilities, the UAAL decreased by \$978 million from \$3.439 billion on June 30, 2006 to \$2.461 billion on June 30, 2007. The significant decrease (28.4%) in UAAL was the direct result of higher than assumed investment returns over the last three years. Had LACERA not adopted new actuarial assumptions for the June 30, 2007 valuation, the UAAL would have been even lower and the County's funded ratio would have increased to approximately 95.2%. 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 12.40% of covered payroll in Fiscal Year 2008-09. The required contribution rate includes the County's normal cost contribution rate of 10.16%, which represents an increase from the 9.42% rate of Fiscal Year 2007-08 due to payroll variations and changes to actuarial assumptions. The 2008-09 contribution rate for the County to fund amortization of the UAAL decreased to 2.24% and more than offset the higher normal contribution rate. This UAAL amortization rate, which represents the amount necessary to finance the UAAL over the 30-year period beginning July 1, 2007, decreased from the 3.49% of the previous year.

The actuarial valuation as of June 30, 2007 also identified \$3.0 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 13.0% return on Plan investments for

the fiscal year ended June 30, 2006 and 19.1% return on Plan investments for Fiscal Year 2006-07. 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.

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 June 30, 2007 are 32.7% domestic equity, 22.6% international equity, 25.2% fixed income, 9.4% real estate, 6.5% private equity, 2.6% cash and 1.0% commodities.

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 were \$863.5 million, including \$111.8 million of excess earnings. For Fiscal Year 2007-08, County contributions are currently estimated to be approximately \$828 million. A summary of employer contributions for the seven years ending on June 30, 2008 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 \$111.8 million in excess earnings applied in Fiscal Year 2006-07 represents the final use of these monies to fund employer contributions. Beginning with the current fiscal year 2007-08, retirement costs will no longer be subsidized with excess earnings from the pension system.

In Fiscal Year 2007-08, the County pre-funded \$400 million of its required contribution to LACERA. This payment was made in July and will serve to greatly reduce monthly transfers during the second half of this fiscal year. The \$400 million pre-payment is reflected in the County's cash flow statements 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 February 1, 2008, 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 had HBP-related payment of \$317.3 million, of which \$40.5 million were funded by LACERA excess earnings. This growth in post employment benefit payments has continued in Fiscal Year 2007-08, with a

projected County contribution of \$343.6 million plus an offset from excess earnings of \$9.0 million. Total HBP-related payments for Fiscal Year 2007-08 are forecasted to be \$352.6 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 long-term disability portion of the County's DBP-related payment was approximately \$30.85 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 has complied 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 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 report dated May 25, 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 Los Angeles Superior Court. The Milliman Report's demographic and economic assumptions are modeled on the assumptions used by LACERA for its pension program in Fiscal Year 2007-08. 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 the Projected Unit Credit actuarial cost method. Using this methodology, the UAAL for LACERA's OPEB program as of July 1, 2006 is \$21.21 billion, of which approximately \$20.30 billion is the County's share of the 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 31.2% of the County's payroll costs. These actuarial findings have been included in the June 30, 2007 financial statements for LACERA. The County will report its OPEB liability for June 30, 2008 using the same actuarial methodology and 5.0% 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%, the UAAL for LACERA's OPEB program as of June 30, 2006 is \$12.86 billion, of which approximately \$12.33 billion is the County's liability. The County's ARC as of June 30, 2006 is estimated to be \$1.03 billion, which is approximately 20.67% 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 addition to this initial step, 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 these measures, 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 Sections 31694.3 and 31694.4. 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. On October 16, 2007, the County Board of Supervisors gave its support to this process and approved both the establishment of a tax-exempt trust and the creation of a specific fiscal policy to pre-fund retiree health benefits. It is anticipated that initial funding of a trust will occur in Fiscal Year 2008-09. Prior to the actual funding, however, the County must secure the support of its union membership and incorporate the trust agreement into the provisions of a ratified collective bargaining agreement, as required by Government Code Section 31694.4.

The amount of LACERA's OPEB liability has been 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.

Long-Term Disability Benefits

In addition to the Milliman Report, the County also received an actuarial assessment of the long-term disability portion of its DBP in a report prepared by Buck Consultants. This report provides a determination that, as of July 1, 2007, and based on the assumptions set forth in the report, the UAAL of the County's long-term DBP is \$929 million. The County has determined that this liability is an additional OPEB obligation and will include the effects of long-term DBP for purposes of implementing GASB 45 for the fiscal year ending June 30, 2008.

LITIGATION

Litigation Regarding 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.

In April 2007, the case of *Charles R. Drew University v. County of Los Angeles* was filed in the Los Angeles Superior Court. The University is seeking damages it alleges it has suffered and will suffer as a result of the determination by the County to not renew its annual \$12 million Affiliation Agreement, which expired on June 30, 2007. Drew University asserts that its damages are approximately \$125 million, based on the assumption of an ongoing relationship. The case is currently in its early pleading and discovery stages.

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 Court of Appeal denied the County's writ to set aside the trial court's class certification ruling. The County will now petition to the California Supreme Court. 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.

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. On January 20, 2008, the Court of Appeals affirmed the decision in all cases in favor of the County.

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. In the Court's final decision, which was reached on October 30, 2007, the County prevailed on all issues related to the class action. Agreements on all individual claims have been reached and are expected to be settled by March 30, 2008.

Retirement System Litigation

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

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 and the trial was held in December 2007. Closing arguments are scheduled for February 2008 and a decision should be rendered shortly thereafter. 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.

Pending Litigation

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
06/30/2002	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%
06/30/2007	40,908,106	37,041,832	39,502,456	2,460,624	93.77%

Source: Milliman Actuarial Valuation (of LACERA) for June 30, 2007 and LACERA 2007 Comprehensive Annual Financial Report.

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

Fiscal Year	Market Value of Plan Assets	Market Rate of Return
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%
2006-2007	40,908,106	19.1%

Source: Milliman Actuarial Valuation (of LACERA) for June 30, 2007.

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
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	751,726	111,775	381,235	1,244,737	2.6%
2007-08*	827,973	0	381,603	1,209,576	-2.8%

Source: Milliman Actuarial Valuation (of LACERA) for June 30, 2007 and County of Los Angeles Chief Executive 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 \$14,165,053,370. The 2006-07 County Budget reflects proceeds of taxes at \$6,433,315,000, 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. In January 2008 the Court of Appeal affirmed class certification in the case. It is estimated that the County collected approximately \$234.6 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 XIII C or SB 919, and the scope of the initiative power under Article XIII C 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-XX of this Appendix, \$3.9 billion of the \$17.8 billion Final 2007-08 General County Budget is received from the federal government and \$5.0 billion is funded by the State. The balance of \$8.9 billion in County financing is generated from property taxes and a variety of other sources. The fact that 50% 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 (FFY) 2008, which began on October 1, 2007. Similar to prior years, it would have reduced overall federal aid to state and local governments. For example, as in his previous proposed budget, the President proposed to eliminate the State Criminal Alien Assistance Program (SCAAP), which partially reimburses the County’s costs of incarcerating undocumented criminal aliens, and cap Medicaid payments to government providers, such as the County, to no more than the cost of providing services to Medicaid recipients. This latter proposal, if implemented, potentially could cost the County approximately \$200 million annually. As in previous years, Congress ultimately rejected the President’s proposed cuts in Federal aid to state and local governments. Instead of eliminating SCAAP, Congress, increased SCAAP funding to the County by \$10 million for FFY 2008. In addition, on May 25, 2007, H.R. 2206, a supplemental appropriations bill, was signed into law (Public Law 110-28), which included a provision prohibiting the implementation of any rule limiting Medicaid payments to government providers for one year. This language blocked the implementation of a final rule published in the Federal Register on May, 29, 2007, which would have capped Medicaid payments to government providers. This year, Congress will consider legislation to further delay or prohibit the implementation of this rule. If future legislation blocking the final rule’s implementation is not enacted, the rule is likely to be challenged in the courts on the grounds that the Centers for Medicaid and Medicare Services (CMS) lacks the authority to limit Medicaid payments by regulation. In addition, the published preamble to the final rule included a statement indicating that California’s Hospital Waiver “should not be impacted” by the final rule. If so, then its impact on the County’s public hospitals would not be felt until after this waiver expires on August 31, 2010. There is also a proposal to eliminate Medicaid payments for interns and residents in hospitals that train physicians. If implemented, this proposed rule would cost the County approximately \$40.0 million annually.

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 6.8% less than expected, or \$98.8 million rather than \$106.0 million. In Fiscal Year 2007-08, \$143.8 million in Tobacco Settlement Revenues (TSRs) were allocated for use.

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 June 2007, the County has received \$915.8 million in tobacco settlement proceeds and accrued interest with approximately \$683.1 million of the collected proceeds expended by June 30, 2007.

The difference between TSRs received and TSRs expended of approximately \$229.9 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 required a phased approach during a three-year transfer period that commenced in 2004. Legislation is currently pending to extend the transfer period. 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 for each courthouse transferred. On June 19, 2007, the Board of Supervisors approved the transfer of the Long Beach Courthouse. As of December 2007, no other County of Los Angeles facility transfers have occurred.

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.

2008-09 STATE BUDGET

The Governor's 2008-09 Proposed State Budget was released on January 10, 2008. Although the Governor's Proposed Budget does impact the County, it does not recommend the reallocation of local property taxes to meet the State's obligation to fund schools.

The overall fiscal impact to the County of the Governor's Proposed Budget is projected to be \$18.4 million in FY 2007-08 and \$276.3 million in FY 2008-09. For FY 2007-08, the most significant impacts to the County included Cal/WORKS Program Reforms (\$11.3 million), Federal Safety Net Care Pool Payments/South LA Preservation Fund (\$2.0 million) and various payments deferrals from the State. For FY 2008-09, the following County programs would realize major financial impacts (\$3.0 million or more):

- CalWORKs Program Reforms (\$113 million)
- Medi-Cal Administration (\$50.1 million)
- Child Welfare Services Administration (\$25.6 million)
- Federal Safety Net Care Pool Payments/South L.A. Preservation Fund (\$24.4 million)
- Early and Periodic, Screening, Diagnosis and Treatment (\$23.1 million)
- February 2008 Presidential Primary Election (\$20 million)
- Medi-Cal Provider and Managed Care Rates (\$12.7 million)
- In-Home Supportive Services Administration (\$8.5 million)
- Juvenile Probation Camp Funding (\$8 million)
- Mental Health Managed Care Program (\$7.1 million)
- Alcohol and Other Drug Programs (\$6.6 million)
- Children's Medical Services (\$4.5 million)
- Juvenile Justice Crime Prevention Act Program (\$3.3 million)
- Proposition 36 Substance Abuse Crime Prevention Program (\$3.0 million)

In addition to the program cuts referenced above, the Governor's Proposed Budget also proposes to address the State's cash flow shortfall by deferring over \$2.1 billion in payments to counties and Medi-Cal providers for various health and human services programs and \$500 million from the excise tax revenues from the Highway Users Tax Account. The net impact to the County from these proposals is \$453.5 million in deferred payments. The ability of the County to maintain programs within this environment will be determined based on the timing of the deferrals and the corresponding cash position of the general fund (see pages A-30 through A-33 for the County's 2006-07 and 2007-08 general fund cash flows).

Historically, the County generally does not include the impact of the Governor's proposals until adoption of the State Budget. At that time the County will likely align State budget actions with the County Budget.

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 and Hospital Enterprise (that represent the General County Budget), Special Funds, Special District Funds, Other Enterprise Funds and Other Funds.

The General County Budget accounts for approximately 79.1% of the 2007-08 Final 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 9.7% of the 2007-08 Final 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 8.0% of the 2007-08 Final 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 Final 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 1.9% of the 2007-08 Final 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)**

Fund	Final 2003-04	Final 2004-05	Final 2005-06	Final 2006-07	Final 2007-08
General Fund	\$ 12,104,810	\$ 12,616,794	\$ 13,723,601	\$ 14,837,253	\$ 15,981,000
Hospital Enterprise Fund	1,640,514	1,745,137	1,963,466	1,773,047	1,818,990
Debt Service Fund	43,521	44,362	10,290	9,554	-
Total General County Budget	\$ 13,788,845	\$ 14,406,293	\$ 15,697,357	\$ 16,619,854	\$ 17,799,990

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

	Final 2003-04	Final 2004-05	Final 2005-06	Final 2006-07	Final 2007-08
Requirements					
Social Services	\$ 4,696,224	\$ 4,711,572	\$ 4,651,813	\$ 4,749,055	\$ 4,991,495
Health	4,216,053	4,318,251	4,638,706	4,930,299	5,307,606
Justice	3,401,501	3,550,049	3,826,565	4,177,707	4,499,905
Other	1,475,067	1,826,421	2,580,273	2,762,793	3,000,984
Total	\$ 13,788,845	\$ 14,406,293	\$ 15,697,357	\$ 16,619,854	\$ 17,799,990
Revenue Sources					
Property Taxes	\$ 1,756,796	\$ 2,532,415	\$ 2,744,055	\$ 3,246,500	\$ 3,628,517
State Assistance	4,260,158	4,252,927	4,417,274	4,716,625	4,963,934
Federal Assistance	4,510,919	4,070,743	3,986,571	4,091,431	3,963,490
Other	3,260,972	3,550,208	4,549,457	4,565,298	5,244,049
Total	\$ 13,788,845	\$ 14,406,293	\$ 15,697,357	\$ 16,619,854	\$ 17,799,990

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

	Final 2003-04	Final 2004-05	Final 2005-06	Final 2006-07	Final 2007-08
Financing Requirements					
Salaries & Employee Benefits	\$ 6,245,540	\$ 6,607,111	\$ 7,101,154	\$ 7,701,124	\$ 8,437,462
Services & Supplies	4,539,358	4,619,687	4,993,336	5,480,217	5,859,213
Other Charges	3,779,382	3,782,145	3,607,279	3,031,605	3,127,968
Fixed Assets	372,395	490,517	812,222	1,269,445	1,510,033
Other Financing Uses	1,005,172	1,129,523	1,406,675	1,130,994	1,155,780
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)	(1,643,528)
Gross Appropriation	\$ 14,380,428	\$ 14,916,759	\$ 15,821,285	\$ 17,065,802	\$ 18,447,206
Less: Intrafund Transfers	697,293	708,686	769,845	791,309	888,376
Net Appropriation	\$ 13,683,135	\$ 14,208,073	\$ 15,051,440	\$ 16,274,493	\$ 17,558,830
Reserves					
General Reserve	\$ 4,367	\$ 4,007	\$ 3,747	\$ 3,439	\$ 3,000
Designations/Other Reserves	100,987	194,034	641,722	341,871	238,160
Estimated Delinquencies	356	179	448	51	-
Total Financing Requirements	\$ 13,788,845	\$ 14,406,293	\$ 15,697,357	\$ 16,619,854	\$ 17,799,990
Available Financing					
Fund Balance	\$ 681,196	\$ 874,846	\$ 911,894	\$ 1,073,017	\$ 1,706,356
Cancellation of Reserve/Designation	264,763	222,101	944,318	823,328	478,323
Property Taxes: Regular Roll	1,706,011	2,452,682	2,638,633	3,132,117	3,439,292
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	11,986,794
Total Available Financing	\$ 13,788,845	\$ 14,406,293	\$ 15,697,357	\$ 16,619,854	\$ 17,799,990

Source: Chief Executive 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 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 \$803.0 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 outpatient primary 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;
- 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; and
- 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 to \$400 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 February 19, 2008 demonstrated a balanced budget for Fiscal Year 2007-08. 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 Final County Budget is \$129.5 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 Fiscal Year 2007-08. Also excluded from the Final Adopted County Budget is the potential annual Medi-Cal revenue loss of approximately \$40.0 million as a result of the Graduate Medical Education (GME) cost exclusion requirements. Finally, the 2007-08 Final Adopted County Budget did not include any adjustment for the Medicaid cap recommended by the President in his budget proposal for FFY 2008.

In the 2007-08 Final County Budget, DHS was projected to achieve a budget surplus of \$4.0 million in Fiscal Year 2007-08. This forecast has since improved and the most recent Fiscal Outlook Update projects a surplus of \$72.8 million as of June 30, 2008. The improved near-term prospects of the department are due to a combination of several cost savings measures and revenue enhancements identified during the current fiscal year. In spite of this projected surplus, DHS presented to the Board of Supervisors on February 19, 2008 an anticipated funding shortfall of \$290.9 million for Fiscal Year 2008-09 and a preliminary plan to address this issue. DHS is currently working with the CEO on a mitigation plan to ensure a balanced budget for Fiscal Year 2008-09.

Martin Luther King/Drew Medical Center

On August 10, 2007, the Centers for Medicare and Medicaid Services (CMS) notified the County that Martin Luther King/Drew Medical Center (MLK) had lost its certification. To remedy this situation, MLK was converted to a Multi-Service Ambulatory Care Center (MACC), and inpatient beds were opened at other County hospitals and purchased from private hospitals. Further, on October 12, 2007, Governor Arnold Schwarzenegger signed into law Senate Bill 474 to establish a \$100.0 million annual fund, named the South Los Angeles Medical Services Preservation Fund, to stabilize the health services for low-income, underserved populations of South Los Angeles. The prorated amount of this fund for Fiscal Year 2007-08 is \$87.7 million, which reflects 10.5 months of funding based on the August 15, 2007 implementation date.

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.

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 Final County Budget includes \$197.2 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 FINAL ADOPTED BUDGET

The 2007-08 Final Adopted Budget, which was approved by the Board of Supervisors on October 16, 2007, appropriates \$22.5 billion, a 7.1% increase from the prior year. For General County purposes (General Fund and Hospital Enterprise Fund), the Final Adopted Budget appropriates \$17.8 billion, which represents a 7.1% increase from the 2006-07 Final Adopted Budget. The Final Adopted Budget added 1,642.4 budgeted positions for Fiscal Year 2007-08. This budget once again builds on the prior years' budgets that focused funding on public protection, health services needs and capital improvements.

The 2007-08 Final Adopted Budget is supported by \$3.6 billion in property taxes, \$4.0 billion in federal contributions, \$5.0 billion in State contributions, \$0.5 billion in cancelled reserves and designations, \$1.7 billion in fund balance and approximately \$3.0 billion in other funding.

The tables on the following pages summarize and compare the Final Adopted 2006-07 General County Budget with the Final Adopted 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 ⁽¹⁾	2007-08 Final Budget ⁽²⁾	Difference	Percentage Difference
REQUIREMENTS				
General				
General Government	\$ 933,933.0	\$ 920,567.0	\$ (13,366.0)	-1.43%
General Services	223,410.0	267,268.0	43,858.0	19.63%
Public Buildings	1,090,052.0	1,296,004.0	205,952.0	18.89%
Total General	\$ 2,247,395.0	\$ 2,483,839.0	\$ 236,444.0	10.52%
Public Protection				
Justice	\$ 3,880,726.0	\$ 4,291,636.0	\$ 410,910.0	10.59%
Other Public Protection	144,253.0	158,269.0	14,016.0	9.72%
Total Public Protection	\$ 4,024,979.0	\$ 4,449,905.0	\$ 424,926.0	10.56%
Health and Sanitation	4,930,299.0	5,307,606.0	377,307.0	7.65%
Public Assistance	4,749,055.0	4,991,495.0	242,440.0	5.11%
Recreation and Cultural Services	239,804.0	252,088.0	12,284.0	5.12%
Insurance and Loss Reserve	73,897.0	73,897.0	-	0.00%
Reserves/Designations	345,361.0	241,160.0	(104,201.0)	-30.17%
Debt Service	9,064.0	-	(9,064.0)	-100.00%
Appropriation for Contingency	-	-	-	0.00%
Total Requirements	\$ 16,619,854.0	\$ 17,799,990.0	\$ 1,180,136.0	7.10%
AVAILABLE FUNDS				
Property Taxes	\$ 3,246,500.0	\$ 3,628,517.0	\$ 382,017.0	11.77%
Fund Balance	1,073,017.0	1,706,356.0	633,339.0	59.02%
Cancelled Prior-Year Reserves	823,328.0	478,323.0	(345,005.0)	-41.90%
Intergovernmental Revenues				
State Revenues				
In-Lieu Taxes	\$ 509,881.0	\$ 500,934.0	\$ (8,947.0)	-1.75%
Homeowners' Exemption	20,500.0	20,500.0	-	0.00%
Public Assistance Subventions	1,477,021.0	1,612,354.0	135,333.0	9.16%
Other Public Assistance	545,937.0	546,203.0	266.0	0.05%
Public Protection	869,706.0	872,890.0	3,184.0	0.37%
Health and Mental Health	873,752.0	944,334.0	70,582.0	8.08%
Capital Projects	94,879.0	58,956.0	(35,923.0)	-37.86%
Other State Revenues	37,881.0	63,428.0	25,547.0	67.44%
Total State Revenues	\$ 4,429,557.0	\$ 4,619,599.0	\$ 190,042.0	4.29%
Federal Revenues				
Public Assistance Subventions	\$ 2,078,749.0	\$ 2,091,978.0	\$ 13,229.0	0.64%
Other Public Assistance	201,209.0	201,316.0	107.0	0.05%
Public Protection	139,274.0	153,181.0	13,907.0	9.99%
Health and Mental Health	604,163.0	686,471.0	82,308.0	13.62%
Capital Projects	3,581.0	2,555.0	(1,026.0)	-28.65%
Other Federal Revenues	2,396.0	2,340.0	(56.0)	-2.34%
Total Federal Revenues	\$ 3,029,372.0	\$ 3,137,841.0	\$ 108,469.0	3.58%
Other Governmental Agencies	99,937.0	92,302.0	(7,635.0)	-7.64%
Total Intergovernmental Revenues	\$ 7,558,866.0	\$ 7,849,742.0	\$ 290,876.0	
Fines, Forfeitures and Penalties	200,190.0	206,047.0	5,857.0	2.93%
Licenses, Permits and Franchises	54,364.0	56,880.0	2,516.0	4.63%
Charges for Services	2,031,307.0	2,156,523.0	125,216.0	6.16%
Other Taxes	192,960.0	199,577.0	6,617.0	3.43%
Use of Money and Property	130,166.0	152,657.0	22,491.0	17.28%
Miscellaneous Revenues	405,129.0	418,678.0	13,549.0	3.34%
Operating Contribution from General Fund	904,027.0	946,690.0	42,663.0	4.72%
Total Available Funds	\$ 16,619,854.0	\$ 17,799,990.0	\$ 1,180,136.0	7.10%

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

(2) Reflects the Final Adopted 2007-08 General County Budget approved by the Board of Supervisors on October 16, 2007.

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

Function	General Fund	Debt Service Fund	Hospital Enterprise Fund	Total General County
REQUIREMENTS				
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
Total General	\$ 2,247,395.0	\$ -	\$ -	2,247,395.0
Public Protection				
Justice	\$ 3,880,726.0	\$ -	\$ -	3,880,726.0
Other Public Protection	144,253.0	-	-	144,253.0
Total Public Protection	\$ 4,024,979.0	\$ -	\$ -	4,024,979.0
Health and Sanitation	\$ 3,157,252.0	\$ -	\$ 1,773,047.0	4,930,299.0
Public Assistance	4,749,055.0	-	-	4,749,055.0
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	-	-	-	-
Total Requirements	\$ 14,837,253.0	\$ 9,554.0	\$ 1,773,047.0	\$ 16,619,854.0
AVAILABLE FUNDS				
Property Taxes	\$ 3,241,133.0	\$ 5,367.0	\$ -	3,246,500.0
Fund Balance	1,069,828.0	3,189.0	-	1,073,017.0
Cancelled Prior-Year Reserves	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
Total State Revenues	\$ 4,377,133.0	\$ -	\$ 52,424.0	4,429,557.0
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
Total Federal Revenues	\$ 3,026,649.0	\$ -	\$ 2,723.0	3,029,372.0
Other Governmental Agencies	99,937.0	-	-	99,937.0
Total Intergovernmental Revenues	\$ 7,503,719.0	\$ -	\$ 55,147.0	7,558,866.0
Fines, Forfeitures and Penalties	200,190.0	-	-	200,190.0
Licenses, Permits and Franchises	54,364.0	-	-	54,364.0
Charges for Services	1,644,669.0	-	386,638.0	2,031,307.0
Other Taxes	192,960.0	-	-	192,960.0
Use of Money and Property	129,803.0	251.0	112.0	130,166.0
Miscellaneous Revenues	119,323.0	-	285,806.0	405,129.0
Operating Contribution from General Fund	-	-	904,027.0	904,027.0
Total Available Funds	\$ 14,837,253.0	\$ 9,554.0	\$ 1,773,047.0	\$ 16,619,854.0

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

COUNTY OF LOS ANGELES
FINAL ADOPTED 2007-08 GENERAL COUNTY BUDGET ⁽¹⁾
Net Appropriation: By Fund and Function
(In thousands)

Function	General Fund	Debt Service Fund	Hospital Enterprise Fund	Total General County
REQUIREMENTS				
General				
General Government	\$ 920,567.0	\$ -	\$ -	\$ 920,567.0
General Services	267,268.0	-	-	267,268.0
Public Buildings	1,296,004.0	-	-	1,296,004.0
Total General	\$ 2,483,839.0	\$ -	\$ -	\$ 2,483,839.0
Public Protection				
Justice	\$ 4,291,636.0	\$ -	\$ -	\$ 4,291,636.0
Other Public Protection	158,269.0	-	-	158,269.0
Total Public Protection	\$ 4,449,905.0	\$ -	\$ -	\$ 4,449,905.0
Health and Sanitation	\$ 3,488,616.0	\$ -	\$ 1,818,990.0	\$ 5,307,606.0
Public Assistance	4,991,495.0	-	-	4,991,495.0
Recreation and Cultural Services	252,088.0	-	-	252,088.0
Insurance and Loss Reserve	73,897.0	-	-	73,897.0
Reserves/Designations	241,160.0	-	-	241,160.0
Debt Service	-	-	-	-
Appropriation for Contingency	-	-	-	-
Total Requirements	\$ 15,981,000.0	\$ -	\$ 1,818,990.0	\$ 17,799,990.0
AVAILABLE FUNDS				
Property Taxes	\$ 3,628,517.0	\$ -	\$ -	\$ 3,628,517.0
Fund Balance	1,706,356.0	-	-	1,706,356.0
Cancelled Prior-Year Reserves	347,014.0	-	131,309.0	478,323.0
Intergovernmental Revenues				
State Revenues				
In-Lieu Taxes	\$ 500,934.0	\$ -	\$ -	\$ 500,934.0
Homeowners' Exemption	20,500.0	-	-	20,500.0
Public Assistance Subventions	1,612,354.0	-	-	1,612,354.0
Other Public Assistance	546,203.0	-	-	546,203.0
Public Protection	872,890.0	-	-	872,890.0
Health and Mental Health	893,662.0	-	50,672.0	944,334.0
Capital Projects	58,956.0	-	-	58,956.0
Other State Revenues	63,428.0	-	-	63,428.0
Total State Revenues	4,568,927.0	-	50,672.0	4,619,599.0
Federal Revenues				
Public Assistance Subventions	\$ 2,091,978.0	\$ -	\$ -	\$ 2,091,978.0
Other Public Assistance	201,316.0	-	-	201,316.0
Public Protection	153,181.0	-	-	153,181.0
Health and Mental Health	677,143.0	-	9,328.0	686,471.0
Capital Projects	2,555.0	-	-	2,555.0
Other Federal Revenues	2,340.0	-	-	2,340.0
Total Federal Revenues	\$ 3,128,513.0	\$ -	\$ 9,328.0	\$ 3,137,841.0
Other Governmental Agencies	92,302.0	-	-	92,302.0
Total Intergovernmental Revenues	\$ 7,789,742.0	\$ -	\$ 60,000.0	\$ 7,849,742.0
Fines, Forfeitures and Penalties	206,047.0	-	-	206,047.0
Licenses, Permits and Franchises	56,880.0	-	-	56,880.0
Charges for Services	1,744,459.0	-	412,064.0	2,156,523.0
Other Taxes	199,577.0	-	-	199,577.0
Use of Money and Property	152,474.0	-	183.0	152,657.0
Miscellaneous Revenues	149,934.0	-	268,744.0	418,678.0
Operating Contribution from General Fund	-	-	946,690.0	946,690.0
Total Available Funds	\$ 15,981,000.0	\$ -	\$ 1,818,990.0	\$ 17,799,990.0

(1) Reflects the 2007-08 Final Adopted General County Budget approved by the Board of Supervisors on October 16, 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 "situated" 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 2007-08 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 \$30,816,150,417 which constitutes less than 3.5% of the total full cash value for the entire County.

Taxpayer	Total Tax Levy 2007-08
Southern California Edison Co.	\$ 46,359,919
Maguire Thomas Partners	30,891,994
Douglas Emmett Realty Fund	29,914,916
Chevron USA Inc.	25,221,334
BP West Coast Products	24,351,548
Trizec LLC	21,133,764
AT&T California	20,812,533
Exxon Mobil Corporation	17,901,179
Southern California Edison Co.	16,293,919
Verizon California Inc.	15,915,832
Universal Studios Inc.	15,888,754
Conocophillips Company	15,289,776
Arden Realty LTD Partnership	15,160,600
Anheuser Busch Inc.	11,408,834
Valero Energy Corporation	11,105,528
McDonnell Douglas Corporation	10,866,043
Archstone Smith Operating Trust	9,923,595
Participants in Long Beach Unit	9,853,409
Equilon Enterprises LLC	9,412,777
Macerich LLC	9,038,443
	\$ 366,744,696

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 2003-04. For the Fiscal Year 2007-08, secured property tax collections are projected to be greater than \$2.25 billion.

COUNTY OF LOS ANGELES
COMPARISON OF FULL CASH VALUE
PROPERTY TAXATION AND COLLECTIONS
FISCAL YEARS 2003-04 THROUGH 2007-08

Fiscal Year	Full Cash Value ⁽¹⁾	General Fund Secured Property Tax Levies	General Fund Secured Property Tax Collections ⁽²⁾	Current Collection As a Percent of Levies %
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	2,139,425,148	2,059,971,381	96.29%
2007-08	953,468,123,997	2,339,026,262 ⁽³⁾	2,252,159,727 ⁽³⁾	96.29%

(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 2003-04 through 2007-08.

COMMUNITY REDEVELOPMENT AGENCY (CRA)
PROJECTS IN THE COUNTY OF LOS ANGELES
FULL CASH VALUE INCREMENTS AND TAX ALLOCATIONS
FISCAL YEARS 2003-04 THROUGH 2007-08

Fiscal Year	Full Cash Value Increments ⁽¹⁾	Total Tax Allocations ⁽²⁾
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	1,039,226,436
2007-08	127,113,321,984	530,033,901 ⁽³⁾

(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 January 31, 2008.

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 2007-08 Tax and Revenue Anticipation Notes (2007-08 Notes) which were issued on July 2, 2007 and are due June 30, 2008, have been repaid on their respective maturity dates.

Pursuant to California law and a resolution adopted by the Board of Supervisors on May 16, 2007, the \$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
Total	\$	522,375,000

* Reflects 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 2002-03.

2007-08 Tax and Revenue Anticipation Notes

COUNTY OF LOS ANGELES GENERAL FUND UNRESTRICTED GENERAL FUND RECEIPTS (in thousands)						
	2002-03	2003-04	2004-05	2005-06	2006-07	Estimated 2007-08
Property Taxes	\$1,652,678.0	\$1,797,267.0	\$2,599,369.0	\$2,933,232.0	3,426,681.0	\$3,456,826.6
Other Taxes	158,010.0	178,277.0	181,614.0	204,889.0	208,530.0	199,844.0
Licenses, Permits and Franchises	57,727.0	56,164.0	56,801.0	56,194.0	55,523.0	56,200.0
Fines, Forfeitures and Penalties	193,734.0	200,901.0	214,316.0	227,104.0	215,122.0	217,000.0
Use of Money and Property	80,675.0	66,362.0	81,391.0	180,511.0	273,149.0	242,400.0
State In-Lieu Taxes	1,111,455.0	997,003.0	507,114.0	465,913.0	471,401.0	526,912.0
State Homeowner Exemptions	20,726.0	20,514.0	21,558.0	21,528.0	21,468.0	21,500.0
Charges for Current Services	1,192,279.0	1,245,540.0	1,243,492.0	1,314,525.0	1,474,540.0	1,366,000.0
Miscellaneous Revenues	227,380.0	190,564.0	245,851.0	251,722.0	257,391.0	232,588.4
TOTAL UNRESTRICTED RECEIPTS	\$4,694,664.0	\$4,752,592.0	\$5,151,506.0	\$5,655,618.0	\$6,403,805.0	\$6,319,271.0

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 2006-07 General Fund cash flow statement has been included as well as the General Fund Cash Flow for 2007-08 with actual through January 2008. Please note that the County is forecasting an ending balance of \$712.6 million for the Fiscal Year 2007-08. These statements are shown on the pages immediately following the average daily balance tables.

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

**2006-07: 12 MONTHS ACTUAL
2007-08: 07 MONTHS ACTUAL**

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
PROPERTY TAX GROUP						
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
Subtotal	\$ 852,808.0	\$ 331,264.0	\$ 371,151.0	\$ 679,645.0	\$ 1,828,311.0	\$ 3,061,255.0
VARIOUS TRUST GROUP						
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
Subtotal	\$ 632,388.0	\$ 679,263.0	\$ 671,736.0	\$ 699,434.0	\$ 668,662.0	\$ 670,086.0
HOSPITAL GROUP						
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
Subtotal	\$ 99,941.0	\$ 110,613.0	\$ 119,826.0	\$ 2,836.0	\$ 118,015.0	\$ 113,103.0
GRAND TOTAL	\$ 1,585,137.0	\$ 1,121,140.0	\$ 1,162,713.0	\$ 1,381,915.0	\$ 2,614,988.0	\$ 3,844,444.0

Detail may not add due to rounding.

