

*In the opinion of Squire, Sanders & Dempsey L.L.P., Bond Counsel, Los Angeles, California, under existing law (i) assuming continuing compliance with certain covenants and the accuracy of certain representations, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; and (ii) interest on the Bonds is exempt from State of California personal income taxes. Interest on the Bonds may be subject to certain federal taxes imposed only on certain corporations. For a more complete discussion of the tax aspects, see "TAX MATTERS" herein.*

**NEW ISSUE - BOOK-ENTRY-ONLY**



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

**\$24,025,000**

**LOS ANGELES COUNTY CAPITAL ASSET LEASING CORPORATION  
LEASE REVENUE BONDS, 2009 SERIES A  
(LAC-CAL EQUIPMENT PROGRAM)**

**Dated: Date of Delivery**

**Due: June 1 and December 1, as shown on the inside cover hereto**

The Los Angeles County Capital Asset Leasing Corporation Lease Revenue Bonds, 2009 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 November 1, 2009 (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" herein.

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, 2010. 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" herein and APPENDIX F—"BOOK-ENTRY ONLY 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" herein.**

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 Squire, Sanders & Dempsey 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 November 24, 2009.*

Dated: November 16, 2009

## MATURITY SCHEDULE

**\$24,025,000**

**LOS ANGELES COUNTY CAPITAL ASSET LEASING CORPORATION  
LEASE REVENUE BONDS, 2009 SERIES A  
(LAC-CAL Equipment Program)**

<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP</u> <sup>†</sup>
June 1, 2010	\$4,410,000	2.00%	1.10%	54466LEF0
December 1, 2010	4,620,000	2.50	1.35	54466LEG8
June 1, 2011	4,590,000	5.00	1.60	54466LEH6
December 1, 2011	3,605,000	5.00	1.70	54466LEJ2
June 1, 2012	2,560,000	5.00	2.00	54466LEK9
December 1, 2012	2,560,000	5.00	2.10	54466LEL7
June 1, 2013	1,680,000	5.00	2.35	54466LEM5

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<sup>†</sup> Copyright 2009, American Bankers Association. CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein are provided by Standard & Poor's, CUSIP Service Bureau, a Division of The McGraw Hill Companies, Inc. CUSIP numbers have been assigned by an independent company not affiliated with the County or the Corporation and are included solely for the convenience of the holders of the Bonds. The County and the Corporation assume no responsibility for the accuracy of such numbers.



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**COUNTY OF LOS ANGELES**

**LOS ANGELES COUNTY CAPITAL ASSET LEASING CORPORATION  
LEASE REVENUE BONDS, 2009 SERIES A  
(LAC-CAL Equipment Program)**

**Board of Supervisors**

Don Knabe  
*Fourth District, Chairman*

Gloria Molina  
*First District*

Mark Ridley-Thomas  
*Second District*

Zev Yaroslavsky  
*Third District*

Michael D. Antonovich  
*Fifth District*

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

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**County Officials**

William T Fujioka  
*Chief Executive Officer*

Robert E. Kalunian  
*Acting County Counsel*

Wendy L. Watanabe  
*Auditor-Controller*

Mark J. Saladino  
*Treasurer and Tax Collector*

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Public Resources Advisory Group  
*Financial Advisor*

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The Bank of New York Mellon Trust Company, N.A.  
*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. No representation is made that the past experience, as shown by such financial and other information, will necessarily continue or be repeated in the future. All estimates, projections, forecasts or matters of opinion are “forward looking statements,” which must be read with an abundance of caution and which may not be realized or may not occur in the future.

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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**\$24,025,000**  
**LOS ANGELES COUNTY CAPITAL ASSET LEASING CORPORATION**  
**LEASE REVENUE BONDS, 2009 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, 2009 Series A (LAC-CAL Equipment Program) (the “Bonds”) in the aggregate principal amount of \$24,025,000. 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 November 1, 2009 (the “Indenture”), by and between the Los Angeles County Capital Asset Leasing Corporation (the “Corporation”) and The Bank of New York Mellon Trust Company, N.A., 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 (as more fully described herein, 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” herein. The Equipment will be leased pursuant to the Lease Agreement, dated as of November 1, 2009 (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, 2010 (each, an “Interest Payment Date”). The Bonds will be issued in denominations of \$5,000 and any integral multiple thereof. 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. The Bonds are not subject to optional redemption prior to maturity, but are subject to mandatory redemption as described herein. See “THE BONDS” herein.

**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 is located in the southern coastal portion of the State of California (the "State") and covers 4,084 square miles. The County was established under an act of the State Legislature on February, 18, 1850. It is the most populous county in the nation and, in terms of population, is larger than 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, 2008."

### **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 the Municipal Securities Rulemaking Board (the "MSRB"), for purposes of Rule 15c2-12 promulgated by the U.S. Securities and Exchange Commission ("Rule 15c2-12"), certain annual financial information and operating data and notice of certain material events in a timely manner. These covenants have been made in order to assist the underwriters of the Bonds in complying with Rule 15c2-12. See "CONTINUING DISCLOSURE" herein and APPENDIX E—"FORM OF CONTINUING DISCLOSURE CERTIFICATE."

## 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	\$24,025,000.00
Original Issue Premium	1,095,878.25
County Contribution	<u>16,367,892.02</u>
<b>TOTAL SOURCES</b>	<b><u>\$41,488,770.27</u></b>
USES:	
Redemption of BANs	\$40,256,833.33
Debt Service Reserve Fund	1,000,000.00
Costs of Issuance Account <sup>(1)</sup>	134,669.25
Underwriter's Discount	<u>97,267.69</u>
<b>TOTAL USES</b>	<b><u>\$41,488,770.27</u></b>

<sup>(1)</sup> 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 inside 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 each Interest Payment Date, commencing on June 1, 2010. The Bonds will be delivered in book-entry form only and when issued, authenticated and delivered, 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. 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 ONLY 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 to the redemption date, without premium, from amounts deposited in the Redemption Account of the Bond Fund pursuant to the Indenture following an event of theft, damage or destruction of the Equipment or a portion thereof. The Bonds shall only be 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, as determined by the County.

**Selection of Bonds for Redemption.** Whenever provision is made in the Indenture for the redemption of Bonds and less than all Outstanding Bonds are to be redeemed, the Bonds to be redeemed shall be selected

proportionately among maturities, and within a maturity, the Trustee shall select Bonds for redemption by lot. The portion of any Bond to be redeemed in part shall be in the principal amount of \$5,000 or any integral multiple thereof.

**Notice of Redemption.** When redemption is required pursuant to the Indenture, the Trustee shall give notice of the redemption of the Bonds to each owner of a Bond to be redeemed. The notice shall specify: (a) that the Bond or a designated portion thereof (in the case of redemption of a Bond in part but not in whole) is to be redeemed, identifying each such Bond by its Bond number unless all Outstanding Bonds or all Outstanding Bonds of the particular maturity or maturities are to be redeemed, in which case the notice need only indicate that all Outstanding Bonds, or all Outstanding Bonds of a particular maturity or maturities (specifying each such maturity) are to be redeemed, (b) the date of redemption, (c) the place or places where the redemption will be made, including the name and address of any paying agent, (d) the redemption price, (e) CUSIP numbers (if any) assigned to the Bonds to be redeemed, (f) the Bond numbers of the Bonds to be redeemed in whole or in part and, in the case of any Bond to be redeemed in part only, the amount of such Bond to be redeemed, and (g) the original date and stated maturity date of each Bond to be redeemed in whole or in part. Such notice shall further state that on the specified redemption date, the redemption price, together with interest accrued to the redemption date, shall become due and payable and that, from and after such date, interest on the Bonds to be redeemed on the redemption date shall cease to accrue and be payable. Such redemption notices may state that no representation is made as to the accuracy or correctness of the CUSIP numbers set forth therein or on the Bonds.

The Trustee shall give notice by first class mail, postage prepaid, at least 30 days but not more than 60 days prior to the redemption date to the owners of Bonds designated for redemption at their addresses appearing on the Bond Register as of the close of business on the day before such notice is given. Neither failure to receive any such notice nor any defect in such notice shall affect the sufficiency of the proceedings for the redemption of any Bond.

Such redemption notice shall also be given at least 30 days before the redemption date, by (i) registered or certified mail, postage prepaid, (ii) confirmed facsimile transmission, or (iii) overnight delivery service, to DTC and to one of the Information Services.

Neither failure to give the notice described in the immediately preceding paragraphs nor any defect in the notices shall in any manner affect the redemption of any Bond.

**Partial Redemption of Bonds.** Upon the surrender of any Bond redeemed in part only, the Trustee shall execute and deliver to the owner thereof a new Bond or Bonds of authorized denominations equal in aggregate principal amount, maturity and interest rate to the unredeemed portion of the Bond surrendered. Such partial redemption shall be valid upon payment or provision of the payment of the amount required to be paid to such Bondowner, and the Lessor and the Trustee shall be released and discharged thereupon from all liability to the extent of such payment.

**Effect of Notice of Redemption.** Notice having been given as prescribed by the Indenture, and the money for the redemption (including the interest to the applicable date of redemption) having been set aside in the Redemption Account in the Bond Fund or otherwise segregated for such purpose, the Bonds or portions thereof to be redeemed shall become due and payable on the date of redemption.