Source: Los Angeles County Auditor-Controller

January 2007	February 2007	March 2007	April 2007	May 2007	June 2007	
PROPERTY TAX GROUP						
\$ 633,818.0	\$ 459,949.0	\$ 515,809.0	\$ 1,094,109.0	\$ 693,081.0	\$ 178,482.0	Tax Collector's Trust Fund
523,825.0	462,721.0	471,105.0	1,210,195.0	313,478.0	250,632.0	Auditor Unapportioned Money
128,638.0	128,695.0	79,064.0	52,509.0	62,042.0	89,807.0	Unsecured Property Tax Fund
42,269.0	43,566.0	44,367.0	11,924.0	6,921.0	7,103.0	Miscellaneous Fees & Taxes
39,547.0	39,097.0	35,656.0	29,805.0	30,068.0	28,560.0	State Redemption Fund - TTC
31,271.0	19,916.0	1,405.0	95,409.0	(21,076.0)	90.0	Educ Rev Augmentation Fund
19,658.0	1,442.0	1,442.0	2,521.0	20,103.0	10,150.0	State Reimbursement Fund
76,646.0	463.0	11,485.0	34,084.0	64,168.0	0.0	Sales Tax Replacement Fund
356,367.0	11,840.0	61,688.0	163,884.0	295,534.0	0.0	VLF Replacement Fund
1,806.0	(3,612.0)	7,731.0	(18,514.0)	(14,566.0)	(4,287.0)	Rebate Fund
\$ 1,853,845.0	\$ 1,164,077.0	\$ 1,229,752.0	\$ 2,675,926.0	\$ 1,449,753.0	\$ 560,537.0	Subtotal
VARIOUS TRUST GROUP						
\$ 490,074.0	\$ 480,117.0	\$ 499,888.0	\$ 454,996.0	\$ 521,828.0	\$ 460,411.0	Departmental Trust Fund
128,399.0	95,860.0	104,194.0	106,113.0	104,610.0	119,441.0	Payroll Revolving Fund
33,394.0	33,409.0	33,416.0	33,000.0	34,567.0	35,185.0	Asset Dev't Implementation FD
8,502.0	8,909.0	8,906.0	8,996.0	9,276.0	9,011.0	Productivity Investment Fund
4,178.0	4,032.0	3,747.0	2,071.0	3,685.0	3,685.0	ACO Fund-Motor Vehicle/ISD
157.0	40.0	199.0	335.0	193.0	174.0	Civic Center Parking
740.0	1,149.0	866.0	670.0	1,047.0	870.0	Reporters Salary Fund
5,500.0	5,847.0	5,938.0	4,914.0	6,308.0	6,671.0	Cable TV Franchise Fund
25,639.0	25,936.0	26,390.0	25,253.0	27,227.0	27,608.0	Megaflex-Various
\$ 696,583.0	\$ 655,299.0	\$ 683,544.0	\$ 636,348.0	\$ 708,741.0	\$ 663,056.0	Subtotal
HOSPITAL GROUP						
\$ 1,026.0	\$ (1,299.0)	\$ 508.0	\$ 727.0	\$ 1,273.0	\$ (1,506.0)	Harbor/UCLA Medical Center
161.0	763.0	335.0	2,211.0	732.0	(1,194.0)	Olive View Medical Center
1,658.0	1,657.0	(305.0)	744.0	1,819.0	(4,019.0)	LAC + USC Medical Center
1,408.0	1,755.0	3,429.0	(281.0)	186.0	(1,271.0)	Martin Luther King Jr., Hospital
0.0	0.0	0.0	0.0	0.0	0.0	High Desert Hospital
929.0	812.0	(221.0)	386.0	438.0	1,904.0	South/West Network Hospital
114,831.0	115,311.0	115,977.0	116,177.0	114,929.0	112,951.0	ACO-LAC+USC Med Equip Fund
\$ 120,013.0	\$ 118,999.0	\$ 119,723.0	\$ 119,964.0	\$ 119,377.0	\$ 106,865.0	Subtotal
\$ 2,670,441.0	\$ 1,938,375.0	\$ 2,033,019.0	\$ 3,432,238.0	\$ 2,277,871.0	\$ 1,330,458.0	GRAND TOTAL

COUNTY OF LOS ANGELES

AVERAGE DAILY BALANCES: 2007-08

FUNDS AVAILABLE FOR INTRAFUND BORROWING (in thousands of \$)

	July 2007	August 2007	September 2007	October 2007	November 2007	December 2007
PROPERTY TAX GROUP						
Tax Collector's Trust Fund	\$ 168,159.0	\$ 151,430.0	\$ 141,849.0	\$ 452,072.0	\$ 1,254,437.0	\$ 1,992,142.0
Auditor Unapportioned Money	214,570.0	106,057.0	64,251.0	121,634.0	385,589.0	798,197.0
Unsecured Property Tax Fund	158,235.0	76,631.0	144,693.0	170,502.0	158,431.0	104,131.0
Miscellaneous Fees & Taxes	7,297.0	6,779.0	18,070.0	37,873.0	41,854.0	43,029.0
State Redemption Fund - TTC	44,149.0	69,219.0	64,458.0	66,165.0	76,435.0	63,838.0
Educ Rev Augmentation Fund	19,170.0	75,479.0	58,503.0	0.0	10,546.0	207,593.0
State Reimbursement Fund	0.0	0.0	0.0	0.0	469.0	9,849.0
Sales Tax Replacement Fund	0.0	1,631.0	14,759.0	25,353.0	26,039.0	49,806.0
VLF Replacement Fund	0.0	7,376.0	66,745.0	114,655.0	117,924.0	231,223.0
Rebate Fund	2,248.0	(8,596.0)	(15,494.0)	(13,789.0)	(14,325.0)	(13,671.0)
Subtotal	\$ 613,828.0	\$ 486,006.0	\$ 557,834.0	\$ 974,465.0	\$ 2,057,399.0	\$ 3,486,137.0
VARIOUS TRUST GROUP						
Departmental Trust Fund	\$ 476,194.0	\$ 492,246.0	\$ 452,828.0	\$ 467,907.0	\$ 467,320.0	402,289.0
Payroll Revolving Fund	123,329.0	104,305.0	105,104.0	103,550.0	103,530.0	107,525.0
Asset Dev't Implementation FD	36,084.0	24,772.0	24,672.0	24,814.0	25,219.0	25,246.0
Productivity Investment Fund	8,485.0	8,337.0	8,298.0	8,293.0	8,277.0	8,184.0
ACO Fund-Motor Vehicle/ISD	3,657.0	3,733.0	3,729.0	3,718.0	3,664.0	3,176.0
Civic Center Parking	(30.0)	34.0	132.0	124.0	225.0	113.0
Reporters Salary Fund	647.0	875.0	408.0	684.0	601.0	812.0
Cable TV Franchise Fund	6,752.0	6,893.0	7,114.0	7,139.0	7,433.0	7,558.0
Megaflex-Various	28,176.0	28,618.0	29,071.0	29,558.0	29,978.0	30,370.0
Subtotal	\$ 683,294.0	\$ 669,813.0	\$ 631,356.0	\$ 645,787.0	\$ 646,247.0	\$ 585,273.0
HOSPITAL GROUP						
Harbor/UCLA Medical Center	\$ 1,228.0	\$ 8,705.0	\$ 1,761.0	\$ 2,854.0	\$ 649.0	\$ (837.0)
Olive View Medical Center	(2,941.0)	(3,690.0)	2,222.0	1,573.0	(679.0)	703.0
LAC+USC Medical Center	(1,962.0)	6,416.0	351.0	2,045.0	(1,184.0)	(1,492.0)
Martin Luther King Jr., Hospital	1,458.0	245.0	778.0	4,256.0	(205.0)	760.0
High Desert Hospital	0.0	0.0	0.0	0.0	0.0	0.0
South/West Network Hospital	(190.0)	320.0	844.0	1,359.0	135.0	604.0
ACO-LAC+USC Med Equip Fund	113,394.0	113,631.0	112,249.0	112,413.0	112,929.0	112,658.0
Subtotal	\$ 110,987.0	\$ 125,627.0	\$ 118,205.0	\$ 124,500.0	\$ 111,645.0	\$ 112,396.0
GRAND TOTAL	\$1,408,109.0	\$ 1,281,446.0	\$ 1,307,395.0	\$1,744,752.0	\$ 2,815,291.0	\$ 4,183,806.0

Detail may not add due to rounding.

Source: Los Angeles County Auditor-Controller

January 2008	February 2008	March 2008	April 2008	May 2008	June 2008	
PROPERTY TAX GROUP						
\$ 950,084.0						Tax Collector's Trust Fund
352,649.0						Auditor Unapportioned Money
111,173.0						Unsecured Property Tax Fund
43,506.0						Miscellaneous Fees & Taxes
46,030.0						State Redemption Fund - TTC
33,848.0						Educ Rev Augmentation Fund
18,858.0						State Reimbursement Fund
96,369.0						Sales Tax Replacement Fund
453,189.0						VLF Replacement Fund
(12,693.0)						Rebate Fund
\$ 2,093,013.0	\$ -	\$ -	\$ -	\$ -	\$ -	Subtotal
VARIOUS TRUST GROUP						
\$ 418,889.0						Departmental Trust Fund
114,890.0						Payroll Revolving Fund
25,260.0						Asset Dev't Implementation FD
8,087.0						Productivity Investment Fund
2,920.0						ACO Fund-Motor Vehicle/ISD
142.0						Civic Center Parking
861.0						Reporters Salary Fund
7,563.0						Cable TV Franchise Fund
30,810.0						Megaflex-Variou
\$ 609,422.0	\$ -	\$ -	\$ -	\$ -	\$ -	Subtotal
HOSPITAL GROUP						
\$ (1,861.0)						Harbor/UCLA Medical Center
(1,020.0)						Olive View Medical Center
(1,107.0)						LAC + USC Medical Center
(527.0)						Martin Luther King Jr., Hospital
0.0						High Desert Hospital
(1,581.0)						South/West Network Hospital
112,053.0						ACO-LAC+USC Med Equip Fund
\$ 105,957.0	\$ -	\$ -	\$ -	\$ -	\$ -	Subtotal
\$ 2,808,392.0	\$ -	\$ -	\$ -	\$ -	\$ -	GRAND TOTAL



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

**2006-07: 12 MONTHS ACTUAL
2007-08: 07 MONTHS ACTUAL**

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
BEGINNING BALANCE	\$ 1,241,153.0	\$ 1,118,230.0	\$ 861,732.0	\$ 508,624.0	\$ 100,221.0	\$ (68,823.0)
RECEIPTS						
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	23,814.0	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
Total Receipts	\$ 1,378,318.0	\$ 737,238.0	\$ 632,846.0	\$ 833,185.0	\$ 972,040.0	\$ 1,814,787.0
DISBURSEMENTS						
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	174.0
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
Total Disbursements	\$ 1,501,241.0	\$ 993,736.0	\$ 985,954.0	\$ 1,241,588.0	\$ 1,141,084.0	\$ 1,102,940.0
ENDING BALANCE	\$ 1,118,230.0	\$ 861,732.0	\$ 508,624.0	\$ 100,221.0	\$ (68,823.0)	\$ 643,024.0

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
Ending Balance	0.0	0.0	0.0	0.0	0.0	174,000.0

*Detail may not add due to rounding.

January 2007	February 2007	March 2007	April 2007	May 2007	June 2007	Total 2006-07
\$ 845,828.4	\$ 1,244,232.4	\$ 1,026,082.4	\$ 733,242.4	\$ 822,218.4	\$ 1,671,999.3	
\$ 733,442.0	\$ 132,852.0	\$ 21,095.0	\$ 639,829.0	\$ 738,957.0	\$ 6,324.0	\$ 3,426,681.0
16,101.0	22,527.0	15,938.0	9,774.0	25,372.0	18,973.0	208,530.0
1,761.0	1,731.0	16,041.0	2,370.0	12,191.0	3,349.0	55,523.0
12,596.0	24,664.0	19,194.0	14,361.0	35,528.0	14,589.0	215,122.0
17,888.0	19,663.0	30,721.0	18,839.0	26,191.0	26,285.0	273,149.0
266,928.0	308,603.0	315,151.0	255,547.0	388,384.0	400,188.0	3,512,897.0
106,052.0	80,865.0	146,898.0	91,016.0	117,052.0	322,593.0	1,474,540.0
20,798.0	9,750.0	6,145.0	106,852.0	20,479.0	9,146.0	257,391.0
239,004.0	50,512.0	33,326.0	7,012.0	293,925.0	170,669.0	1,132,021.0
339,605.0	227,158.0	277,132.0	296,446.0	366,023.0	363,336.0	3,512,810.0
(4,258.0)	15,761.0	7,202.0	4,782.0	26,612.0	34,586.0	200,203.0
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	\$ 2,050,713.9	\$ 1,892,288.1	\$ 15,291,117.0
\$ 191,932.0	\$ 202,489.0	\$ 186,830.0	\$ 194,378.0	\$ 197,778.0	\$ 179,695.0	\$ 2,352,002.0
494,324.0	508,597.0	463,181.0	494,877.0	498,071.0	453,263.0	5,872,107.0
277,258.0	249,656.0	249,324.0	266,821.0	299,941.0	266,800.0	3,353,121.0
297,999.0	94,494.0	221,348.0	261,526.0	205,143.0	259,761.0	2,404,624.6
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	\$ 1,200,933.0	\$ 1,681,769.0	\$ 15,026,354.6
\$ 1,244,232.4	\$ 1,026,082.4	\$ 733,242.4	\$ 822,218.4	\$ 1,671,999.3	\$ 1,882,518.4	
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	519,944.0	0.0
264,000.0	321,000.0	382,000.0	522,250.0	522,250.0	2,306.0	522,250.0

COUNTY OF LOS ANGELES
GENERAL FUND CASH FLOW ANALYSIS
FISCAL YEAR 2007-08
(in thousands of \$)

	July 2007	August 2007	September 2007	October 2007	November 2007	December 2007
BEGINNING BALANCE	\$ 1,882,518.4	\$ 1,310,827.4	\$ 1,039,992.4	\$ 693,820.4	\$ 366,482.4	\$ 143,446.4
RECEIPTS						
PROPERTY TAXES	\$ 68,551.0	\$ 88,141.0	\$ -	\$ -	\$ 57,748.0	\$ 924,312.0
Sales and Other Taxes	14,221.0	23,663.0	17,054.0	7,458.0	8,657.0	21,794.0
Licenses, Permits & Franchises	2,202.0	9,374.0	2,395.0	1,279.0	2,757.0	1,499.0
Fines, Forfeitures & Penalties	31,154.0	23,859.0	12,708.0	14,007.0	20,302.0	12,735.0
Use of Money & Property	45,724.0	22,826.0	22,283.0	14,774.0	18,560.0	16,541.0
Intergovernmental Revenue	223,112.0	268,189.0	332,367.0	209,302.0	231,132.0	491,343.0
Charges for Current Services	130,349.0	104,891.0	101,687.0	87,442.0	96,261.0	147,889.0
Other Revenue	13,027.0	11,422.0	3,923.0	30,833.0	12,974.0	11,041.0
Expenditure Transfers and Reimbursements	8,640.0	1,734.0	89,405.0	99,336.0	182,644.0	15,117.0
Welfare Advances	268,902.0	229,277.0	253,860.0	436,169.0	318,482.0	219,172.0
Other Receipts	122,723.0	41,985.0	3,816.0	3,217.0	14,909.0	10,373.0
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
Total Receipts	\$ 1,428,605.0	\$ 825,361.0	\$ 839,498.0	\$ 903,817.0	\$ 964,426.0	\$ 1,871,816.0
DISBURSEMENTS						
Welfare Warrants	\$ 182,454.0	\$ 183,122.0	\$ 219,800.0	\$ 223,722.0	\$ 219,002.0	\$ 191,419.0
Salaries & Employee Benefits	1,234,188.0	376,356.0	515,923.0	509,751.0	490,498.0	535,410.0
Services & Supplies and Fixed Assets	412,704.0	318,421.0	261,414.0	272,934.0	322,459.0	303,988.0
Interfund Billings	170,950.0	218,297.0	188,533.0	224,728.0	155,503.0	218,543.0
TRANS Pledge Transfer	0.0	0.0	0.0	0.0	0.0	174.0
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
Total Disbursements	\$ 2,000,296.0	\$ 1,096,196.0	\$ 1,185,670.0	\$ 1,231,135.0	\$ 1,187,462.0	\$ 1,249,534.0
ENDING BALANCE	\$ 1,310,827.4	\$ 1,039,992.4	\$ 693,820.4	\$ 366,502.4	\$ 143,446.4	\$ 765,728.4

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
Ending Balance	0.0	0.0	0.0	0.0	0.0	174,000.0

*Detail may not add due to rounding.

January 2008	Estimated February 2008	Estimated March 2008	Estimated April 2008	Estimated May 2008	Estimated June 2008	Estimated Total 2007 -08
\$ 591,902.4	\$ 1,150,831.4	\$ 841,337.2	\$ 502,930.2	\$ 777,792.3	\$ 1,051,358.3	
\$ 792,694.0	\$ 134,501.8	\$ 21,587.0	\$ 687,285.9	\$ 651,978.6	\$ 30,027.3	\$ 3,456,826.6
20,710.0	24,385.8	17,377.1	10,813.5	18,651.7	15,058.9	199,844.0
1,150.0	1,775.2	16,450.6	2,430.5	7,953.8	6,933.9	56,200.0
12,103.0	19,010.9	14,794.6	11,069.4	22,687.1	22,570.1	217,000.0
21,614.0	14,406.6	23,225.1	14,203.1	11,541.2	16,702.0	242,400.0
218,592.0	310,025.7	276,827.4	247,628.3	340,532.9	356,740.7	3,505,792.0
141,364.0	66,488.2	122,626.9	78,414.7	141,229.3	147,377.9	1,366,000.0
14,657.0	8,861.1	5,584.8	106,343.2	7,083.4	6,839.0	232,588.4
46,375.0	50,229.6	36,554.8	159,072.3	12,630.1	114,293.6	816,031.4
354,331.0	237,434.6	278,880.7	297,528.3	294,898.0	297,114.6	3,486,049.2
14,419.0	15,687.0	7,168.2	4,759.5	6,031.5	4,911.9	250,000.0
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
\$ 1,638,009.0	\$ 882,806.4	\$ 821,077.2	\$ 1,619,548.7	\$ 1,515,217.5	\$ 1,540,944.8	\$ 14,851,106.6
\$ 205,132.0	\$ 236,604.0	\$ 219,250.1	\$ 227,708.5	\$ 234,385.9	\$ 229,465.9	\$ 2,572,065.4
442,531.0	530,929.1	474,092.1	513,141.0	511,143.0	474,138.0	6,608,100.2
279,647.0	261,883.4	261,546.9	279,280.7	325,775.1	310,896.8	3,610,950.0
61,770.0	105,884.1	143,595.1	184,181.5	170,347.4	342,777.5	2,185,109.5
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
\$ 1,079,080.0	\$ 1,192,300.6	\$ 1,159,484.2	\$ 1,344,686.7	\$ 1,241,651.5	\$ 1,879,653.2	\$ 16,020,975.1
\$ 1,150,831.4	\$ 841,337.2	\$ 502,930.2	\$ 777,792.3	\$ 1,051,358.3	\$ 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

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 January 31, 2008, 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	\$8.404
Schools and Community Colleges	11.530
Independent Public Agencies	1.759
Total	\$21.693

Of these entities, the involuntary participants accounted for approximately 91.89%, and all discretionary participants accounted for 8.11% 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 February 29, 2008, the January 31, 2008 book value of the Treasury Pool was approximately \$21.693 billion and the corresponding market value was approximately \$21.790 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 January 31, 2008, approximately 54.99% of the investments mature within 60 days,

with an average of 500.64 days to maturity for the entire portfolio. The following table identifies the types of securities held by the Treasury Pool as of January 31, 2008:

Type of Investment	% of Pool
U.S. Government and Agency Obligations	37.62
Certificates of Deposit	19.56
Commercial Paper	34.70
Bankers Acceptances	0.00
Municipal Obligations	0.18
Corporate Notes & Deposit Notes	7.93
Asset Backed Instruments	0.00
Repurchase Agreements	0.00
Other	0.01

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, 2007, and the unqualified opinion of Macias Gini & O'Connell 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 2006-07 is the sixth 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 2007-08 County Budget has been adopted and included an available (unreserved and undesignated) fund balance of \$1,706,357,000 as of June 30, 2007 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 9 to the 2006-07 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, 2007 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 2002-03 and provide a history of revenue and expenditure statement for the General Fund over the same period.

COUNTY OF LOS ANGELES
GENERAL FUND
RECONCILIATION OF FUND BALANCE FROM BUDGETARY TO GAAP BASIS
JUNE 30, 2007 (in thousands of \$)

Actual Available (Unreserved and Undesignated) Fund Balance - Budgetary Basis	\$	1,706,357
Adjustments:		
Accrual of budgetary liabilities for litigation and self-insurance claims which are not required by GAAP		51,619
Accrual of liabilities for accrued vacation and sick leave, which are not required by GAAP		36,916
Change in revenue accruals related to encumbrances		(30,468)
Deferral of property tax receivables		(105,085)
Deferral of unearned investment income		(10,936)
Deferral of sale of tobacco settlement revenue		(278,260)
Change in fair value of Investments		(3,304)
		<hr/>
Available (Unreserved and Undesignated) Fund Balance - GAAP Basis	\$	1,366,839

COUNTY OF LOS ANGELES**BALANCE SHEET AT JUNE 30, 2003, 2004, 2005, 2006 and 2007.****GENERAL FUND-GAAP BASIS (in thousands of \$)****ASSETS**

	June 30, 2003	June 30, 2004	June 30, 2005	June 30, 2006	June 30, 2007
Pooled Cash and Investments	\$ 1,566,544	\$ 1,767,764	\$ 2,134,177	\$ 2,506,016	\$ 2,668,854
Other Investments	7,490	7,116	6,594	6,502	6,400
Taxes Receivable	165,472	169,996	187,441	208,279	248,095
Other Receivables	922,382	979,784	1,102,712	1,285,684	1,357,683
Due from Other Funds	447,456	454,899	556,210	219,448	370,124
Advances to Other Funds	304,528	272,228	445,337	541,699	400,280
Inventories	33,230	29,843	39,713	42,562	42,561
Total Assets	\$ 3,447,102	\$ 3,681,630	\$ 4,472,184	\$ 4,810,190	\$ 5,093,997

LIABILITIES

Accounts Payable	\$ 304,857	\$ 238,415	\$ 241,753	\$ 272,245	\$ 300,087
Accrued Payroll	310,698	314,676	328,578	350,421	392,779
Other Payables	188,952	218,132	62,092	67,912	86,055
Due to Other Funds	524,204	615,635	1,001,456	800,615	602,358
Deferred Revenue	231,357	216,796	259,897	275,198	338,714
Advances Payable	162,673	167,613	235,029	286,860	278,023
Third-Party Payor liability	26,631	22,636	16,650	18,661	15,537
Total Liabilities	\$ 1,749,372	\$ 1,793,903	\$ 2,145,455	\$ 2,071,912	\$ 2,013,553

EQUITY

Fund Balance (Deficit)					
Reserved	\$ 382,758	\$ 350,565	\$ 400,627	\$ 422,055	\$ 478,280
Unreserved					
Designated	668,807	659,006	1,017,026	1,522,411	1,235,325
Undesignated	646,165	878,156	909,076	793,812	1,366,839
Total Unreserved	1,314,972	1,537,162	1,926,102	2,316,223	2,602,164
Total Equity	1,697,730	1,887,727	2,326,729	2,738,278	3,080,444
Total Liabilities and Equity	\$ 3,447,102	\$ 3,681,630	\$ 4,472,184	\$ 4,810,190	\$ 5,093,997

Sources: Comprehensive Annual Financial Reports for fiscal years ended June 30, 2003, 2004, 2005, 2006 and 2007.

COUNTY OF LOS ANGELES
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GENERAL FUND-GAAP BASIS FISCAL YEARS 2002-03 THROUGH 2006-07 (in thousands of \$)

	2002-03	2003-04	2004-05	2005-06	2006-07
REVENUES:					
Taxes	\$ 1,813,882	\$ 1,987,861	\$ 2,816,095	\$ 3,217,726	\$ 3,572,932
Licenses, Permits & Franchises	53,915	57,236	58,422	61,080	61,138
Fines, Forfeitures and Penalties	189,982	202,648	220,622	232,762	234,747
Use of Money and Property	77,518	62,919	103,863	226,005	294,511
Aid from Other Government	7,268,697	7,218,003	6,818,550	7,025,205	7,050,121
Charges for Services	1,206,260	1,221,951	1,272,536	1,357,380	1,467,608
Miscellaneous Revenues	233,379	255,183	207,201	211,059	189,636
TOTAL	\$ 10,843,633	\$ 11,005,801	\$ 11,497,289	\$ 12,331,217	\$ 12,870,693
EXPENDITURES					
General	\$ 633,292	\$ 657,184	\$ 634,113	\$ 751,214	\$ 854,052
Public Protection	2,956,753	3,095,417	3,239,152	3,473,835	3,855,819
Health and Sanitation	1,743,716	1,813,290	1,844,546	2,004,361	2,126,233
Public Assistance	4,328,436	4,203,618	4,257,038	4,333,920	4,410,224
Recreation and Cultural Services	162,201	170,171	172,338	197,749	217,221
Debt Service	234,982	239,648	256,826	285,640	294,301
Capital Outlay	21,480	28,312	7,329	22,533	818
Total	\$ 10,080,860	\$ 10,207,640	\$ 10,411,342	\$ 11,069,252	\$ 11,758,668
EXCESS (DEFICIENCY)					
OF REVENUES OVER EXPENDITURES		\$ 635,993	\$ 1,085,947	\$ 1,261,965	\$ 1,112,025
OTHER FINANCING SOURCES (USES):					
Operating Transfers from (to)					
Other Funds-Net	\$ (600,548)	\$ (639,110)	\$ (657,058)	\$ (874,946)	\$ (771,788)
Sales of Capital Assets	1,671	2,634	2,784	1,997	1,111
Capital Leases	21,480	28,312	7,329	22,533	818
OTHER FINANCING SOURCES (USES)-Net	\$ (577,397)	\$ (608,164)	\$ (646,945)	\$ (850,416)	\$ (769,859)
Excess (Deficiency) of Revenues					
and other Sources Over					
Expenditures and Other Uses	\$ 185,376	\$ 189,997	\$ 439,002	\$ 411,549	\$ 342,166
Beginning Fund Balance	1,512,354	1,697,730	1,887,727	2,326,729	2,738,278
Residual Equity Transfers from (to) Other					
Funds-Net	0	0	0	0	0
Ending Fund Balance	\$ 1,697,730	\$ 1,887,727	\$ 2,326,729	\$ 2,738,278	\$ 3,080,444

Sources: Comprehensive Annual Financial Reports for fiscal years ended June 30, 2003, 2004, 2005, 2006 and 2007.

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, 2007, approximately \$1.44 billion in intermediate and long-term obligations were outstanding. The General Fund is responsible for \$540.8 million of the outstanding debt. State and federal subventions secured \$147.9 million in outstanding obligations. Revenues from special districts, special funds, enterprise funds, and trust funds secured the remaining \$753.1 million in outstanding obligations.

Of the \$518.6 million in payments due in 2007-08 for intermediate and long-term obligations outstanding as of July 1, 2007, only \$188.9 million are funded by the General Fund. The table below identifies the funding sources for the debt payments due in 2007-08.

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

2007-08 Payments (As of July 1, 2007)

Funding Source	2007-08 Payment
Total 2006-07 Payment Obligation	\$518,563,096
Less: Sources of Non-General Fund Entities:	
Hospital Enterprise Fund	134,812,633
Courthouse Construction Funds	32,316,471
Special Districts/Special Funds	39,725,924
Trial Court Trust Fund	19,615,534
State & Federal Subventions	103,232,361
Net 2007-08 General Fund Obligation	\$188,860,172

Source: Los Angeles County Chief Executive Office

The County's outstanding General County intermediate and long-term debt declined to approximately \$1.2 billion in principal as of February 1, 2008 reflecting debt issuance and payment activity during the fiscal year. An additional \$500.0 million in Tax and Revenue Anticipation Notes, \$40.0 million in Bond Anticipation Notes, and \$77.5 million in Tax-Exempt Commercial Paper were also outstanding as of February 1, 2008. The table below summarizes the outstanding General County debt and note obligations.

COUNTY OF LOS ANGELES SUMMARY OF OUTSTANDING PRINCIPAL

As of February 1, 2008 (in thousands)

Type of Obligation	Outstanding Principal
Total County	
Short-Term Obligations:	
Tax and Revenue Anticipation Notes	\$ 500,000.0
Bond Anticipation Notes	40,000.0
Tax-Exempt Commercial Paper	77,500.0
Intermediate & Long-Term Obligations	
Pension Obligations	(1) 352,255.4
Lease Obligations	815,479.5
Total Outstanding Principal	\$ 1,785,234.9

(1) Does not include \$194.6 million in principal payments that were deposited with trustees in advance, but will not be disbursed to bondholders until June 30, 2008.

Source: Los Angeles County Chief Executive 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 15, 2007, the County, on July 2, 2007, issued its 2007-08 Tax and Revenue Anticipation Notes (the "2007-08 Notes") in the principal amount of \$500.0 million, and with a maturity date of June 30, 2008. The 2007-08 Notes are secured by a pledge of the first unrestricted taxes, income, revenue, and cash receipts received by the County during the 2007-08 fiscal year in amounts, and on dates specified in the Cash Management Section of this Appendix. Under the authorization for the 2007-08 Notes, the County retains the ability to issue up to an additional \$200.0 million in 2007-08 Notes. The County does not intend to issue any additional 2007-08 Tax and Revenue Anticipation Notes. Deposit obligations to the Repayment Fund for the 2007-08 Notes will be satisfied in full in April 2008.

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 February 1, 2008, \$40.0 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 March 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 February 1, 2008, \$77.5 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. The bonds matured and were paid off on June 1, 2007. The County does not presently have any general obligation debt authorization.

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 February 1, 2008, the County had approximately \$546.8 million in outstanding bonds and certificates that were issued to finance unfunded actuarial accrued liabilities to its retirement system. Payment of approximately \$194.6 million of these bonds and certificates was provided for in July 2007 by the County for those obligations maturing on June 30, 2008. 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 February 1, 2008, approximately \$800 million 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 2007-08 Budget contains sufficient appropriations to fund its 2007-08 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 0.180% in 2006 to 0.151% in 2007. The following table provides the ratio of the General Fund's outstanding debt to total assessed valuation over the past ten years.

COUNTY OF LOS ANGELES

DEBT RATIOS - Principal as a percent of total valuation on July 1 INTERMEDIATE AND LONG-TERM OBLIGATIONS

Year	Outstanding Principal	Total Assessed Valuation	% of Principal to Valuation
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%
2007	1,441,826,104	953,468,123,997	0.151%

Source: Los Angeles County Chief Executive 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 2007-08 payments on General County obligations by funding source and debt issue;
4. A detail of the principal outstanding in 2007-08 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 and Special Fund long and intermediate term debt obligations as of February 1, 2008 ; and
6. The County's overlapping debt statement as of February 1, 2008.