If on the redemption date, money for the redemption of all Bonds to be redeemed, together with interest to the redemption date, shall be held by the Trustee so as to be available therefor, and if notice of redemption thereof shall have been given as described in the Indenture, then, from and after the redemption date, no additional interest shall become due on the Bonds to be redeemed. All money held by or on behalf of the Trustee for the redemption of Bonds shall be held in trust for the account of the Bondowners to be so redeemed.

## SECURITY AND SOURCES OF PAYMENT OF THE BONDS

### 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. "Lease Payment Date" under the Lease means a date on or before each Interest 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</u> <sup>(1)</sup>	<u>Principal Component</u>	<u>Interest Component</u>	<u>Base Rental Payment</u>
June 1, 2010	\$4,410,000.00	\$495,264.31	\$4,905,264.31
December 1, 2010	4,620,000.00	432,625.00	5,052,625.00
June 1, 2011	4,590,000.00	374,875.00	4,964,875.00
December 1, 2011	3,605,000.00	260,125.00	3,865,125.00
June 1, 2012	2,560,000.00	170,000.00	2,730,000.00
December 1, 2012	2,560,000.00	106,000.00	2,666,000.00
June 1, 2013	1,680,000.00	42,000.00	1,722,000.00

<sup>(1)</sup> Due on or before each Interest Payment Date.

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 \$1,000,000.00. The Reserve Requirement means, as of any date of calculation, the lesser of (i) \$1,000,000.00 or (ii) the total remaining unpaid principal and interest on the Bonds. 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. 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. If the amount on deposit in the Reserve Fund five Business Days prior to any Interest Payment Date is less than the Reserve Requirement, the Trustee shall promptly notify the Lessor and Lessee of such fact. Upon receipt of such notice, the Lessor shall cause the Lessee to 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. 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" and RISK FACTORS - "Abatement."

## **Insurance**

Pursuant to the Lease, 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 Department of Beaches and Harbors, the Department of Health Services, the Internal Services Department, the Department of Coroner, the Department of Probation, and the Sheriff Department. Such property consists of more than one thousand individual items and includes motor vehicles, medical equipment, and computer systems. 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 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” herein and “-Abatement” below.

### **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**

On-going weak economic conditions have resulted in significant revenue shortfalls to the State, upon which the County relies for a substantial portion of its revenues. The Governor declared a “fiscal emergency” and called special sessions of the Legislature to consider budget actions to address the problems. As of the date hereof, a budget balancing agreement has been reached between the Governor and leaders of the State legislature. This agreement incorporates certain reductions in County revenues. Given the current state of the State’s economy, the County cannot fully anticipate the resolution of the State’s budget challenges and its impact on the revenues or expenditures of the County. Decreases in County revenues from the State and increases in required County expenditures from the levels assumed by the County may require the County to generate additional revenues or curtail programs and/or services to ensure a balanced budget. See APPENDIX A-“THE COUNTY OF LOS ANGELES INFORMATION STATEMENT”.

Information about the State Budget is regularly available at various State-maintained websites. Text of the State 2009-10 State Budget may be found at the Department of Finance website, [www.dof.ca.gov](http://www.dof.ca.gov), under the heading “California Budget.” An impartial analysis of the budget is posted by the LAO at [www.lao.ca.gov](http://www.lao.ca.gov). In addition, various State official statements, many of which contain a summary of the current and past State budgets, may be found at the website of the State Treasurer, [www.treasurer.ca.gov](http://www.treasurer.ca.gov). The information referred to is prepared by the respective State agency maintaining each website and not by the County, and the County takes no responsibility for the continued accuracy of the internet addresses or for the accuracy or timeliness of information posted there, and such information is not incorporated herein by these references.

## TAX MATTERS

### General

The following describes certain federal income and state tax matters relating to the Bonds. The following does not describe any federal income or state tax matters relating to the Taxable Bonds. In the opinion of Squire, Sanders & Dempsey L.L.P., Bond Counsel, Los Angeles, California, under existing law: (i) interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; and (ii) interest on the Bonds is exempt from State of California personal income taxes. A complete copy of the proposed form of opinion of Bond Counsel is set forth in APPENDIX D. Bond Counsel will express no opinion as to any other tax consequences regarding the Bonds.

The opinion on tax matters will be based on and will assume the accuracy of certain representations and certifications, and continuing compliance with certain covenants, of the County contained in the transcript of proceedings and that are intended to evidence and assure the foregoing, including that the Bonds are and will remain obligations the interest on which is excluded from gross income for federal income tax purposes. Bond Counsel will not independently verify the accuracy of the County's certifications and representations or the continuing compliance with the County's covenants.

The opinion of Bond Counsel is based on current legal authority and covers certain matters not directly addressed by such authority. It represents Bond Counsel's legal judgment as to exclusion of interest on the Bonds from gross income for federal income tax purposes but is not a guaranty of that conclusion. The opinion is not binding on the Internal Revenue Service ("IRS") or any court. Bond Counsel expresses no opinion about (i) the effect of future changes in the Code and the applicable regulations under the Code or (ii) the interpretation and the enforcement of the Code or those regulations by the IRS.

The Code prescribes a number of qualifications and conditions for the interest on state and local government obligations to be and to remain excluded from gross income for federal income tax purposes, some of which require future or continued compliance after issuance of the obligations. Noncompliance with these requirements by the County or the Corporation may cause loss of such status and result in the interest on the Bonds being included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. The Corporation and, subject to certain limitations, the County have each covenanted to take the actions required of it for the interest on the Bonds to be and to remain excluded from gross income for federal income tax purposes, and not to take any actions that would adversely affect that exclusion. After the date of issuance of the Bonds, Bond Counsel will not undertake to determine (or to so inform any person) whether any actions taken or not taken, or any events occurring or not occurring, or any other matters coming to Bond Counsel's attention, may adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds or the market value of the Bonds.

Although a portion of the interest on certain tax-exempt obligations earned by certain corporations may be included in the calculation of adjusted current earnings for purposes of the federal corporate alternative minimum tax, interest on certain tax-exempt obligations issued in 2009 and 2010, including the Bonds, is excluded from that calculation. Interest on the Bonds may be subject to a federal branch profits tax imposed on certain foreign corporations doing business in the United States and to a federal tax imposed on excess net passive income of certain S corporations. Under the Code, the exclusion of interest from gross income for federal income tax purposes may have certain adverse federal income tax consequences on items of income, deduction or credit for certain taxpayers, including financial institutions, certain insurance companies, recipients of Social Security and Railroad Retirement benefits, those that are deemed to incur or continue indebtedness to acquire or carry tax-exempt obligations, and individuals otherwise eligible for the earned income tax credit. The applicability and

extent of these and other tax consequences will depend upon the particular tax status or other tax items of the owner of the Bonds. Bond Counsel will express no opinion regarding those consequences.

Payments of interest on tax-exempt obligations, including the Bonds, are generally subject to IRS Form 1099-INT information reporting requirements. If a Tax Exempt Bond owner is subject to backup withholding under those requirements, then payments of interest will also be subject to backup withholding. Those requirements do not affect the exclusion of such interest from gross income for federal income tax purposes.

Legislation affecting tax-exempt obligations is regularly considered by the United States Congress and may also be considered by the State legislature. Court proceedings may also be filed the outcome of which could modify the tax treatment of obligations such as the Bonds. There can be no assurance that legislation enacted or proposed, or actions by a court, after the date of issuance of the Bonds will not have an adverse effect on the tax status of interest on the Bonds or the market value of the Bonds.

Prospective purchasers of the Bonds should consult their own tax advisers regarding pending or proposed federal and state tax legislation and court proceedings, and prospective purchasers of the Bonds at other than their original issuance at the respective prices indicated on the inside cover of this Official Statement should also consult their own tax advisers regarding other tax considerations such as the consequences of market discount, as to all of which Bond Counsel expresses no opinion.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the County, the Corporation or the owners of the Bonds regarding the tax status of interest thereon in the event of an audit examination by the IRS. The IRS has a program to audit tax-exempt obligations to determine whether the interest thereon is includible in gross income for federal income tax purposes. If the IRS does audit the Bonds, under current IRS procedures, the IRS will treat the County as the taxpayer and the beneficial owners of the Bonds will have only limited rights, if any, to obtain and participate in judicial review of such audit. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of other obligations presenting similar tax issues, may affect the market value of the Bonds.

### **Original Premium**

Certain of the Bonds ("Premium Bonds") as indicated on the cover of this Official Statement were offered and sold to the public at a price in excess of their stated redemption price (the principal amount) at maturity. That excess constitutes bond premium. For federal income tax purposes, bond premium is amortized over the period to maturity of a Premium Bond, based on the yield to maturity of that Premium Bond (or, in the case of a Premium Bond callable prior to its stated maturity, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on that Premium Bond), compounded semiannually. No portion of that bond premium is deductible by the owner of a Premium Bond. For purposes of determining the owner's gain or loss on the sale, redemption (including redemption at maturity) or other disposition of a Premium Bond, the owner's tax basis in the Premium Bond is reduced by the amount of bond premium that accrues during the period of ownership. As a result, an owner may realize taxable gain for federal income tax purposes from the sale or other disposition of a Premium Bond for an amount equal to or less than the amount paid by the owner for that Premium Bond. A purchaser of a Premium Bond in the initial public offering at the price for that Premium Bond stated on the cover of this Official Statement who holds that Premium Bond to maturity (or, in the case of a callable Premium Bond, to its earlier call date that results in the lowest yield on that Premium Bond) will realize no gain or loss upon the retirement of that Premium Bond.

**Owners of Premium Bonds should consult their own tax advisers as to the determination for federal income tax purposes of the amount of bond premium properly accruable or amortizable in any period with**

**respect to the Premium Bonds and as to other federal tax consequences and the treatment of bond premium for purposes of state and local taxes on, or based on, income.**

### **CERTAIN LEGAL MATTERS**

Legal matters incident to the issuance of the Bonds by the Corporation are subject to the approval of Squire, Sanders & Dempsey 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**

Public Resources Advisory Group 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 17 of "Notes to the Basic Financial Statements" included in APPENDIX B, which discusses this liability as of June 30, 2008. 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 rating agencies 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. In order to obtain such ratings, the County furnished certain information and materials to the rating agencies, some of which has not been included in this Official Statement. Generally, rating agencies base their ratings on such information and materials and their own investigation, studies and assumptions. There is no assurance that any of the ratings will be maintained for any given period of time or that they will not be revised downward, suspended or withdrawn entirely by a rating agency if, in its judgment, circumstances so warrant. The County undertakes no responsibility to oppose any such revision, suspension or withdrawal. Any such downward revision, suspension or withdrawal of the ratings obtained or other actions by a rating agency relating to its rating may have an adverse effect on the market price of the Bonds.

The County expects to furnish to each rating agency such information and materials as it may request. The County, however, assumes no obligation to furnish requested information and materials, and may issue debt for which a rating is not requested. The failure to furnish requested information and materials, or the issuance of debt for which a rating is not requested, may result in the suspension or withdrawal of a rating on the Bonds.

#### **CONTINUING DISCLOSURE**

Pursuant to a Continuing Disclosure Certificate (the “Disclosure Certificate”), the County has covenanted for the benefit of Bondowners to provide certain financial information and operating data relating to the County by not later than February 1<sup>st</sup> of each year, commencing February 1, 2010, for the prior fiscal year, in the form of an annual report (the “Annual Report”), and to provide notices of the occurrence of certain enumerated events, if deemed by the County to be material. The Annual Report and notices of material events will be filed by the County with the MSRB through the MSRB’s Electronic Municipal Market Access system (“EMMA”). Information about and filing made with EMMA can be found at <http://emma.msrb.org>. The specific nature of the information to be contained in the Annual Report or the notices of material events and certain other terms of the County’s continuing disclosure obligations are set forth in Appendix E — “FORM OF CONTINUING DISCLOSURE CERTIFICATE.” These covenants have been made in order to assist the underwriters in complying with Rule 15c2-12. In the last five years, the County has not 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.

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



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**APPENDIX A**

**COUNTY OF LOS ANGELES INFORMATION STATEMENT**

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# THE COUNTY OF LOS ANGELES

## Information Statement

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### GENERAL INFORMATION

The County of Los Angeles (the "County") 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 10.4 million in 2009, 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 mandates, 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 elected officials of the County. As a result, each Supervisor is now limited to serving three consecutive terms commencing as of December 2002.

On March 27, 2007, the Board of Supervisors amended the County Code by adopting the Interim Governance Structure Ordinance. This new governance structure delegates to the Chief Executive Office (the "CEO") additional responsibilities for the administration of the County, including the oversight, evaluation and recommendation for appointment and removal of specific Department Heads and County Officers. The five departments that continue to report directly to the Board of Supervisors (rather than to the CEO) are the Fire Department, Auditor-Controller, County Counsel, Executive Officer of the Board of Supervisors, and the CEO. The change in administrative structure was designed to improve the operational efficiency of County governance. The Board of Supervisors has retained the exclusive responsibility for establishing County policy, regulations, and organizational directions.

### COUNTY SERVICES

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, this plan is designed to allow cities to contract for municipal services without incurring the cost of creating numerous city departments and facilities. Under the Contract Services 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.

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. More than 700,000 residents of the County are currently receiving 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 contract 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. Another high-profile general government service is the County's voter registration and election system, which provides services to an estimated 4.1 million registered voters and maintains 5,000 voting precincts for countywide elections.

### *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-seven (57) 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 9 unions) or by one of seven independent unions. Under labor relations policy direction from the Board of Supervisors and Chief Executive Officer, the CEO Employee Relations Division negotiates fifty-seven (57) individual Collective Bargaining Agreements and two Fringe Benefit Agreements. The Fringe Benefit Agreements reached with the Coalition of County Unions and SEIU Local 721 had a term of three years, which recently expired on September 30, 2009.

In October 2006, the County announced a 3-year contract with SEIU Local 721, which currently covers over 79,000 County employees. Under the terms of the agreement, SEIU Local 721 members received 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 SEIU Local 721 group, the Registered Nurses, negotiated a new classification and salary structure that resulted in some employees receiving raises substantially higher than 15.5%.

The County recently announced that it had reached tentative agreements with the Coalition of County Unions and SEIU Local 721. The new labor agreements, which are set to expire on September 30, 2011, require County employees to forego any cost of living increases through the remaining 2-year contract term, and the County to increase its contribution for employee health care by 8% in fiscal year 2009-10 and 7% in 2010-11. The fringe benefits package, as well as some of the collective bargaining agreements, still requires ratification by union members and approval by the Board of Supervisors. However, no significant opposition is expected.

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 extended through January 2009. These contracts resulted in salary increases totaling up to 18.5% over the three-year contract term. 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.

On March 3, 2009, the Board of Supervisors approved amendments to several Memoranda of Understanding (MOU) with the public safety unions extending their contracts for an additional 2-year period through December 31, 2010 or January 31, 2011. By consenting to these amendments, the public safety unions provided for the continuation of their existing salaries and agreed to forego any cost-of-living adjustments for the remaining term of the MOU.

## **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. The 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 have the option to participate in a contribution based defined benefit plan or a non-contribution based plan. In the contribution based plans (Plans A, B, C & D), employees contribute a fixed percentage of their monthly earnings to LACERA based on rates determined by LACERA's actuary. The contribution rates depend upon age, the date of entry into the plan and the type of membership (general or safety). County employees who began their employment after January 4, 1982 also have the option to participate in Plan E, which is a non-contribution based plan. The contribution based

plans (A through D) have higher monthly benefit payments for retirees compared to Plan E.

LACERA's membership total as of June 30, 2008 was 158,676. This membership consisted of 63,760 active vested members, 30,732 non-vested active members, 52,350 retired members and 11,834 terminated vested (deferred) members.

#### *Actuarial Valuation*

The Retirement Law requires the County to 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 (the "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. However, the amortization method is only one of multiple factors that affect the UAAL. Other factors such as investment returns, changes in actuarial assumptions and benefit increases may cause an increase or decrease in the UAAL.

Beginning with Fiscal Year 2006-07, the investment board of LACERA (the "Board of Investments") adopted a new series of economic and demographic assumptions to be used in LACERA's actuarial valuations. The economic assumptions for the investment return rate, wage growth rate and price inflation were set at 7.75%, 3.75% and 3.50%, respectively. 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 the new actuarial assumptions was to increase both the Actuarial Accrued Liability ("AAL") for the Plan and the total County contribution rate. In Fiscal Year 2007-08, the assumed wage growth rate was increased from 3.75% to 4.00%. The economic and demographic assumptions remain unchanged for Fiscal Year 2008-09.

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. For the next actuarial valuation as of June 30, 2009, the County and LACERA anticipate changing to a 5-year "smoothing" period for recognizing investment gains and losses in calculating the UAAL.

#### *UAAL and Deferred Investment Returns*

The most recent annual actuarial valuation by Milliman Consultants and Actuaries was completed on December 2, 2008 for the fiscal year ending June 30, 2008. In Fiscal Year 2007-08, the rate of return on Retirement Fund assets was negative 1.5%, which is significantly less than the assumed rate of 7.75%. However, deferred gains of \$1.8 billion recognized from 2005-06 and 2006-07 more than offset this loss, resulting in a \$429 million gain on actuarial assets and a corresponding increase in the Funded Ratio from 93.8% to 94.5% as of June 30, 2008.

The June 30, 2008 Actuarial Valuation reported that the actuarial accrued liability increased by 6.26% to \$41.976 billion. Despite the increase in actuarial liabilities, the UAAL decreased by \$147 million from \$2.460 billion on June 30, 2007 to \$2.313 billion on June 30, 2008. The 6.0% decrease in UAAL was primarily driven by higher than assumed investment returns over the last three years and a small reduction in the mortality rates of Plan members. These factors were partially offset by higher than expected salary increases for active Plan members in Fiscal Year 2007-08. A six-year history of the County's UAAL is provided in Table 1 ("Retirement Plan UAAL and Funded Ratio") on page A-7.

The County's required contribution rate will decrease from 12.40% of covered payroll in Fiscal Year 2008-09 to 12.08% for 2009-10. The reduction in the overall contribution rate was comprised of a decrease in the funding requirement to finance the UAAL over 30 years from 2.24% to 1.99%; and a reduction in the normal cost contribution rate from 10.16% to 10.09%. The reduction in the required contribution rate was primarily driven by net actuarial investment gains over the last three years, which was partially offset by greater than expected salary increases for active Plan members.

In addition to the investment gains recognized for the June 30, 2008 actuarial valuation, the Actuarial report also identified a net deferred investment loss in the amount of \$1.829 billion that will be "smoothed" into the UAAL calculation over the next two fiscal years. This deferred loss carry-forward includes the remaining one-third balance of the un-recognized gain attributable to the 19.1% return on Plan investments in Fiscal Year 2006-07, and two-thirds of the 1.5% investment loss in Fiscal Year 2007-08. A summary of investment returns for the prior six years is presented in Table 2 ("Investment Return on Retirement Plan Assets") on page A-7.