COUNTY OF LOS ANGELES
DEBT SUMMARY TABLES

REPORTS AS OF JULY 1, 2007

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

REPORTS AS OF FEBRUARY 1, 2008

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, 2007			
Fiscal Year	Pension Obligation Certificates	Other Bonds	Total Debt Service
2007-08	381,602,899	136,960,197	518,563,096
2008-09	320,338,646	121,208,171	441,546,817
2009-10	358,165,000	114,920,129	473,085,129
2010-11	372,130,000	101,650,195	473,780,195
2011-12	-	101,438,026	101,438,026
2012-13	-	91,339,582	91,339,582
2013-14	-	92,176,678	92,176,678
2014-15	-	88,130,823	88,130,823
2015-16	-	70,608,481	70,608,481
2016-17	-	51,908,479	51,908,479
2017-18	-	40,415,028	40,415,028
2018-19	-	41,297,796	41,297,796
2019-20	-	42,193,494	42,193,494
2020-21	-	43,125,344	43,125,344
2021-22	-	44,105,663	44,105,663
2022-23	-	41,123,113	41,123,113
2023-24	-	16,943,875	16,943,875
2024-25	-	16,933,500	16,933,500
2025-26	-	16,929,000	16,929,000
2026-27	-	16,918,875	16,918,875
2027-28	-	16,906,750	16,906,750
2028-29	-	16,905,750	16,905,750
2029-30	-	16,893,613	16,893,613
2030-31	-	9,432,600	9,432,600
2031-32	-	9,431,488	9,431,488
2032-33	-	6,918,000	6,918,000
2033-34	-	6,918,750	6,918,750
2034-35	-	-	-
2035-36	-	-	-
2036-37	-	-	-
2037-38	-	-	-
2038-39	-	-	-
Total	\$ 1,432,236,545	\$ 1,373,733,397	\$2,805,969,941
COUNTY OF LOS ANGELES OUTSTANDING PRINCIPAL OBLIGATIONS AS OF JULY 1, 2007			
Fiscal Year	Pension Obligation Certificates	Other Bonds	Total Outstanding Principal
2007-08	546,849,148	894,976,956	1,441,826,104
2008-09	352,255,398	804,862,785	1,157,118,184
2009-10	235,690,862	724,436,193	960,127,055
2010-11	118,486,192	647,725,838	766,212,030
2011-12	-	582,157,754	582,157,754
2012-13	-	514,567,758	514,567,758
2013-14	-	454,942,515	454,942,515
2014-15	-	392,542,430	392,542,430
2015-16	-	332,205,289	332,205,289
2016-17	-	287,863,098	287,863,098
2017-18	-	261,578,779	261,578,779
2018-19	-	246,838,152	246,838,152
2019-20	-	231,520,857	231,520,857
2020-21	-	215,603,886	215,603,886
2021-22	-	190,725,000	190,725,000
2022-23	-	155,450,000	155,450,000
2023-24	-	121,425,000	121,425,000
2024-25	-	110,200,000	110,200,000
2025-26	-	98,410,000	98,410,000
2026-27	-	86,020,000	86,020,000
2027-28	-	73,005,000	73,005,000
2028-29	-	59,335,000	59,335,000
2029-30	-	44,965,000	44,965,000
2030-31	-	29,895,000	29,895,000
2031-32	-	21,735,000	21,735,000
2032-33	-	13,170,000	13,170,000
2033-34	-	6,750,000	6,750,000
2034-35	-	-	-
2035-36	-	-	-
2036-37	-	-	-
2037-38	-	-	-
2038-39	-	-	-
Source: Los Angeles County Chief Executive Office			

COUNTY OF LOS ANGELES COMBINED PRINCIPAL AND INTEREST OBLIGATIONS BY FUNDING SOURCE AS OF JULY 1, 2007							
Fiscal Year	General Fund	Hospital Enterprise Fund	Courthouse Construction Fund	Special Districts / Special Funds	Trial Court Trust Fund	State/Federal Subvention	Total Annual Debt Service
2007-08	188,860,172	134,812,633	32,316,471	39,725,924	19,615,534	103,232,361	518,563,096
2008-09	166,912,211	106,049,798	31,972,781	33,486,687	16,466,367	86,658,971	441,546,817
2009-10	175,702,434	112,681,604	32,545,578	36,852,887	18,410,755	96,891,870	473,085,129
2010-11	170,050,624	114,862,326	30,988,835	38,080,088	19,128,598	100,669,724	473,780,195
2011-12	48,271,930	18,400,555	31,546,195	3,219,346	-	-	101,438,026
2012-13	45,246,913	17,098,045	25,708,978	3,285,646	-	-	91,339,582
2013-14	44,406,911	17,098,477	27,323,569	3,347,721	-	-	92,176,677
2014-15	42,083,109	16,118,727	26,513,278	3,415,709	-	-	88,130,822
2015-16	27,014,874	14,471,134	25,636,390	3,486,084	-	-	70,608,481
2016-17	20,801,284	5,684,932	21,867,430	3,554,834	-	-	51,908,479
2017-18	19,814,394	-	16,975,475	3,625,159	-	-	40,415,028
2018-19	20,624,681	-	16,976,475	3,696,640	-	-	41,297,796
2019-20	21,454,019	-	16,965,725	3,773,750	-	-	42,193,494
2020-21	22,321,744	-	16,957,350	3,846,250	-	-	43,125,344
2021-22	23,224,363	-	16,954,300	3,927,000	-	-	44,105,663
2022-23	24,171,488	-	16,951,625	-	-	-	41,123,113
2023-24	-	-	16,943,875	-	-	-	16,943,875
2024-25	-	-	16,933,500	-	-	-	16,933,500
2025-26	-	-	16,929,000	-	-	-	16,929,000
2026-27	-	-	16,918,875	-	-	-	16,918,875
2027-28	-	-	16,906,750	-	-	-	16,906,750
2028-29	-	-	16,905,750	-	-	-	16,905,750
2029-30	-	-	16,893,613	-	-	-	16,893,613
2030-31	-	-	9,432,600	-	-	-	9,432,600
2031-32	-	-	9,431,488	-	-	-	9,431,488
2032-33	-	-	6,918,000	-	-	-	6,918,000
2033-34	-	-	6,918,750	-	-	-	6,918,750
2034-35	-	-	-	-	-	-	-
2035-36	-	-	-	-	-	-	-
2036-37	-	-	-	-	-	-	-
2037-38	-	-	-	-	-	-	-
2038-39	-	-	-	-	-	-	-
2039-40	-	-	-	-	-	-	-
Total	\$1,060,961,149	\$557,278,230	\$539,332,655	\$187,323,725	\$73,621,255	\$387,452,927	\$2,805,969,941

COUNTY OF LOS ANGELES OUTSTANDING PRINCIPAL OBLIGATIONS BY FUNDING SOURCE AS OF JULY 1, 2007							
Fiscal Year	General Fund	Hospital Enterprise Fund	Courthouse Construction Fund	Special Districts / Special Funds	Trial Court Trust Fund	State/Federal Subvention	Total Outstanding Principal
2007-08	540,809,412	297,112,966	339,022,443	88,836,324	28,109,687	147,935,271	1,441,826,104
2008-09	434,128,117	217,328,362	323,940,886	68,320,646	18,106,984	95,293,187	1,157,118,184
2009-10	352,041,065	169,540,332	307,153,411	55,517,230	12,115,217	63,759,799	960,127,055
2010-11	272,285,120	123,999,461	289,019,920	42,763,744	6,090,546	32,053,240	766,212,030
2011-12	201,756,861	78,874,248	271,616,645	29,910,000	-	-	582,157,754
2012-13	169,884,292	63,799,178	252,834,288	28,050,000	-	-	514,567,758
2013-14	140,450,877	49,377,538	239,074,099	26,040,000	-	-	454,942,515
2014-15	111,373,618	34,279,455	223,014,358	23,875,000	-	-	392,542,430
2015-16	84,203,277	19,440,996	207,011,017	21,550,000	-	-	332,205,289
2016-17	72,115,806	5,556,353	191,140,939	19,050,000	-	-	287,863,098
2017-18	66,818,779	-	178,385,000	16,375,000	-	-	261,578,779
2018-19	63,298,152	-	170,020,000	13,520,000	-	-	246,838,152
2019-20	59,820,857	-	161,225,000	10,475,000	-	-	231,520,857
2020-21	56,388,886	-	151,990,000	7,225,000	-	-	215,603,886
2021-22	44,695,000	-	142,290,000	3,740,000	-	-	190,725,000
2022-23	23,340,000	-	132,110,000	-	-	-	155,450,000
2023-24	-	-	121,425,000	-	-	-	121,425,000
2024-25	-	-	110,200,000	-	-	-	110,200,000
2025-26	-	-	98,410,000	-	-	-	98,410,000
2026-27	-	-	86,020,000	-	-	-	86,020,000
2027-28	-	-	73,005,000	-	-	-	73,005,000
2028-29	-	-	59,335,000	-	-	-	59,335,000
2029-30	-	-	44,965,000	-	-	-	44,965,000
2030-31	-	-	29,895,000	-	-	-	29,895,000
2031-32	-	-	21,735,000	-	-	-	21,735,000
2032-33	-	-	13,170,000	-	-	-	13,170,000
2033-34	-	-	6,750,000	-	-	-	6,750,000
2034-35	-	-	-	-	-	-	-
2035-36	-	-	-	-	-	-	-
2036-37	-	-	-	-	-	-	-
2037-38	-	-	-	-	-	-	-
2038-39	-	-	-	-	-	-	-
2039-40	-	-	-	-	-	-	-

Source: Los Angeles County Chief Executive Office

COUNTY OF LOS ANGELES COMBINED PRINCIPAL AND INTEREST OBLIGATIONS BY FUNDING SOURCE AS OF JULY 1, 2007							
Title	Total Debt Service	General Fund	Hospital Enterprise Fund	Courthouse Construction Fund	Special Districts / Special Funds	Trial Court Trust Fund	State / Federal Subvention
Long-Term Obligations							
Pension Obligation Certificates							
1986 Pension Ob Certs, Ser A: LACERA Funding	86,311,060	28,054,547	22,371,309		8,099,430	4,436,647	23,349,127
1994 Pension Ob Certs, Ser C: LACERA Funding	250,790,000	81,516,782	65,003,263		23,534,134	12,891,358	67,844,463
1994 Pension Ob Certs, Ser D: LACERA Funding	44,501,839	14,464,878	11,534,610		4,176,053	2,287,528	12,038,771
Total Pension Obligation Certificates	381,602,899	124,036,206	98,909,182	0	35,809,616	19,615,534	103,232,361
Long-Term Capital Projects							
1992 Lease Rev Refg Bonds, 1992 Master Refg Proj:							
Civic Center Heating & Refrigeration Plant	5,867,290	5,867,290					
Downey Courthouse	975,525			975,525			
LeSage Complex	746,569	746,569					
Olive View Medical Center	10,323,244		10,323,244				
Sheriffs Training Academy	820,587	820,587					
San Fernando Court	1,374,426			1,374,426			
Total 1992 Lease Rev Refg Bonds, 1992 Master Refg Proj	20,107,640	7,434,446	10,323,244	2,349,951	0	0	0
1993 COPs: Disney Parking Project	9,060,000	9,060,000					
1998 Refg COPs: Disney Parking Project	3,075,990	3,075,990					
2002 Lease Rev Bonds Ser A: Edmund D. Edelman Children's Court	3,628,425			3,628,425			
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	763,331	0	0	0
2005 Lease Rev Refg Bonds Ser A:							
Music Center Improvements	772,839	772,839					
Alhambra Courthouse	583,261			583,261			
Burbank Courthouse	759,353			759,353			
Ameron Building (Sheriff Headquarters)	2,507,509	2,507,509					
Biscailuz Center	225,034	225,034					
Emergency Operations Center	1,967,422	1,967,422					
Harbor/UCLA Medical Center - Primary Care & Diagnostic Center	1,487,022		1,487,022				
Martin Luther King Medical Center - Trauma Center	6,228,981		6,228,981				
Martin Luther King Medical Center - Central Plant	0		0				
Martin Luther King Medical Center - Modular Building (Ped. Trauma)	106,279		106,279				
Rancho Los Amigos Medical Center - 150 Bed Inpatient Unit A	4,399,545		4,399,545				
Rancho Los Amigos Medical Center - Parking Structure	1,642,645		1,642,645				
Rancho Los Amigos Medical Center - Central Plant	0		0				
Rancho Los Amigos Medical Center - Master Plan II (Utilities)	689,093		689,093				
San Fernando Valley Juvenile Hall	976,338	976,338					
LAC/USC Medical Center Marengo Street Parking Garage	2,599,913		2,599,913				
LAX Area Courthouse	6,949,040			6,949,040			
San Fernando Valley Courthouse (Chatsworth)	5,502,470			5,502,470			
Harbor Med Center E.P.S.	1,252,493		1,252,493				
Total 2005 Lease Rev Refg Bonds Ser A	38,649,239	6,449,142	18,405,972	13,794,124	0	0	0
2005 Lease Revenue Bonds: Calabasas Landfill Project	2,973,359				2,973,359		
2006 Lease Rev Refg Bonds Ser A:							
East Los Angeles Courthouse	1,183,720			1,183,720			
Fire Command and Control System	540,050				540,050		
Lost Hills Sheriffs Station	887,970	887,970					
Mira Loma Boy's Camp	2,701,282	2,701,282					
LAC/USC Intensive Care Unit	197,327		197,327				
Martin Luther King, Jr. Medical Center Parking Structure	432,862		432,862				
Mid Valley Health Center	778,184		778,184				
Lynwood Regional Justice Center	10,151,179	10,151,179					
Men's Central Jail - Twin Towers	9,577,204	9,577,204					
Pitchess Honor Rancho: Medium Security - N Facility Air Conditioning	687,649	687,649					
Pitchess Honor Rancho: Medium Security - N Facility Sewer System	207,939	207,939					
Pitchess Honor Rancho: Medium Security - N Facility Water Treatment	836,261	836,261					
Pitchess Honor Rancho: Medium Security - N Facility Debris Basin	195,250	195,250					
Pitchess Honor Rancho: Vehicle Maintenance Facility	492,399	492,399					
Men's Central Jail Parking Structure	2,211,863	2,211,863					
Hutton Building - Registrar / Recorder Headquarters	2,786,742	2,786,742					
Pomona Municipal Courthouse	446,554			446,554			
Pitchess Honor Rancho Laundry Expansion	216,803	216,803					
Pitchess Honor Rancho Visitors Center	535,624	535,624					
Mira Loma Men's Medium Security Facility	383,379	383,379					
Temple City Sheriff Station	918,228	918,228					
Van Nuys Courthouse	3,228,315			3,228,315			
Public Library Headquarters	402,899				402,899		
Total 2006 Lease Rev Refg Bonds Ser A	39,999,681	32,789,771	1,408,372	4,858,589	942,949	0	0
2006 Lease Rev Refg Bonds Ser B	6,922,051			6,922,051			
Total Long-Term Capital Projects	125,444,185	59,073,817	30,137,588	32,316,471	3,916,308	0	0
Total Long-Term Obligations	507,047,084	183,110,023	129,046,770	32,316,471	39,725,924	19,615,534	103,232,361
Intermediate-Term Obligations							
Equipment							
2004 Lease Rev Bonds Ser A (LAC-CAL): LAC-CAL Equipment Program	1,078,313	646,988	431,325				
2006 Lease Rev Bonds Ser A (LAC-CAL): LAC-CAL Equipment Program	10,437,700	5,103,161	5,334,539				
Total Equipment	11,516,013	5,750,149	5,765,864	0	0	0	0
Total Intermediate-Term Obligations	11,516,013	5,750,149	5,765,864	0	0	0	0
Total Obligations	518,563,097	188,860,172	134,812,633	32,316,471	39,725,924	19,615,534	103,232,361

Source: Los Angeles County Chief Executive Office

COUNTY OF LOS ANGELES OUTSTANDING PRINCIPAL BY FUNDING SOURCE AS OF JULY 1, 2007							
Title	Total Outstanding Principal	General Fund	Hospital Enterprise Fund	Courthouse Construction Fund	Special Districts / Special Funds	Trial Court Trust Fund	State / Federal Subvention
Long-Term Obligations							
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 C: LACERA Funding	164,996,984	53,630,620	42,766,228		15,483,317	8,481,340	44,635,479
1994 Pension Ob Certs, Ser D: LACERA Funding	301,112,163	97,873,498	78,046,466		28,256,365	15,478,069	81,457,766
Total Pension Obligation Certificates	546,849,148	177,747,847	141,740,018	0	51,316,324	28,109,687	147,935,272
Long-Term Capital Projects							
1992 Lease Rev Refg Bonds, 1992 Master Refg Proj:							
Civic Center Heating & Refrigeration Plant	16,120,000	16,120,000					
Downey Courthouse	3,475,000			3,475,000			
LeSage Complex	725,000	725,000					
Olive View Medical Center	10,025,000		10,025,000				
Sheriffs Training Academy	2,908,486	2,908,486					
San Fernando Court	4,871,514			4,871,514			
Total 1992 Lease Rev Refg Bonds, 1992 Master Refg Proj	38,125,000	19,753,486	10,025,000	8,346,514	0	0	0
1993 COPs: Disney Parking Project	44,946,956	44,946,956					
1998 Refg COPs: Disney Parking Project	59,405,000	59,405,000					
2002 Lease Rev Bonds Ser A: Edmund D. Edelman Children's Court	15,925,000			15,925,000			
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	12,722,191	0	0	0
2005 Lease Rev Refg Bonds Ser A:							
Music Center Improvements	5,656,119	5,656,119					
Alhambra Courthouse	3,498,910			3,498,910			
Burbank Courthouse	5,563,602			5,563,602			
Ameron Building (Sheriff Headquarters)	15,024,953	15,024,953					
Biscailuz Center	1,338,602	1,338,602					
Emergency Operations Center	13,104,105	13,104,105					
Harbor/UCLA Medical Center - Primary Care & Diagnostic Center	9,926,189		9,926,189				
Martin Luther King Medical Center - Trauma Center	49,243,844		49,243,844				
Martin Luther King Medical Center - Central Plant	0		0				
Martin Luther King Medical Center - Modular Building (Ped. Trauma)	632,351		632,351				
Rancho Los Amigos Medical Center - 150 Bed Inpatient Unit A	32,188,552		32,188,552				
Rancho Los Amigos Medical Center - Parking Structure	12,015,179		12,015,179				
Rancho Los Amigos Medical Center - Central Plant	0		0				
Rancho Los Amigos Medical Center - Master Plan II (Utilities)	4,122,039		4,122,039				
San Fernando Valley Juvenile Hall	7,717,258	7,717,258					
LAC/USC Medical Center Marengo Street Parking Garage	19,030,637		19,030,637				
LAX Area Courthouse	87,247,390			87,247,390			
San Fernando Valley Courthouse (Chatsworth)	71,153,836			71,153,836			
Harbor Med Center E.P.S.	5,611,433		5,611,433				
Total 2005 Lease Rev Refg Bonds Ser A	343,075,000	42,841,038	132,770,224	167,463,738	0	0	0
2005 Lease Revenue Bonds: Calabasas Landfill Project	36,110,000				36,110,000		
2006 Lease Rev Refg Bonds Ser A:							
East Los Angeles Courthouse	9,335,000			9,335,000			
Fire Command and Control System	525,000				525,000		
Lost Hills Sheriffs Station	1,800,000	1,800,000					
Mira Loma Boy's Camp	5,460,000	5,460,000					
LAC/USC Intensive Care Unit	400,000		400,000				
Martin Luther King, Jr. Medical Center Parking Structure	875,000		875,000				
Mid Valley Health Center	1,575,000		1,575,000				
Lynwood Regional Justice Center	71,145,000	71,145,000					
Men's Central Jail - Twin Towers	67,165,000	67,165,000					
Pitchess Honor Rancho: Medium Security - N Facility Air Conditioning	2,310,000	2,310,000					
Pitchess Honor Rancho: Medium Security - N Facility Sewer System	705,000	705,000					
Pitchess Honor Rancho: Medium Security - N Facility Water Treatment	2,815,000	2,815,000					
Pitchess Honor Rancho: Medium Security - N Facility Debris Basin	650,000	650,000					
Pitchess Honor Rancho: Vehicle Maintenance Facility	1,660,000	1,660,000					
Men's Central Jail Parking Structure	7,440,000	7,440,000					
Hutton Building - Registrar / Recorder Headquarters	12,095,000	12,095,000					
Pomona Municipal Courthouse	1,940,000			1,940,000			
Pitchess Honor Rancho Laundry Expansion	940,000	940,000					
Pitchess Honor Rancho Visitors Center	2,325,000	2,325,000					
Mira Loma Men's Medium Security Facility	1,675,000	1,675,000					
Temple City Sheriff Station	3,985,000	3,985,000					
Van Nuys Courthouse	19,880,000			19,880,000			
Public Library Headquarters	885,000				885,000		
Total 2006 Lease Rev Refg Bonds Ser A	217,585,000	182,170,000	2,850,000	31,155,000	1,410,000	0	0
2006 Lease Rev Refg Bonds Ser B	103,410,000			103,410,000			
Total Long-Term Capital Projects	875,711,956	353,524,289	145,645,224	339,022,443	37,520,000	0	0
Total Long-Term Obligations	1,422,561,104	531,272,136	287,385,242	339,022,443	88,836,324	28,109,687	147,935,272
Intermediate-Term Obligations							
Equipment							
2004 Lease Rev Bonds Ser A (LAC-CAL): LAC-CAL Equipment Program	1,065,000	639,000	426,000				
2006 Lease Rev Bonds Ser A (LAC-CAL): LAC-CAL Equipment Program	18,200,000	8,898,276	9,301,724				
Total Equipment	19,265,000	9,537,276	9,727,724	0	0	0	0
Total Intermediate-Term Obligations	19,265,000	9,537,276	9,727,724	0	0	0	0
Total Obligations	1,441,826,104	540,809,412	297,112,966	339,022,443	88,836,324	28,109,687	147,935,272
Source: Los Angeles County Chief Executive Office							

**COUNTY OF LOS ANGELES
SUMMARY OF OUTSTANDING GENERAL FUND AND SPECIAL FUND OBLIGATIONS
AS OF FEBRUARY 1, 2008**

Title	Outstanding Principal	Total Future Payments	2007-08 FY Payment Remaining
Long-Term Obligations			
Pension Obligation Certificates			
1986 Pension Obligation Certificates, Series A	0 (1)	0 (1)	0 (1)
1994 Pension Obligation Bonds, Series C (Capital Appreciation Bonds)	89,998,235 (2)	337,295,000 (2)	0 (2)
1994 Pension Obligation Bonds, Series D (Variable Rate Bonds)	262,257,163 (3)	713,338,646 (3)	0 (3)
Total Pension Obligation Certificates	352,255,398	1,050,633,646	0
Long-Term Capital Projects			
1992 Lease Rev Refg Bonds, 1992 Master Refunding Project	19,755,000	21,837,298	595,566
1993 COPs: Disney Parking Project	43,199,508	184,785,000	4,530,000
1998 Refg COPs: Disney Parking Project	59,270,000	98,508,061	1,534,111
2002 Lease Rev Bonds Series A - Edmund D. Edelman Court Project Refunding	15,925,000	17,774,888	3,266,713
2002 Lease Rev Bonds Series B - 2002 Master Refunding Project	17,130,000	23,983,500	513,900
2005 Lease Rev Refg Bonds Series A - 2005 Master Refunding Project	319,980,000	451,660,264	7,557,882
2005 Lease Rev Bonds Series A - 2005 Calabasas Landfill Project	36,110,000	50,638,444	2,169,179
2006 Lease Rev Refg Bonds Series A - 2006 Master Refunding Project	188,880,000	223,453,113	4,303,481
2006 Lease Rev Refg Bonds Series B - 2006 Master Refunding Project	102,295,000	182,252,131	2,374,966
Total Long-Term Capital Projects	802,544,508	1,254,892,698	26,845,798
Total Long-Term Obligations	\$1,154,799,907	\$2,305,526,344	\$26,845,798
Intermediate-Term Obligations			
Equipment			
2004 Lease Rev Bonds Series A - LAC-CAL Equipment Program	0	0	0
2006 Lease Rev Bonds Series A - LAC-CAL Equipment Program	12,935,000	13,535,000	4,808,700
Total Equipment	12,935,000	13,535,000	4,808,700
Total Intermediate-Term Obligations	12,935,000	13,535,000	4,808,700
Total Obligations	1,167,734,907	2,319,061,344	31,654,498
COPs = Certificates of Participation			
The Pension Obligation Certificates do not reflect principal and interest payment amounts remaining for FY 2007-08 that were deposited with the respective trustees in advance on July 15 or 30, 2007 as required by the individual Trust Agreements as follows:			
(1) \$80,740,000 in principal and \$2,785,530 in interest			
(2) \$74,998,750 in principal and \$175,791,251 in interest			
(3) \$38,855,000 in principal and \$2,823,420 in interest			
Source: Los Angeles County Chief Executive Office			

COUNTY OF LOS ANGELES			
ESTIMATED OVERLAPPING DEBT STATEMENT AS OF FEBRUARY 1, 2008			
Full Cash Value (2007-08): \$890,932,389,035 (after deducting \$127,390,886,790 redevelopment incremental valuation; including unitary utility valuation)			
	Applicable %	Debt as of 2/1/08	
DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT			
Los Angeles County Flood Control District	100.000 %	\$	113,190,000
Metropolitan Water District	45.801		164,478,261
Los Angeles Community College District	100.000		1,370,820,000
Other Community College Districts	Various (1)		1,373,061,053
Arcadia Unified School District	100.000		175,457,102
Beverly Hills Unified School District	100.000		134,397,535
Glendale Unified School District	100.000		142,870,000
Inglewood Unified School District	100.000		121,095,000
Long Beach Unified School District	100.000		241,765,000
Los Angeles Unified School District	100.000		7,325,045,000
Pasadena Unified School District	100.000		198,570,000
Pomona Unified School District	100.000		148,324,159
Other Unified School Districts	Various (1)		2,275,015,095
High School and School Districts	Various (1)		1,022,045,173
City of Los Angeles	100.000		1,303,035,000
City of Los Angeles Special Tax Lease Revenue Bonds	100.000		80,260,000
City of Industry	100.000		189,330,000
Other Cities	100.000		87,025,000
Special Districts	100.000		9,245,000
Community Facilities Districts	100.000		819,466,002
Los Angeles County Regional Park & Open Space Assessment District	100.000		269,995,000
1915 Act and Benefit Assessment Bonds - Estimate	100.000		200,405,320
Los Angeles County Metropolitan Transportation Authority Benefit Assessment District Bonds	100.000		43,535,000
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$	17,808,429,700
DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT			
Los Angeles County General Fund Obligations	100.000 %	\$	1,008,974,511 (3)
Los Angeles County Pension Obligations	100.000		546,849,147
Los Angeles County Office of Education Certificates of Participation	100.000		17,861,064
Community College District Certificates of Participation	Various (2)		100,837,457
Azusa Unified School District Certificates of Participation	100.000		67,795,000
Los Angeles Unified School District Certificates of Participation	100.000		491,691,710
Norwalk-La Mirada Unified School District Certificates of Participation	100.000		67,978,721
Pomona Unified School District Certificates of Participation	100.000		64,615,000
Other Unified School District Certificates of Participation	100.000		327,016,945
High School and School District General Fund Obligations	Various (2)		178,603,167
City of Beverly Hills General Fund Obligations	100.000		209,280,000
City of Los Angeles General Fund and Judgment Obligations	100.000		1,727,085,000
City of Long Beach General Fund Obligations	100.000		292,895,000
City of Long Beach Pension Obligations	100.000		83,540,000
City of Pasadena General Fund Obligations	100.000		395,559,972
City of Pasadena Pension Obligations	100.000		127,332,874
Other Cities' General Fund Obligations	100.000		1,231,308,987
Los Angeles County Sanitation Districts General Fund Obligations	100.000		375,594,995
Walnut Valley Water District General Fund Obligations	100.000		13,055,000
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$	7,327,874,550
Less: School District self-supporting bonds			(57,597,949)
Cities' self-supporting bonds			(181,927,368)
Walnut Valley Water District General Fund Obligations			(13,055,000)
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$	7,075,294,233
GROSS COMBINED TOTAL DEBT		\$	25,136,304,250 (4)
NET COMBINED TOTAL DEBT		\$	24,883,723,933
(1) All 100%, or almost 100%, except for Antelope Valley Joint Union High School and Community College District, Fullerton Union High School District, Las Virgenes Joint Unified School District, North Orange County Joint Community College District, and the schools and special districts included in them.			
(2) All 100%, or almost 100%, except for Fullerton Union High School District, Las Virgenes Joint Unified School District, Snowline Joint Unified School District, Victor Valley Joint Community College District, and the schools and special districts included in them.			
(3) Excludes lease revenue bonds to be sold.			
(4) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.			
RATIOS TO 2007-08 ASSESSED VALUATION			
Total Direct and Overlapping Tax and Assessment Debt	1.750 %		
RATIOS TO FULL CASH VALUE (ADJUSTED ASSESSED VALUATION)			
Combined Gross Direct Debt (\$1,555,823,658)	0.170 %		
Net Combined Direct Debt (\$1,555,823,658)	0.170 %		
Gross Combined Total Debt	2.820 %		
Net Combined Total Debt	2.790 %		
STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/07:	\$	593,390	
Source: California Municipal Statistics.			
Note: The above report is included for general information purposes only. The County has not reviewed the Overlapping Debt Statement for completeness or accuracy and makes no representations in connection therewith.			

ECONOMIC AND DEMOGRAPHIC INFORMATION

Economic Overview

With a 2006 Gross Product of \$446 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 expanded at a moderate pace in 2007, but is expected to see lower growth in 2008 with a slow-down in the housing sector being the primary impediment to stronger growth.

Los Angeles County has experienced a steady recovery in the job market with three consecutive years of lower unemployment rates from 2003-2006. The 2006 unemployment rate of 4.7% was the lowest in the County since 1988. Despite the small increase in the unemployment rate in 2007 to an estimated 4.8%, the County's economy was expected to generate moderate job growth in non-farm employment of approximately 1.2%, or 50,100 jobs. The continued growth in the job market is being supported by \$32 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 2008. 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 is 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 an extensive education system including UCLA; five state university campuses; 21 community colleges; prestigious private universities such as USC, Occidental and Claremont Colleges; religious-affiliated universities such as Pepperdine and Azusa Pacific; renowned technology schools such as the California Institute of Technology and the affiliated Jet Propulsion Laboratory; and specialized institutions such as RAND, the Art Center College of Design, and the Otis Art Institute.

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 three consecutive years of an improving job market from 2003-2006. The unemployment rate decreased

from 7.0% in 2003 to a cyclical low of 4.7% in 2006. The unemployment rate for 2007 increased to an estimated 4.8%, reflecting the slower rate of growth expected for the regional economy. Non-agricultural employment grew at a modest rate of 1.2% in 2007, reflecting an increase of 50,100 jobs from 2006. The moderate pace of job growth is projected to continue at a rate of 1.5% in 2008, representing an increase of 61,300 non-agricultural jobs from 2007. 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 continued to experience strong job growth in 2007 (+7,000 jobs). Other sectors of the economy experiencing job growth in 2007 are Professional, Scientific & Technical Services (+11,000 jobs) and Health Care & Social Assistance (+9,500 jobs). On the negative side of the employment picture, the Construction sector saw 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 incurred a significant net loss of 7,800 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 non-agricultural employment numbers by sector since 2003.

Personal Income

Total personal income in Los Angeles County continued to grow at a solid pace in 2007, to an estimated \$384.1 billion, or a 5.7% increase from 2006. The County's total personal income in 2007 represents an estimated 25.6% of the total personal income generated in California. The sustained growth in personal income represents a 24.0% 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 generated an estimated \$101.2 billion in retail sales, representing an increase of 4.8% from 2006 and 27.5% 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 \$446 billion in 2006 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 454,000 workers 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 25 major cargo terminals, including facilities to handle automobiles, containers, dry bulk products and liquid bulk products. For the fiscal year ended June 30, 2007, the port handled nearly 190 million metric revenue tons of cargo, with an estimated value of over \$238 billion; and processed 8.6 million equivalent cargo container units, representing a 10.2% increase in container volume from fiscal year 2006.

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 2007, the port handled 174 million metric revenue tons of cargo and processed over 7.3 million equivalent cargo container units,

representing year-over-year increases of 2.5% and 0.3%, respectively.

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 fiscal year 2007 operating budget for the MTA was \$3.036 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 25.4 million overnight visitors stayed in Los Angeles, with total visitor expenditures of \$13.5 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. In 2006, Los Angeles County hotels had the fourth highest occupancy rate among the top 25 US markets. According to the Los Angeles Economic Development Corporation (LAEDC), travel and tourism provided employment for over 267,000 area residents in 2006, making travel and tourism the second largest export 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 and 2007. All of the major indicators for the housing market in the County showed significant deterioration over the first three quarters of 2007. For the nine-month period ended September 30, 2007, new and existing home sales, residential building permits and residential purchase lending are down by 26%, 18% and 26% respectively compared to the same nine-month period in 2006. According to the most recent semi-annual home price survey conducted by the Real Estate Research Council of Southern California, average home prices in

Los Angeles County decreased by 5.3% from October 2006 to October 2007.

As an indication that builders are having a more difficult time selling new homes, the inventory of unsold new housing increased to 4,126 at June 30, 2007, representing a 108% increase from the 1,975 new homes that were unsold at June 30, 2006. The inventory of resale homes has also grown significantly since 2006 and will continue to grow with the addition of foreclosed homes on the market, and the fact that it takes much longer to sell a house in the current environment. Rising interest rates 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. For the nine-month period ended September 30, 2007, notices of default recorded and trustees deeds recorded (foreclosures) increased by 112% and 621%, respectively, from the same period in 2006.

Despite the significant slow-down in the residential housing market, the Los Angeles region is still considered to have a shortage of affordable housing. The reasons for insufficient housing include lengthy permitting processes and other burdensome regulations on new construction; neighborhood aversion to higher-density housing; and local government resistance to new housing projects, as housing is considered a net tax "user" rather than a revenue generator, thus creating competition for commercial and residential land uses. In addition, the shortage of undeveloped land in the County and rising construction costs have created incentives for developers to build more expensive housing (high-end homes and luxury apartments) instead of affordable housing units.

After a solid performance in 2006, the non-residential real estate market is showing mixed results in 2007. Although non-residential building permits increased by 12% over the first nine-months of 2007 compared to the same period in 2006, residential construction lending decreased by 12% over the same measurement period. Due to the relative strength and diversity of the regional economy, and 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% at the end of 2003 to 9.2% at the end of the third quarter in 2007, 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% at the end of 2001 to 1.6% at the end of the third quarter in 2007, 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 2008.

Notwithstanding the recent downturn in the housing market, the Los Angeles County Assessor released a \$1.037 trillion gross assessment roll in July 2007. The historic trillion-dollar gross assessment roll represents an \$88 billion, or 9.3% increase, from the previous fiscal year. The increase was primarily driven by residential housing sales and changes in ownership in 2006 that required a reassessment under Proposition 13. Residential housing transactions accounted for \$58 billion of the increase, with each property that changed ownership resulting in an average increase of \$356,000 in assessed value, compared to \$332,000 in the previous year.

COUNTY OF LOS ANGELES
ECONOMIC AND DEMOGRAPHIC STATISTICAL TABLES

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 \$)

	2002	2003	2004	2005	2006
Los Angeles County	\$354,800	\$371,000	\$397,500	\$418,700	\$446,800
State of California	1,352,800	1,417,100	1,524,900	1,628,000	1,727,400
United States	10,469,600	10,971,200	11,734,300	12,455,800	13,244,600
Los Angeles County as a % of California	26.23%	26.18%	26.07%	25.72%	25.87%

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	10,366,700
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%	27.35%

* 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	\$309,800	\$327,400	\$342,200	\$363,400	\$384,100
Orange County	117,700	125,700	133,000	140,400	146,300
Riverside and San Bernardino Counties	89,500	97,300	104,100	111,900	117,200
Ventura County	28,100	30,500	32,100	34,100	35,800
State of California	1,187,000	1,268,000	1,335,400	1,421,000	1,500,600
Los Angeles County as a % of California	26.10%	25.82%	25.63%	25.57%	25.60%

* 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	\$96,608	\$101,245
State of California	320,217	350,173	375,808	393,847	411,964
Los Angeles County as a % of California	24.80%	24.70%	24.55%	24.53%	24.58%

* 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%	4.7%	4.8%
State of California	6.7%	6.2%	5.4%	4.9%	5.3%
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)**

Employment Sector	2003	2004	2005	2006	*2007
Wholesale & Retail Trade	613.4	620.5	633.7	648.4	654.4
Government	599.3	587.1	583.7	588.6	594.6
Manufacturing	500.0	483.6	471.7	462.3	454.5
Leisure & Hospitality	362.6	372.8	377.8	387.5	394.5
Health Care & Social Assistance	365.6	371.6	373.9	380.2	390.2
Professional, Scientific & Technical Services	233.5	237.7	250.9	262.8	273.8
Administrative & Support Services	249.1	253.6	257.7	268.7	274.7
Information	202.3	211.9	207.6	209.7	214.7
Finance & Insurance	165.0	165.0	166.2	169.0	167.5
Transportation & Utilities	161.5	161.1	161.7	165.7	169.9
Construction	134.6	140.2	148.7	156.7	152.7
Educational Services	94.8	95.4	97.4	101.1	108.1
Real Estate	74.8	76.7	77.8	79.0	79.5
Management of Enterprises	77.4	71.2	67.6	63.2	61.4
Other	149.3	148.5	148.0	149.7	152.1
Total	3,982.9	3,996.5	4,024.2	4,092.5	4,142.6

*Estimated

Source: California Employment Development Department

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

Type of Activity	2002	2003	2004	2005	2006
International Air Cargo (Tons)					
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%
Total Air Cargo (Tons)					
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
Total	2,005.4	2,069.7	2,164.9	2,189.5	2,160.7
International Air Passengers					
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%
Total Air Passengers					
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
Total	60,840.9	59,712.8	65,621.4	67,002.1	66,730.4
Container Volume (TEUs)					
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
Total	10,632.2	11,837.1	13,101.3	14,194.4	15,760.2

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	\$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
1. New Residential Permits (Units)					
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
Total New Residential Permits	19,364	21,313	26,935	25,647	26,341
2. Residential Valuations (in millions of \$)					
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
3. Non-Residential Valuations (in millions of \$)					
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
Total Building Valuations (in millions)	7,219	8,085	9,741	10,512	10,634

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"



APPENDIX B

**THE COUNTY OF LOS ANGELES
AUDITED FINANCIAL STATEMENTS FOR
FISCAL YEAR ENDED JUNE 30, 2007**

COUNTY OF LOS ANGELES
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
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INDEPENDENT AUDITOR'S REPORT

The Honorable Board of Supervisors
 County of Los Angeles, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County of Los Angeles, California (County), as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Community Development Commission (CDC) and the Los Angeles County Employees Retirement Association (LACERA), which represent the following percentages of the assets, net assets or fund balances, and revenues of the following opinion units:

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

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

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the

aggregate remaining fund information of the County as of June 30, 2007, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund, the Fire Protection District, the Flood Control District, the Public Library, and the Regional Park and Open Space District, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 21 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 accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we and the other auditors did not audit the information and express no opinion on it.

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

Macias Jini & O'Connell LLP

Certified Public Accountants

Los Angeles, California
December 13, 2007

COUNTY OF LOS ANGELES MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the County's Comprehensive Annual Financial Report (CAFR) presents a narrative overview and analysis of financial activities for the fiscal year ended June 30, 2007. We recommend that this information be used in conjunction with additional information contained in the letter of transmittal.

Financial Highlights

At the end of the current year, the net assets (total assets less total liabilities) of the County were positive \$17.177 billion. However, net assets are classified into three categories and the unrestricted component is negative \$836 million. See further discussion on page B-7.