As a result of the severe economic downturn in Fiscal Year 2008-09, LACERA is reporting a negative 18.2% return on Plan assets for the fiscal year ended June 30, 2009. This result is below LACERA's benchmark rate of return of negative 14.4% and reflected the significant challenges faced by investors in the previous fiscal year. As of June 30, 2009, the asset allocation percentages for the Retirement Plan were 28.7% domestic equity, 20% international equity, 29% fixed income, 11.4% real estate, 8.7% private equity, 1% cash and 1.2% commodities.

The investment losses recognized by LACERA during Fiscal Year 2008-09 will have a major impact on future contribution rates to the Retirement Plan. Assuming that the County and LACERA adopt a 5-year "smoothing" period for investment gains and losses in the next actuarial valuation, the employer contribution to LACERA is projected to increase by approximately \$170 million for Fiscal Year 2010-11.

## *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.

## *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 annual required contribution to LACERA in each of the last twelve years. In Fiscal Year 2007-08, the County's total contribution to the Retirement Fund was \$827.8 million. This amount was funded entirely from the County General Fund and did not include any transfers from the County's excess earnings reserve ("Excess Earnings"). Total payments by the County for Fiscal Year 2008-09 were \$805.1 million and did not include any contribution from Excess Earnings. For Fiscal Year 2009-10, the County is budgeting \$801.8 million for the County contribution to the LACERA Retirement Fund. A summary of employer contributions for the seven years ended June 30, 2009 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 fund all or a portion of its annually required contribution to LACERA. The County's Excess Earnings were generated as a result of an agreement between the County and LACERA, which allowed the County to share in Retirement Plan earnings (through June 30, 1998) in excess of the actuarial assumed rate of return. 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 to the Retirement Plan. The required contribution for Fiscal Year 2007-08 represented the first year that Excess Earnings were not used to fund the County's required contribution. The remaining balance of Excess Earnings available to the County for retirement program costs is approximately \$470 million as of June 30, 2009.

With a strong cash position at the beginning of Fiscal Years 2007-08 and 2008-09, the County decided to prepay \$400 million of its annual required contribution to LACERA. The payments were made in July of each year and served to greatly reduce monthly transfers during the second half of the fiscal year. In Fiscal Year 2009-10, the County has returned to its historical practice of making payments to LACERA for the required contribution on a monthly basis throughout the fiscal year.

## *Pension Obligations*

In California, the obligation of the County to fund the UAAL by making actuarially required contributions is an obligation

imposed by State Law. The County has previously issued pension obligation bonds and certificates and transferred the proceeds to LACERA to reduce its UAAL. As of October 1, 2009, the County had outstanding pension obligations in the aggregate principal amount of \$235.7 million. This amount includes \$117.2 million, which was deposited with the trustee in advance, but will not be disbursed to bondholders until June 30, 2010. The final payment on these pension obligations will occur 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-8.

## *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. As of June 30, 2008, \$629.1 million was available in the STAR Program Reserve to fund future benefits. The 2002 Agreement requires the recognition of the STAR Program Reserve as valuation assets to the extent that it is not needed for STAR Program payments, and that the amount recognized can only be used to bring the funded status of the Retirement Plan up to 100%. Of the \$629.1 million in STAR Program reserves, \$15.1 million was allocated for the payment of STAR Program benefits and \$614 million was accounted for as a valuation asset and used in the calculation of the June 30, 2008 UAAL. The current policy with respect to the STAR Program reserve terminated as of the June 30, 2009 actuarial valuation and is subject to ongoing negotiations with LACERA. If the \$614 million was not included in the Retirement Plan's valuation assets, the recommended County contribution rate would have increased by approximately \$40 million, and the funded ratio of the Retirement Program would have decreased by 1.5% to 93.0%.

## *Postemployment Health Care Benefits*

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 postemployment 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 HBP-related payments are calculated based on the employment service credit of retirees, survivors, and dependents. For eligible members with 10 years of service credit, the County pays 40% of the health care plan premium. For each year of service credit beyond 10 years, the County pays an additional 4% of the plan premium, up to a maximum of 100% for a member with 25 years of service credit.

For Fiscal Year 2005-06, total HBP-related payments from the County to LACERA were \$307.1 million. This amount included a \$66.2 million contribution from the County's Excess Earnings. For Fiscal Year 2006-07, the County made HBP-related payments of \$317.1 million, of which \$40.5 million from Excess Earnings was used to offset a portion of the funding requirement. The growth in post employment benefit payments continued in Fiscal Year 2007-08, with a total County contribution of \$352.0 million, including a \$9.0 million transfer from Excess Earnings. Total HBP-related payments for Fiscal Year 2008-09 were \$365.4 million, with no transfers from Excess Earnings. For Fiscal Year 2009-10, the County budget includes \$397.1 million

in HBP-related payments, without a supplemental contribution from Excess Earnings.

#### *Financial Reporting for Other Postemployment 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.

GASB Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, established 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 ended June 30, 2008.

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. 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. The County has implemented the requirements of GASB 45 in its Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2008.

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 could be amortized over a period not to exceed 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.

In order to comply with the requirements of GASB 43 and 45, 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 Actuarial Accrued Liability ("AAL") 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. The Milliman Report's healthcare cost assumptions were based on discussions with other consultants and actuaries used by the County, LACERA and labor groups.

The Milliman Report determined the AAL for LACERA's healthcare and life insurance benefits using a 5% discount rate and the Projected Unit Credit actuarial cost method. Using this methodology, the AAL for LACERA's OPEB program (including employees of the Los Angeles Superior Court) as of July 1, 2006 was \$21.22 billion, of which approximately \$20.30 billion was the County's share of the liability. The total annual required contribution for the County to fund its OPEB liability, referred to in GASB 45 as the "ARC", as of July 1, 2006 was initially estimated to be \$1.55 billion, which represented approximately 31.2% of the County's payroll costs.

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 liability and there is no mandatory payment associated with the implementation of this standard. 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. Accordingly, for the Fiscal Year ended June 30, 2008, the County reported a total OPEB ARC of \$1.615 billion. This amount also includes the unfunded liability for the County's long-term disability benefits. The total OPEB ARC, when reduced by the \$381 million "pay-as-you-go" County contribution, resulted in a Net OPEB liability of \$1.234 billion for retiree health care and long-term disability benefits as of June 30, 2008.

In accordance with the requirements of GASB 43 and 45, LACERA engaged Milliman Consultants and Actuaries to complete its second OPEB Actuarial Valuation as of July 1, 2008. For the Valuation as of July 1, 2008, Milliman reported an AAL of \$21.86 billion for LACERA's OPEB program (including employees of the Los Angeles Superior Court). The County's share of this liability, \$20.9 billion, represents a 3% increase from the July 1, 2006 Valuation. The OPEB ARC as of July 1, 2008 was estimated to be \$1.66 billion, which represents approximately 28% of the County's payroll costs, and a 7% increase from the ARC reported as of July 1, 2006.

Consistent with the 2006 Valuation, the 2008 OPEB Valuation utilized the Projected Unit Credit Cost Method and a 5% discount rate. The increase in the OPEB AAL from 2006 to 2008 was caused by several factors, some of which were offsetting. Changes related to retirement benefit assumptions increased the AAL, but reduced the ARC as a percentage of payroll to 28% as a result of an increase in the assumed total wage growth from 3.75% to 4% in 2008. Other factors affecting the change in the OPEB Valuation included various assumption changes from the 2008 OPEB Investigation of Experience; cost increases due to the passage of time since the July 1, 2006; demographic changes; and claim cost experience gains, including lower than expected increases in health insurance premiums.

#### *Funding for Other Postemployment Benefits*

The County is considering several funding options to reduce its OPEB AAL. 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 may consider using the approximately \$470 million of remaining Excess Earnings to fund a trust for the payment of future OPEB costs. Beyond these measures, the County may also 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 the development of a specific fiscal policy to pre-fund retiree health benefits. 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 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 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 the Fiscal Year ended June 30, 2009, the County made payments in the amount of \$32.1 million for its long-term DBP.

Following completion of 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 AAL of the County's long-term DBP is \$929 million. The County determined that this liability is an additional OPEB obligation and has included the ARC for long-term DBP obligations as a component of the \$1.615 billion OPEB ARC reported on the June 30, 2008 CAFR. The \$29 million DBP payment in Fiscal Year 2007-08 is accounted for as an offset to the total OPEB ARC in calculating the County's Net OPEB obligation of \$1.234 billion as of June 30, 2008.

#### **LITIGATION**

The County is a party to numerous cases. The following are summaries of the most significant pending proceedings, as reported by the Office of the County Counsel.

#### *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 agreed to

keep Rancho open through March 9, 2009 at a specified level of service. The settlement agreement expired on March 10, 2009, but the County has continued its efforts to identify and negotiate with an organization to assume the future operation of Rancho as was originally required by the settlement agreement. In the meantime, the facility is open and operating. With respect to LAC+USC, the settlement allows for the graduated reduction of beds contingent upon the County providing additional outpatient care on the facility's campus and the facility reaching certain targets showing the efficiency of, and decreased demand on, the hospital.

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 sought damages it alleges to have suffered and would continue to suffer as a result of the determination by the County to not renew its annual \$12 million Affiliation Agreement. Drew University asserted that its damages were approximately \$125 million, based on the assumption of an ongoing relationship with the County. The University and the County settled the matter and the case was dismissed with prejudice by the Court on September 9, 2009.

#### *Wage and Hour Cases*

On August 1, 2008 and September 16, 2008, respectively, two class action lawsuits were filed against the County by the Association for Los Angeles Deputy Sheriffs and the Los Angeles County Professional Peace Officers Association, the unions that represent public safety officers in the Los Angeles County Sheriff's Department and the Office of Public Safety. These class action lawsuits seek to recover compensation for overtime related to performing pre-shift and post-shift employment activities such as the donning and doffing of uniforms and equipment, preparing patrol cars, preparing reports, working through meal times and other such activities which occurred "off the clock." Taken together, there is the potential that the number of claimants could reach 9,000 individuals. These cases are in the early discovery stages.

#### *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. On August 11, 2009, the Board of Supervisors approved a settlement of the case. KPMG has been retained to calculate the settlement amounts for all eligible taxpayers. The estimated payout amount is approximately \$35 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 a new trial was granted in May 2007 and the trial was held in December 2007. In May 2008, the Court overturned the prior summary judgment and ruled in favor of the County. The plaintiff appealed the decision and the Court of Appeals upheld the trial court ruling that the County must comply with the statutory requirements regarding the reconveyance of deeds of trust. The plaintiffs have filed a petition for rehearing. In the *Conner* case, a class action lawsuit, 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 has been stayed pending the final resolution of the *Ricketts* case. There will be no basis for the Connor case to proceed, unless the judgment for the County in the *Ricketts* case is overturned.

In March, 2008, a lawsuit entitled *Natural Resources Defense Counsel v. County of Los Angeles, et al.*, was filed against the County and the Los Angeles County Flood Control District (Flood Control District) under the citizen suit provision of the Federal Clean Water Act. The plaintiffs have identified approximately 274 days of alleged violations and they contend that the violations are ongoing. No cost has yet been determined for the injunctive relief sought, if such relief is ordered. In the event the plaintiffs prevail at trial, they will be entitled to an award of attorney's fees and costs. In March 2009, the County and Flood Control District filed administrative claims under the Government Tort Claims Act against 64 cities and public entities for equitable indemnity and contribution. It is expected that all of the cities and public entities will execute tolling agreements, pending the outcome of the trial scheduled for February 23, 2010.

On July 3, 2008, the County filed a lawsuit, *County of Los Angeles v. Southern California Regional Rail Authority (SCRRA)* seeking declaratory relief against the SCRRA and the Underwriters Lloyd's of London for a declaration that the County does not have a duty to defend nor indemnify SCRRA or Lloyd's for the Metrolink train accident on January 26, 2005. On March 27, 2009, the Court granted the County's Motion for Summary Adjudication, and simultaneously granted Lloyd's Motion for Summary Adjudication, as to one issue. The Court ruled that the County has no obligation to indemnify Metrolink for any settlements or judgments it may pay or suffer in the lawsuits filed in the main derailment litigation. The Court further ruled that the County must reimburse Metrolink for some unspecified amount of its defense costs in the main litigation. The County is currently attempting to conclude this litigation. The only remaining issue is the share of Metrolink's past attorney fees that the County is obligated to contribute.

Since 2005, various lawsuits have been filed against the County alleging that certain classes of employees were not compensated for overtime worked in excess of forty hours per week, as required by the Federal Fair Labor Standards Act ("FLSA"). These lawsuits seek overtime pay for a three-year period, liquidated damages (double damages), attorneys' fees and costs. In 2005, *Ellerd v. County of Los Angeles (Ellerd I)* and *Le v. County of Los Angeles*, involved allegations by 130 adult protective services social workers in the County's Department of Community and Senior Services. Those cases were settled for \$1.475 million in August 2005, and judicially enforced in 2008. Subsequently, beginning in 2007, six (6) additional wage and hour collective actions have been filed by deputy sheriffs and public safety officers, children social workers, adult protective services social workers, and deputy probation officers. These lawsuits are in various stages of early litigation.

In 2008, the City of Alhambra, along with 46 other plaintiff cities, filed a *Petition for Writ of Mandate* against the County alleging that the County and its Auditor-Controller deducted excessive administrative fees from the property tax allocations of the 88 incorporated cities within Los Angeles County. On June 19, 2009, a judgment denying the Writ was entered in favor of the County. The plaintiffs filed a notice of appeal on August 18, 2009.

### *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
06/30/2003	\$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%
06/30/2008	38,724,671	39,662,361	41,975,631	2,313,270	94.49%

Source: Milliman Actuarial Valuation (of LACERA) for June 30, 2008.

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

Fiscal Year	Market Value of Plan Assets	Market Rate of Return
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%
2007-2008	38,724,671	-1.5%

Source: Milliman Actuarial Valuation (of LACERA) for June 30, 2008.

**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
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	751,851	111,775	381,235	1,244,861	2.6%
2007-08	827,789	-	381,603	1,209,392	-2.8%
2008-09	805,100	-	320,339	1,125,439	-6.9%

Source: Milliman Actuarial Valuation (of LACERA) for June 30, 2008 and County of Los Angeles Chief Executive Office.

# BUDGETARY INFORMATION

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## COUNTY BUDGET PROCESS

The County is required by California State Law to adopt a balanced budget by August 30th. Upon release of the Governor's Proposed State Budget in January, the CEO of the County prepares a preliminary forecast of the County budget based on the current year 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 1st, 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 30th. If a Final County Budget cannot be adopted by June 30th, the appropriations approved in the Proposed Budget, with certain exceptions, become effective for the new fiscal year until the final budget is approved.

The CEO generally recommends revisions to the County Budget after adoption of the final State 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.

## COUNTY BUDGET OVERVIEW

The County Budget is comprised of seven (7) fund groups through which the County's resources are allocated and controlled. These groups include the General and Hospital Enterprise (which represents the General County Budget), Special, Special District, Other Enterprise, Other Proprietary, and Other Funds.

The General County Budget accounts for approximately 78.3% of the 2009-10 Final Adopted 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 9.9% of the 2009-10 Final Adopted 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 District Funds account for approximately 8.3% of the

2009-10 Final Adopted 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. Special Districts are governed by the Board of Supervisors and include, among others, Flood Control, Garbage Disposal, Sewer Maintenance and Regional Park and Open Space Districts.

## 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, or a reduction as shown in the consumer price index (or comparable local data), or a decline in 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 certain types of indebtedness approved by the voters.

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 2009-10 is \$16,527,455,483. The 2009-109 County Budget includes proceeds from taxes of \$6,467,455,000, 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 taxes or any increases to local taxes. A challenge to taxes subject to Proposition 62 may only be made for those taxes collected beginning one year before a claim is filed. Such a claim is a necessary prerequisite to the filing of a lawsuit against a public entity in California.

In February 2005 a claim was filed, and it was followed in May 2005 by a lawsuit entitled *Oronoz v County of Los Angeles* that contends the County's Utility User Tax ("UUT") does not meet the requirements of Proposition 62 and is therefore invalid. In November 2006, the trial court certified the case as a class action. In July 2008, the parties agreed to a tentative settlement of the case, which was finally approved by the court in March 2009. The settlement, which is currently in the process of being

implemented, calls for a total expenditure by the County of \$75 million to be used for tax refunds to class members and enhanced services within the areas of the County from which the tax was collected. At the outset of this lawsuit, the County established a separate reserve account to fund any liabilities resulting from the litigation. The reserve is more than sufficient to fully fund the entire \$75 million settlement. In November 2008, the County's utility user tax was approved by the voters in conformity with Proposition 62, thus removing any further concern as to its validity going forward.

On August 11, 2009, a new lawsuit, *Patrick Owens and Patricia Munoz v. County of Los Angeles*, was filed in Los Angeles Superior Court, challenging the imposition of the County's UUT after its passage at the election held on November 4, 2008. The complaint alleges that the impartial analysis prepared by County Counsel failed to inform the voters that: 1) the material provisions of the prior UUT were being rescinded regardless of the outcome of the election; and 2) it was not a "continuation" of an existing tax, but rather was the enactment of a completely new UUT. The County filed a demurrer and motion to strike plaintiffs' complaint on October 16, 2009. A hearing has been set for November 24, 2009. Since the November 4, 2008, election, the County estimates that \$43 million has been collected and continues to be collected at an approximate rate of \$5 million per month. The County has prior UUT reserves, which are sufficient to fund any potential loss from the litigation through May 2010, but intends to re-evaluate the litigation risks after any rulings on dispositive motions.

#### *Proposition 218*

Proposition 218, a 1996 initiative that added Articles XIIC and XIID 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; and
- ensured that voters may reduce or repeal any local taxes, assessments, fees or charges 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. Virgil (Kelley)*, the State Supreme Court suggested that the initiative power under Proposition 218 is not free of all limitations, and could be subject to restrictions imposed by the contract clause of the United States Constitution. No assurance can be given, however, that voters in the County will not, in the future, approve an initiative that reduces or repeals local taxes, assessments, fees or charges that are deposited into the County's General Fund. In addition, "fees" and "charges" are not defined by Article XIIC or SB 919, and the scope of the initiative power under Article XIIC could include all sources of General Fund moneys not received from or imposed by the Federal or State government or derived from investment income.

#### *Proposition 1A 2004*

Proposition 1A 2004, 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 2004 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 2004 were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time, other initiative measures could be adopted, further affecting revenues of the County or the County's ability to expend revenues. The nature and impact of these measures cannot be predicted by the County.