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

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

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

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

Overview of the Basic Financial Statements

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

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

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

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

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

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

FUND FINANCIAL STATEMENTS

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

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

FUND FINANCIAL STATEMENTS-Continued

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

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

REQUIRED SUPPLEMENTARY INFORMATION

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

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

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the County, assets exceeded liabilities by \$17.177 billion at the close of the most recent fiscal year.

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

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 7,517,376	\$ 7,056,499	\$ 854,182	\$ 957,836	\$ 8,371,558	\$ 8,014,335
Capital assets	<u>14,929,975</u>	<u>14,432,994</u>	<u>2,328,116</u>	<u>2,213,544</u>	<u>17,258,091</u>	<u>16,646,538</u>
Total assets	<u>22,447,351</u>	<u>21,489,493</u>	<u>3,182,298</u>	<u>3,171,380</u>	<u>25,629,649</u>	<u>24,660,873</u>
Current and other liabilities	1,321,963	1,244,728	198,490	199,773	1,520,453	1,444,501
Long-term liabilities	<u>5,684,764</u>	<u>6,139,202</u>	<u>1,247,234</u>	<u>1,423,405</u>	<u>6,931,998</u>	<u>7,562,607</u>
Total liabilities	<u>7,006,727</u>	<u>7,383,930</u>	<u>1,445,724</u>	<u>1,623,178</u>	<u>8,452,451</u>	<u>9,007,108</u>
Net assets:						
Invested in capital assets, net of related debt	14,192,494	13,567,513	2,190,999	1,827,225	16,383,493	15,394,738
Restricted net assets	1,443,083	1,378,439	186,266	165,427	1,629,349	1,543,866
Unrestricted net assets (deficit)	<u>(194,953)</u>	<u>(840,389)</u>	<u>(640,691)</u>	<u>(444,450)</u>	<u>(835,644)</u>	<u>(1,284,839)</u>
Total net assets	<u>15,440,624</u>	<u>14,105,563</u>	<u>1,736,574</u>	<u>1,548,202</u>	<u>17,177,198</u>	<u>15,653,765</u>
Total liabilities and net assets	<u>\$ 22,447,351</u>	<u>\$ 21,489,493</u>	<u>\$ 3,182,298</u>	<u>\$ 3,171,380</u>	<u>\$ 25,629,649</u>	<u>\$ 24,660,873</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 (\$16.384 billion) represents its investment in capital assets (i.e., land, structures and improvements, infrastructure, and equipment), less any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted Net Assets

The County's restricted net assets at year-end were \$1.629 billion. Asset restrictions are primarily due to external restrictions imposed by State legislation and bond covenants. Net assets that pertain to the various separate legal entities included in the basic financial statements are also generally restricted because their funding sources require that funds be used for specific purposes.

Unrestricted Net Assets (Deficit)

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

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

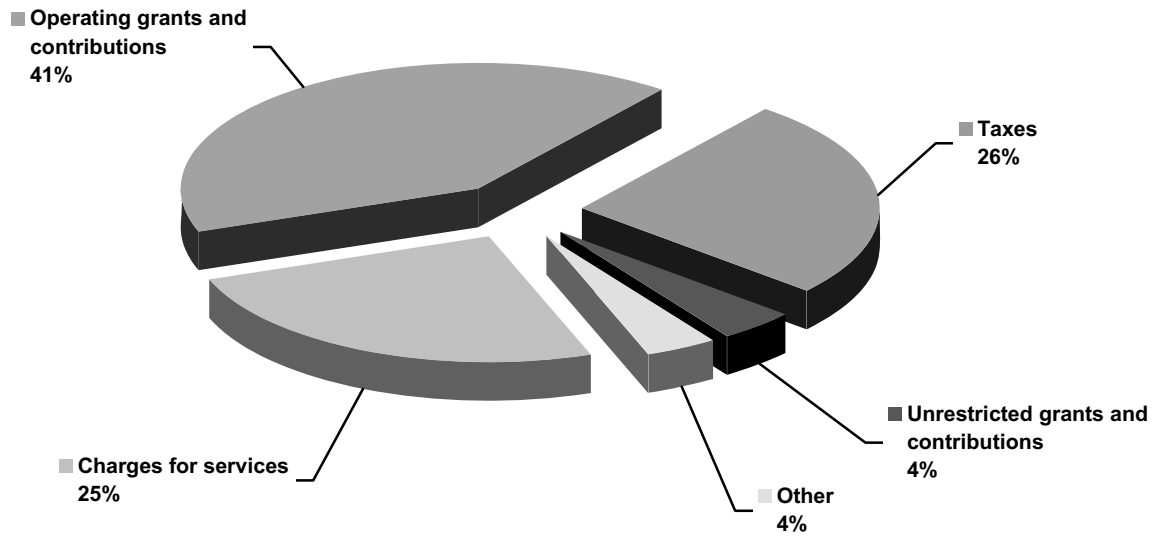
The following table indicates the changes in net assets for governmental and business-type activities:

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

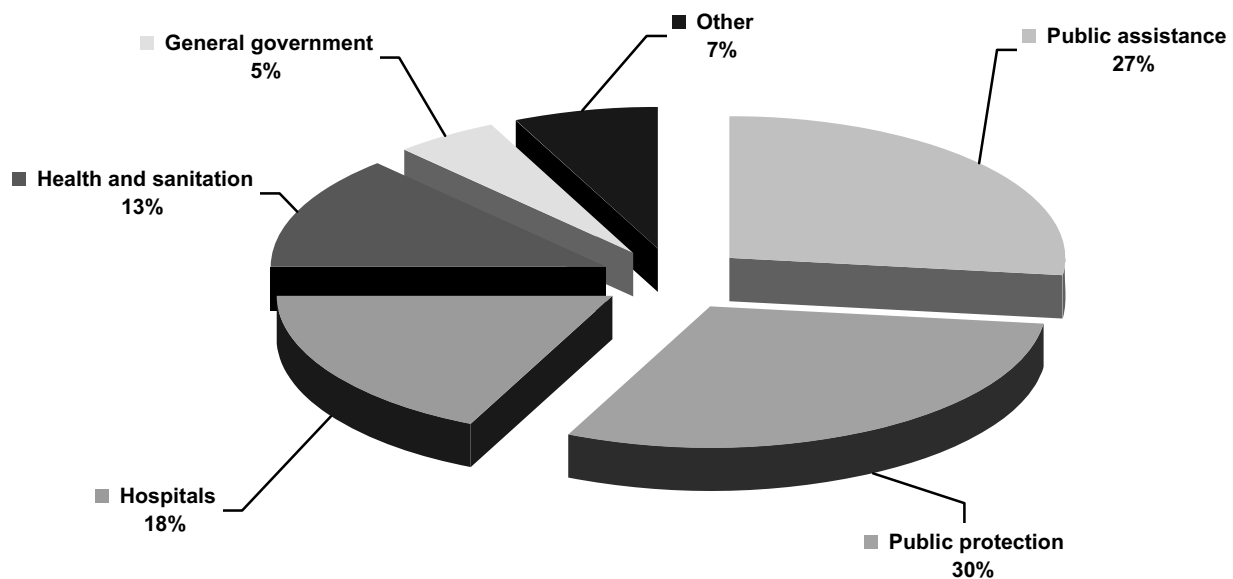
	Governmental		Business-type		Total	
	Activities		Activities			
	2007	2006	2007	2006	2007	2006
Revenues:						
Program revenues:						
Charges for services	\$ 2,396,868	\$ 2,337,634	\$ 1,957,979	\$ 2,004,419	\$ 4,354,847	\$ 4,342,053
Operating grants and contributions	6,980,549	6,801,256	304,720	309,526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

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

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



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



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

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

Governmental Activities

Revenues from governmental activities grew by \$806 million (5.5%) over the prior year. The most significant changes in revenue were experienced in the following areas:

- Taxes, the County's largest general revenue source, were \$396 million higher than the previous year. The additional growth in tax revenues was concentrated in property taxes (\$369 million) and was consistent with the continued upward trend in the County's assessed property values, although the housing market began to slow down during the fiscal year.
- Operating grants and contributions are the County's largest source of program revenues and grew by \$179 million. The growth in this revenue source was primarily associated with health and mental health programs, where revenues grew by \$101 million. Federal and State funding for road and highway programs also increased by \$40 million. The remaining growth of \$38 million was associated with federal and State grant funding for public safety programs.
- Current year investment earnings increased by \$92 million, or 37.6 %. The yield from the County's Treasury Pool improved from 3.95% in the prior year to 5.25% in the current year.

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

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

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

Business-type Activities

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

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

Financial Analysis of the County's Funds

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of governmental funds reported by the County include the General Fund, Special Revenue Funds, Debt Service Funds, Capital Project Funds, and the Permanent Funds.

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

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

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

Governmental Funds-Continued

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

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

Following are significant changes in General Fund revenues and expenditures:

- Revenues from taxes increased by \$355 million (11%), primarily from property taxes. The increase was attributable to ongoing growth in property values and their related tax levies as the housing market remained generally resilient throughout the fiscal year.
- Revenues from charges for services increased by \$110 million. A large portion (\$44 million) of this increase was concentrated in the Sheriff's Department and was related to recoveries of increased salaries and benefits from contracting agencies. The Assessor's Office realized a \$28 million increase as a result of additional billable activity and higher cost recoveries associated with property tax administration. The remaining increase in this revenue category (\$38 million) was recognized in several other areas, predominately Health Services Administration and Drug and Alcohol programs.
- Investment income increased by \$57 million (33.7%), as current year revenues were \$226 million in comparison with the prior year amount of \$169 million. As previously mentioned, the yield on investments during the current year was considerably higher than the prior year's yield.
- Current expenditures increased by \$702 million (6.5%), and there were increases in all functional areas. The most significant increase was in the area of public protection, where expenditures were higher by \$382 million. There were additional funds allocated to the public protection area and expenditures were notably higher in the Sheriff's Department (\$230 million) and Probation Department (\$53 million). Expenditures also increased in the areas of health and sanitation (\$122 million) and general government (\$103 million).

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

Governmental Funds-Continued

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

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

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

The Regional Park and Open Space District reported a year-end fund balance of \$261 million, which was \$15 million higher than the previous year. Current year revenues (\$91 million) were similar to the previous year (\$90 million) while expenditures declined by \$3 million and "transfers out" to reimburse County related expenditures were lower by \$4 million.

Proprietary Funds

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

The County's principal proprietary funds are the five hospital enterprise funds, and each one has been reported as a major fund. Each hospital enterprise fund incurred a net loss prior to contributions and transfers. The County is legally required to provide local matching funds to the health care system in order to remain eligible for federal and State assistance. Such funds were provided to the hospitals as operating subsidies from the County General Fund during the year. The total subsidy amount was \$883 million and is reflected in the Statement of Revenues, Expenses and Changes in Fund Net Assets as "transfers in." Additional "transfers in" of \$147 million were recognized from the Health Services Measure B Special Revenue Fund ("Measure B Fund"), which provides funding for trauma and emergency services.

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

Proprietary Funds-Continued

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

The Waterworks Funds reported year-end net assets of \$897 million, a \$10 million reduction from the previous year. However, the District's cash and investment position improved in the current year by \$20 million.

General Fund Budgetary Highlights

The accompanying basic financial statements include a Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual on Budgetary Basis for the County's General Fund. The County's budgetary basis of accounting is discussed in Notes 1 and 14 to the basic financial statements. There are approximately 100 separate budget units within the General Fund, excluding capital improvement projects, which are individually budgeted. The data presented below represents the net budgetary changes for the General Fund in a highly summarized format. Accordingly, in certain instances, budgets have been increased for programs within a category even though actual amounts have not been realized for the category in its entirety. Under the budgetary basis, there was a net increase of \$637 million in the General Fund's available (unreserved and undesignated) fund balance from the previous year.

Budgetary Summary - Revenues/Financing Sources

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

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

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

Changes from Amounts Originally Budgeted

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

- The budget for tax revenues was increased by \$93 million. This increase consisted of \$83 million that was recognized in conjunction with year-end budgetary changes that are designed to demonstrate compliance with legal provisions related to the appropriation of revenues from property taxes and certain other tax related revenues. The remaining \$10 million was appropriated for a variety of programs.
- Estimated revenues from intergovernmental sources were increased by \$134 million. During the fiscal year, budgeted revenues for the Department of Children and Family Services were augmented by approximately \$52 million. The increases were primarily associated with the Services Outcome Improvement Project and foster care services. Estimated revenues for mental health services were increased by \$29 million and were used to augment appropriations. Estimated revenues from Homeland Security grant funds (\$20 million) also increased during the fiscal year to fund the County's emergency preparedness and response operations. Various other changes comprised the remaining \$33 million that was increased from the amounts originally budgeted for intergovernmental revenues.
- The net decrease of \$91 million related to charges for services was primarily due to adjustments made to the General Fund's Office of Managed Care budget. Anticipated revenues related to a managed care supplemental reimbursement rate did not materialize during the current year and the budget was adjusted accordingly.
- The increase of \$186 million related to "all other revenues" was mostly concentrated in two revenue categories, miscellaneous revenues and investment income. The budgeted amount of miscellaneous revenues was increased by \$100 million, of which \$99 million was attributable to tobacco settlement revenues. The County's policy is to budget tobacco settlement revenues after they have been received. Estimated revenues from investment income were increased by \$82 million as a result of higher than anticipated yield on cash and investments throughout the year.

Actual Revenues/Financing Sources Compared with Final Budget Amounts

Actual revenues and other financing sources recognized by the General Fund were approximately \$594 million, or 4.3%, lower than budget. As discussed below, most of this variance was concentrated in the areas of intergovernmental revenues and "other sources and transfers" and was partially offset by "all other revenues" which exceeded the amount budgeted.

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

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

- Actual intergovernmental revenues were \$518 million lower than the amount budgeted. Social service programs, including children and family services, accounted for approximately \$221 million of this variance, which was mostly attributable to lower than anticipated caseloads and reimbursable social service related expenditures. Under-realized State sales taxes that fund social services programs were also a factor. An additional \$153 million pertained to anticipated reimbursement of capital improvement and disaster recovery projects that were not completed prior to year-end. Approximately \$89 million (mostly federal assistance) was associated with mental health services, due to lower than expected reimbursable costs. The remaining variance of \$55 million was related to a variety of other programs that received intergovernmental revenues.
- The actual amount of "other sources and transfers" was \$206 million lower than the amount budgeted. Of this amount, "transfers in" totaling \$136 million were assumed in the budget for capital improvements and extraordinary building maintenance projects which did not incur expected costs. The Community Services and Support Plan, a mental health related program which anticipated "transfers in" of \$130 million, did not fully materialize at the budgeted level and "transfers in" were \$58 million lower than budgeted. There were various other sources and transfers that comprised the remaining variance of \$12 million.
- The amount budgeted for "all other revenues" was exceeded by \$142 million. Investment income exceeded the amount budgeted by \$60 million as the yield on investments was higher than anticipated. The remaining variance of \$82 million was generated by diverse revenue sources including property tax penalties (\$33 million), rents, concessions, and royalties (\$18 million), miscellaneous revenues (\$26 million) and licenses, permits and franchises (\$5 million).

Budgetary Summary - Expenditures/Other Financing Uses

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

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

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

Changes from Amounts Originally Budgeted

During the year, net increases in General Fund appropriations, reserves and designations were approximately \$345 million. As discussed below, the most significant changes occurred in the following areas:

- After the original budget was established, appropriations for contingencies were increased by \$130 million. The increase occurred at the end of the fiscal year and was financed by offsetting increases in budgeted revenues (primarily taxes) that were recognized to comply with statutory requirements.
- Provisions for net reserves and designations were increased during the year by \$121 million. At the end of the fiscal year, a \$78 million reserve was established for long-term receivables associated with State-funded mental health programs. There were additions of \$66 million related to designations established for health services. Miscellaneous reductions of approximately \$23 million were made to other designations.
- Appropriations were increased for the public protection category by approximately \$97 million. Funding was added to the budgets of the Sheriff's Department (\$56 million), the Probation Department (\$29 million) and various other public protection operations (\$12 million). The Sheriff and Probation Departments were allocated \$23 million and \$16 million, respectively, for negotiated salary and employee benefit increases approved by the Board after the adoption of the Original Budget. The remaining \$46 million allocated to the two departments consisted of unanticipated revenues, designations, and other internal County funding sources.
- Overall appropriations were reduced for the general government category by \$101 million. As previously mentioned, a \$78 million reserve was established for long-term receivables. This reserve was funded by reductions in general government appropriations. General government appropriations were also reduced by \$54 million and shifted to other functional areas (primarily public protection) to fund salary and employee benefit increases. There was a net increase of \$31 million for various other general government programs, the most significant of which was a \$26 million allocation for the County's financial enterprise reporting system.

Actual Expenditures/Other Financing Uses Compared with Final Budget Amount

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

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

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

- The category referred to as “all other expenditures” reflected actual spending of \$1.063 billion less than the budgeted amount. Nearly all (\$1.051 billion) of this variance was related to the capital outlay category. The final budget for capital outlay in the current year was \$350 million higher than the comparable amount in the previous year as the County continued to add resources to this area. There were many capital improvements anticipated in the budget that remained in the planning stages and did not incur expenditures during the year. Most of the unused balance has been reestablished in the following year's budget to ensure the continuity of the projects.
- The general government function reported actual expenditures that were \$377 million less than the amount budgeted. Of this amount, \$260 million represented budgetary savings for items that are not associated with specific County departments, such as provisional appropriations, extraordinary maintenance and repairs, and favorable adjustments to contingent liability cases. The remaining \$117 million was spread across virtually every department comprising general government and was mostly related to savings in the areas of salaries and services and supplies.
- Actual public assistance expenditures were \$316 million lower than the final budget. A large portion of this variance (\$160 million) was concentrated in programs operated by the Department of Public Social Services. Administrative costs were lower than anticipated, and program caseload volume and cost per caseload were also less than the amounts budgeted. There were also budgetary savings (\$75 million) associated with the Homeless and Housing Program. This is a relatively new Program, and there were delays in the contracting processes associated with the Program's initiatives. Programs operated by the Department of Children and Family Services recognized savings of \$61 million that were reflective of vacant positions, hiring delays, and lower than anticipated information technology costs. The remaining variance amount of \$20 million was related to other public assistance programs.
- Overall expenditures for the health and sanitation category were \$197 million less than the budgeted amount. Appropriations related to mental health services exceeded actual expenditures by \$137 million, primarily due to less than anticipated costs for services and supplies. The remaining variance of \$60 million was associated with a variety of health care programs administered by the Departments of Health Services and Public Health Services.

Capital Assets

The County's capital assets for its governmental and business type activities as of June 30, 2007 were \$17.258 billion (net of depreciation). Capital assets include land, easements, buildings and improvements, equipment, and infrastructure. The major infrastructure network elements are roads, sewers, water, flood control, and aviation.

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

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

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

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

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

Debt Administration

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

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

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

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

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

- Refunding bonds totaling \$321 million were issued to advance refund outstanding bond principal of \$382 million.
- New debt of \$20 million was issued to finance the acquisition of equipment. Equipment debt totaling \$15 million was redeemed during the year in accordance with maturity schedules.
- Pension bonds totaling \$223 million were redeemed during the year.

In addition to the above borrowing, the County continued to finance General Fund cash flow shortages occurring periodically during the fiscal year by selling \$500 million in tax and revenue anticipation notes which reached maturity on June 29, 2007, and by periodic borrowing from available trust funds.

Bond Ratings

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

	<u>Moody's</u>	<u>Standard and Poor's</u>	<u>Fitch</u>
General Obligation Bonds	Aa3	AA-	
Pension Bonds	A1	A+	
Facilities	A2	A+	A
Equipment/Non-Essential Leases	A3	A+	A
Short-Term	MIG1	SP-1+	F-1+
Commercial Paper	P-1	A-1+	
Flood Control District General Obligation Bonds	Aa1	AA	AA
Flood Control District Revenue Bonds	Aa1	AA-	AA
Regional Park and Open Space District Bonds	Aa2	AA	AA+

During the current year, the County's General Obligation Bonds were upgraded by Standard and Poor's from A+ to AA-. Standard and Poor's also upgraded the County's Pension Bonds, Facilities, and Equipment/Non-Essential Leases from A to A+. The Regional Park and Open Space District Bonds were upgraded by both Moody's and Fitch from Aa3 and AA, respectively, to Aa2 and AA+, respectively. All other bond ratings were maintained at the same level as the previous year.

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

Economic Conditions and Outlook

The Board of Supervisors adopted the County's 2007-2008 Budget on June 18, 2007. The Budget was adopted based on estimated fund balances that would be available at the end of 2006-2007. The Board updated the Budget on September 25, 2007 to reflect final 2006-2007 fund balances and other pertinent financial information. For the County's General Fund, the 2007-2008 Budget, as updated in September 2007, utilized \$1.706 billion of available fund balance, which exceeded the previously estimated fund balance of \$1.341 billion. The additional fund balance of \$365 million was used to appropriate \$75 million to carryover lapsed appropriations and \$290 million was appropriated or designated for one-time needs which were predominately capital improvements.

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

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

Obtaining Additional Information

This financial report is designed to provide a general overview of the County's finances for all interested parties. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Los Angeles County Auditor-Controller, 500 West Temple Street, Room 525, Los Angeles, CA 90012-2766.



BASIC FINANCIAL STATEMENTS



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

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

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

COUNTY OF LOS ANGELES
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007 (in thousands)

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

GENERAL REVENUES:

Taxes:

Property taxes

Utility users taxes

Voter approved taxes

Documentary transfer taxes

Other taxes

Sales and use taxes, levied by the State

Grants and contributions not restricted

to special programs

Investment earnings

Miscellaneous

SPECIAL ITEM - Contribution of Disney Hall (Note 5)

TRANSFERS - NET

Total general revenues and transfers

CHANGE IN NET ASSETS

NET ASSETS, JULY 1, 2006

NET ASSETS, JUNE 30, 2007

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

NET (EXPENSE) REVENUE AND
CHANGES IN NET ASSETS

PRIMARY GOVERNMENT			COMPONENT UNIT
GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	FIRST 5 LA
\$ (309,092)	\$	\$ (309,092)	
(2,501,766)		(2,501,766)	
(33,800)		(33,800)	
(196,511)		(196,511)	
(476,419)		(476,419)	
(92,754)		(92,754)	
(78,757)		(78,757)	
(239,608)		(239,608)	
(3,928,707)		(3,928,707)	
	(945,737)	(945,737)	
	(888)	(888)	
	(17,799)	(17,799)	
	31,280	31,280	
	(933,144)	(933,144)	
(3,928,707)	(933,144)	(4,861,851)	
			\$ 1,977
4,142,889	3,782	4,146,671	
65,457		65,457	
253,690		253,690	
87,930		87,930	
55,038		55,038	
83,591		83,591	
761,705	35	761,740	
335,851	18,043	353,894	42,823
259,357	50,443	309,800	291
267,473		267,473	
(1,049,213)	1,049,213		
5,263,768	1,121,516	6,385,284	43,114
1,335,061	188,372	1,523,433	45,091
14,105,563	1,548,202	15,653,765	815,396
\$ 15,440,624	\$ 1,736,574	\$ 17,177,198	\$ 860,487

FUNCTIONS

PRIMARY GOVERNMENT:

Governmental activities:

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

Business-type activities:

Hospitals
Aviation
Waterworks
Community Development Commission
Total business-type activities

Total primary government

COMPONENT UNIT -

Total - First 5 LA

GENERAL REVENUES:

Taxes:

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

SPECIAL ITEM - Contribution of Disney Hall (Note 5)

TRANSFERS - NET

Total general revenues and transfers

CHANGE IN NET ASSETS

NET ASSETS, JULY 1, 2006

NET ASSETS, JUNE 30, 2007

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

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

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

REGIONAL PARK AND OPEN SPACE DISTRICT	NONMAJOR GOVERNMENTAL FUNDS	ELIMINATIONS (NOTE 3)	TOTAL GOVERNMENTAL FUNDS
\$ 263,441	1,540,768		\$ 3,928,375
3,540	40,795		898,285
<u>266,981</u>	<u>1,581,563</u>		<u>4,826,660</u>
	592,884	(304,235)	295,170
3,335	15,532		344,068
2,222	10,558		47,773
4,013	93,791		1,460,508
9	311,189		699,728
	11,034		417,527
	37,581		87,497
<u>\$ 276,560</u>	<u>2,654,132</u>	<u>(304,235)</u>	<u>\$ 8,178,931</u>
\$ 1,022	48,270		\$ 362,404
	465		434,599
85	18,285		106,761
9,007	293,863		938,633
5,234	74,854		477,386
	8,169		286,192
	1,630		17,167
<u>15,348</u>	<u>445,536</u>		<u>2,623,142</u>
78,400	174,425		794,557
	37,581		87,497
	1,662		1,662
	771,679	(304,235)	467,444
	3,380		3,380
	29,587		53,356
	86,182		478,374
64,873			426,891
			326,849
			275,303
	169,104		169,104
			1,366,839
117,939	666,461		835,998
	268,535		268,535
<u>261,212</u>	<u>2,208,596</u>	<u>(304,235)</u>	<u>5,555,789</u>
<u>\$ 276,560</u>	<u>2,654,132</u>	<u>(304,235)</u>	<u>\$ 8,178,931</u>

ASSETS:

Pooled cash and investments: (Notes 1 and 4)

Operating (Note 1)

Other (Note 1)

Total pooled cash and investments

Other investments (Notes 3 and 4)

Taxes receivable

Interest receivable

Other receivables

Due from other funds (Note 13)

Advances to other funds (Note 13)

Inventories

TOTAL ASSETS

LIABILITIES AND FUND BALANCES

LIABILITIES:

Accounts payable

Accrued payroll

Other payables

Due to other funds (Note 13)

Deferred revenue (Note 6)

Advances payable

Third party payor liability (Notes 9 and 12)

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, 2007 (in thousands)

Fund balances - total governmental funds (page B-29)	\$	5,555,789
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Amounts reported for governmental activities in the statement of net assets are different because:

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

Land & Easements	\$	6,994,837	
Construction-in-progress		438,842	
Buildings and improvements - net		2,633,854	
Equipment - net		253,579	
Infrastructure - net		<u>4,540,240</u>	14,861,352

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

Deferred revenue - taxes	\$	244,587	
Long-term receivables		<u>194,364</u>	438,951

The net pension obligation (an asset) pertaining to governmental fund types is not recorded in governmental fund statements.		122,166
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Accrued interest payable is not recognized in governmental funds.		(18,432)
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Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds:

Bonds and notes payable (including accreted interest)	\$	(1,659,220)	
Pension bonds payable		(820,621)	
Capital lease obligations		(98,245)	
Accrued vacation/sick leave		(662,360)	
Workers' compensation		(1,807,937)	
Litigation/self-insurance		(397,513)	
Third party payor liability		<u>(400)</u>	(5,446,296)

Assets and liabilities of the internal service funds are included in governmental activities in the accompanying statement of net assets.		<u>(72,906)</u>
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Net assets of governmental activities (page B-25)	\$	<u><u>15,440,624</u></u>
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The notes to the basic financial statements are an integral part of this statement.



COUNTY OF LOS ANGELES
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007 (in thousands)

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

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

REGIONAL PARK AND OPEN SPACE DISTRICT	NONMAJOR GOVERNMENTAL FUNDS	ELIMINATIONS (NOTE 3)	TOTAL GOVERNMENTAL FUNDS
\$	259,127		\$ 4,567,655
	6,810		77,690
792	76,058		316,174
12,749	102,400	(16,021)	334,865
	5,796		80,874
	8		594
	120,569		2,835,932
	333,450		4,613,192
	14,745		154,116
77,709	139,391		1,965,724
	89,087		291,293
91,250	1,147,441	(16,021)	15,238,109
	17,252		871,304
	96,113		4,955,338
	271,904		271,904
	129,504		2,255,737
	128,968		4,539,192
	489		99,115
42,417	5,391		265,029
	194,644	(21,475)	304,888
	75,761	(16,021)	211,386
			25,936
	48,079		48,897
42,417	968,105	(37,496)	13,848,726
48,833	179,336	21,475	1,389,383
	237,840		540,377
(33,710)	(463,204)		(1,592,341)
	326,245		326,245
	(320,995)		(320,995)
	14,566		14,566
			818
	1,816		3,816
(33,710)	(203,732)		(1,027,514)
15,123	(24,396)	21,475	361,869
246,089	2,232,992	(325,710)	5,193,920
\$ 261,212	2,208,596	(304,235)	\$ 5,555,789

REVENUES:

Taxes
Licenses, permits and franchises
Fines, forfeitures and penalties
Revenue from use of money and property:
Investment income (Note 4)
Rents and concessions (Note 8)
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 13)
Transfers out (Note 13)
Issuance of debt (Note 9)
Payment to refunded bonds escrow agent (Note 9)
Bond premium proceeds (Note 9)
Capital leases (Note 8)
Sales of capital assets
TOTAL OTHER FINANCING SOURCES (USES)

NET CHANGE IN FUND BALANCES

FUND BALANCE, JULY 1, 2006

FUND BALANCE, JUNE 30, 2007

COUNTY OF LOS ANGELES
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007 (in thousands)

Net change in fund balances - total governmental funds (page B-33)		\$ 361,869
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:		
Expenditures for general capital assets, infrastructure and other related capital asset adjustments	\$ 400,933	
Less - current year depreciation expense	<u>(265,097)</u>	135,836
In the statement of activities, only the gain or loss on the disposal of capital assets is reported, whereas in the governmental funds, the proceeds from the sale are reported as an increase in financial resources. Thus, the change in net assets differs from the change in fund balance.		(7,171)
Contribution of capital assets is not recognized in the governmental funds.		374,704
Revenue timing differences result in more revenue in government-wide statements.		80,104
Issuance of long-term debt along with any bond premium provides revenue in the governmental funds, but increases long-term liabilities in the statement of net assets.		(19,816)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets:		
Pension bonds	\$ 131,719	
General obligation bonds	9,105	
Certificates of participation	138,230	
Assessment bonds	21,475	
Other long term notes and loans	<u>27,328</u>	327,857
Some expenses reported in the accompanying statement of activities do not require (or provide) the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:		
Change in workers' compensation	\$ 139,980	
Change in litigation/self-insurance	59,622	
Change in accrued vacation/sick leave	(66,268)	
Change in third party payor liability	577	
Change in accrued interest payable	(1,479)	
Accretion of tobacco settlement bonds	(18,495)	
Accretion of pension bonds	<u>22,853</u>	136,790
The change in the net pension obligation (an asset) is not recognized in governmental funds.		(63,039)
The portion of internal service funds that is reported with governmental activities.		<u>7,927</u>
Change in net assets of governmental activities (page B-27)		<u><u>\$ 1,335,061</u></u>

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

COUNTY OF LOS ANGELES
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL ON BUDGETARY BASIS
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2007 (in thousands)

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

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

COUNTY OF LOS ANGELES
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL ON BUDGETARY BASIS
FIRE PROTECTION DISTRICT
FOR THE YEAR ENDED JUNE 30, 2007 (in thousands)

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

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

COUNTY OF LOS ANGELES
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL ON BUDGETARY BASIS
FLOOD CONTROL DISTRICT
FOR THE YEAR ENDED JUNE 30, 2007 (in thousands)

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

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

COUNTY OF LOS ANGELES
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL ON BUDGETARY BASIS
PUBLIC LIBRARY
FOR THE YEAR ENDED JUNE 30, 2007 (in thousands)

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

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

COUNTY OF LOS ANGELES
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL ON BUDGETARY BASIS
REGIONAL PARK AND OPEN SPACE DISTRICT
FOR THE YEAR ENDED JUNE 30, 2007 (in thousands)

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

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

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

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

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

ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES
Waterworks Funds	Nonmajor Enterprise Funds	Total	Internal Service Funds
\$ 84,194	3,725	\$ 203,524	\$ 39,767
1,667	9	57,936	7,484
85,861	3,734	261,460	47,251
	78,720	78,720	8,193
731		731	
		571,062	
643	10	1,801	394
8,847	4,857	43,314	170
1,769	58	462,388	76,510
1,164		1,164	
		25,459	7,950
99,015	87,379	1,446,099	140,468
		17,288	15,708
		45,496	8,778
9,441	199,160	245,450	
117,000	176,785	1,071,044	1,734
225	2,992	192,213	196,163
1,094,778	40,240	1,135,018	
16,853	378	872,860	
(432,472)	(182,794)	(1,203,606)	(114,137)
805,825	236,761	2,312,979	83,760
805,825	236,761	2,375,763	108,246
904,840	324,140	3,821,862	248,714
1,040	2,671	75,867	4,537
		102,218	19,989
	1,700	10,794	1,581
		684	860
6,081	304	266,890	33,103
		396,691	22,000
140	308	7,920	990
17	1,109	215,806	51,572
7,278	6,092	1,076,870	134,632
	133	109,431	34,667
104	4,498	115,109	28,385
		206,755	39,891
		273	60
		282,535	60,395
		210,458	20,779
		86,668	
104	4,631	1,011,229	184,177
7,382	10,723	2,088,099	318,809
805,704	231,553	2,186,969	56,464
91,754		108,416	2,380
	79,127	79,127	
	2,737	(640,749)	(128,939)
\$ 897,458	313,417	1,733,763	\$ (70,095)
		2,811	
		\$ 1,736,574	

ASSETS

Current assets:

Pooled cash and investments: (Notes 1 and 4)

Operating (Note 1)

Other (Note 1)

Total pooled cash and investments

Other investments (Note 4)

Taxes receivable

Accounts receivable - net (Note 12)

Interest receivable

Other receivables

Due from other funds (Note 13)

Advances to other funds (Note 13)

Inventories

Total current assets

Noncurrent assets:

Restricted assets (Note 4)

Net pension obligation (Note 6)

Capital assets: (Notes 5 and 8)

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 13)

Advances from other funds (Note 13)

Unearned revenue (Note 6)

Current portion of long-term liabilities (Note 9)

Total current liabilities

Noncurrent liabilities:

Accrued vacation and sick leave (Note 9)

Bonds and notes payable (Note 9)

Pension bonds payable (Notes 6 and 9)

Capital lease obligations (Notes 8 and 9)

Workers' compensation (Notes 9 and 16)

Litigation and self-insurance (Notes 9 and 16)

Third party payor liability (Notes 9 and 12)

Total noncurrent liabilities

TOTAL LIABILITIES

NET ASSETS

Invested in capital assets, net of related debt
(Notes 5 and 9)

Restricted:

Debt service

Special purpose

Unrestricted (deficit)

TOTAL NET ASSETS (DEFICIT) (Note 2)

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

NET ASSETS OF BUSINESS-TYPE ACTIVITIES (PAGE B-25)

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

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

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

ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES	
Waterworks Funds	Nonmajor Enterprise Funds	Total	Internal Service Funds	
\$		\$ 1,890,838	\$	OPERATING REVENUES:
	13,769	13,769	23,081	Net patient service revenues (Note 12)
79,547	452	79,999	373,662	Rentals
610	879	96,017		Charges for services
				Other
80,157	15,100	2,080,623	396,743	TOTAL OPERATING REVENUES
		1,413,108	284,521	OPERATING EXPENSES:
73,492	212,701	742,464	54,982	Salaries and employee benefits
1,518	237	643,640	11,316	Services and supplies
22,482	2,943	38,968	34,726	Other professional services
		10,890		Depreciation and amortization (Note 5)
		24,939		Medical malpractice
				Rent
97,492	215,881	2,874,009	385,545	TOTAL OPERATING EXPENSES
(17,335)	(200,781)	(793,386)	11,198	OPERATING INCOME (LOSS)
				NONOPERATING REVENUES (EXPENSES):
3,782		3,782		Taxes
4,217	4,196	18,077	1,266	Interest income
(12)	(319)	(63,546)	(10,026)	Interest expense
		(268,515)		Intergovernmental transfers expense (Note 12)
				Intergovernmental revenues:
108	10	118		State
85	232,120	232,205	251	Federal
8,180	236,007	(77,879)	(8,509)	TOTAL NONOPERATING REVENUES (EXPENSES)
(9,155)	35,226	(871,265)	2,689	INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS
		12,911		Capital contributions
		1,108,583	3,384	Transfers in (Note 13)
(391)	(4,232)	(59,782)	(221)	Transfers out (Note 13)
(9,546)	30,994	190,447	5,852	CHANGE IN NET ASSETS
907,004	282,423		(75,947)	TOTAL NET ASSETS (DEFICIT), JULY 1, 2006
\$ 897,458	313,417		\$ (70,095)	TOTAL NET ASSETS (DEFICIT), JUNE 30, 2007
		(2,075)		Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds
		\$ 188,372		CHANGE IN NET ASSETS OF BUSINESS-TYPE ACTIVITIES (PAGE B-27)

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

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

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

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

Continued...