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

A significant portion of the County budget is comprised of revenues received from the Federal and State governments. As indicated in the table "Historical Funding Requirements and Revenue Sources" on page [A-13] of this Appendix A, \$4.7 billion of the \$18.5 billion Final 2009-10 General County Budget is received from the Federal government and \$4.6 billion is funded by the State. The remaining \$9.2 billion balance of County funding is generated from property taxes and a variety of other sources. The fact that 50% of General County funding is provided by the State and Federal governments underscores the County's significant reliance on outside funding sources.

### *American Recovery and Reinvestment Act*

On February 17, 2009, President Obama signed into law the American Recovery and Reinvestment Act (the "ARRA"), a major economic stimulus and fiscal relief package. The ARRA's biggest financial impact to the County comes from the temporary increase in the Federal Medical Assistance Percentage ("FMAP"), which resulted in additional Federal revenue provided for non-administrative Medicaid costs and Title IV-E foster care maintenance and adoption assistance costs. Early estimates indicate that over a 27-month period from October 2008 through December 2010, the County may realize \$441.7 million in additional Federal revenue related to the FMAP increase. This amount includes an estimated \$204.5 million for Fiscal Year 2009-10 for the Departments of Public Social Services (\$82.6 million), Health Services (\$68.9 million), Mental Health (\$49.9 million) and Children and Family Services (\$3.1 million).

The package is also expected to provide the County with funding for the following areas:

- CalWorks Program – \$105.8 million
- Medicaid Disproportionate Share Hospitals - \$5.5 million
- Highway Account Funding - \$32.6 million
- Workforce Investment Act Grants - \$30.8 million
- Older American Nutrition Services - \$1.6 million
- Community Services Block Grant - \$9.8 million
- Byrne Justice Assistance Grants - \$8.9 million

In addition, the ARRA included provisions that would negate prior Federal rules designed to cap Medicaid payments to governmental providers and eliminate payments for interns and residents in those hospitals that train physicians.

### *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 (the "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 in the future. Specifically, a portion of settlement payments have been

withheld (or made under protest) until the courts decide whether California has diligently enforced certain provisions of the MSA relative to the financial obligations of non-participating tobacco manufacturers. In December 2008, the tobacco companies and the state attorneys general reached an agreement to submit this matter to arbitration.

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 2009, the County has received \$1.144 billion in tobacco settlement revenues ("TSRs") and accrued interest, with approximately \$919 million of the collected proceeds disbursed as of June 30, 2009.

The difference between TSRs received and TSRs expended of approximately \$225 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 amounts presently in reserve, 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 (the "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 twenty years, the State budget has experienced broad fluctuations as the State responded to the economic recession of the early 1990's, the economic recovery later in that decade, and the 2001 recession and recovery. The State's budgetary decisions during the current economic downturn will have a significant financial and programmatic impact on counties, cities, and other local jurisdictions.

### *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 the new system, these programs are funded by a one-half of one-percent increase in sales taxes and increased vehicle license fees. Since counties receive their share of the funding for these programs under a fixed formula prescribed by State law, the flow of 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.

#### *Property Tax Shift*

In response to the State's 1993-94 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.

#### *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 the funding of trial court operations, including any increases in operational costs. Counties continue to make annual contributions to the Trial Court Trust Fund, based on each county's funding requirements for court operations in 1994-95. Until transfer of the Superior Court's share of courthouse facilities under the Trial Court Facilities Act of 2002, the counties retained responsibility for facility costs. The County continues to fund local judicial benefits.

The Trial Court Facilities Act (SB1732 of 2002) established a governance structure and procedures for the transfer of responsibility for, and in some cases, legal title to, court facilities from the counties to the State. Any court facility transfer requires an annual county payment based on the average operations and maintenance costs over a five-year base period. The county payments will remain fixed under maintenance-of-effort agreements that have been negotiated between the State and the affected counties for each courthouse transfer. As of December 16, 2008, operational responsibility for all Los Angeles County courthouses was transferred to the State. It is currently anticipated that the legal title to most Los Angeles County courthouses will transfer to the State by the end of 2010.

### **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-year period ended June 30, 2006. After this date, local governments would relinquish \$4.1 billion of Vehicle License Fee (VLF) backfill revenue in return for an equal amount of property tax revenue. 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 Fiscal Year 2006-07. This agreement was codified by the passage of Proposition 1A in the November 2, 2004 election.

#### *Proposition 1A 2004*

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 2004 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.

### **2009-10 STATE BUDGET**

On February 20, 2009, after a three month budget impasse, the State enacted the 2008-09 Special Session Budget Act and the 2009-10 State Budget Act. On July 28, 2009, Governor Schwarzenegger signed the Omnibus Budget Bill, and twenty-seven (27) trailer bills that revised the 2009-10 State Budget enacted in February to resolve a \$24.1 billion State budget deficit. The Governor used his line-item veto authority to reduce spending by an additional \$489.0 million, with a majority of these reductions occurring in health and human services programs. The budget bill also contains \$8.0 billion in other budget solutions achieved through a combination of fund shifts, revenue increases and borrowing primarily from local governments through the suspension of Proposition 1A 2004.

The financial impact of the 2009-10 Revised State Budget Act to County administered programs is estimated to be approximately \$276.7 million. Although there are significant program impacts in the areas of health, public health, mental health and social services, and departmental budgets were reduced, the County did not backfill any State budget reductions with locally generated revenues.

The State's suspension of Proposition 1A 2004 allows for a one-time transfer of an estimated \$305 million in General Fund property taxes and \$60.5 million in Special District property taxes to the State. The budget legislation requires the State to repay the borrowed property tax funds within three years. To mitigate the impact of the property tax transfer on local taxing jurisdictions, the State is planning a bond issuance through the California Statewide Communities Development Authority (CSCDA) prior to the close of calendar year 2009, by securitizing its repayment obligation to local agencies and using bond proceeds to replace the property tax revenues transferred from local agencies. The County and its participating Special Districts will sell their right, title and interest to the Proposition 1A receivable to CSCDA, and are expected to receive approximately \$363.3 million of bond proceeds, in two equal installments in January and May of 2010, to replace the property tax revenue borrowed by the State.

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

### **RECENT COUNTY BUDGETS**

Recent General County Budgets have reflected a conservative

approach and have 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 implementation of a multi-year plan to lessen the County's reliance on surplus investment earnings from LACERA to fund ongoing costs of the retirement program (by substantially increasing the net County cost contribution over the prior ten (10) fiscal years, the County eliminated its use of the surplus investment credit in Fiscal Year 2007-08);
- the allocation of \$870.7 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;
- 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;
- an increase in funding to reopen jail facilities throughout the Sheriff's custody system and to add deputies to increase patrols in the unincorporated areas of the County;
- an increase in funding for the Probation Department to comply with the Department of Justice settlement agreements, redesign camps, restructure camp management and increase administrative and support staff throughout the department; and
- the November 2008 passage of Measure U, the County's utility user tax, which brings the County in conformity with Proposition 62.

County budgets have improved stability due to the passage of Proposition 1A 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 without triggering a constitutional obligation to repay the local taxing agencies within three years, and is further prohibited from a reallocation of local property tax revenues on more than two occasions within a ten-year period. Proposition 1A 2004 guarantees more predictable funding and relief from unfunded mandates. It also provides for the substitution of vehicle license fee funds with property tax revenues, which provides the County with a more reliable funding source, as property taxes have historically been one of the least volatile sources of revenue.

The reliability 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 when a property is sold or when new construction occurs. Assessed valuation can also be adjusted for inflation. As a result, there is a significant amount of "stored" home value appreciation that has not been reflected on the property tax rolls and has helped to offset the significant decrease in property values during the current economic downturn. Although median home prices in the County have declined by over 44% from their peak in August 2007 to December 2008, the Assessor is reporting only a 0.5% decline in the Net Local Roll Value for 2009-10, which represents the total assessed property valuation, less all exemptions.

The largest contributor to the decline in property value is the reassessment of properties under Proposition 8, a constitutional amendment that allows a temporary reduction in assessed value when a property suffers a "decline in value." Proposition 8 reassessments resulted in a \$44.5 billion reduction in total assessed property valuation for 2009-10. A significant factor contributing to this decline is the County Assessor's decision to initiate Proposition 8 reviews of all homes sold between July 2003 and June 2008. This initiative will allow the County's property tax assessment roll to keep pace with the recent changes experienced in the housing market. The 2009-10 property tax roll also reflects the impact of changes in ownership, new construction and inflation, which added \$43.5 billion of additional value. Overall, these adjustments resulted in a \$958 million reduction in the total assessed property valuation for 2009-10.

#### **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. While the DHS Enterprise Fund designation was used in prior years to fund departmental expenses, only a \$39.0 million designation balance is available to fund the departmental operations in the 2009-10 Final Adopted Budget.

To address its projected budgetary shortfall for 2009-10, DHS continues to implement a multi-faceted plan, using an approach which provides the highest quality and most cost-effective service delivery system within available financial resources. DHS has already implemented a number of cost savings and revenue generating initiatives through their Financial Stabilization Plan efforts. The 2008-09 Final Adopted Budget included \$89.9 million in savings related to these initiatives and the 2009-10 Final Adopted Budget increases those savings by \$13.8 million to \$103.7 million. The 2009-10 Final Adopted Budget also includes unspecified net cost reductions of \$95.6 million and new hospital provider fee revenue of \$115 million, for a total of \$210.6 million, which represents the amount needed to close the DHS projected deficit for 2009-10.

AB 1383, the hospital provider fee bill, passed the California State Legislature on September 11, 2009. Just before the end of the session, AB 1383 contained appropriations and urgency clause provisions which required approval by a two-thirds vote of the State Legislature. However, these provisions were removed by the author of the bill due to Senate concerns over the number of bills requiring a two-thirds vote for approval. With

the urgency clause provisions deleted, AB 1383 passed both the Senate and Assembly by a simple majority vote. AB 1383 was signed by the Governor on October 11, 2009. Subsequently, AB 188 was amended to restore the appropriation and urgency clause provisions which were removed from AB 1383. AB 188 passed the Senate and Assembly in October 2009, with more than the required two-thirds vote, and is expected to be signed into law by the Governor.

The hospital provider fee is expected to generate \$2.3 billion annually statewide in matching federal Medicaid dollars through December 2010. DHS is currently estimating that the benefit to the County could range from \$137 to \$240 million in 2009-10 and \$68.5 million in 2010-11, depending on the effective date of the provider fee. The additional revenue from the provider fee would significantly assist DHS in addressing its structural deficit.

DHS is also working with the CEO on additional proposals to address the structural deficit in its operating budget. Furthermore, in anticipation of the expiration of the current Hospital Financial Waiver on June 30, 2010, DHS is actively participating in negotiating the terms of the next Waiver in order to maximize the potential benefits available to the County and other public hospitals. DHS is engaged in a dialogue with other counties, State agencies and various statewide health care organizations in this effort.

The County is committed to continuing its work with the State and other stakeholders to identify other legislative solutions, including possible health reform proposals and funding opportunities, in addition to the FMAP increase included in the Federal economic stimulus package. The continuing focus for DHS is the preservation of County services as a balanced health care delivery system, with the following priority order: trauma and emergency services; acute inpatient care; tertiary care and specialty services; and primary care. DHS will continue to update the Board of Supervisors on the status of current efforts to increase revenues and reduce on-going costs, in order to address the interim adjustment in the 2009-10 Final Adopted Budget.

#### *Martin Luther King Jr. – Harbor Hospital*

On August 10, 2007, the Centers for Medicare and Medicaid Services (“CMS”) notified the County that Martin Luther King, Jr. – Harbor Hospital (“MLK-H”) had lost its Medicare and Medicaid certification. To remedy this situation, MLK-H was converted into a Multi-Service Ambulatory Care Center, while additional inpatient beds were opened at other County hospitals and purchased from the private sector. On October 12, 2007, Governor Schwarzenegger signed into law Senate Bill 474 to establish a \$100 million annual fund, named the South Los Angeles Medical Services Preservation Fund, to stabilize the health services for low-income, under-served residents of South Los Angeles. This fund is limited to a period of three years, or until the hospital re-opens, whichever comes sooner.

Since the closure of MLK-H, the County has been working on various options to provide hospital services at the MLK-H site. In the Spring of 2008, at the direction of the Board of Supervisors, the County approached the University of California (“UC”) to assist in this effort. Since that time, the County and UC have developed a set of common principles including recognition that the hospital: i) would serve as a safety-net provider treating a high volume of Medi-Cal and uninsured patients, ii) be integrated

with the County’s existing network of specialty and primary care ambulatory clinics, and iii) optimize public and private resources to fund services. The County and UC, with the involvement of Governor Schwarzenegger’s Office, are developing plans to create a wholly independent, non-profit 501(c)(3) entity to oversee a hospital at the MLK-H site. Once additional details are agreed upon, the County’s Board of Supervisors and the UC Board of Regents must approve the plan. The County and UC will work with the Governor’s office, the California Health and Human Services Agency and CMS to secure the legislative, regulatory and other programmatic support necessary to this effort. If successful, inpatient services at the MLK-H site could commence in late 2012.

#### *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 with a 73% majority vote. DHS has developed plans to maximize the benefit of the Measure B funds. The 2009-10 Final Adopted Budget includes \$181.2 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. The 2009-10 Final Adopted Budget also includes \$4.0 million in one-time Measure B reserves.

#### **2009-10 FINAL ADOPTED BUDGET**

The 2009-10 Final Adopted Budget, which was approved by the Board of Supervisors on September 22, 2009, appropriates \$23.6 billion, representing a 1.7% increase from the prior year. For General County purposes (General Fund and Hospital Enterprise Fund), the Final Adopted Budget appropriates \$18.5 billion, which represents a 1.8% increase from the 2008-09 Final Adopted Budget. The Final Adopted Budget reflects a net decrease of 1,345 budgeted positions for Fiscal Year 2009-10.

The 2009-10 Final Adopted Budget is shaped largely by the impact of the national economic recession. The County continues to see erosion in a number of key revenue sources, including deed recording fees, deed transfer tax, Proposition 172 sales tax, Program Realignment sales tax, and interest earnings from the County Treasury Pool. In addition, for the first time since the mid 1990s, the Assessor is projecting an overall reduction in assessed property valuation due to the continued decline of housing values. The change in value is primarily driven by the reassessment of properties under Proposition 8, which resulted in a .5% decrease in the Net Local Property Tax Roll for 2009-10. The resulting decrease in property tax revenues is projected to be \$51.5 million.

The rise of unemployment has significantly increased the number of residents seeking public assistance from the County, causing caseloads and costs to increase accordingly. In addition, program cost changes, along with negotiated salary and benefit increases, are also impacting the County budget. All of these demands on the budget created a \$360.6 million net County cost (“NCC”) budget gap. NCC is the portion of the budget that is financed with County discretionary funding.

Below are the major components of the 2009-10 NCC budget gap:

**2009-10 NCC Budget Gap**

Revenue Reductions	\$191.9 million
Assistance Caseload Increases	85.3 million
Net Program Cost Changes	11.7 million
Negotiated Salary and Benefit Increases	57.2 million
Indigent Defense Cost Increases	14.4 million
<b>Projected Budget Gap</b>	<b>\$360.6 million</b>

To close this budget gap the County utilized a three-step balanced approach that combines the use of ongoing funding solutions, one-time funding from reserves and the Federal stimulus funding:

**2009-10 NCC Budget Gap Solutions**

Ongoing Departmental Budget Curtailment	\$162.9 million
One-Time Bridge Funding	115.5 million
Federal Stimulus Funding	77.7 million
Savings Initiatives	4.4 million
<b>Budget Gap Solutions</b>	<b>\$360.6 million</b>

*Departmental Budget Curtailments*

Each County department, with the exception of DHS, was asked to submit a 2009-10 budget request that included NCC reductions throughout the various budget phases. After reviewing the results of the curtailment exercise and weighing the potential impact, the County modified some of the curtailments or eliminated them altogether. The budget curtailments that were included in the 2009-10 Final Adopted Budget resulted in an ongoing NCC budget decrease of \$162.9 million.

*One-Time Bridge Funding*

Bolstered by a strong real estate market and healthy local economy in the early to middle part of this decade, the County was able to set aside funds for a "rainy day" to, among other things, protect against reducing service levels due to temporary revenue shortfalls. The County has proposed that a portion of the funds that were set aside in the economic reserve be used to offset cost increases or revenue losses that are directly related to the cyclical nature of the current economic environment and could be considered short-term in nature.

The County intends to apply one-time bridge funding to address the increase in general relief caseloads and the decline in recording fee revenues. The cost of providing general relief assistance is particularly acute for the County since the General Fund bears the entire cost of providing this assistance. An additional \$26.8 million in one-time funding is also being proposed for the Sheriff's Department in order to retain jail beds and support services while the County works with the Sheriff, the Superior Court and other agencies of the criminal justice system to reduce the jail population in the County.

Since the full extent and duration of the current economic situation remains uncertain, the County continues to be prudent in the use of one-time funding solutions to address budget gaps

to ensure that it does not spend beyond its means. The use of \$115.5 million in bridge funding represents only a portion of the available reserves maintained by the County. An additional \$108.8 million will remain in the "Reserve for Rainy Day Funds" and \$107.3 million is being set aside in a separate budget unit for economic uncertainties.

*Federal Economic Stimulus*

The ARRA, among other things, temporarily increased the FMAP, which is the Federal match rate for non-administrative costs. The FMAP change is projected to temporarily decrease the County's contribution to the In-Home Supportive Services (IHSS) program by \$77.7 million during 2009-10. A change in the FMAP percentage also affects other County administered programs as previously discussed in this Appendix A.

The ARRA also provides a temporary increase of \$105.8 million through the CalWORKS program for transitional subsidized employment programs and \$30.8 million through the Workforce Investment Act program to create employment for adults, youths and dislocated workers. Neither of these program changes, however, will result in NCC budgetary savings.

**2009-10 FINAL ADOPTED BUDGET TABLES**

The 2009-10 Final Adopted Budget is supported by \$3.8 billion in property taxes, \$4.7 billion in Federal contributions, \$4.6 billion in State contributions, \$0.4 billion in cancelled reserves and designations, \$1.7 billion in fund balance and approximately \$3.3 billion in other funding.

The tables on the following pages provide historical detail on General County budget appropriations, along with a summary and comparison of the 2008-09 Final Adopted General County Budget with the 2009-10 Final Adopted General County Budget.