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

	BUSINESS-TYPE ACTIVITIES -				
	Harbor UCLA Medical Center	Olive View UCLA Medical Center	LAC+USC Medical Center	Martin Luther King Jr. - Harbor Hospital	Rancho Los Amigos National Rehab Center
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (REQUIRED FOR) OPERATING ACTIVITIES:					
Operating income (loss)	\$ (64,547)	(74,302)	(345,983)	(65,097)	(25,341)
Adjustments to reconcile operating income (loss) to net cash provided by (required for) operating activities:					
Depreciation and amortization	2,692	2,975	2,136	3,398	2,342
Other charges - net	(5,293)	511	(842)	316	81
(Increase) decrease in:					
Accounts receivable - net	(23,027)	(436)	29,253	(2,853)	(7,358)
Interest receivable					
Other receivables	(873)	(1,447)	(1,858)	(1,287)	150
Due from other funds	43,683	73,791	100,243	68,656	(4,552)
Inventories	(420)	460	(555)	1,129	(237)
Net pension obligation	3,710	3,219	9,742	4,135	2,670
Increase (decrease) in:					
Accounts payable	(538)	3,251	(8,696)	(8,468)	190
Accrued payroll	4,183	2,707	5,235	(1,100)	1,063
Other payables	718	571	1,010	487	303
Accrued vacation and sick leave	3,393	8,295	5,830	(3,347)	(5,271)
Due to other funds	18,558	26,990	(39,827)	3,293	(18,013)
Unearned revenue			2,559		
Pension bonds payable	(9,098)	(7,893)	(23,888)	(10,139)	(6,547)
Workers' compensation liability	(3,883)	(2,752)	(9,932)	(6,764)	(845)
Litigation and self-insurance liability	183	94	903	(3,251)	(1,862)
Third party payor liability	(29,426)	(87,493)	34,619	3,360	1,948
TOTAL ADJUSTMENTS	4,562	22,843	105,932	47,565	(35,938)
NET CASH PROVIDED BY (REQUIRED FOR) OPERATING ACTIVITIES	<u>\$ (59,985)</u>	<u>(51,459)</u>	<u>(240,051)</u>	<u>(17,532)</u>	<u>(61,279)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS:					
Pooled cash and investments	\$ 10,338	13,085	137,560	7,920	2,962
Other investments					
Restricted assets	3,325	6,892	6,322	160	589
TOTAL	<u>\$ 13,663</u>	<u>19,977</u>	<u>143,882</u>	<u>8,080</u>	<u>3,551</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	
\$ (17,335)	(200,781)	\$ (793,386)	\$ 11,198	RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (REQUIRED FOR) OPERATING ACTIVITIES:
				Operating income (loss)
				Adjustments to reconcile operating income (loss) to net cash provided by (required for) operating activities:
22,482	2,943	38,968	34,726	Depreciation and amortization
27,509	125	22,407	(454)	Other charges - net
		(4,421)		(Increase) decrease in:
			(136)	Accounts receivable - net
(1,603)	(1,862)	(8,780)	(10)	Interest receivable
(971)	(57)	280,793	(18,298)	Other receivables
		377	(428)	Due from other funds
		23,476	4,530	Inventories
				Net pension obligation
(3,161)	341	(17,081)	(1,245)	Increase (decrease) in:
		12,088	1,718	Accounts payable
	(128)	2,961	588	Accrued payroll
	(116)	8,784	3,262	Other payables
1,324	101	(7,574)	10,276	Accrued vacation and sick leave
	(112)	2,447	(1)	Due to other funds
		(57,565)	(11,107)	Unearned revenue
		(24,176)	(3,293)	Pension bonds payable
		(3,933)	1,066	Workers' compensation liability
		(76,992)		Litigation and self-insurance liability
				Third party payor liability
45,580	1,235	191,779	21,194	TOTAL ADJUSTMENTS
\$ 28,245	(199,546)	\$ (601,607)	\$ 32,392	NET CASH PROVIDED BY (REQUIRED FOR) OPERATING ACTIVITIES
				RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS:
\$ 85,861	3,734	\$ 261,460	\$ 47,251	Pooled cash and investments
	78,720	78,720	8,193	Other investments
		17,288	15,708	Restricted assets
\$ 85,861	82,454	\$ 357,468	\$ 71,152	TOTAL

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

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

COUNTY OF LOS ANGELES
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2007 (in thousands)

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

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

COUNTY OF LOS ANGELES
NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

Blended Component Units

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

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Discretely Presented Component Unit

First 5 LA (First 5), was established by the County as a separate legal entity to administer the County's share of tobacco taxes levied by the State pursuant to Proposition 10. The County's Board established First 5 with nine voting members and four non-voting representatives. Of the nine voting members, one is a member of the Board of Supervisors, two are heads of County Departments (Health Services and Mental Health), one is an early childhood education expert, and five are public members appointed by the Board. The non-voting representatives are from other County commissions and planning groups.

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

Component Unit Financial Statements

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

Government-wide Financial Statements

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

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

Net assets are classified into the following three categories: 1) invested in capital assets, net of related debt; 2) restricted and 3) unrestricted. Net assets are reported as restricted they have external restrictions imposed by creditors, grantors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. At June 30, 2007, the restricted net assets balances were \$1.4 billion and \$186.3 million for governmental activities and business-type activities, respectively. For governmental activities, \$114.3 million was restricted by enabling legislation.

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 and charges for services.

Flood Control District Fund

The Flood Control District Fund was established to provide for the control and conservation of flood, storm and other waste waters, to conserve such waters for beneficial and useful purposes, and to protect the harbors, waterways, public highways and property located within the District from damage from such flood and storm waters. Revenues are derived primarily from the Countywide tax levy and benefit assessments (charges for services).

Public Library Fund

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

Regional Park and Open Space District Fund

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Fund Financial Statements-Continued

Harbor-UCLA Medical Center

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

Olive View-UCLA Medical Center

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

LAC+USC Medical Center

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

Martin Luther King, Jr.-Harbor Hospital

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

Rancho Los Amigos National Rehabilitation Center

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

Waterworks Funds

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

The following fund types have also been reported:

Internal Service Funds

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

Fiduciary Fund Types

Pension Trust Fund

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

Investment Trust Funds

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Fund Financial Statements-Continued

Agency Funds

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

Basis of Accounting

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the County's five Hospital Enterprise Funds (Hospitals) are from patient services. The principal operating revenues for the Waterworks Enterprise Funds are from charges for services. The principal operating revenues for the County's Nonmajor Enterprise Funds and Internal Service Funds are charges for services and rental revenues. Operating expenses for all Enterprise Funds and the Internal Service Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. Medical malpractice expenses, which are self-insured, are classified as operating expenses of the Hospitals. All other revenues and expenses not meeting this definition are reported as nonoperating items. As discussed in Note 12, intergovernmental transfer payments are recorded in the Hospitals and this item is classified as a nonoperating expense.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Basis of Accounting-Continued

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

The County applies all applicable Financial Accounting Standards Board (FASB) statements issued on or before November 30, 1989, in accounting and reporting for government-wide and proprietary fund financial statements. FASB statements issued after November 30, 1989, have not been applied unless specifically adopted in a GASB statement.

Budgetary Data

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

The County budget is organized by budget unit and by expenditure object. Budget units are established at the discretion of the Board of Supervisors. Within the General Fund (with certain exceptions), budget units are generally defined as individual departments. For other funds, each individual fund constitutes a budget unit. Expenditures are controlled on the object level for all budget units within the County, except for capital asset expenditures, which are controlled on the sub-object level. The total budget exceeds \$ 23 billion and is currently controlled through the use of approximately 400 separate budget units. There were no excesses of expenditures over the related appropriations within any fund for the year ended June 30, 2007. The County prepares a separate budgetary document, the County Budget, which demonstrates legal compliance with budgetary control.

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

Note 14 describes the differences between the budgetary basis of accounting and GAAP. A reconciling schedule is also presented for the major governmental funds.

Property Taxes

All jurisdictions within California derive their taxing authority from the State Constitution and various legislative provisions contained in the Government Code and Revenue and Taxation Code. Property is assessed at 100% of full cash or market value (with some exceptions) pursuant to Article XIII A of the California State Constitution and statutory provisions by the County Assessor and State Board of Equalization. The total 2006-2007 assessed valuation of the County of Los Angeles was \$925.5 billion.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Property Taxes-Continued

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

The County is divided into 11,048 tax rate areas, which are unique combinations of various jurisdictions servicing a specific geographic area. The rates levied within each tax rate area vary only in relation to levies assessed as a result of voter-approved taxes or indebtedness.

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

Deposits and Investments

In accordance with GASB Statements No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans" and No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," the accompanying basic financial statements reflect the fair value of investments. Specific disclosures related to GASB 31 appear in Note 4.

Deposits and investments are reflected in the following asset accounts:

Pooled Cash and Investments

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Deposits and Investments-Continued

Operating Pooled Cash and Investments

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

Other Pooled Cash and Investments

This account represents amounts identified in various agency funds as of June 30, 2007 that were owed to or were more appropriately classified in County operating funds. Accordingly, certain cash balances have been reclassified from the agency funds as required by GASB Statement No. 34.

Other Investments

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

Restricted Assets

Enterprise Funds' restricted assets represent cash and investments of certain JPAs and Public Buildings projects restricted in accordance with the provisions of the certificates of participation issued. The Internal Service Funds' restricted assets represent cash and investments restricted for debt service in accordance with the provisions of the LAC-CAL bond indenture. All of the above noted assets are included in the various disclosures in Note 4. These restricted assets are presented as noncurrent assets and are generally associated with long-term bonds payable.

Inventories

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

Of the amounts reported as inventories in the governmental activities, \$37,581,000 represents land held for resale by the CDC. The CDC records land held for resale at the lower of cost or estimated net realizable value.

Capital Assets

Capital assets, which include land and easements, buildings and improvements, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Infrastructure assets are divided into the five following networks: road; water; sewer; flood control and aviation. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation. Certain buildings and equipment are being leased under capital leases as defined in FASB Statement No. 13. The present value of the minimum lease obligation has been capitalized in the statement of net assets and is also reflected as a liability in that statement.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Capital Assets-Continued

Capital outlay is recorded as expenditures of the General, Special Revenue, and Capital Project Funds and as assets in the government-wide financial statements to the extent the County's capitalization threshold is met. Interest incurred during the construction phase of the capital assets of business-type activities is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

The County's capitalization thresholds are \$5,000 for equipment, \$100,000 for buildings and improvements and \$100,000 for infrastructure assets. Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities, or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and the related accumulated depreciation, as applicable, are removed from the respective accounts and any resulting gain or loss is included in the results of operations. Specific disclosures related to capital assets appear in Note 5.

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

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

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

Advances Payable

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

Vacation and Sick Leave Benefits

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Cash Flows

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

2. NET ASSET DEFICITS

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

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

The Enterprise and Internal Service Funds' deficits result primarily from the recognition of certain liabilities including accrued vacation and sick leave, workers' compensation, self-insurance and, for the enterprise funds, medical malpractice and third party payor liabilities, as required by GAAP. Deficits are expected to continue until such liabilities are retired through user charges or otherwise funded. Enterprise funds' deficits are further explained in Note 12.

3. ELIMINATIONS

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

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

3. ELIMINATIONS-Continued

Fund Financial Statements

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

In order to reflect the economic substance of the transaction described above, an eliminations column has been established in the governmental fund financial statements. The purpose of the column is to remove the duplication of assets, fund balances, revenues and expenditures that resulted from the consolidation of the two component units into the County's overall financial reporting structure.

Government-wide Financial Statements

The government-wide financial statements are designed to minimize the duplicative effects of transactions between funds. Accordingly, the effects of the transaction described above have been eliminated from the amounts presented within governmental activities (as appropriate under the accrual basis of accounting). The specific items eliminated were other investments and bonds payable (\$304,235,000) and investment earnings and interest expense (\$16,021,000 for each). Accordingly, there are no reconciling differences between the two sets of financial statements (after the effects of eliminations) for this matter.

The bonds payable of \$304,235,000 that were publicly issued are included among the liabilities presented in the Government-wide Financial Statements. Disclosures related to those outstanding bonds appear in Note 9 and are captioned "Assessment Bonds."

4. CASH AND INVESTMENTS

Investments in the County's cash and investment pool, other cash and investments, and Pension Trust Fund investments, are stated at fair value. Aggregate pooled cash and investments and other cash and investments are as follows at June 30, 2007 (in thousands):

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

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

4. CASH AND INVESTMENTS-Continued

Deposits-Custodial Credit Risk

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

At June 30, 2007, the carrying amount of the County's deposits was \$112,114,000 and the balance per various financial institutions was \$111,212,000. County's deposits are not exposed to custodial credit risk since all its deposits are either covered by federal depository insurance or collateralized with securities held by the County or its agent in the County's name, in accordance with California Government Code Section 53652.

At June 30, 2007, the carrying amount of Pension Trust Fund deposits was \$19,833,000. Pension Trust Fund deposits are held in the Fund's custodial bank and, therefore, are not exposed to custodial credit risk since its deposits are eligible for and covered by "pass through insurance" in accordance with applicable law and FDIC rules and regulations.

Investments

State statutes authorize the County to invest pooled funds in certain types of investments including obligations of the United States Treasury, federal, State and local agencies, commercial paper rated A-1 by Standard Poor's Corporation or P-1 by Moody's Commercial Paper Record, medium-term corporate and deposit notes, negotiable certificates of deposit, floating rate notes, money market funds, guaranteed investment contracts, repurchase and reverse repurchase agreements, bankers' acceptances, State and local area investment funds, and mortgage pass-through securities.

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

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

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

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

4. CASH AND INVESTMENTS-Continued

Investments-Continued

The interest rate risk, foreign currency risk, credit risk, concentration of credit risk, and custodial credit risk related to Pension Trust Fund investments are different than the corresponding risk on investments held by the County Treasurer. Detailed deposit and investment risk disclosures are included in Note G of LACERA's Report on Audited Financial Statements for the year ended June 30, 2007.

The School Districts and the Superior Court are required by legal provisions to participate in the County's investment pool. Eighty-three percent (83%) of the Treasurer's external investment pool consists of these involuntary participants. Voluntary participants in the County's external investment pool include the Sanitation Districts, Metropolitan Transportation Authority, the South Coast Air Quality Management District and other special districts with independent governing boards. The deposits held for both involuntary and voluntary entities are included in the External Pooled Investment Trust Fund. Certain specific investments have been made by the County, as directed by external depositors. This investment activity occurs separately from the County's investment pool and is reported in the Specific Investment Trust Fund. The pool is not registered as an investment company with the Securities and Exchange Commission (SEC) nor is it an SEC Rule 2a7-like pool. California Government Code statutes and the County Treasury Oversight Committee set forth the various investment policies that the County Treasurer must follow.

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

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

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

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

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

4. CASH AND INVESTMENTS-Continued

Investments-Continued

The Pension Trust Fund also had deposits with the Los Angeles County Treasury Pool at June 30, 2007 totaling \$27,789,000. The Pension Trust Fund portfolio contained no concentration of investments in any one organization (other than those issued or guaranteed by the U.S. Government) that represents 5% or more of the total investment portfolio.

The County has not provided nor obtained any legally binding guarantees during the year ended June 30, 2007 to support the value of shares in the Treasurer's investment pool.

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

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

	<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	\$ 8,661,217	\$ 8,689,678	3.65% - 9.25%	7/3/07 - 6/6/12	2.93
Negotiable certificates of deposit	2,779,874	2,780,414	5.25% - 5.44%	7/2/07 - 9/19/08	0.26
Commercial paper	5,767,991	5,769,894	5.20% - 5.36%	7/2/07 - 10/5/07	0.03
Corporate and deposit notes	679,850	680,042	5.12% - 5.406%	7/10/07 - 12/28/09	0.59
Los Angeles County securities	30,000	30,000	5.04% - 5.557%	6/30/08 - 6/30/09	1.67
Money market mutual funds	10,623	10,623			0.50
Deposits	81,378	81,378			
	<u>\$ 18,010,933</u>	<u>\$ 18,042,029</u>			1.49

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

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

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

4. CASH AND INVESTMENTS-Continued

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The government code limits most investment maturities to five years, with the exception of commercial paper and bankers' acceptances which are limited to 270 days and 180 days, respectively. The County Treasurer manages equity and mitigates exposure to declines in fair value by generally investing in short-term investments with maturities of six months or less and by holding all investments to maturity. The County's investment guidelines limit the weighted average maturity of its portfolios to less than 18 months. Of the Pooled Cash and Investments and Other Investments at June 30, 2007, over 50% have a maturity of six months or less. Of the remainder, less than 39% have a maturity of more than one year.

As of June 30, 2007, variable-rate notes comprised 3.53% of the Treasury Pool and Other Investment portfolios. The notes are tied to one-month and three-month London Interbank Offered Rate (LIBOR) with monthly and quarterly coupon resets. The fair value of variable-rate coupon resets back to the market rate on a periodic basis. Effectively, at each reset date, a variable-rate investment reprices back to par value, eliminating interest rate risk at each periodic reset.

Custodial Credit Risk

Custodial credit risk for investments is the risk that the County will not be able to recover the value of investment securities that are in the possession of an outside party. All securities owned by the County are deposited in trust for safekeeping with a custodial bank different from the County's primary bank, except for Bond Anticipation Notes, certain long-term debt proceeds issued by Los Angeles County entities, investment in the State's Local Area Investment Fund, and mortgage trust deeds which are held in the County Treasurer's vault. Securities are not held in broker accounts. At June 30, 2007, the County's external investment pools and specific investments did not have any securities exposed to custodial credit risk and there was no securities lending.

Credit Risk and Concentration of Credit Risk

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

The County's investment policy establishes minimum acceptable credit ratings for investments from any two nationally recognized statistical rating organizations. For an issuer of short-term debt, the rating must be no less than A-1 (S&P) or P-1 (Moody's) while an issuer of long-term debt shall be rated no less than an "A." At June 30, 2007, the County was invested in the Local Agency Investment Fund which is unrated as to credit quality.

The County's Investment Policy, approved annually by the Board of Supervisors, limits the maximum total par value for each permissible security type (e.g., commercial paper and certificates of deposit) to a certain percentage of the investment pool. Exceptions to this are obligations of the United States government and United States government agencies or government-sponsored enterprises, which do not have limits. Further, the County restricts investments in any one issuer based on the issuer's Nationally Recognized Statistical Rating Organization (NRSRO) ratings. For bankers acceptances, certificates of deposit, corporate notes and floating rate notes, the highest issuer limit was \$500 million, approximately 2.7% of the investment pool's daily investment balance. For commercial paper, the highest issuer limit was \$750 million, or 3.9% of the investment pool's daily investment balance.

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

4. CASH AND INVESTMENTS-Continued

Credit Risk and Concentration of Credit Risk-Continued

The following is a summary of the credit quality distribution and concentration of credit risk by investment type as a percentage of each portfolio's fair value at June 30, 2007:

	<u>S & P</u>	<u>Moody's</u>	<u>% of Portfolio</u>
Pooled Cash and Investments:			
Commercial paper	A-1	P-1	32.17%
Corporate and deposit notes	A-1	P-1	3.79%
Los Angeles County securities	AAA	Aaa	0.17%
Negotiable certificates of deposit	A-1	P-1	15.50%
U.S. agency securities	AAA	Aaa	48.03%
U.S. treasury securities	AAA	Aaa	0.28%
Other (Cal Trust short-term account)	A-1	P-1	0.06%
			<u>100.00%</u>
Other Investments:			
Local agency investment fund	Not rated	Not rated	3.39%
Commercial paper	A-1+	P-1	4.09%
Corporate and deposit notes	A-1+	P-1	1.83%
Mortgage trust deeds	AAA	Aaa	0.05%
Municipal bonds	AAA	Aaa	0.28%
Negotiable certificates of deposit	A-1+	P-1	11.45%
Guaranteed investment contracts	Not rated	Not rated	43.76%
U.S. agency securities	AAA	Aaa	19.24%
U.S. treasury securities	AAA	Aaa	15.91%
			<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, 2007 was 5.25%.

A separate financial report is not issued for the external investment pool. The following represents a condensed statement of net assets and changes in net assets for the Treasurer's Pool as of June 30, 2007 (in thousands):

Statement of Net Assets

Net assets held in trust for all pool participants	<u>\$ 18,010,933</u>
Equity of internal pool participants	\$ 6,296,333
Equity of external pool participants	<u>11,714,600</u>
Total equity	<u>\$ 18,010,933</u>

Statement of Changes in Net Assets

Net assets at July 1, 2006	\$ 16,120,978
Net change in investments by pool participants	<u>1,889,955</u>
Net assets at June 30, 2007	<u>\$ 18,010,933</u>

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

4. CASH AND INVESTMENTS-Continued

Credit Risk and Concentration of Credit Risk-Continued

The unrealized loss on investments held in the Treasurer's Pool was \$31,096,000 as of June 30, 2007. This amount takes into account all changes in fair value (including purchases, sales and redemptions) that occurred during the year.

Reverse Repurchase Agreements

The California Government Code permits the County Treasurer to enter into reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The fair value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing the broker-dealer a margin against a decline in the fair value of the securities. If the broker-dealer defaults on the obligation to resell these securities to the County or provide securities or cash of equal value, the County would suffer an economic loss equal to the difference between the fair value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest.

The County's investment guidelines limit the maximum par value of reverse repurchase agreements to \$500,000,000 and proceeds from reverse repurchase agreements may only be reinvested in instruments with maturities at or before the maturity of the reverse repurchase agreement. During the fiscal year, the County did not enter into any reverse repurchase agreements.

Derivatives

The California Government Code permits the County Treasurer to purchase floating rate notes, that is, any instruments that have a coupon interest rate that is adjusted periodically due to changes in a base or benchmark rate.

The County's investment guidelines limit the amount of floating rate notes to 10% of the Los Angeles County Treasury Pool portfolio and prohibit the purchase of inverse floating rate notes and hybrid or complex structured investments. As of June 30, 2007, there were approximately \$635,000,000 in floating rate notes.

LACERA utilizes forward currency contracts to control currency exposure and facilitate the settlement of international security purchase and sale transactions. Included in net investment income are gains and losses from foreign currency transactions. At June 30, 2007, forward currency contracts receivable and payable totaled \$51,160,000 and \$50,989,000, respectively.

Securities Lending Transactions

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

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

4. CASH AND INVESTMENTS-Continued

Securities Lending Transactions-Continued

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

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

At year end, LACERA had no credit risk exposure to borrowers because the collateral exceeded the amount borrowed. As of June 30, 2007, there were no violations of legal or contractual provisions. LACERA had no losses on securities lending transactions resulting from the default of a borrower for the year ended June 30, 2007. Securities on loan at year-end, which include stocks and government and corporate bonds, are maintained in LACERA's financial records. A corresponding liability is recorded for the fair value of the invested cash collateral received.

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

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

Summary of Deposits and Investments

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

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

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

5. CAPITAL ASSETS

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

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

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

5. CAPITAL ASSETS-Continued

Depreciation Expense

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

Governmental activities:

General government	\$ 12,599
Public protection	133,952
Public ways and facilities	82,755
Health and sanitation	11,950
Public assistance	6,446
Education	1,413
Recreation and cultural services	16,044
Capital assets held by the County's internal service funds are charged to the various functions based on their usage of the assets	<u>24,135</u>
Total depreciation expense, governmental activities	<u>\$ 289,294</u>

Business-type activities:

Hospitals	\$ 13,543
Aviation	1,663
Waterworks	22,482
Community Development Commission	1,280
Capital assets held by the County's internal service funds are charged to the various functions based on their usage of the assets	<u>10,591</u>
Total depreciation expense, business-type activities	<u>\$ 49,559</u>

Special Item - Contribution of Disney Hall

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

Discretely Presented Component Unit

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

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

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

5. CAPITAL ASSETS-Continued

Discretely Presented Component Unit-Continued

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

6. PENSION PLAN

Plan Description

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

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

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

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

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

Funding Policy

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

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

6. PENSION PLAN-Continued

Funding Policy-Continued

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

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

The rates were determined by the actuarial valuation performed as of June 30, 2005 and are the same as those used to calculate the annual required contribution (ARC).

Employee rates vary by the option and employee entry age from 5% to 15% of their annual covered salary.

During 2006-2007, the County did not pay LACERA the full amount of the ARC. LACERA applied \$111,775,000 in excess earnings reserves towards the County's required contribution.

Annual Pension Cost and Net Pension Obligation

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

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

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

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

6. PENSION PLAN-Continued

Annual Pension Cost and Net Pension Obligation-Continued

The annual required contribution was calculated based upon an actuarial valuation performed as of June 30, 2005 using the entry age normal method. The valuation assumed an annual investment rate of return of 7.75%, and projected salary increases ranging from 4.01% to 9.98%, with both assumptions including a 3.5% inflation factor. The valuation also assumed post-retirement benefit increases of between 2% and 3%, in accordance with the provisions of the specific benefit options. The actuarial value of assets was determined utilizing a three-year smoothed method based on the difference between the expected market value and the actual market value of assets as of the valuation date.

The June 30, 2006 valuation determined the funded ratio to be 90.5% and recognized an unfunded actuarial accrued liability (UAAL) of \$3.44 billion. The County contribution rate (effective for the 2006-2007 fiscal year) was, therefore, equal to 3.49% of payroll (using the level percentage of payroll amortization method, over a 30-year open period) plus the normal cost rate of 9.42%, for a total rate of 12.91% of payroll.

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

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

Pension Obligation Bonds and Certificates

During 1994-95 the County sold approximately \$1,965,230,000 in par value pension bonds and utilized the proceeds to fund LACERA. A portion of the bonds (\$1,365,230,000) were fixed rate. The remaining \$600,000,000 were variable rate bonds, which were restructured into fixed rate bonds during 1995-96. In conjunction with the 1994-95 issuance of the pension bonds, the County entered into debt service advance agreements. Under the agreements, the County received \$79,022,000 in exchange for future interest that the County would have earned on deposits with the trustee between the time the County is required to pay debt service payments to the trustee and the time the trustee pays the bondholders. These proceeds have been recorded as unearned revenue and are being amortized over the life of the bonds on the basis of annual debt service requirements. As of June 30, 2007, the unamortized balance was \$16,746,000.

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

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

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

6. PENSION PLAN-Continued

Pension Obligation Bonds and Certificates-Continued

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

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

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

Swap Transaction Related to Pension Bonds

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

7. POSTEMPLOYMENT BENEFITS

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

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

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

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

7. POSTEMPLOYMENT BENEFITS-Continued

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

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

GASB Statement No. 45

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

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

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

8. LEASES

Operating Leases

The following is a schedule of future minimum rental payments required under operating leases entered into by the County that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2007 (in thousands):

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

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

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

8. LEASES-Continued

Capital Leases

The following is a schedule of future minimum lease payments under capital leases together with the present value of future minimum lease payments as of June 30, 2007 (in thousands):

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

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

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Land	\$ 5,710	
Buildings and improvements	119,448	\$ 1,200
Equipment	59,407	393
Accumulated depreciation	(60,574)	(928)
Total	<u>\$ 123,991</u>	<u>\$ 665</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 90 years and are accounted for in the General Fund. The lease terms for the golf courses and regional parks cover remaining periods ranging from 1 to 28 years and are also accounted for in the General Fund. The Marina del Rey leases cover remaining periods ranging from 1 to 60 years and are accounted for in the Debt Service Funds as a result of the issuance of certificates of participation related to the Marina del Rey Project area.

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

8. LEASES-Continued

Leases of County-Owned Property-Continued

The land carrying value of the Asset Development Project ground leases and the Marina del Rey Project area leases is \$400,534,000. The carrying value of the golf course and regional park operating leases is not determinable due to the nature of these leases.

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

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

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

	<u>Governmental Activities</u>
Minimum rentals	\$ 37,097
Contingent rentals	22,991
Total	<u>\$ 60,088</u>

9. LONG-TERM OBLIGATIONS

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

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

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

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

9. LONG TERM OBLIGATIONS-Continued

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

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

	Original Par Amount of Debt	Balance June 30, 2006
NPC Bond Anticipation Notes, 5.04% to 5.56%	\$ 12,300	\$ 12,300
NPC Bonds 2.5% to 4.0%	16,775	7,899
Public Buildings Certificates of Participation, 2.8% to 7.0%	245,529	132,316
Commercial Paper, 3.65% to 3.7%	2,500	2,500
Waterworks District Bonds, 3.3% to 8.0%	280	121
Community Development Commission Mortgage Notes, 0.00% to 7.3%	<u>11,390</u>	<u>5,208</u>
Total	<u>\$ 288,774</u>	<u>\$ 160,344</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 (Los Angeles County (LAC) Flood Control Storm Drain bonds for Governmental Activities and Waterworks District bonds for Business-type Activities) are as follows (in thousands):

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

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

9. LONG TERM OBLIGATIONS-Continued

Assessment Bonds

The Regional Park and Open Space District issued voter approved assessment bonds in 1997, some of which were advance refunded in 2005, to fund the acquisition, restoration, improvement and preservation of beach, park, wildlife and open space resources within the District. As discussed in Note 3, the bonds were purchased by the Public Works Financing Authority (Authority) and similar bonds were issued as a public offering. The bonds issued by the Authority are payable from the proceeds of annual assessments levied on parcels within the District's boundaries.

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

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

Certificates of Participation

The County has issued certificates of participation (COPs) through various financing entities that have been established by, and are component units of, the County. The debt proceeds have been used to finance the acquisition of County facilities and equipment. The County makes annual payments to the financing entities for the use of the property and the debt is secured by the underlying capital assets that have been financed. Principal and interest requirements on COPs (LAC Flood Control District Refunding bonds and Revenue bonds, NPC bonds, and Public Buildings COPs for Governmental Activities and NPC bonds and Public Buildings COPs for Business-type activities) are as follows (in thousands):

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

9. LONG-TERM OBLIGATIONS-Continued

Certificates of Participation-Continued

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

Tobacco Settlement Asset-Backed Bonds

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

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

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

9. LONG-TERM OBLIGATIONS-Continued

Tobacco Settlement Asset-Backed Bonds-Continued

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

Notes, Loans, and Commercial Paper

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

CDC notes are secured by annual contributions from the United States Department of Housing and Urban Development (HUD) and housing units constructed with the note proceeds. Commission mortgage notes are secured by revenues from the operation of housing projects and from housing assistance payments from HUD. During the 2006-07 fiscal year, CDC issued additional notes payable in the amount of \$5,250,000 as reflected in the governmental activities.

Marina del Rey loans were obtained from the California Department of Boating and Waterways for the restoration and renovation of the marina seawall. The loans are secured by Marina del Rey lease revenue and by Los Angeles County Music Center parking revenues.

Tax-exempt commercial paper notes (TECP) are issued by the County to pay for the construction costs for the Harbor-UCLA Medical Center SB1953 seismic retrofit project. Repayment of the TECP is secured by a letter of credit and a sublease of twenty-one County-owned properties. Pursuant to the underlying leases, the County is able to amortize the remaining TECP over the useful life of the underlying assets. The term of individual commercial paper notes may not exceed 270 days.

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

9. LONG-TERM OBLIGATIONS-Continued

Notes, Loans, and Commercial Paper-Continued

Principal and interest requirements on CDC Notes payable, NPC BANS, and Marina del Rey Loans payable for Governmental Activities and NPC BANS, Commercial paper, and CDC Mortgage notes for Business-type Activities are as follows (in thousands):

Year Ending June 30	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 13,444	\$ 3,213	\$ 7,310	\$ 151
2009	14,535	3,086	9,030	98
2010	2,606	2,950	355	45
2011	2,760	2,811	350	13
2012	3,423	2,648		
2013-2017	17,357	10,431	972	
2018-2022	17,341	5,544		
2023-2027	9,439	1,846		
2028-2032	2,890	199		
Indeterminate maturity			1,991	
Total	<u>\$ 83,795</u>	<u>\$ 32,728</u>	<u>\$ 20,008</u>	<u>\$ 307</u>

Summary-All Future Principal, Interest and Accretions

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

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

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

9. LONG-TERM OBLIGATIONS-Continued

Summary-All Future Principal, Interest and Accretions-Continued

Long-term liabilities recorded in the Government-wide Statement of Net Assets include accreted interest on zero coupon bonds, unamortized bond premiums, and unamortized losses on advance debt refundings.

Advance Refunding of Debt

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

U.S. Government securities were purchased and deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. Accordingly, the refunded bonds were considered to be defeased and the liabilities for those bonds were removed from the Government-Wide Statement of Net Assets – Governmental Activities. Specific disclosures related to each refunding issue are as follows (in thousands):

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

For each of the two advance refunding transactions, the carrying amount of the refunded debt was less than the reacquisition price. These differences were \$11,865,000 and \$6,233,000 for the December 2006 Series 2006A and Series 2006B bonds, respectively. These amounts have been reported as reductions of the amount of outstanding debt in the basic financial statements.

Bonds Defeased in Prior Years

In prior years, various debt obligations, consisting of bonds and certificates of participation, were defeased by placing the proceeds of refunding bonds in an irrevocable trust to provide for all future debt service payments on the old obligations. Accordingly, the trust account assets and the related liabilities for the defeased bonds are not reflected in the County's financial position. At June 30, 2007, the amount of outstanding bonds and certificates of participation considered defeased was \$552,015,000. All of this amount was related to governmental activities.

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

9. LONG-TERM OBLIGATIONS-Continued

Changes in Long-term Liabilities

The following is a summary of long-term liabilities and corresponding activity for the year ended June 30, 2007 (in thousands):

	<u>Balance July 1, 2006</u>	<u>Additions/ Accretions</u>	<u>Transfers/ Maturities</u>	<u>Balance June 30, 2007</u>	<u>Due Within One Year</u>
Governmental activities:					
Bonds and notes payable	\$ 1,815,744	\$ 375,967	\$ 503,425	\$ 1,688,286	\$ 119,472
Pension bonds payable (Note 6)	1,045,264		165,679	879,585	284,522
Capital lease obligations (Note 8)	123,676	818	26,044	98,450	15,738
Accrued vacation and sick leave	630,670	115,772	46,242	700,200	45,229
Workers' compensation liability (Note 16)	2,018,407	128,200	271,473	1,875,134	292,378
Litigation and self-insurance liability (Note 16)	483,097		57,556	425,541	73,034
Third party payor liability	<u>22,344</u>	<u>977</u>	<u>5,753</u>	<u>17,568</u>	<u>17,168</u>
Total governmental activities	<u>\$ 6,139,202</u>	<u>\$ 621,734</u>	<u>\$1,076,172</u>	<u>\$ 5,684,764</u>	<u>\$ 847,541</u>
Business-type activities:					
Bonds and notes payable	\$ 182,355	8,006	30,017	160,344	33,597
Pension bonds payable (Note 6)	363,177		57,565	305,612	98,857
Capital lease obligations (Note 8)	675		277	398	125
Accrued vacation and sick leave	110,367	19,216	10,432	119,151	9,720
Workers' compensation liability (Note 16)	352,295	15,393	39,569	328,119	45,584
Litigation and self-insurance liability (Note 16)	239,323	24,458	28,391	235,390	24,932
Third party payor liability (Note 12)	<u>175,213</u>	<u>37,961</u>	<u>114,954</u>	<u>98,220</u>	<u>11,552</u>
Total business-type activities	<u>\$ 1,423,405</u>	<u>\$ 105,034</u>	<u>\$ 281,205</u>	<u>\$ 1,247,234</u>	<u>\$ 224,367</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. For Bonds and Notes Payable, accretions increased during 2006-2007, thereby increasing liabilities for Bonds and Notes Payable by \$21,501,000 for governmental activities. Amounts accreted for Pension Bonds in previous years were paid during 2006-2007 thereby decreasing liabilities for Pension Bonds Payable for governmental and business-type activities by \$24,495,000 and \$8,511,000, respectively, for interest accretions. Note 16 contains information about changes in the combined current and long-term liabilities for workers' compensation and litigation and self-insurance liabilities.

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

10. SHORT-TERM DEBT

On July 3, 2006, the County issued \$500,000,000 of short-term Tax and Revenue Anticipation Notes at an effective interest rate of 3.50%. The proceeds of the notes were used to assist with County General Fund cash flow needs prior to the first major apportionment of property taxes, which occurred in December 2006. The notes matured and were redeemed on June 29, 2007.

11. CONDUIT DEBT OBLIGATIONS

Community Facilities and Improvement District Bonds

As of June 30, 2007, various community facilities and improvement districts established by the County had outstanding special tax bonds payable totaling \$87,254,000 and limited obligation improvement bonds totaling \$15,549,000. The bonds were issued to finance the cost of various construction activities and infrastructure improvements which have a regional or direct benefit to the related property owners.

The bonds do not constitute an indebtedness of the County and are payable solely from special taxes and benefit assessments collected from property owners within the districts. In the opinion of County officials, these bonds are not payable from any revenues or assets of the County and neither the full faith and credit of the County, the State or any political subdivision thereof is obligated to the payment of the principal or interest on the bonds. Accordingly, no liability has been recorded in the accompanying basic financial statements.

The County functions as an agent for the districts and bondholders. Debt service transactions related to the various bond issues are reported in the agency funds. Construction activities are reported in the Improvement Districts' Capital Projects Fund. Revenues have been recorded (proceeds from property owners) to reflect the bond proceeds issued for capital improvements.

Residential Mortgage Revenue Bonds

Residential Mortgage Revenue Bonds have been issued to provide funds to purchase mortgage loans secured by first trust deeds on newly constructed and existing single family residences in the County. The purpose of this program is to provide low interest rate home mortgage loans to persons who are unable to qualify for conventional mortgages at market rates. Multi-Family Mortgage Revenue Bonds have been issued to provide permanent financing for apartment projects located in the County to be partially occupied by persons of low or moderate income. The amount of Mortgage Revenue Bonds issued since inception of the programs approximates \$1,306,172,000. The amount of bonds outstanding as of June 30, 2007 was not determinable.

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

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

11. CONDUIT DEBT OBLIGATIONS-Continued

Industrial Development and Other Conduit Bonds

Industrial development bonds, and other conduit bonds, have been issued to provide financial assistance to private sector entities and nonprofit corporations for the acquisition of industrial and health care facilities which provide a public benefit. The bonds are secured by the facilities acquired and/or bank letter of credit and are payable solely from project revenue or other pledged funds. The County is not obligated in any manner for the repayment of the bonds. Accordingly, no liability has been recorded in the accompanying basic financial statements.

As of June 30, 2007, the amount of industrial development and other conduit bonds outstanding was \$14,815,000.

12. HOSPITAL AND OTHER PROGRAM REVENUES

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

Medi-Cal Hospital / Uninsured Care Demonstration Project

The Medicaid Demonstration Project, which was a sub-state waiver, included the Supplemental Project Pool (SPP) program and the Federally Reimbursable Ambulatory Care Service Costs. This sub-state waiver was terminated on June 30, 2005. A new Statewide Project, the California's Medi-Cal Hospital / Uninsured Care Demonstration Project, was implemented on July 1, 2005. This Demonstration Project and the associated changes to various State Plan Amendments either modified and/or replaced the Medi-Cal Fee For Services, SB 855 and SB 1255 payment funding systems.

The Demonstration Project was negotiated between the State of California's Department of Health Services (SDHS) and the federal Centers for Medicare and Medicaid Services (CMS), and covers the period from July 1, 2005 to June 30, 2010. The implementing State legislation (SB 1100) was enacted by the Legislature in September 2005. The five-year Demonstration Project applies to payments Statewide (which includes 23 public hospitals, including all University of California owned hospitals, identified as Designated Public Hospitals, and private and non-designated public safety net hospitals that serve large numbers of Medi-Cal patients).

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

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

12. HOSPITAL AND OTHER PROGRAM REVENUES-Continued

Medi-Cal Hospital / Uninsured Care Demonstration Project-Continued

Under the Demonstration Project, payments for the public hospitals are comprised of: 1) FFS cost-based reimbursement for inpatient hospital services (exclusive of physician component); 2) DSH payments and 3) distribution from a newly created pool of federal funding for uninsured care, known as the Safety Net Care Pool (SNCP), which was capped Statewide at \$586 million for FY 2006-07. The non-federal share of these three types of payments will be provided by the public hospitals rather than the State, primarily through certified public expenditures (CPE) whereby the hospital would expend its local funding for services to draw down the federal financial participation (FFP), currently provided at a 50% match. For the inpatient hospital cost-based reimbursement, each hospital will provide its own CPE and receive all of the resulting federal match. For the DSH and SNCP distributions, the CPEs of all the public hospitals will be used in the aggregate to draw down the federal match. It is therefore possible for one hospital to receive the federal match that results from another hospital's CPE. In this situation, the first hospital is referred to as a "recipient" hospital, while the second is referred to as a "donor" hospital. A recipient hospital is required to "retain" the FFP amounts resulting from donated CPEs.

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

The County of Los Angeles provides funding for the State's share of the Demonstration Project by transferring funds to the State. These transferred funds are referred to as IGTs and are used by the State to draw down federal matching funds. The IGT funds transferred to the State by each hospital Enterprise Fund and the matching federal funds are utilized by the State to provide supplemental funding to these funds for Health Care Expenditures.

The County recognizes the supplemental funding received for each hospital as net patient services revenue as reflected in the Statement of Revenues, Expenses, and Changes in Net Assets. The IGT payments are reflected as non-operating expenses by each Hospital in the Statement of Revenues, Expenses, and Changes in Fund Net Assets. For the year ended June 30, 2007, the cost of the IGTs and the related revenues recognized are as follows (in thousands):

<u>Program</u>	<u>Intergovernmental Transfers Expense</u>	<u>Revenues</u>
Medicaid Demonstration Project	\$ 268,515	\$ 893,400

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

12. HOSPITAL AND OTHER PROGRAM REVENUES-Continued

Baseline Payments

The Demonstration Project prioritizes payments so that, to the extent possible, total payments to hospitals are at a minimum "baseline" level. For public hospitals, the baseline level is determined and satisfied on a hospital-specific basis. The baseline for the 2006-07 fiscal year is established at each hospital's total net Medi-Cal inpatient payments for 2005-06. The State DHS estimates the aggregate baseline funding for the 23 Statewide designated public hospitals to be \$2.225 billion. The FY 2006-07 baseline for Los Angeles County hospitals is as follows (in thousands):

<u>Hospital Name</u>	<u>Baseline Amount</u>
LAC+USC Medical Center	\$ 339,702
Harbor-UCLA Medical Center	160,380
MLK, Jr.-Harbor Hospital	159,418
Rancho Los Amigos National Rehabilitation Center	76,074
Olive View -UCLA Medical Center	105,811
Total	<u>\$ 841,385</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 \$1.023 billion as of June 30, 2007.)
- 3) SNCP Distributions: These federal payments are made to public hospitals and clinics for uncompensated care delivered to uninsured patients and for certain designated non-hospital costs, such as drugs and supplies for the uninsured. The non-federal share of these funds will be based on CPEs for these services and as such are subject to interim and final cost settlement.

Stabilization Payments

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

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

12. HOSPITAL AND OTHER PROGRAM REVENUES-Continued

Stabilization Payments-Continued

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

Reported CPEs Subject to Audit

All CPEs reported by each hospital will be subject to State and federal audit and final reconciliation. If at the end of the final reconciliation process it is determined that a hospital's claimed CPEs resulted in an overpayment of federal funds to the State, the hospital may be required to return the overpayment whether or not they received the federal matching funds.

Medi-Cal and Medicare Programs

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

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

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

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

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

12. HOSPITAL AND OTHER PROGRAM REVENUES-Continued

Medi-Cal and Medicare Programs-Continued

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

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

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

Martin Luther King, Jr.- Harbor Hospital Extension Agreement

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

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

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

Other Program Revenues

Proposition 99 imposes an additional State excise tax on cigarettes and other tobacco products. The increased taxes on tobacco products generate additional revenues for health care, research, health education, and public resources. State Assembly Bill 75 allocates these revenues to health care providers based upon their share of the financial burden for providing care to persons who are uninsured or otherwise unable to pay for care. The County's share of the AB 75 California Healthcare for the Indigent Program (CHIP) revenues for the year ended June 30, 2007 was \$11.5 million.

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

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

12. HOSPITAL AND OTHER PROGRAM REVENUES-Continued

Accounts Receivable-net

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

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

Charity Care

Charity care includes those uncollectible amounts, for which the patient is unable to pay. Generally, charity care adjustment accounts are those accounts for which an indigence standard has been established and under which the patient qualifies. Inability to pay may be determined through one of the Department's Reduced Cost Health Care plans, through other eligibility plans utilized by the Department, by the Treasurer-Tax Collector, or by an outside collection agency. Determinations of charity care may be made prior to, at the time of service, or any time thereafter.

The total amount of such charity care provided by the hospitals for the fiscal year ended June 30, 2007, based on established rates, is as follows (in thousands):

Charges forgone	\$1,353,319
Less: Federal and State subventions	<u>11,471</u>
Net charges forgone	<u>\$1,341,848</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.

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

13. INTERFUND TRANSACTIONS

Interfund Receivables/Payables

Interfund receivables and payables have been eliminated in the government-wide financial statements, except for "internal balances" that are reflected between the governmental and business-type activities. Interfund receivables and payables have been recorded in the fund financial statements. Such amounts arise due to the exchange of goods or services (or subsidy transfers) between funds that were pending the transfer of cash as of June 30, 2007.

Cash transfers related to interfund receivables/payables are generally made within 30 days after year-end. Amounts due to/from other funds at June 30, 2007 are as follows (in thousands):

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

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

13. INTERFUND TRANSACTIONS-Continued

Interfund Receivables/Payables-Continued

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

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

13. INTERFUND TRANSACTIONS-Continued

Interfund Receivables/Payables-Continued

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Rancho Los Amigos Nat'l Rehab Center	General Fund	9,130
	Harbor-UCLA Medical Center	76
	LAC+USC Medical Center	10,675
	M.L. King-Harbor Hospital	18
		<u>19,899</u>
Nonmajor Enterprise Funds	Internal Service Funds	<u>58</u>
Nonmajor Governmental Funds	General Fund	291,001
	Fire Protection District	14
	Flood Control District	221
	Internal Service Funds	11,790
	Waterworks Enterprise	1
	Olive View-UCLA Medical Center	465
	Nonmajor Enterprise Funds	7
	Nonmajor Governmental Funds	7,690
		<u>311,189</u>
Total Interfund Receivables/Payables		<u>\$ 1,238,626</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, 2007 are as follows (in thousands):

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

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

13. INTERFUND TRANSACTIONS-Continued

Interfund Transfers-Continued

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

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

13. INTERFUND TRANSACTIONS-Continued

Interfund Transfers-Continued

Short-term Advances

The General Fund makes short-term advances to assist the Hospital Funds in meeting their cash flow requirements. The General Fund, along with other funds that receive services from the Public Works Internal Service Fund, makes short-term advances to ensure sufficient cash is available to fund operations.

Advances from/to other funds at June 30, 2007 are as follows (in thousands):

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Internal Service Funds	\$ 3,589
	Harbor-UCLA Medical Center	74,487
	Olive View-UCLA Medical Center	37,228
	LAC+USC Medical Center	161,123
	M.L. King-Harbor Hospital	53,366
	Rancho Los Amigos Nat'l Rehab Center	<u>70,487</u>
		<u>400,280</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>\$ 418,691</u>

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

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

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

- For budgetary purposes, designations are recorded as other financing uses at the time they are established. Although designations are not legal commitments, the County recognizes them as uses of budgetary fund balance. Designations that are subsequently cancelled or otherwise made available for appropriation are recorded as other financing sources.

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

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

- For the General Fund, obligations for accrued vacation and sick leave and estimated liabilities for litigation and self-insurance are recorded as budgetary expenditures to the extent that they are estimated to be payable within one year after year-end. Under the modified accrual basis of accounting, such expenditures are not recognized until they become due and payable in accordance with GASB Interpretation No. 6.
- In conjunction with the sale of Tobacco Settlement Asset-Backed bonds, the County sold 25.9% of its future tobacco settlement revenues. Under the budgetary basis, the proceeds are recognized as revenues. Under the modified accrual basis, the proceeds are recorded as a sale of future revenues and are being recognized over the duration of the sale agreement, in accordance with GASB Statement No. 48. This matter is also discussed in Note 9, under the caption, "Tobacco Settlement Asset-Backed Bonds."
- In conjunction with the sale of pension obligation bonds in 1994-95, the County sold the right to future investment income on debt service deposits. Under the budgetary basis, the proceeds were included in 1994-95 revenues. Under the modified accrual basis, the proceeds were recorded as deferred revenue (unearned) and are being amortized over the life of the bonds. This matter is also discussed in Note 6.
- Under the budgetary basis, revenues (primarily intergovernmental) are recognized at the time encumbrances are established for certain programs and capital improvements. The intent of the budgetary policy is to match the use of budgetary resources (for amounts encumbered, but not yet expended) with funding sources that will materialize as revenues when actual expenditures are incurred. Under the modified accrual basis, revenues are not recognized until the qualifying expenditures are incurred.
- Under the budgetary basis, property tax revenues are recognized to the extent that they are collectible within one year after year-end. Under the modified accrual basis, property tax revenues are recognized only to the extent that they are collectible within 60 days.
- For budgetary purposes, investment income is recognized prior to the effect of changes in the fair value of investments. Under the modified accrual basis, the effects of such fair value changes have been recognized.

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

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

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

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

15. OTHER COMMITMENTS

Construction Commitments

At June 30, 2007, the LAC+USC Medical Center Hospital Enterprise Fund had contractual commitments of approximately \$65,709,000 to provide for the construction of the LAC+USC Medical Center replacement facility. The construction is currently being financed by commercial paper and a grant from the Federal Emergency Management Agency.

LACERA Capital Commitments

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

Investment Purchase Commitments

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

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

16. RISK MANAGEMENT

The County purchases insurance for certain risk exposures such as aviation, employee fidelity, boiler and machinery in certain structures, art objects, catastrophic hospital general liability, volunteer, special events, public official bond, crime, safety reserve employee death and disability, and fiduciary liability for the deferred compensation plans. There have been no settlements related to these programs that exceeded insurance coverage in the last three years. The County also has insurance on most major structures. Losses did not exceed coverage in 2005-2006 or 2006-2007.

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

As indicated in the following table, the County's workers' compensation liabilities as of June 30, 2007 were approximately \$2.203 billion. This amount is undiscounted and is based on an actuarial study of the County's self-insured program as of June 30, 2007. Approximately \$177,980,000 of the total liabilities pertain to salary continuation payments and other related costs mandated by the State Labor Code.

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

	Beginning of Fiscal Year Liability	Current Year Claims and Changes In Estimates	Claim Payments	Balance At Fiscal Year-End
<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>
<u>2006-2007</u>				
Workers' Compensation	\$ 2,370,702	\$ 143,593	\$(311,042)	\$ 2,203,253
Other	<u>722,420</u>	<u>24,458</u>	<u>(85,947)</u>	<u>660,931</u>
Total 2006-2007	<u>\$ 3,093,122</u>	<u>\$ 168,051</u>	<u>\$(396,989)</u>	<u>\$ 2,864,184</u>

In addition to the above estimated liabilities, the County has determined that claims seeking damages of approximately \$776.2 million are reasonably possible of creating adverse judgments against the County. Because of the uncertainty of their outcome, no loss has been accrued for these claims.

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

17. PROPOSITIONS 218 AND 62

In November 1996, the voters approved the "Right To Vote on Taxes Act" (Proposition 218) which limits the County's ability to levy general and special taxes without voter approval and property related benefit assessments without property owner approval. In September 1998, the Board of Supervisors approved ordinance amendments to bring the County's general purpose taxes into conformance with Proposition 218.

In September 1995, the California Supreme Court upheld the constitutionality of Proposition 62, which requires voter approval of all new local taxes. Taxes imposed without voter approval after the 1986 effective date of Proposition 62 may be invalidated. The Court did not provide clarification about whether the decision would apply only prospectively to all new taxes or retrospectively to all taxes since the effective date of the Proposition. Accordingly, there is uncertainty about the validity of taxes currently being collected and as of June 30, 2007, a portion (\$234.6 million) of the General Fund's designation for budgetary uncertainties pertained to such collections.

18. SUBSEQUENT EVENTS

Tax and Revenue Anticipation Notes ("TRANS")

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

Regional Park and Open Space District Refunding Revenue Bonds

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

Martin Luther King, Jr.-Harbor Hospital Closure

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

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

18. SUBSEQUENT EVENTS-Continued

Tax-Exempt Commercial Paper

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

Capital Asset Leasing Corporation Bond Anticipation Notes

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

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((b-a)/c)
06/30/04	\$27,089,440	\$32,700,505	\$ 5,611,065	82.8%	\$4,919,531	114.1%
06/30/05	29,497,485	34,375,949	4,878,464	85.8%	4,982,084	97.9%
06/30/06	32,819,725	36,258,929	3,439,204	90.5%	5,205,804	66.1%



APPENDIX C

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a summary of certain provisions in the Indenture and the Lease. This summary does not purport to be comprehensive and reference should be made to the Indenture and the Lease for a full and complete statement of their respective provisions. All capitalized terms not defined in this Official Statement have the meaning set forth in the Indenture and the Lease.

Definitions

“Acquisition Cost” means all the necessary and reasonable costs in connection with the acquisition of any Equipment Component, including, but not limited to, legal fees and expenses of counsel with respect to the financing of the Equipment and the leasing of the Equipment; to the extent such fees and expenses are approved by a Lessee Representative.

“Acquisition Fund” means the fund of that name established pursuant to the Indenture.

“Base Rental Account” means the Base Rental Account within the Bond Fund established pursuant to the Indenture.

“Book-Entry Bonds” means the Bonds registered in the name of the Nominee, as the Bondowner thereof, pursuant to the Indenture.

“Business Day” means any day other than (i) a Saturday, Sunday or (ii) a day on which banks in both New York, New York and the city in which the principal corporate trust office of the Trustee is located are authorized or permitted to be closed.

“Cede & Co.” means Cede & Co., the initial Nominee of DTC.

“Bond Fund” means the fund of that name established pursuant to the Indenture.

“Bond Register” means the books for the registration of the ownership of the Bonds referred to in the Indenture.

“Bondowner” means the registered Bondowner, as indicated in the Bond Register, of any Bond, including DTC or its Nominee, or any successor Depository or its Nominee for the Bonds, as the sole registered Bondowner of Book-Entry Bonds.

“Closing Date” means the date on which the Bonds are first executed by the Lessor and authenticated and delivered by the Trustee to the initial purchasers thereof.

“Cost of Issuance” means all the costs of preparation, sale and issuance of the Bonds and other costs related to such financing including, but not limited to, all printing and document preparation expenses in connection with the Indenture, the Lease, the Bonds and the preliminary and final official statements; rating agency fees; CUSIP Service Bureau charges; legal fees and expenses of counsel with respect to the financing of and leasing of the Equipment; the initial fees and expenses of the Trustee and its counsel and of any paying agent and its counsel; and other fees and expenses incurred in connection with the issuance of the Bonds and the payment of the BANs or the implementation of the financing, to the extent such fees and expenses are approved by a Lessee Representative or a Lessor Representative.

“Costs of Issuance Account” means the Costs of Issuance Account established in the Acquisition Fund pursuant to the Indenture.

“Depository” means DTC and its successors and assigns or if (a) the then depository resigns from its functions as securities depository of the Bonds, or (b) the Lessee discontinues use of the Depository pursuant to the Indenture, any other securities depository which agrees to follow the procedures required to be followed by a securities depository in connection with the Bonds and which is selected by the Lessor.

“DTC” means The Depository Trust Company, a limited-purpose trust company organized under the laws of the State of New York, and its successors and assigns.

“Earnings Fund” means the fund of that name established pursuant to the Indenture.

“Equipment Component” means each discrete component of the personal property described in the Lease, as the same may be amended from time to time.

“Escrow Obligations” has the meaning given to such term within the definition of Government Obligations.

“Event of Default” means any one or more of the events described in the Indenture.

“Excess Earnings Account” means the account of that name established in the Earnings Fund pursuant to the Indenture.

“Fitch” means Fitch Ratings, New York, New York, its successors and assigns.

“General Account” means the General Account established in the Acquisition Fund pursuant to the Indenture.

“Government Obligations” means (1) noncallable direct obligations of, or noncallable obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America, (2) U.S. Treasury STRIPS or REFCORP STRIPS (STRIPS by the Federal Reserve Bank of New York), and (3) prerefunded municipal obligations, rated in the highest rating category (without giving effect to pluses or minuses) by the Rating Agencies meeting the following conditions: (a) the municipal obligations are not to be redeemable prior to maturity, or the trustee with respect to such obligations has been given irrevocable instructions concerning their calling and redemption; (b) the municipal obligations are secured by securities described in subdivision (1) or (2) of this definition (“Escrow Obligations”), which Escrow Obligations, except for provisions relating to surplus moneys not required for the payment of the municipal obligations and the substitution of such Escrow Obligations for other Escrow Obligations satisfying all criteria for Escrow Obligations in this definition, may be applied only to interest, principal and premium payments of such municipal obligations; (c) the principal of and interest on the Escrow Obligations (plus any cash in the escrow fund) are sufficient to meet the liabilities of the municipal obligations; and (d) the Escrow Obligations serving as security for the municipal obligations are held by an escrow agent or trustee.

“Information Services” means, in accordance with then-current guidelines of the Securities and Exchange Commission, one or more services selected by the County which are then providing information with respect to the Bonds..

“Insurance Proceeds Fund” means the fund established pursuant to the Indenture.

“Interest Account” means the Interest Account established in the Bond Fund pursuant to the Indenture.

“Investment Earnings” means interest and income received in respect of the investment of money on deposit in any fund or account maintained under the Indenture.

“Investment Earnings Account” means the Investment Earnings Account established in the Earnings Fund pursuant to the Indenture.

“Lease Payment Date” means the Business Day immediately preceding June 1 and December 1 of each year during the Term hereof, commencing June 1, 2008, except if such Lease Payment Date is on a date which is not a Business Day then the Lease Payment Date will be the next preceding business day.

“Lease Year” means the period to be selected by the Lessee in accordance with regulations promulgated under the Code.

“Lessee” means the County of Los Angeles.

“Lessee Representative” means the Treasurer and Tax Collector of the Lessee or any other employee of the Lessee designated and authorized in writing by such officer to act on behalf of the Lessee with respect to the Indenture and all other related agreements, including but not limited to the Lease.

“Lessor” means the Los Angeles County Capital Asset Leasing Corporation, a California nonprofit public benefit corporation.

“Lessor Representative” means the Treasurer and Tax Collector of the Lessee as *ex officio* officer of the Lessor or any other employee of the Lessee designated and authorized in writing by such officer to act on behalf of the Lessor with respect to the Indenture and all other related agreements, including but not limited to the Lease.

“Moody’s” means Moody’s Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and assigns.

“Nominee” means the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to the Indenture.

“Outstanding” when used as of any particular time with respect to any Bond, means any Bonds previously executed by the Lessor and authenticated and delivered by the Trustee under the Indenture, except: (1) any Bond previously canceled by the Trustee or surrendered to the Trustee for cancellation; (2) any Bond for the payment or redemption of which funds and/or investments of the type described in clause (A) of the definition of Qualified Investments in the necessary amount shall have been deposited with the Trustee (whether on or prior to the maturity or redemption date of such Bond (as provided in the Indenture)); (3) any Bond purchased by the Lessor and surrendered to the Trustee for cancellation; (4) any Bond in lieu of or in exchange for which another Bond or other Bonds shall have been executed by the Lessor and authenticated and delivered by the Trustee pursuant to the Indenture; (5) any Bond that is more particularly described in the Indenture that is not presented for payment, when the principal becomes due; and (6) any Bond for which a notice of redemption shall have been given and for which money for its redemption shall have been set aside as provided in the Indenture.

“Principal Account” means the Principal Account established in the Bond Fund pursuant to the Indenture.

“Principal Corporate Trust Office” means the office of the Trustee at the address set forth in the Indenture, except that with respect to presentation of Bonds for payment or for registration of transfer and exchange such term shall mean the office or agency of the Trustee at which, at any particular time, its corporate trust agency business shall be conducted.

“Qualified Investments” means, if and to the extent permitted by law and by any policy guidelines promulgated by the Lessee:

- (a) For all purposes, including defeasance investments in refunding escrow accounts:
 - (1) Cash deposits (insured at all times by the Federal Deposit Insurance Corporation);

(2) Obligations of, or obligations guaranteed as to principal and interest by, the United States of America or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the of the United States of America, including: (i) United States of America treasury obligations; (ii) all direct or fully guaranteed obligations of the United States of America; (iii) Farmers Home Administration; (iv) General Services Administration; (v) Guaranteed Title XI financing; (vi) Government National Mortgage Association (“GNMA”); and (vii) State and Local Government Series;

Any security used for defeasance pursuant to the Indenture must provide for the timely payment of principal and interest and cannot be callable or prepayable prior to maturity or earlier redemption of the rated debt (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date).

(b) For all purposes other than defeasance investments in refunding escrow accounts:

(1) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including: (i) Export-Import Bank; (ii) Rural Economic Community Development Administration; (iii) U.S. Maritime Administration; (iv) Small Business Administration; (v) U.S. Department of Housing and Urban Development; (vi) Federal Housing Administration; and (vii) Federal Financing Bank;

(2) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America: (i) senior debt obligations issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation; (ii) obligations of the Resolution Funding Corporation; (iii) senior debt obligations of the Federal Home Loan Bank System; and (iv) senior debt obligations of other Government Sponsored Agencies;

(3) U.S. dollar denominated deposit accounts, federal funds and bankers’ acceptances with domestic commercial banks, including the Trustee and its affiliates, which have a rating on their short-term certificates of deposit on the date of purchase of “P-1” by Moody’s and “A-1” by S&P and maturing not more than 270 calendar days after the date of purchase (ratings on holding companies are not considered as the ratings of the banks);

(4) Commercial paper which is rated at the time of purchase in the single highest classification, “P-1” by Moody’s and “A-1” by S&P, and which mature not more than 270 calendar days after the date of purchase;

(5) Investments in a money market fund rated “AAAm” or “AAAm-G” or better by S&P;

(6) Pre-refunded municipal obligations defined as follows: Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and, (i) which are rated, based on an irrevocable escrow account or fund (the “escrow”), in the highest long-term rating category of Moody’s or S&P; or (ii)(A) which are fully secured as to principal and interest and prepayment premium, if any, by an escrow consisting of cash or securities as described in paragraph (2) above, which escrow may be applied only to the payment of such principal of and interest and prepayment premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the prepayment date or dates specified pursuant to such irrevocable instructions, as appropriate, and (B) which escrow is sufficient, as verified by an Accountant’s Certificate, to pay principal of and interest and prepayment premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates thereof or the prepayment date or dates specified pursuant to such irrevocable instructions, as appropriate;

(7) Municipal obligations rated “Aaa/AAA” or general obligations of States with a rating of “A2/A” or higher by both Moody’s and S&P;

(8) Investment in repurchase agreements of any securities authorized in this definition of Qualified Investments, if the Trustee shall have received a perfected first security interest in such securities securing such repurchase agreement and the Trustee or its appointed agent shall hold such obligations free and clear of the claims of third parties and the securities securing such repurchase agreement are required to be of such nature, valued at such intervals and maintained at such levels so as to meet the collateralization levels then required by the Rating Agencies for a rating of “A” or better; the term “repurchase agreement” means a purchase of securities pursuant to an agreement by which the seller will repurchase such securities on or before a specified date and for a specified amount and will deliver the underlying securities by physical delivery or third-party custodial agreement; the term “counterparty” means the other party to the transaction; a counterparty bank’s trust department or safekeeping department may be used for physical delivery of the underlying security; the term of repurchase agreements shall be for one year or less; such securities, for purpose of repurchase under this subdivision, means securities of the same issuer, description, issue date and maturity;

(9) The Local Agency Investment Fund of the State of California;

(10) The County Treasurer’s Investment Pool; and

(11) Any other investments which are rated “A” or better by the Rating Agencies which the Lessor deems to be prudent investments and in which the Lessor directs the Trustee to invest.

“Rating Agencies” means Fitch, Moody’s and S&P; *provided, however*, that if either of Fitch or Moody’s does not rate investments or obligations of a type described in any of clauses of the definition of “Qualified Investments,” a rating by such entity shall not be required.

“Redemption Account” means the Redemption Account established in the Bond Fund pursuant to the Indenture.

“Rental Payments” means the Base Rental plus the Additional Rental payments.

“Reserve Fund” means the fund established pursuant to the Indenture.

“Reserve Requirement” means \$1,000,000.

“S&P” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and assigns.

“State” means the State of California.

“Tax Certificate” shall have the meaning assigned to such term in the Indenture.

“Term” has the meaning set forth in the Lease.

“Trustee” means Deutsche Bank National Trust Company and its successors and assigns.

“Useful Life” means, with respect to any Equipment Component, the period of time, expressed in years, and fraction of years, for which the Lessee reasonably expects that such Equipment Component may be economically utilized for the purpose or purposes for which such Equipment Component is intended.

THE INDENTURE

The following is a summary of certain provisions contained in the Indenture. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the Indenture.

Acquisition Fund

There shall be established in trust a special fund designated as the “Acquisition Fund,” which shall consist of a General Account and a Costs of Issuance Account. There shall be deposited into the General Account that portion of the proceeds of the Bonds required to be deposited therein pursuant to the Indenture. The Trustee shall, on behalf of the Lessor, transfer from the General Account on the Closing Date to the Lessor the amount necessary to pay and redeem the aggregate principal amount of the BANs. If there shall remain any balance of money in the General Account following the retirement in full of the BANs, all money so remaining shall be transferred by the Trustee, first, to the Reserve Fund to the extent necessary to make the amount on deposit in the Reserve Fund equal to the Reserve Requirement, and the excess, if any, of such amount shall be remitted to the Lessee. There shall be deposited in the Costs of Issuance Account that portion of the proceeds of the Bonds required to be deposited therein pursuant to the Indenture. The Trustee shall disburse money from the Costs of Issuance Account to pay Costs of Issuance promptly after receipt of, and in accordance with, a written direction of a Lessor Representative pursuant to the Indenture. Any funds remaining in the Costs of Issuance Account on the date on which the Lessor Representative has notified the Trustee in writing that all Costs of Issuance have been paid shall be transferred, first, to the Reserve Fund to the extent necessary to make the amount on deposit in the Reserve Fund equal to the Reserve Requirement and, thereafter, to the Bond Fund.

Bond Fund

There shall be established in trust a special fund designated the “Bond Fund,” which shall be held by the Trustee and which shall be kept separate and apart from all other funds and money held by the Trustee. The Trustee shall administer the fund as provided in the Indenture. The Bond Fund shall be maintained by the Trustee until all required Base Rental is paid in full pursuant to the provisions of the Lease, or until such date as there are no Bonds Outstanding. Within the Bond Fund, the Trustee shall establish the following accounts: (a) Base Rental Account; (b) Interest Account; (c) Principal Account; and (d) Redemption Account.

Base Rental Account. Except as otherwise provided in this paragraph, Base Rental and proceeds of liquidated damages and rental interruption insurance, if any, with respect to the Equipment received by the Trustee shall be deposited into the Base Rental Account. Any delinquent Base Rental payments and any proceeds of liquidated damages or rental interruption insurance deposited in the Base Rental Account shall be applied, first, to the Interest Account for the immediate payment of interest payments, the Bonds, past due and, then, to the Principal Account for immediate payment of principal payments past due according to the tenor of any Bond, and, then, to the Reserve Fund to the extent necessary to make the amount on deposit in the Reserve Fund equal to the Reserve Requirement. Any remaining money representing delinquent Base Rental payments or proceeds of liquidated damages or rental interruption insurance shall remain on deposit in the Base Rental Account to be applied in the manner provided in the Indenture.

Any amounts remaining in the Base Rental Account on any Interest Payment Date or redemption date after the transfers referred to in the provisions relating to the Interest Account and the Principal Account in the following paragraph shall have been made, other than money held for Bonds not surrendered, shall be deposited into the following funds and accounts in the order of priority indicated: (i) the Reserve Fund to the extent that the amount in the Reserve Fund is less than the Reserve Requirement, and (ii) the Interest Account to the extent necessary to make the total amount on deposit in the Interest Account equal to the amount of interest due on the Bonds on the next succeeding Interest Payment Date or redemption date. Amounts not required to be so deposited shall be remitted to the Lessee except that, as provided above, any remaining money representing delinquent Base Rental and any proceeds of liquidated damages or rental interruption insurance shall remain on deposit in the Base Rental Account.

Interest Account and Principal Account. The Trustee shall, on or before each Interest Payment Date or redemption date, transfer money from the Base Rental Account and deposit in the Interest Account an amount which, together with money on deposit in the Interest Account and available to pay interest due on such date, equals the interest then due on the Bonds on the Interest Payment Date or redemption date, as the case may be. Amounts in the Interest Account shall be used to pay interest on the Bonds. The Trustee shall, on or before each Interest Payment Date or redemption date, transfer money from the Base Rental Account and deposit in the Principal Account an amount which, together with money on deposit in the Principal Account and available for such purpose, equals the principal then due or required to be redeemed on the Interest Payment Date or redemption date, as the case may be, with respect to the Bonds. Amounts in the Principal Account shall be used to pay principal of the Bonds.

Redemption Account. Any proceeds of insurance (other than rental interruption proceeds) or awards in respect of a taking under the power of eminent domain not required to be used for repair, reconstruction or replacement of the Equipment and, under the terms of the Indenture, required to be deposited into the Redemption Account, and any other amounts provided for the redemption of Bonds in accordance with the terms of the Indenture, shall be deposited by the Trustee in the Redemption Account. The Trustee shall, upon surrender of the Bonds called for redemption, on or after the scheduled redemption date withdraw from the Redemption Account and pay to the Bondowners entitled thereto an amount equal to the redemption price of the Bonds to be redeemed in accordance with the Indenture. Amounts in the Redemption Account shall be used to pay the redemption price with respect to the Bonds.

Reserve Fund

There shall be established in trust a special fund designated the "Reserve Fund," which shall be held by the Trustee and which shall be held separate and apart from all other funds and money held by the Trustee. The Trustee shall administer the Reserve Fund as provided in the Indenture. The Reserve Fund shall be maintained by the Trustee until the Base Rental is paid in full pursuant to the Lease or until there are no longer any Bonds Outstanding. There shall be deposited in the Reserve Fund that portion of the proceeds of the Bonds required to be deposited in the Reserve Fund pursuant to the Indenture and all other amounts required to be deposited in the Reserve Fund pursuant to the Indenture. If on any Interest Payment Date, the amount on deposit in the Interest Account and/or the Principal Account is less than the principal and interest payments due with respect to the Bonds on such date, then the Trustee shall transfer from the Reserve Fund for credit to such account or accounts sufficient amounts to make up the deficiencies. In the event of any such transfer, the Trustee shall, within five days thereafter, provide written notice to the Lessor of the amount and the date of such transfer. At least five Business Days prior to each Interest Payment Date, the Trustee shall calculate the Reserve Requirement, giving effect to any Bonds to be paid or redeemed on that Interest Payment Date. On such calculation date, the Trustee shall notify the Lessor of any amounts on deposit in the Reserve Fund in excess of the Reserve Requirement on that Interest Payment Date. On the Business Day prior to each Interest Payment Date, the Trustee shall transfer any amounts on hand in the Reserve Fund in excess of the Reserve Requirement (other than amounts that constitute Investment Earnings) to the Base Rental Account of the Bond Fund for application in accordance with the Indenture. If the amount on deposit in the Reserve Fund five Business Days prior to any Interest Payment Date is determined by the Trustee to be less than the Reserve Requirement, the Trustee shall promptly notify the Lessor of such fact. Upon receipt of such notice, the Lessor shall transfer to the Trustee for deposit into the Reserve Fund all funds legally available for such use until the amount on deposit in the Reserve Fund equals the Reserve Requirement. For purposes of determining the amount on deposit at any time in the Reserve Fund the Trustee shall value all Qualified Investments in the Reserve Fund at the cost of such investments (exclusive of accrued interest).

Earnings Fund

The Trustee shall establish, maintain and hold in trust a special fund separate from any other fund or account established and maintained under the Indenture designated as the "Earnings Fund." The Trustee shall

administer the Earnings Fund as provided in the Indenture. The Earnings Fund shall be maintained by the Trustee until the Lessor directs, in writing, that it be closed.

The Trustee shall establish and maintain in the Earnings Fund a separate account designated as the "Investment Earnings Account," and a separate account designated as the "Excess Earnings Account." All moneys in the Investment Earnings Account and the Excess Earnings Account shall be held by the Trustee in trust and shall be kept separate and apart from all other funds and money held by the Trustee. Pursuant to the Indenture, the Trustee shall deposit, as and when received, all Investment Earnings on the funds and accounts established under the Indenture (other than the Costs of Issuance Account and the Excess Earnings Account) into the Investment Earnings Account. Amounts on deposit in the Investment Earnings Account shall be transferred to the Excess Earnings Account pursuant to written instructions from the Lessor Representative in accordance with the provisions of the Tax Certificate. Upon such transfer, any amount remaining in the Investment Earnings Account or any amount on deposit in the Excess Earnings Account which exceeds the amount required to be maintained therein in accordance with the provisions of the Tax Certificate, shall pursuant to written instructions from the Lessor Representative be deposited, first, to the Reserve Fund to the extent necessary to make the amount on deposit in the Reserve Fund equal to the Reserve Requirement and, second, to the Interest Account of the Bond Fund. Except as set forth in the preceding sentence, amounts on deposit in the Excess Earnings Account shall only be applied to payments made to the United States in accordance with written instructions of the Lessor Representative.

Insurance Proceeds Fund

If any Equipment Component shall be damaged, destroyed or stolen, the Lessee may elect to repair or replace such affected Equipment Component if the conditions set forth in the Lease are satisfied. If any Equipment Component shall be damaged, destroyed or stolen and the Lessee exercises its option to repair or replace such affected Equipment Component, the Lessee shall deposit with the Trustee the full amount of any insurance deductible relating to any insurance policy pursuant to which the Lessee will file an insurance claim. The proceeds of any insurance (other than any rental interruption), including the proceeds of any self insurance fund or insurance deductible received on account of any damage, destruction or taking of any Equipment Component or portion thereof and any other amount which the Lessee elects to deposit with the Trustee for purposes of repairing or replacing any Equipment Component, shall be held by the Trustee in a special account to be created by the Trustee, designated as the "Insurance Proceeds Fund," and held under the Indenture and, if the Lessee exercises its option to repair or replace such affected Equipment Component, such proceeds shall be made available for, and to the extent necessary to be applied to, the cost of the repair or replacement upon receipt by the Trustee of a requisition executed by a Lessor Representative, together with invoices for the repair or replacement as provided in the Lease. Pending such application, such proceeds may be invested by the Trustee solely at the written direction of the Lessor, in Qualified Investments that mature not later than the times money is expected to be needed to pay the costs of repair or replacement. If within 60 days following the receipt by the Trustee of any proceeds of any insurance, including the proceeds of any self-insurance fund claim relating to any Equipment Component, the Lessee does not exercise its option to repair or replace the affected Equipment Component, such proceeds shall be deposited into the Redemption Account and applied to the redemption of Bonds in the manner provided in the Indenture. Any amounts received by the Trustee under this paragraph in excess of the amount needed to either repair or replace a damaged, destroyed or taken Equipment Component or to redeem Bonds shall be transferred to the Reserve Fund to the extent necessary to make the amount on deposit in the Reserve Fund equal to the Reserve Requirement and the excess, if any, of such amount shall be remitted to the Lessee.

Covenants

Lessor to Perform Pursuant to Lease. The Lessor covenants and agrees with the Bondowners to perform all obligations and duties imposed on it as Lessor under the Lease.

Extension of Payment of Bonds. The Lessor shall not directly or indirectly extend the dates upon which the Base Rental payments are required to be paid or prepaid, or the time of payment of interest with respect thereto. Nothing in the Indenture shall be deemed to limit the right of the Lessor to issue any securities for the purpose of

providing funds for the repayment of the Bonds and such issuance shall not be deemed to constitute an extension of the maturity of the Bonds.

Access to Books and Records; Notices. The Trustee shall at all times have access to those books and records of the Lessor which may be reasonably required by the Trustee to fulfill its duties and obligations under the Indenture.

General. The Lessor shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of the Lessor under the provisions of the Indenture. The Treasurer and Tax Collector of the Lessee as *ex officio* officer of the Lessor and all deputies or assistants of such officer are designated agents of the Lessor for the purposes of instructing the Trustee under the Indenture and executing and delivering any documents necessary or advisable for the transactions contemplated by the Indenture or in order to accomplish the purposes of the Indenture, and the Lessor further authorizes such persons to instruct the Trustee as they deem necessary and to execute and deliver such documents. The Lessor certifies, declares, recites and warrants that upon the date of initial issuance of any of the Bonds, (a) all conditions, acts and things with respect to the Lessor required by the Constitution and the laws of the State and the Indenture to exist, to have happened and to have been performed precedent to and in the issuance of the Bonds do exist, have happened and have been performed in due time, form and manner as required by the Constitution of the State and the applicable laws of the State, and (b) the Lessor is duly authorized to execute and enter into the Indenture.

Tax Matters. In order to maintain the exclusion from gross income for federal income tax purposes of the interest on all Bonds, the Lessor covenants in the Indenture to comply with each applicable requirement of section 103 and sections 141 through 150 of the Code, in that the Lessor agrees to comply with the covenants contained in, and the instructions given pursuant to the Tax Certificate. The Trustee agrees to comply with any written instructions received from the Lessor which the Lessor indicates must be followed in order to comply with the Tax Certificate. Notwithstanding any other provision of the Indenture to the contrary, upon the Lessor's failure to observe, or refusal to comply with, the foregoing covenant, no persons other than the Trustee or the Bondowners shall be entitled to exercise any right or remedy provided to the Bondowners under the Indenture on the basis of the Lessor's failure to observe, or refusal to comply with the covenant.

Prosecution and Defense of Suits. The Lessor shall promptly take such action as may be necessary to cure any defect in the title to the Equipment or any Equipment Component, whether now existing or hereafter occurring, and shall prosecute and defend all suits, actions and all other proceedings as may be appropriate for such purpose.

Further Assurances. The Lessor will make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the provisions of the Indenture, and for the better assuring and confirming to the Trustee, on behalf of the Bondowners, the rights and benefits provided in the Indenture.

Continuing Disclosure. The Lessee has covenanted and agreed in the Disclosure Certificate that the Lessee will comply with and carry out all of the provisions of the Disclosure Certificate. Notwithstanding anything to the contrary contained in the Indenture, failure to comply with the provisions of the Disclosure Certificate shall not be considered an Event of Default under the Indenture; *provided, however*, the Trustee at the written request of any Bondowner of at least 25% aggregate principal amount of Bonds, shall, or any Bondowner may, take such actions as may be necessary and appropriate but only to the extent indemnified to its satisfaction from any cost, liability, expense or additional charges, including without limitation fees and expenses of its attorneys, including seeking mandate on specific performance by court order, to cause the Lessee to comply with its obligations under the Disclosure Certificate.

Notices to Rating Agencies . The Trustee covenants and agrees that it shall give or cause to be given notice to the Rating Agencies of the occurrence of any amendments to the Indenture or the Lease, to the extent actually known to it; and any redemption, purchase or defeasance of the Bonds.

Investments Authorized

Except as otherwise provided in the Indenture, money held by the Trustee in any fund or account under the Indenture shall be invested by the Trustee in such Qualified Investments as the Lessor shall direct in writing or shall confirm in writing pending application as provided in the Indenture, *provided* that amounts in the Reserve Fund shall be invested in Qualified Investments which will mature not more than five years after the date the Reserve Fund acquires the investment. The Qualified Investments shall be registered in the name of the Trustee where applicable, as Trustee, and shall be held by the Trustee. Absent timely written directions from the Lessor, the Trustee shall invest any funds held under the Indenture by it in securities described in subsection (5) of the definition of Qualified Investments. The Lessor agrees that it will give direction to invest or confirm investments only in Qualified Investments and the Trustee shall have no obligation to inquire into the accuracy of the Lessor's determination that such investments are Qualified Investments. Absent direction from the Lessor to the contrary, the Trustee may commingle any of the funds held by it pursuant to the Indenture into a separate fund or funds for investment purposes only; *provided, however*, that all funds and accounts held by the Trustee shall be accounted for separately notwithstanding such commingling by the Trustee, including separate accounting of the earnings on such commingled investments. The Trustee may purchase or sell to itself or any affiliate, principal or agent, investments authorized by this paragraph. Any investments and reinvestment shall be made giving full consideration to the time at which funds are required to be available under the Indenture and, subject to the Tax Certificate, to the highest yield practicably obtainable giving due regard to the safety of the funds and the date upon which the funds will be required for the uses and purposes required by the Indenture. The Trustee or any of its affiliates may act as principal or agent in the making or disposing of any investment or as a sponsor or advisor with respect to any investment. The Lessor acknowledges that to the extent the Comptroller of the Currency or other applicable regulatory entity grants the Lessor the right to receive brokerage confirmations of security transactions as they occur, the Lessor specifically waives receipt of such confirmations to the extent permitted by law. The Trustee will furnish the Lessor periodic cash transaction statements which include detail for all investment transactions made by the Trustee under the Indenture.

Provisions Relating to the Trustee

The Trustee is appointed to act solely as set forth in the Indenture, to receive, hold and disburse in accordance with the terms of the Indenture the moneys to be paid to it, to authenticate and deliver Bonds secured by Base Rental to be made by the Lessee under the Lease, to apply and disburse payments received pursuant to the Lease to Bondowners, all as provided in the Indenture. By executing and delivering the Indenture, the Trustee accepts the duties and obligations provided in the Indenture.

The Lessor may at any time, so long as no Event of Default has occurred and is continuing, by written request at any time and for any reason, remove the Trustee and any successor thereto, and shall thereupon appoint a successor or successors thereto, but any such successor shall be a commercial bank, national banking association, or trust company having an office in Los Angeles, California, which, together with the corporate parent of such Trustee, has a combined capital (exclusive of borrowed capital) and surplus of at least \$100,000,000 and shall be subject to supervision or examination by federal or state banking authority. Notwithstanding the foregoing, banking corporation, national banking association or trust company which does not have a combined capital and surplus of at least \$100,000,000 may be appointed as the successor Trustee if its obligations under the Indenture are guaranteed by an affiliate which meets the capitalization requirement set forth in the preceding sentence, which guaranty shall be acceptable as to form and substance to the Lessor. If the bank, national banking consortium or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes as provided for under the Indenture, the combined capital and surplus of the bank, national banking consortium or trust company shall be deemed to be its combined capital and surplus set forth in its most recent report of condition so published. Any removal of the Trustee shall become effective upon acceptance of appointment by the successor Trustee.

The Trustee or any successor may at any time resign by giving written notice to the Lessor and by giving notice by first-class mail, postage prepaid, to the Bondowners of its intention to resign and of the proposed date of

resignation, which shall be a date not less than 45 days after mailing of the notice, unless an earlier appointment of a successor trustee shall have been affected. Upon receiving the notice of resignation, the Lessor shall promptly appoint a successor Trustee by an instrument in writing; *provided, however*, that in the event the Lessor fails to appoint a successor Trustee within 30 days following receipt of the written notice of resignation, the resigning Trustee may petition the appropriate court having jurisdiction to appoint a successor Trustee. Any resignation of the Trustee shall become effective upon acceptance of appointment by the successor Trustee.

Any successor Trustee approved by the Bondowners, the Lessor or any court shall satisfy the qualifications set forth in the Indenture. Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which the Trustee shall be a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business (provided such company is eligible under the Indenture), shall be the successor to the Trustee without the execution or filing of any paper or further action, anything in the Indenture to the contrary notwithstanding.

Amendments

Amendments to Indenture. The Indenture may be modified or amended at any time without the consent of any Bondowners, upon the written agreement of the Lessor and the Trustee, but only (a) for the purpose of curing any ambiguity or omission, or of curing, correcting or supplementing any defective provisions contained in the Indenture, (b) in regard to questions arising under the Indenture which the Trustee may deem necessary or desirable and not inconsistent with the Indenture and which shall not adversely affect the interests of the Bondowners then Outstanding, (c) to qualify the Indenture under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect, or (d) for any other reason; *provided* such modification or amendment does not adversely affect the interests of the Bondowners then Outstanding; and *provided further* that the Lessor and the Trustee may rely in entering into any such amendment or modification of the Indenture upon the opinion of Bond Counsel (which opinion may rely upon the opinions of other experts, consultants or advisors) stating that the requirements of this sentence have been met with respect to such amendment or modification. No amendment shall impair the right of any Bondowner to receive the Bondowner's proportionate share of Base Rental in accordance with the provisions of the Owner's Bond without the prior written consent of the Bondowner so affected, and no amendment shall reduce the percentage of Bondowners whose consent is required for any amendment to the Indenture without the prior written consent of the Owners of all Bonds then Outstanding. The Trustee may in its discretion, but shall not be obligated to, enter into any such amendment which materially adversely affects the Trustee's own rights, duties or immunities under the Indenture.

Amendments to Lease. The Lease may be amended in writing by agreement among the parties to the Indenture. The Lease may be modified or amended at any time, and the Trustee may consent to such modification or amendment without the consent of any Bondowners, if such modification or amendment is (a) for the purpose of curing any ambiguity or omission, or of curing, correcting or supplementing any defective provision contained in the Indenture; (b) in regard to questions arising under the Lease which the Lessee and the Lessor may deem necessary or desirable and not inconsistent with the Lease and which shall not adversely affect the interests of the Bondowners then Outstanding; (c) to modify or amend the equipment description set forth in Exhibit B to the Lease to reflect the substitution of Equipment Components; (d) to modify or amend Exhibit A to the Lease to reflect the acquisition of Equipment Components after the Closing Date, if applicable; (e) to modify or amend Exhibit A to the Lease to reflect the prepayment of Base Rental pursuant to the Lease; or (f) for any other reason; *provided* such modification or amendment does not adversely affect the interests of the Bondowners then Outstanding; and *provided further* that the Lessor and the Trustee may rely in entering into any such amendment or modification of the Indenture or in giving consent to such amendment or modification upon the opinion of Bond Counsel (which opinion may rely upon the opinions of other experts, consultants or advisors) stating that the requirements of this sentence have been met with respect to such amendment or modification. No amendment to the Lease shall impair the right of an Bondowner to receive such Bondowner's share of Base Rental in accordance with the terms of his Bond or shall decrease the amount of Base Rental payable or postpone the dates upon which such payments are to be made without the prior written consent of the Bondowner so affected.

Consent of Bondowners. If the consent of the Bondowners is required or requested with respect to any proposed amendment to the Indenture or to the Lease, it shall not be necessary for the consent of the Bondowners to approve the particular form of any such amendment, but it shall be sufficient if such consent shall approve the substance thereof. If at any time the Lessee or the Lessor shall request the Trustee to enter into any amendment to the Indenture or to consent to an amendment to the Lease and the Trustee determines that the consent of the Bondowners is required for such amendment, then the Trustee shall, at the expense of the Lessor, cause notice of the proposed execution of a document containing such amendment, and requesting their consent thereto, to be mailed, postage prepaid, to the Owners of all Outstanding Bonds at their addresses appearing on the Bond Register. Such notice shall briefly set forth the nature of the proposed amendment and shall state that copies thereof are on file at the principal corporate trust office of the Trustee for inspection by all Bondowners.

Whenever, at any time after the date of the mailing of such notice, there shall be delivered to the Trustee an instrument or instruments in writing purporting to be executed by the Bondowners of not less than a majority in aggregate principal amount of the Bonds then Outstanding, which instrument or instruments shall refer to the proposed amendment described in such notice and specifically consent to and approve the execution thereof in substantially the form of the copy thereof referred to in such notice, thereupon, but not otherwise, the Trustee upon having received the consent of the Lessor may execute such amendment or give its consent thereto in substantially such form, without liability or responsibility to any Owner of any Bond, whether or not such Bondowner shall have consented thereto. If the Bondowners of not less than a majority in aggregate principal amount of the Bonds Outstanding at the time of the execution of such supplemental agreement shall have consented to and approved the execution of such supplemental agreement as provided under the Indenture, no Owner of any Bond shall have any right to object to the execution of such amendment, or to object to any of the terms and provisions contained in such supplemental agreement or the operation thereof or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee or the Lessor from executing the same or from taking any action pursuant to the provisions of such supplemental agreement.

The lack of actual receipt by any Bondowner of such notice and request for consent and any defects in such notice and request for consent shall not affect the validity of the proceedings for the obtaining of such consent. A certificate of the Trustee that the notice and request for consent have been mailed as provided in the Indenture shall be conclusive as against all parties. Any such written consent shall be binding upon the Bondowner giving such consent and on any subsequent Bondowner (whether or not such subsequent Bondowner has notice thereof) unless such consent is revoked in writing by the Bondowner giving such consent or by the subsequent Bondowner. To be effective, any revocation of consent must be filed at the address provided in the request for consent before the Trustee shall have executed the applicable amendment or given its consent to the applicable amendment as provided under the Indenture.

Limitation of Liability

Neither the Lessee nor the Lessor shall have any obligation or liability to the Bondowners with respect to the performance by the Trustee of any duty imposed upon the Trustee under the Indenture, including the distribution by the Trustee of principal of and interest on the Bonds to the owners of the Bonds. Except as provided in the Indenture, neither the Trustee nor the Lessor shall have any obligation or liability to the owners of the Bonds with respect to the payment of Base Rental by the Lessee when due, or with respect to the performance by the Lessee of any other covenant made by the Lessee in the Lease. Except for (a) the payment of Base Rental and Additional Rental when due in accordance with the provisions of the Lease, and (b) the performance by the Lessee of its obligations and duties as set forth in the Lease, the Lessee shall have no obligation or liability to the Trustee or the owners of the Bonds.

Neither the Trustee nor the Lessor shall have any obligation or responsibility for providing information to the Bondowners concerning the investment quality of the Bonds, for the sufficiency of any Base Rental or for the actions or representations of the Lessee. Neither the Trustee nor the Lessor (except as provided below) shall have any obligation or liability to the Lessee with respect to the failure or refusal of the Lessee to perform any covenant or agreement made by it under the Lease, but shall be responsible solely for the performance of the duties expressly

imposed upon it under the Indenture. Notwithstanding the foregoing, the Lessor shall be liable to the owners of the Bonds with respect to the failure of the Lessee to perform any covenant or agreement contained in the Lease, but only to the extent of the Lessor's interest in the Equipment. The recitals of facts, covenants, and agreements contained in the Lease shall be taken as statements, covenants and agreements of the Lessee and neither the Trustee nor the Lessor assumes any responsibility for the correctness of the same and makes no representation as to the validity or sufficiency of the Indenture, the Lease or the Bonds, or as to the value of or title to the Equipment and shall not incur any responsibility in respect thereof, other than in connection with the duties or obligations assigned to or imposed upon it under the Indenture. The Trustee shall not be liable except for its own negligence or willful misconduct.

To the extent permitted by law, the Lessor shall indemnify and save and hold the Trustee harmless from and against all claims, suits and actions brought against it, or to which it is made a party, and from all losses, including the costs of defense, and damages suffered by it as a result thereof (which includes legal fees and expenses), where and to the extent such claim, suit or action arises out of the performance of its duties under the Indenture, or the actions of any other party to the Indenture or the Lease, including but not limited to the ownership, operation or use of the Equipment, the defense of any suit or the enforcement of any remedies under the Indenture, the Bonds or any related document. Such indemnification shall not extend to judgments or settlements obtained against the Trustee and expenses of litigation in connection therewith based upon failure of the Trustee to perform and carry out the duties specifically imposed upon and to be performed by the Trustee pursuant to the Indenture, unless the Lessor has agreed in writing that the Trustee not perform such duty. In the event the Lessor is required to indemnify the Trustee as provided in the Indenture, the Lessor shall be subrogated to the rights of the Trustee to recover such losses or damages from any person or entity.

Nothing in the Indenture or in the Bonds expressed or implied is intended or shall be construed to give any person other than the Lessee, the Lessor, the Trustee and the owners of the Bonds any legal or equitable right, remedy or claim under or in respect of the Indenture or any covenant, condition or provision of the Indenture; and all such covenants, conditions, and provisions are and shall be for the sole and exclusive benefit of the Lessee, the Lessor, the Trustee and the owners of the Bonds.

Events of Default and Remedies of Owners

The following shall be "Events of Default" under the Indenture: (a) an event of default shall have occurred under the Lease; or (b) breach by the Lessor of any other terms, covenants or conditions contained in the Indenture or the Lease, and failure to remedy any such breach with all reasonable dispatch within a period of 60 days after written notice thereof from the Trustee to the Lessor, or to the Lessor and the Trustee or the owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding; *provided, however*, that if such breach cannot be remedied within the 60-day period, the Lessor shall fail to institute corrective action within such 60-day period and diligently pursue the same to completion. In the event an Event of Default has occurred and is continuing and the Trustee has actual knowledge of such Event of Default, the Trustee shall give notice, at the expense of the Lessor, of the Event of Default to the Bondowners. The notice shall state that the Lessor is in default and shall provide a brief description of the default. The Trustee in its discretion may withhold notice if it deems it in the best interest of the Bondowners. The notice to Bondowners provided for under the Indenture shall be given by first-class mail, postage prepaid, to the Bondowners within 30 days of the occurrence of the Event of Default, to the extent such Event of Default is actually known to the Trustee.

Upon the occurrence and continuance of any Event of Default specified in subsection (a) of the immediately preceding paragraph, the Trustee may proceed ((upon written request of the owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding and upon being indemnified to its satisfaction by the Bondowners, shall proceed) to exercise the remedies set forth in of the Lease or available to the Trustee under the Indenture. The Trustee shall exercise the rights and remedies vested in it under the Indenture with the same degree of care and skill as a prudent person would exercise or use under the circumstances in the conduct of his affairs. No remedy conferred upon or reserved to the Trustee under the Indenture or the Lease is intended to be exclusive and every remedy shall be cumulative and shall be in addition to every other remedy given

under the Indenture and the Lease, or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any Event of Default shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Trustee or the Bondowners to exercise any remedy reserved to it or them, it shall not be necessary to give any notice other than the notice as may be required in the Indenture or by law. In the event any provision contained in the Indenture should be breached by a party and thereafter waived by another party, the waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach.

In the event the Trustee fails to take any action to eliminate an Event of Default under the Lease or under the Indenture, including the collection of Base Rental when due, the Bondowners of a majority in aggregate principal amount of the Bonds then Outstanding may institute any suit, action, mandamus or other proceeding in equity or at law for the protection or enforcement of any right under the Lease or the Indenture, but only if such Bondowners, shall have first made written request of the Trustee after the right to exercise such powers or right of action shall have arisen, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted in the Lease or the Indenture or otherwise granted by law or to institute such action, suit or proceeding in its name, and unless, also, the Trustee shall have been offered reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with the request within a reasonable time. Notwithstanding any other provisions in the Indenture, the right of any Bondowner to receive the Bondowner's share of Base Rental in accordance with the provisions of his Bond or to institute suit for the enforcement of any such payment on or after such payments become due shall not be impaired or affected without the consent of such Bondowner.

Except to the extent necessary to compensate the Trustee for its reasonable fees and expenses (including reasonable attorneys' fees and expenses), to the extent necessary to pay all principal and interest then due and unpaid with respect to all Outstanding Bonds and to make the deposit into the Base Rental Account required to be made pursuant to the Lease, all damages or other payments received by the Trustee from the enforcement of any rights and powers of the Trustee under the Indenture or the Lease shall be deposited by the Trustee into the Base Rental Account and transferred, first, to the Interest Account and, then, to the Principal Account to pay the interest and principal due with respect to the Bonds. If the amount deposited into the Interest Account is not sufficient to pay all overdue interest payments, the amounts deposited shall, if paid to the owners of the Bonds, be distributed pro rata to such owners on the basis of the amount of interest due and unpaid to the owners. If the amount deposited into the Principal Account is not sufficient to pay all overdue principal payments, the amount deposited shall, if paid to such owners, be distributed pro rata to such owners on the basis of the amount of principal due and unpaid to the owners.

To the extent not required to be deposited into the Base Rental Account pursuant to the immediately preceding paragraph, all damages or other payments received by the Trustee from the enforcement of any rights and powers under the Indenture or the Lease shall be applied as follows in the order of priority indicated: (a) first, deposited into the Reserve Fund to the extent that the amount in the Reserve Fund is less than the Reserve Requirement; (b) second, to the payment of Additional Rental then due and payable; and (c) thereafter, any remaining amounts shall be deposited into the Base Rental Account.

Defeasance

All or any of the Bonds shall be paid or be deemed to be paid in one of the following ways: (1) by the deposit by the Lessor with the Trustee, in trust, at or before maturity, cash which, together with the amounts then on deposit in the Bond Fund and the Reserve Fund and dedicated, as evidenced by a certificate of a Lessor Representative, to this purpose, without the need for further investment, is fully sufficient to pay the Bonds, including all principal and interest due with respect thereto, *provided, however*, that this means of defeasance shall be subject to written confirmation by each nationally recognized rating agency, then rating the Bonds, that the defeasance provided for in the Indenture, will not cause the then current ratings to be reduced or withdrawn; or (2) by the deposit with the Trustee in accordance with the Lease, at or before maturity of the Bonds, of cash and/or Government Obligations which, in the written opinion of a certified public accountant, is in an amount sufficient,

together with the earnings to accrue on the Government Obligations without the need for further investment, to pay when due the debt service on the Bonds, including all principal, redemption premium, if any, and interest payable with the respect thereto, *provided, however*, that this means of defeasance shall be subject to written confirmation by each nationally recognized rating agency, then rating the Bonds, that the defeasance provided in the Indenture, will not cause the then current ratings to be reduced or withdrawn.

When any Bond has been paid or is deemed to have been paid as provided in the Indenture, the Bond shall no longer be deemed Outstanding under the provisions of the Indenture, and all obligations of the Trustee and the Lessor under the Indenture with respect to the Bond shall cease, except only the obligations of the Trustee under certain provisions of the Indenture and the obligations to pay or cause to be paid to the Bondowner thereof all sums due with respect thereto and to pay to the Trustee any amounts due pursuant to the Indenture.

THE LEASE AGREEMENT

The following is a summary of certain provisions contained in the Lease. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Lease.

Term

The Term of the Lease shall commence on the Closing Date, and shall end on the earlier of (1) such time as the Bonds payable from Base Rental attributable to all the Equipment Components shall have been paid (including any abated Base Rental) and provided no default or event of default then exists and is continuing under the Lease, or (2) December 1, 2011 unless such term is otherwise terminated or extended as hereinafter provided. If on December 1, 2011, the Indenture shall not be discharged by its terms, or if the Base Rental payable under the Lease shall be abated at any time and for any reason, then the Term of the Lease shall be extended until the Indenture shall be discharged by its terms. If prior to December 1, 2011, the Base Rental and Additional Rental shall have been fully paid in connection with the Bonds, the term of the Lease shall end ten days thereafter or ten days after written notice by the Lessee to the Lessor to the effect that the Base Rental and Additional Rental payable under the Lease shall be fully paid and all Bonds have been fully paid, and the Lease shall thereupon terminate.

Base Rental

Subject to the provisions of the Lease, the Lessee shall pay to the Lessor, its successors and assigns, as a portion of the rental for the use and possession of the Equipment, Base Rental payments, each comprised of components of principal and interest, equal to the aggregate Base Rental specified in the Lease. Except as otherwise required under the Lease, in no event shall the Base Rental on any date be less than the aggregate amount of principal and interest required to be paid or redeemed on such date with respect to the Bonds. Base Rental payable by the Lessee shall be due one day prior to each Lease Payment Date during the term of the Lease. The interest component of Base Rental payable on the Business Day preceding June 1 in any year shall be for the period of December 1 of the preceding year (or from the Closing Date in the case of the first year) to May 31 of such year and the interest component of Base Rental payable on the Business Day preceding December 1 in any year shall be for the period of June 1 of such year to November 30 of such year. The principal component of Base Rental payable on the Business Day preceding June 1 in any year shall be for the period of December 1 of the preceding year (or from the Closing Date in the case of the first year) to May 31 of such year and the principal component of Base Rental payable on the Business Day preceding December 1 in any year shall be for the period of June 1 of such year to November 30 of such year. To secure the performance of its obligation to pay Base Rental, the Lessee shall deposit the Base Rental payable on each Lease Payment Date with the Trustee, in immediately available funds, at least one day prior to that Lease Payment Date, in each case for application by the Trustee in accordance with the terms of the Indenture. The obligation of the Lessee to pay Base Rental shall commence on the Closing Date.

Base Rental shall be paid from any source of legally available funds of the Lessee and, so long as any Equipment Component is available for the Lessee's use, the Lessee covenants to take such action as may be

necessary to include all Rental Payments due under the Lease in any Fiscal Year during the Term in its annual budget for the Fiscal Year and to make the necessary annual appropriations for all such Rental Payments, which covenants of the Lessee shall be deemed to be, and shall be, ministerial duties imposed by law, and it shall be the duty of each and every public official of the Lessee to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the Lessee to carry out and perform the covenants made by the Lessee under the Lease. Subject to certain provisions of the Lease, the Lessee's obligation to make Rental Payments when due shall be absolute and unconditional without any right of set-off or counterclaim. The obligation of the Lessee to make Rental Payments does not constitute an obligation of the Lessee for which the Lessee is obligated to levy or pledge any form of taxation or for which the Lessee has levied or pledged any form of taxation. Neither the Bonds nor the obligation of the Lessee to make Rental Payments under the Lease constitute indebtedness of the Lessee, the State or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.

Notwithstanding any dispute between the Lessor and the Lessee, including any dispute as to the failure of any Equipment Component to perform the task for which it is leased, the Lessee shall make all Rental Payments when due and shall not withhold any Rental Payments pending the final resolution of such dispute. In the event the Lessee should fail to make any of the payments required, the payments in default shall continue as an obligation of the Lessee until the amount in default shall have been fully paid, and the Lessee agrees to pay the same with interest thereon, to the extent permitted by law, from the date such amount was originally payable to the Lessor, its successors and assigns, at the rate equal to the net effective interest rate paid with the respect to the Bonds on the date such interest was due.

The Base Rental and the Additional Rental required by the Lease shall be paid by the Lessee in consideration of the right of possession of, and the continued use and possession of, the Equipment during each such period for which said rental is to be paid. The parties to the Lease have agreed and determined that the Base Rental for each of such period as set forth in the Lease does not exceed the fair rental value of the Equipment. In making such determination, consideration has been given to the Acquisition Costs, other obligations of the parties under the Lease (including but not limited to costs of maintenance, taxes and insurance), the uses and purposes which may be served by the Equipment and the benefits therefrom which will accrue to the Lessee and the general public. The Lessee understands and agrees that, pursuant to the assignment provided for in the Indenture, the Lessor has assigned its right to receive and collect Base Rental and prepayments thereof and certain other rights to the Trustee in trust for the benefit of the Bondowners, and the Lessee consents to such assignment. The Lessor directs the Lessee, and the Lessee agrees to pay to the Trustee at the Principal Corporate Trust Office, or to the Trustee at such other place as the Trustee shall direct in writing, all payments payable by the Lessee pursuant to the Lease. The total Rental Payments due in any Fiscal Year shall be for the use and possession of the Equipment for such Fiscal Year. Base Rental payments shall be subject to abatement as provided in the Lease.

Additional Rental

In addition to the Base Rental, the Lessee shall pay as Additional Rental such amounts as shall be required for the payment of all administrative costs of the Lessor, if any, relating to the Equipment or the issuance of the Bonds, including without limitation, taxes of any sort whatsoever payable by the Lessor as a result of its ownership of the Equipment or undertaking of the transactions contemplated in the Lease or in the Indenture, fees of auditors, accountants, attorneys or engineers, fees, expenses and indemnification costs of the Trustee and all other necessary administrative costs of the Lessor and Lessee or charges required to be paid by it in order to maintain its existence or to comply with the terms of the Lease, the Bonds or of the Indenture, including the insurance premiums required to maintain insurance as required under the Lease, or to defend the Lessor, its members and each Indemnified Party. Additional Rental due under the Lease shall be paid by the Lessee directly to the person or persons to whom such amounts shall be payable. The Lessee shall pay all such amounts when due or within thirty days after notice in writing from the Trustee to the Lessee, stating the amount of additional payments then due and payable and the purpose thereof.

Substitution of Equipment Components

The Lessee shall, at any time, have the right to substitute any item of personal property of comparable value to and a Useful Life not less than the remaining Useful Life of, the Equipment Component to be substituted, but only by providing the Trustee with (a) a written certificate (i) describing both the new Equipment Component and the Equipment Component for which it is to be substituted, and stating that such new Equipment Component is of comparable value and has a Useful Life not less than the Useful Life of the Equipment Component for which it is being substituted and (ii) stating that such substitution will not result in an abatement of Rental Payments, and (b) a new Exhibit B to the Lease, which shall include the substitute Equipment Components and which shall supersede in its entirety the existing Exhibit B to the Lease. All costs and expenses incurred in connection with such substitution, including without limitation the cost of acquiring such property, shall be borne by the Lessee. In the event of such substitution, the Equipment Component substituted for the original Equipment Component shall become fully subject to the terms of the Lease. Notwithstanding any substitution of Equipment Components pursuant to the Lease, there shall be no reduction in the Base Rental due from the Lessee under the Lease and there shall be no reduction in the aggregate fair rental value of the Equipment as a result of such substitution. The Lessee, pursuant to provisions in the Lease, shall give notice of any substitution of Equipment Components to the Rating Agencies in the event the aggregate of such substituted Equipment Components, within any six-month period, shall have a rental value of at least 5% of the Base Rental due under the Lease.

Option to Purchase Equipment Components and Prepay Base Rental

The Lessee shall have the exclusive right and option, which shall be irrevocable during the Term of the Lease, to purchase all but not less than all of the Lessor's right, title and interest in the Equipment on any Business Day, upon payment of the option price, but only if the Lessee is not in default under the Lease and only in the manner provided in the Lease. The option price for the Equipment in any Fiscal Year shall be the amount necessary to pay or defease all of the Bonds then Outstanding. The Lessee shall exercise its option to purchase the Equipment under the Lease by giving notice thereof to the Trustee not later than 10 days prior to the Business Day on which it desires to purchase the Lessor's right, title and interest in the Equipment and the option price shall be payable in installments solely from amounts deposited with the Trustee as provided in the Lease. Each such installment (i) shall be payable at each time at which a payment of Base Rental would have been payable had such option not been exercised, and (ii) shall be in an amount equal to the amount of Base Rental which would have been payable had such option not been exercised. In order to secure its obligations to pay the installments referred to above and to provide for the payment thereof, the Lessee, concurrently with the exercise of its option under the Lease, shall deposit or cause to be deposited with the Trustee, in trust, cash and/or Government Obligations in such amount as in the written opinion of a certified public accountant will, together with the interest to accrue thereon without the need for further investment, be fully sufficient to pay the installments (including all principal and interest) referred to above at the times at which such installments are required to be paid. Such deposit shall be in addition to the Base Rental due on such date. The excess, if any, of the amount so deposited over the installments actually required to be paid by the Lessee shall be remitted to the Lessee. On any Business Day as to which the Lessee shall properly have exercised the option granted it pursuant to the Lease, and shall have paid or made provision (as set forth in the preceding paragraph) for the payment of the required option price, the Lessor and the Trustee shall execute and deliver to the Lessee bills of sale or quitclaim deeds and releases, as appropriate, conveying to the Lessee or its nominee the Lessor's and Trustee's right, title and interest in each purchased Equipment Component. If the Lessee shall properly exercise the option provided in the Lease prior to the expiration of the Term of the Lease, and the Lessor and the Trustee shall execute and deliver the bills of sale or quitclaim deeds and releases, as appropriate, for each Equipment Component as aforesaid, then the Lease shall terminate, but such termination shall not affect the Lessee's obligation to pay the option price on the terms set forth in the Lease.

In the event that the Lessee exercises its option to purchase all of the Equipment and in connection therewith performs all of its obligations and satisfies all of the requirements specified in the immediately preceding paragraph and pays all Additional Rental required by the Lease, the Lessee's obligations under the Lease shall

thereupon cease and terminate, including but not limited to the Lessee's obligations to continue to pay Base Rental under the Lease.

The Lessee shall also have the exclusive right and option, which shall be irrevocable during the Term of the Lease, to purchase the Lessor's right, title and interest in any Equipment Component on any Business Day, upon payment of the option price therefor, but only if the Lessee is not then in default under the Lease and only in the manner provided in the Lease. The option price for the Equipment in any Fiscal Year shall be the amount necessary to pay or defease all of the Bonds then Outstanding. The Lessee shall exercise its option to purchase under this paragraph by giving notice thereof to the Trustee not later than 10 days prior to the Business Day on which it desires to purchase the Lessor's right, title and interest in any Equipment Component and the option price shall be payable in installments solely from amounts deposited with the Trustee as provided in the Lease. Each such installment (i) shall be payable at each time at which a payment of Base Rental would have been payable had such option not been exercised, and (ii) shall be in an amount equal to the amount of Base Rental which would have been payable had such option not been exercised. In order to secure its obligations to pay the installments referred to above and to provide for the payment thereof, the Lessee, concurrently with the exercise of its purchase option under the Lease, shall deposit or cause to be deposited with the Trustee, in trust, cash and/or Government Obligations in such amount as in the written opinion of a certified public accountant will, together with the interest to accrue thereon without the need for further investment, be fully sufficient to pay the installments (including all principal and interest) referred to above at the times at which such installments are required to be paid. Such deposit shall be in addition to the Base Rental due on such date. The excess, if any, of the amount so deposited over the installments actually required to be paid by the Lessee shall be remitted to the Lessee. On any Business Day as to which the Lessee shall properly have exercised its option to purchase any Equipment Component pursuant to this paragraph, and shall have paid the option price therefor, the Lessor and the Trustee shall execute and deliver to the Lessee bills of sale or quitclaim deeds and releases, as appropriate, conveying to the Lessee or its nominee the Lessor's and Trustee's right, title and interest in each Equipment Component. If the Lessee shall properly exercise the option provided in this paragraph as to any Equipment Component prior to the expiration of the Term of the Lease, then the lease for that Component shall terminate and thereafter the Lessee shall be obligated to pay Base Rental only on the remaining Equipment Components.

In the event the Lessee exercises its option to purchase any Equipment Component and in connection therewith performs all of its obligations and satisfies all of the requirements specified in the immediately preceding paragraph with respect to such Equipment Component, the principal component of each Base Rental due on each Lease Payment Date after such date of purchase shall be reduced by an amount equal to the principal amount of Bonds payable on that Lease Payment Date which were redeemed or defeased (as a result of such purchase) and the interest component of each Base Rental due on each Lease Payment Date after such date of purchase shall be reduced by an amount equal to the interest which would have been payable on that Lease Payment Date on the prepaid principal components (as a result of such purchase) had such amounts not been prepaid. If any such reductions in Base Rental shall occur, the Lease shall be amended by the Lessee to reflect such reductions.

Maintenance

The Lessee shall, at its own expense, maintain the Equipment, or cause the same to be maintained, in good order, condition and repair and furnish all parts, mechanisms, devices and servicing required therefor so that the value and condition of the Equipment will at all times be maintained, ordinary wear and tear excepted. All such parts, mechanisms and devices shall immediately, without further act, become part of the Equipment, without cost to the Lessor. The Lessee shall provide or cause to be provided all maintenance service, security service, custodial service, janitorial service and other services necessary for the proper upkeep and maintenance of the Equipment. The Lessee shall cause all Equipment Components to be operated in accordance with the manufacturer's or supplier's instructions or manuals, by duly qualified personnel only and in compliance with all laws and regulations applicable to such Equipment Components and with all insurance which the Lessee is required to maintain under the Lease. It is understood and agreed that in consideration of the payment by the Lessee of the Rental Payments provided for in the Lease, the Lessee is entitled to use and possession of the Equipment and no other party shall have any obligation to incur any expense of any kind or character in connection with the management, operation or

maintenance of the Equipment during the Term of the Lease. The Lessor shall not be required at any time to make any improvements, alterations, changes, additions, repairs or replacements of any nature whatsoever to the Equipment. The Lessee expressly waives the right to make repairs or to perform maintenance of the Equipment at the expense of the Lessor and (to the extent applicable and to the extent permitted by law) waives the benefit of Sections 1932, 1941 and 1942 of the Civil Code of the State relating to repairs and maintenance. The Lessee shall keep the Equipment free and clear of all liens, charges and encumbrances, other than those existing on the Closing Date. and any liens of mechanics, materialmen, suppliers, vendors or other persons or entities for work or services performed on or materials furnished in connection with the Equipment which are not due and payable or the amount, validity or application of which is being contested in accordance with the Lease.

Insurance

The Lessee shall secure and maintain or cause to be secured and maintained at all times with insurers of recognized responsibility or through a program of self-insurance to the extent specifically permitted in the Lease, all coverage on the Equipment required by the Lease. Such insurance shall consist of: (a) a policy or policies of insurance against loss or damage to the Equipment known as "all risk," including theft, earthquake and flood. Such insurance shall be maintained at all times in an amount not less than the greater of the full replacement value of the Equipment or the aggregate principal amount of Bonds at such time Outstanding (such insurance may at any time include a deductible clause providing for a deductible not to exceed \$1,000,000 from all losses in any year; if such policies are not available or if such policies are not obtainable with such deductibles from reputable insurers at a reasonable cost on the open market, the Lessee shall self-insure to the extent it cannot obtain such insurance policies); (b) comprehensive general liability coverage against claims for damages including death, personal injury, bodily injury or property damage arising from operations involving the Equipment (such insurance shall afford protection with a combined single limit of not less than \$100,000 per occurrence with respect to bodily injury, death or property damage liability, or such greater amount as may from time to time be recommended by the Lessee's risk management officer or an independent insurance consultant retained by the Lessee for that purpose); *provided, however*, that the Lessee's obligations under this clause (b) may be satisfied by self-insurance; (c) rental interruption insurance to cover loss, total or partial, of the use of any part of the Equipment as a result of any of the hazards covered by the insurance required pursuant to clause (a) above, in an amount sufficient at all times to pay the Base Rental payable under the Lease for a period of not less than two years (the Lessee may not self-insure for rental interruption insurance); and (d) workers' compensation insurance issued by a responsible carrier authorized under the laws of the State or by qualified self-insurance programs, to insure against liability for compensation under the Workers' Compensation Insurance and Safety Act in force in the State, or any act enacted after the date of the Lease as an amendment or supplement thereto or in lieu thereof.

Liens

Except as provided in the Lease, the Lessee shall not, directly or indirectly, create, incur, assume or suffer to exist any mortgages, pledges, liens, charges, encumbrances or claims, as applicable, on or with respect to the Equipment, other than the respective rights of the Lessor and the Lessee as provided in the Lease. Except as expressly provided in the Lease, the Lessee shall promptly, at its own expense, take such action as may be necessary to duly discharge or remove any such mortgage, pledge, lien, charge, encumbrance or claim, for which it is responsible, if the same shall arise at any time; *provided, however*, that the Lessee (a) may contest any such mortgage, pledge, lien, charge, encumbrance or claim without payment thereof so long as such non-payment and contest stays execution or enforcement of such mortgage, pledge, lien, charge, encumbrance or claim, but if such mortgage, pledge, lien, charge, encumbrance or claim is reduced to final judgment and such judgment or such process as may be issued for the enforcement thereof is not stayed, or if stayed and the stay thereafter expires, then and in any such event the Lessee shall forthwith pay and discharge such judgment or such mortgage, pledge, lien, charge, encumbrance or claim, or (b) delay payment without contest so long as and to the extent that such delay will not result in the imposition of any penalty or forfeiture. The Lessee shall reimburse the Lessor for any expense incurred by the Lessor in order to discharge or remove any such mortgage, pledge, lien, charge, encumbrance or claim.

Laws and Ordinances

The Lessee agrees to observe and comply with all rules, regulations and laws applicable to the Lessee with respect to each Equipment Component and the operation thereof. The cost, if any, of such observance and compliance shall be borne by the Lessee, and the Lessor shall not be liable therefor. The Lessee agrees further to place, keep, use, maintain and operate the Equipment in such a manner and condition as will provide for the safety of its agents, employees, invitees, subtenants, licensees and the public.

Abatement

A proportionate amount of Base Rental shall be abated during any period in which, by reason of condemnation, damage, destruction, theft or otherwise, there is substantial interference with the use and possession of any Equipment Component by the Lessee. There shall be no abatement of Base Rental to the extent that moneys are (a) on deposit in the Reserve Fund, (b) on deposit in the Base Rental Account, Interest Account or Principal Account of the Bond Fund and (c) otherwise legally available to the Lessee and transferred to the Trustee for the purpose of making Base Rental, and are available to pay the amount which would otherwise be abated. The amount of any abatement shall be such that the resulting Base Rental in any Fiscal Year during which such interference continues, excluding any amounts described in clauses (a) through (c) above, do not exceed the fair rental value for the use and possession of the Equipment Components not condemned, taken, damaged or destroyed. Such abatement shall commence on the date of condemnation, theft, damage or destruction and shall end with the substantial completion of the work of repair of the Equipment Component or the delivery of a replacement Equipment Component. Additional Rental shall not be abated so long as a significant portion of the Equipment Components remains available for the use and possession of the Lessee. Except as provided in the Lease, in the event of any such condemnation, theft, damage or destruction, the Lease shall continue in full force and effect and the Lessee waives any right to terminate the Lease by virtue of any such condemnation, theft, damage or destruction.

Assignment, Subleasing and Amendment of the Lease

Except as provided in the Indenture, the Lessor will not assign the Lease, its right to receive Base Rental from the Lessee, or its duties and obligations under the Lease to any other person, firm or corporation.

The Lessee may sublease any Equipment Component, with the consent of the Lessor, subject to all of the following conditions: (a) the Lease and the obligation of the Lessee to make Base Rental under the Lease shall remain obligations of the Lessee; (b) the Lessee shall, within sixty (60) days after the delivery thereof, furnish or cause to be furnished to the Lessor and the Trustee a true and complete copy of such sublease; (c) no sublease by the Lessee shall cause any Equipment Component to be used for a purpose other than a governmental or proprietary function authorized under the provisions of the laws of the State; and (d) prior to entering into any sublease, the Lessee shall deliver to the Trustee an opinion of Bond Counsel to the effect that the interest component of the Base Rental due with respect to the Equipment Component subject to the sublease shall not be includable in gross income for federal income tax purposes as a result of such sublease.

The Lessee will not alter, modify or cancel or agree or consent to alter, modify or cancel the Lease except as permitted by the Indenture.

Events of Default and Remedies

The following shall be “events of default” under the Lease and the terms “events of default” and “defaults” shall mean, whenever they are used in the Lease, any one or more of the following events: (a) failure by the Lessee to pay any Base Rental required to be paid under the Lease when due on a Lease Payment Date; (b) failure by the Lessee to observe and perform any covenant, condition or agreement on its part to be observed or performed in the Lease or otherwise with respect to the Lease or in the Indenture, other than as referred to in clause (a) of this paragraph, for a period of sixty (60) days after written notice specifying such failure and requesting that it be

remedied has been given to the Lessee by the Lessor, the Trustee, or the Bondowners of not less than a majority in aggregate principal amount of Bonds then Outstanding; *provided, however*, if the failure stated in the notice cannot be corrected within the applicable period, the Lessor, the Trustee or such Owners, shall not unreasonably withhold their consent to an extension of such time if corrective action is instituted by the Lessee within the applicable period and diligently pursued until the default is corrected; (c) the filing by the Lessee of a case in bankruptcy, or the subjection of any right or interest of the Lessee under the Lease to any execution, garnishment or attachment, or adjudication of the Lessee as a bankrupt, or assignment by the Lessee for the benefit of creditors, or the entry by the Lessee into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to the Lessee in any proceedings instituted under the provisions of the federal bankruptcy code, as amended, or under any similar act which may be enacted after the date of the Lease; and (d) the Lessor's failure to perform any of its obligations under the Lease shall not be an event permitting the nonpayment of Base Rental by the Lessee or the termination of the Lease by the Lessee.

The parties hereto agree that any remedies provided under the Lease shall be exercised by the Trustee, as assignee of the Lessor's rights. Upon the occurrence and continuance of any event of default, the Trustee may proceed (and upon written request of the Owners of not less than a majority in aggregate principal amount of Bonds then Outstanding shall proceed) to exercise the remedies set forth in the Lease. Pursuant to California Civil Code Section 1951.4, notwithstanding that the Lessee has breached the Lease and abandoned the Equipment, the Lease shall continue in effect and the Lessor or the Trustee may enforce all of their rights and remedies under the Lease. Without limiting any other remedies available to the Trustee under the Lease or at law, the Trustee shall have the right, at its option, without any further notice (a) to recover rent as it becomes due under the Lease, and (b) to exercise any other right or remedy which may be available to it under applicable law or to proceed by appropriate court action to enforce the terms of the Lease or to recover damages for the breach of the Lease or to rescind the Lease. In addition, unless and until the Lease has been terminated pursuant to its terms, the Lessee shall be liable for all unpaid rent and other amounts due under the Lease before or during the exercise of any of the foregoing remedies and for all legal fees, taxes, governmental charges and other costs and expenses incurred by reason of the occurrence of any event of default or the exercise of the Trustee's remedies with respect thereto.

Neither the Lessor nor the Trustee shall exercise its remedies under the Lease so as to cause the portion of Base Rental designated as and comprising interest to be included in gross income for federal income tax purposes or to be subject to State personal income taxes. Notwithstanding any other provision of the Lease to the contrary, in no event shall the Lessor or the Trustee have the right to accelerate the payment of any Base Rental under the Lease. Notwithstanding any provision of the Lease to the contrary, the Trustee does not have the right: (i) to demand that the Lessee return the Equipment; (ii) to enter upon the premises where the Equipment is located and take possession of or remove the same by summary proceedings or in any other manner; (iii) to terminate the Lease and sell the Equipment or otherwise dispose of, hold, use, operate, lease to others or keep idle the Equipment; or (iv) to retake possession of the Equipment in any manner.



APPENDIX D
PROPOSED FORM OF APPROVING OPINION

Upon the delivery of the Bonds, Fulbright & Jaworski L.L.P., Los Angeles, California, Bond Counsel to the County and the Corporation, proposes to issue its approving opinion in substantially the following form:

Ladies and Gentlemen:

We have acted as bond counsel to Los Angeles County Capital Asset Leasing Corporation, a nonprofit public benefit corporation duly organized and validly existing under the laws of the State of California (the “Issuer”), in connection with the issuance of \$25,360,000 aggregate principal amount of its Lease Revenue Bonds, 2008 Series A (LAC-CAL Equipment Program) (the “Bonds”).

The Bonds are being issued pursuant to Article 4 of Chapter 5 of Division 7 of Title 1 of the California Government Code and an Indenture, dated as of March 1, 2008 (the “Indenture”), by and between the Issuer and Deutsche Bank National Trust Company, as trustee (the “Trustee”). The Bonds are being issued to finance the acquisition of certain equipment, machinery, vehicles and other tangible personal property to be leased to the County of Los Angeles, California (the “County”) pursuant to a Lease Agreement, dated as of March 1, 2008 (the “Lease”) by and between the County, as lessee, and the Issuer, as lessor. Principal of and interest on the Bonds are payable from Base Rental payments to be made by the County pursuant to the Lease. Capitalized terms used and not otherwise defined herein shall have the meanings assigned to them in the Indenture or the Lease, as applicable.

As bond counsel, we have examined copies certified to us as being true and complete copies of the proceedings of the Issuer and the County in connection with the issuance of the Bonds. We have also examined such certificates of officers of the Issuer and the County and others as we have considered necessary or appropriate for the purposes of this opinion.

Based upon the foregoing, we are of the opinion that:

1. The Indenture has been duly and validly authorized, executed and delivered by the Issuer and, assuming the Indenture constitutes the legally valid and binding obligation of the Trustee, constitutes the legally valid and binding obligation of the Issuer, enforceable against the Issuer in accordance with its terms.
2. The Lease has been duly and validly authorized, executed and delivered by the County and the Issuer, and constitutes the legally valid and binding obligation of the County and the Issuer, enforceable against the County and the Issuer in accordance with its terms.
3. The Bonds constitute valid and binding limited obligations of the Issuer as provided in the Indenture, and are entitled to the benefits of the Indenture.
4. The Bonds are secured by a valid pledge of the Revenues and all moneys in the Bond Fund and the Reserve Account, including all amounts derived from the investment of such moneys, subject to the application thereof on the terms and conditions as set forth in the Indenture.
5. The Internal Revenue Code of 1986 (the “Code”) imposes certain requirements that must be met subsequent to the issuance and delivery of the Bonds for interest thereon to be and remain excluded from the gross income of the owners thereof for federal income tax purposes. Noncompliance with such requirements could cause the interest on the Bonds to be included in gross income retroactive to the date of issue of the Bonds. The Issuer has covenanted in the Indenture to maintain the exclusion of interest on the Bonds from the gross income of the owners thereof for federal income tax purposes.

In our opinion, under existing law, interest on the Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the aforementioned covenant, interest on the Bonds is excluded

pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes.

We are further of the opinion that under existing statutes, regulations, rulings and court decisions, the Bonds are not “specified private activity bonds” within the meaning of section 57(a)(5) of the Code and, therefore, that interest on the Bonds will not be treated as an item of tax preference for purposes of computing the alternative minimum tax imposed by section 55 of the Code. The receipt or accrual of interest on Bonds owned by a corporation may affect the computation of the alternative minimum taxable income, upon which the alternative minimum tax is imposed, to the extent that such interest is taken into account in determining the adjusted current earnings of that corporation (75 percent of the excess, if any, of such adjusted current earnings over the alternative minimum taxable income being an adjustment to alternative minimum taxable income (determined without regard to such adjustment or to the alternative tax net operating loss deduction)).

Except as stated in the preceding three paragraphs, we express no opinion as to any federal or state tax consequences of the ownership or disposition of the Bonds. Furthermore, we express no opinion as to any federal, state or local tax law consequences with respect to the Bonds, or the interest thereon, if any action is taken with respect to the Bonds or the proceeds thereof predicated or permitted upon the advice or approval of other bond counsel.

The opinions expressed in paragraphs 1, 2 and 3 above are qualified to the extent the enforceability of the Indenture, the Lease and the Bonds may be limited by applicable bankruptcy, insolvency, debt adjustment, reorganization, moratorium or similar laws or equitable principles relating to or limiting creditors’ rights generally or as to the availability of any particular remedy. The enforceability of the Indenture, the Lease and the Bonds is subject to the effect of general principles of equity, including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing, to the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or at law, and to the limitations on legal remedies against governmental entities in California. We advise you that we have not made or undertaken to make any investigation of the state of title to any of the property or ownership of any property described in the Lease, or of the accuracy or sufficiency of the description of such property contained therein, and we express no opinion with respect to such matters.

No opinion is expressed herein on the accuracy, completeness or sufficiency of the Official Statement or other offering materials relating to the Bonds.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

Very truly yours,

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this “Certificate”) is executed and delivered by the County of Los Angeles (the “County”) as of March 1, 2008 in connection with \$25,360,000 principal amount of Los Angeles County Capital Asset Leasing Corporation Lease Revenue Bonds, 2008 Series A (LAC-CAL Equipment Program) (the “Bonds”). The Bonds are being issued pursuant to the terms of an Indenture of Trust dated as of March 1, 2008 (the “Indenture”), by and between the County and Deutsche Bank National Trust Company, as Trustee (the “Trustee”), a Resolution of the Board of Supervisors of the County adopted February 19, 2008 relating to the issuance of the Bonds (the “Resolution”). The County hereby covenants and agrees as follows:

1. Purpose of Certificate. This Certificate is being executed and delivered by the County for the benefit of the Bondowners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with the Rule (as defined below).

2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Certificate unless otherwise defined in this Section, the following capitalized terms have the following meanings:

“Annual Report” means any Annual Report provided by the County pursuant to, and as described in, Sections 3 and 4 of this Certificate.

“Beneficial Owner” means any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

“Commission” means the Securities and Exchange Commission.

“Dissemination Agent” means the County and any Person designated by the County to serve as Dissemination Agent.

“Listed Events” means any of the events listed in Section 5(a) of this Certificate.

“National Repository” means any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories approved by the Commission as of the date of this Certificate are set forth in the Commission’s website at www.sec.gov.

“Participating Underwriter” means any of the original purchasers of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

“Person” means any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

“Repository” means each National Repository and each State Repository.

“Rule” means paragraph (b) (5) of Rule 15c2-12 adopted by the Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time, and including any official interpretations thereof issued either before or after the effective date of this certificate which are applicable to this Certificate.

“State Repository” means any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and recognized as such by the Commission. As of the date of this Certificate, there is no State Repository.

3. Provision of Annual Reports.

(a) The County shall, or shall cause the Dissemination Agent to, not later than February 1 in each year, commencing with the report for the County's fiscal year ended June 30, 2008, provide to each Repository copies of an Annual Report which is consistent with the requirements of Section 4 of this Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Certificate; provided that the audited financial statements of the County may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the County's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Subsection 5(c).

(b) Not later than 15 Business Days prior to the date specified in subsection (a) above for providing the Annual Report to Repositories, the County shall provide the Annual Report to the Dissemination Agent (if one has been appointed). If the County is unable to provide to the Repositories an Annual Report by the date specified in subsection (a) above, the County shall send a notice to each Repository, the Municipal Securities Rulemaking Board and the State Repository, if any, in substantially the form of Exhibit A to this Certificate.

(c) The Dissemination Agent (if one has been appointed) shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and each State Repository, if any; and

(ii) file a report with the County certifying that the Annual Report has been provided pursuant to this Certificate, stating the date it was provided and listing all the Repositories to which it was provided.

4. Content of Annual Reports. The County's Annual Report shall contain or include by reference the following:

(a) The audited financial statements of the County for the fiscal year most recently ended, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board and reporting standards as set forth by the State Controller in "State of California Accounting Standards and Procedures for Counties." If the County's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to subsection 3(a) of this Certificate, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Offering Memorandum relating to the Bonds, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) To the extent not included in the financial statements, the following types of information will be provided in one or more reports:

(i) assessed valuations, tax levies and delinquencies for real property located in the County for the fiscal year of the County most recently ended;

(ii) summary financial information on revenues, expenditures and fund balances for the County's total budget funds for the fiscal year of the County most recently ended;

(iii) summary financial information on the proposed and adopted budgets of the County for the current fiscal year and any changes in the adopted budget;

(iv) summary of aggregate annual debt obligations of the County as of the beginning of the current fiscal year;

(v) summary of annual outstanding principal obligations of the County as of the beginning of the current fiscal year; and

(vi) the ratio of the County's outstanding debt to total assessed valuations as of the end of the fiscal year of the County most recently ended.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the County or related public entities, which have been submitted to each of the Repositories or the Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The County shall clearly identify each such other document so included by reference.

The contents, presentation and format of the Annual Reports may be modified from time to time as determined in the judgment of the County to conform to changes in accounting or disclosure principles or practices and legal requirements followed by or applicable to the County or to reflect changes in the business, structure, operations, legal form of the County or any mergers, consolidations, acquisitions or dispositions made by or affecting the County; provided that any such modifications shall comply with the requirements of the Rule.

5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the County shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (i) principal and interest payment delinquencies;
 - (ii) non-payment related defaults;
 - (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
 - (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
 - (v) substitution of credit or liquidity providers, or their failure to perform;
 - (vi) adverse tax opinions or events affecting the tax status of the Bonds;
 - (vii) modifications to the rights of Bondowners;
 - (viii) bond calls;
 - (ix) defeasances;
 - (x) release, substitution, or sale of property, if any, securing repayment of the Bonds;
- and
- (xi) rating changes.

(b) Whenever the County obtains knowledge of the occurrence of a Listed Event, the County shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the County determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the County shall promptly file, or cause to be filed, a notice of such event with the Municipal Securities Rulemaking Board and the State Repository, if any. Notwithstanding the foregoing, notice of Listed Events described in subsections (a) (viii) and (ix) above need not be given under this subsection any earlier than the notice, if any, of the underlying event is given to Owners of affected Bonds pursuant to the Indenture.

6. Termination of Reporting Obligation. The County's obligations under this Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the County shall give notice of such termination in the same manner as for a Listed Event under subsection 5(c).

7. Dissemination Agent. The County may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligation under this Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent, if other than the County, shall not be responsible in any manner for the content of any notice or report prepared by the County pursuant to this Certificate. The initial Dissemination Agent shall be the County.

The County may satisfy its obligations hereunder to file any notice, document or information with each Repository by filing the same with any dissemination agent or conduit, including the Municipal Advisory Council of Texas or any other "central post office" or similar entity, assuming or charged with responsibility for accepting notices, documents or information for transmission to each applicable Repository, to the extent permitted by the Commission or Commission staff or required by the Commission. For this purpose, permission shall be deemed to have been granted by the Commission staff if and to the extent the agent or conduit has received an interpretive letter, which has not been revoked, from the Commission staff to the effect that using the agent or conduit to transmit information to each Repository will be treated for purposes of the Rule as if such information were transmitted directly to each Repository.

8. Amendment: Waiver. Notwithstanding any other provision of this Certificate, the County may amend this Certificate, and any provision of this Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of subsection 3(a), Section 4, or subsection 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertakings, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Bondowners in the same manner as provided in the Indenture for amendments to the Indenture with the consent of the Bondowners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Bondowners or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Certificate, the County shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the County. In addition, if the amendment relates to the accounting principles to be following in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under subsection 5(c), and (ii) the Annual Report for the year in which the change is made shall present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

9. Additional Information. Nothing in this Certificate shall be deemed to prevent the County from disseminating any other information, including the information then contained in Appendix A to the County's official statements relating to debt issuances, using the means of dissemination set forth in this Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Certificate. If the County chooses to include any

information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Certificate, the County shall have no obligation under this Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

10. No Previous Non-Compliance. The County represents that it has not failed to comply with any material respect with any previous undertaking in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule.

11. Default. In the event of a failure of the County to comply with any provision of this Certificate, any Bondowner or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the County to comply with its obligations under this Certificate. A default under this Certificate shall not be deemed an Event of Default under the Indenture with respect to the Bonds, and the sole remedy under this Certificate in the event or any failure of the County to comply with this Certificate shall be an action to compel performance, and no person or entity shall be entitled to recover monetary damages under this Certificate.

12. Duties Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Certificate, and the County agrees, to the extent permitted by law, to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the County under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

13. Beneficiaries. This Certificate shall inure solely to the benefit of the County, the Dissemination Agent, the Participating Underwriters, the Bondowners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

14. Governing Law. This Certificate shall be governed by the laws of the State of California and the federal securities laws.

IN WITNESS WHEREOF, the County of Los Angeles has executed this Continuing Disclosure Certificate as of the date first set forth herein.

COUNTY OF LOS ANGELES

By: _____
Authorized Signatory

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Obligated Party: County of Los Angeles

Name of Bond Issue: Los Angeles County Capital Asset Leasing Corporation Lease Revenue Bonds, 2008 Series A (LAC-CAL Equipment Program)

Date of Issuance: March __, 2008

NOTICE IS HEREBY GIVEN that the County has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate, dated as of March 1, 2008 with respect to the Bonds. The County anticipates that the Annual Report will be filed by _____.

Dated: _____

On behalf of the County

APPENDIX F

BOOK-ENTRY SYSTEM

The information in this Appendix concerning DTC and DTC's book-entry system has been obtained from sources that the County believes to be reliable, but the County takes no responsibility for the accuracy or completeness thereof. The County 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 Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Official Statement. 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.

General. The Bonds will be available in book-entry form only in the principal amount of \$5,000 and any integral multiple thereof. So long as the Bonds remain in book-entry-only form, the principal and interest payments with respect to the Bonds will be made to DTC, or its nominee, Cede & Co., as registered owner of the Bonds.

The Depository Trust Company and its Book-Entry System. The information hereunder concerning DTC, and DTC's Book-Entry system has been obtained from DTC and the County, the Corporation and the Trustee take no responsibility for the completeness or accuracy thereof. The County, the Corporation and the Trustee cannot and do not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (herein defined) (a) payments of interest or principal with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, 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 hereunder. 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 Bonds. The Bonds 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 Bonds, 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 and www.dtc.org. The information set forth on such websites is not incorporated herein by reference.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("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 Bonds 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 Bonds, except in the event that use of the book-entry system for the Bonds is discontinued. To facilitate subsequent transfers, all Bonds 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 Bonds 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 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds 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 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds 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 Bonds called for redemption or of any other action premised on such notice. Redemption of portions of the Bonds by the Corporation will reduce the outstanding principal amount of the Bonds held by DTC. In such event, DTC will implement, through its book-entry system, redemption by lot of interests in the Bonds 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 Bonds for the Beneficial Owners.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Corporation 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of and interest evidenced by the Bonds 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, the Corporation or the Trustee, 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 Trustee, the Corporation, or the County,

subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of and interest evidenced by the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the County, the Corporation or the Trustee, 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.

NONE OF THE COUNTY, THE CORPORATION OR THE TRUSTEE 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 BONDS FOR PREPAYMENT.

None of the County, the Corporation or the Trustee can or do give any assurances that DTC, the Participants or others will distribute payments of principal or interest evidenced by the Bonds 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. None of the County, the Corporation or the Trustee 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 Bonds or an error or delay relating thereto.

Discontinuance of Depository Services. DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the County, the Corporation or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, security certificates are required to be printed and delivered. The Corporation 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 Indenture will apply.

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