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

<u>Fund</u>	<u>Final 2005-06</u>	<u>Final 2006-07</u>	<u>Final 2007-08</u>	<u>Final 2008-09</u>	<u>Final 2009-10</u>
General Fund	\$ 13,723,601	\$ 14,837,253	\$ 15,981,000	\$ 16,273,308	\$ 16,368,794
Hospital Enterprise Fund	1,963,466	1,773,047	1,818,990	1,897,508	2,121,468
Debt Service Fund	10,290	9,554	-	-	-
<b>Total General County Budget</b>	<b>\$ 15,697,357</b>	<b>\$ 16,619,854</b>	<b>\$ 17,799,990</b>	<b>\$ 18,170,816</b>	<b>\$ 18,490,262</b>

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

	<u>Final 2005-06</u>	<u>Final 2006-07</u>	<u>Final 2007-08</u>	<u>Final 2008-09</u>	<u>Final 2009-10</u>
<b>Requirements</b>					
Social Services	\$ 4,651,813	\$ 4,749,055	\$ 4,991,495	\$ 5,166,283	\$ 5,503,085
Health	4,638,706	4,930,299	5,307,606	5,322,713	5,338,390
Justice	3,826,565	4,177,707	4,499,905	4,719,253	4,693,943
Other	2,580,273	2,762,793	3,000,984	2,962,567	2,954,844
<b>Total</b>	<b>\$ 15,697,357</b>	<b>\$ 16,619,854</b>	<b>\$ 17,799,990</b>	<b>\$ 18,170,816</b>	<b>\$ 18,490,262</b>
<b>Revenue Sources<sup>1</sup></b>					
Property Taxes	\$ 2,744,055	\$ 3,246,500	\$ 3,628,517	\$ 3,840,369	\$ 3,789,308
State Assistance	4,417,274	4,716,625	4,963,934	4,818,285	4,554,097
Federal Assistance	3,986,571	4,091,431	3,963,490	4,104,390	4,730,605
Other Sources	3,637,563	3,492,281	3,537,693	3,598,968	3,702,824
Fund Balance	911,894	1,073,017	1,706,356	1,808,804	1,713,428
<b>Total</b>	<b>\$ 15,697,357</b>	<b>\$ 16,619,854</b>	<b>\$ 17,799,990</b>	<b>\$ 18,170,816</b>	<b>\$ 18,490,262</b>

<sup>1</sup> Amounts for Federal Assistance and State Assistance include charges for services in relation to various programs administered by the County.

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

	<u>Final 2005-06</u>	<u>Final 2006-07</u>	<u>Final 2007-08</u>	<u>Final 2008-09</u>	<u>Final 2009-10</u>
<b>Financing Requirements</b>					
Salaries & Employee Benefits	\$ 7,101,154	\$ 7,701,124	\$ 8,437,462	\$ 8,792,005	\$ 8,974,526
Services & Supplies	4,993,336	5,480,217	5,859,213	6,192,312	6,350,306
Other Charges	3,607,279	3,031,605	3,127,968	3,233,859	3,350,510
Fixed Assets	812,222	1,269,445	1,510,033	1,436,772	1,257,509
Other Financing Uses	1,406,675	1,130,994	1,155,780	985,458	726,958
Residual Equity Transfers Out	291	379	278	181	295
Interbudget Transfers <sup>2</sup>	(2,099,672)	(1,547,962)	(1,643,528)	(1,579,769)	(1,325,677)
Gross Appropriation	\$ 15,821,285	\$ 17,065,802	\$ 18,447,206	\$ 19,060,818	\$ 19,334,427
Less: Intrafund Transfers	769,845	791,309	888,376	912,753	915,868
Net Appropriation	\$ 15,051,440	\$ 16,274,493	\$ 17,558,830	\$ 18,148,065	\$ 18,418,559
Reserves					
General Reserve	\$ 3,747	\$ 3,439	\$ 3,000	\$ 5,400	\$ 3,000
Designations/Other Reserves	641,722	341,871	238,160	17,351	68,703
Estimated Delinquencies	448	51	-	-	-
<b>Total Financing Requirements</b>	<b>\$ 15,697,357</b>	<b>\$ 16,619,854</b>	<b>\$ 17,799,990</b>	<b>\$ 18,170,816</b>	<b>\$ 18,490,262</b>
<b>Available Financing</b>					
Fund Balance	\$ 911,894	\$ 1,073,017	\$ 1,706,356	\$ 1,808,804	\$ 1,713,428
Cancellation of Reserves/Designations	944,318	823,328	478,323	345,500	437,653
Property Tax Revenue	2,744,055	3,246,500	3,628,517	3,840,369	3,789,308
Other Revenue	11,097,090	11,477,009	11,986,794	12,176,143	12,549,873
<b>Total Available Financing</b>	<b>\$ 15,697,357</b>	<b>\$ 16,619,854</b>	<b>\$ 17,799,990</b>	<b>\$ 18,170,816</b>	<b>\$ 18,490,262</b>

<sup>2</sup> This amount includes certain non-program expenditures and revenues that are shown in the budget for accounting purposes. Failure to exclude such amounts (\$1.3 billion in 2009-10) from the above table would imply that there are more resources than actually available and artificially inflate General County appropriations to \$19.8 billion.

Source: Chief Executive Office

**COUNTY OF LOS ANGELES  
GENERAL COUNTY BUDGET  
COMPARISON OF FINAL ADOPTED 2008-09 BUDGET TO FINAL ADOPTED 2009-10 BUDGET  
Net Appropriation: By Function  
(In thousands)**

<b>Function</b>	<b>2008-09 Final Budget <sup>(1)</sup></b>	<b>2009-10 Final Budget <sup>(2)</sup></b>	<b>Difference</b>	<b>Percentage Difference</b>
<b>REQUIREMENTS</b>				
General				
General Government	\$ 899,878.0	\$ 886,467.0	\$ (13,411.0)	-1.49%
General Services	405,109.0	725,775.0	320,666.0	79.16%
Public Buildings	1,473,051.0	1,139,464.0	(333,587.0)	-22.65%
Total General	\$ 2,778,038.0	\$ 2,751,706.0	\$ (26,332.0)	-0.95%
Public Protection				
Justice	\$ 4,456,369.0	\$ 4,409,250.0	\$ (47,119.0)	-1.06%
Other Public Protection	197,283.0	175,759.0	(21,524.0)	-10.91%
Total Public Protection	\$ 4,653,652.0	\$ 4,585,009.0	\$ (68,643.0)	-1.48%
Health and Sanitation	5,248,429.0	5,290,921.0	42,492.0	0.81%
Public Assistance	5,126,974.0	5,457,888.0	330,914.0	6.45%
Recreation and Cultural Services	267,160.0	263,341.0	(3,819.0)	-1.43%
Insurance and Loss Reserve	73,812.0	69,694.0	(4,118.0)	-5.58%
Reserves/Designations	22,751.0	71,703.0	48,952.0	215.16%
Appropriation for Contingency	-	-	-	0.00%
<b>Total Requirements</b>	<b>\$ 18,170,816.0</b>	<b>\$ 18,490,262.0</b>	<b>\$ 319,446.0</b>	<b>1.76%</b>
<b>AVAILABLE FUNDS</b>				
Property Taxes	\$ 3,840,369.0	\$ 3,789,308.0	\$ (51,061.0)	-1.33%
Fund Balance	1,808,804.0	1,713,428.0	(95,376.0)	-5.27%
Cancelled Prior-Year Reserves	345,500.0	437,653.0	92,153.0	26.67%
Intergovernmental Revenues				
State Revenues				
In-Lieu Taxes	\$ 498,823.0	\$ 448,788.0	\$ (50,035.0)	-10.03%
Homeowners' Exemption	20,500.0	20,500.0	-	0.00%
Public Assistance Subventions	1,555,257.0	1,537,677.0	(17,580.0)	-1.13%
Other Public Assistance	565,449.0	484,680.0	(80,769.0)	-14.28%
Public Protection	887,361.0	798,476.0	(88,885.0)	-10.02%
Health and Mental Health	913,481.0	768,723.0	(144,758.0)	-15.85%
Capital Projects	27,334.0	24,841.0	(2,493.0)	-9.12%
Other State Revenues	15,443.0	51,709.0	36,266.0	234.84%
Total State Revenues	\$ 4,483,648.0	\$ 4,135,394.0	\$ (348,254.0)	-7.77%
Federal Revenues				
Public Assistance Subventions	\$ 2,211,086.0	\$ 2,506,961.0	\$ 295,875.0	13.38%
Other Public Assistance	198,674.0	231,167.0	32,493.0	16.35%
Public Protection	147,556.0	180,419.0	32,863.0	22.27%
Health and Mental Health	692,147.0	816,028.0	123,881.0	17.90%
Capital Projects	481.0	20,550.0	20,069.0	4172.35%
Other Federal Revenues	28,322.0	28,515.0	193.0	0.68%
Total Federal Revenues	\$ 3,278,266.0	\$ 3,783,640.0	\$ 505,374.0	15.42%
Other Governmental Agencies	126,963.0	137,213.0	10,250.0	8.07%
Total Intergovernmental Revenues	\$ 7,888,877.0	\$ 8,056,247.0	\$ 167,370.0	
Fines, Forfeitures and Penalties	217,469.0	217,611.0	142.0	0.07%
Licenses, Permits and Franchises	56,952.0	50,528.0	(6,424.0)	-11.28%
Charges for Services	2,413,161.0	2,903,053.0	489,892.0	20.30%
Other Taxes	177,866.0	166,770.0	(11,096.0)	-6.24%
Use of Money and Property	160,022.0	111,825.0	(48,197.0)	-30.12%
Miscellaneous Revenues	473,670.0	418,965.0	(54,705.0)	-11.55%
Operating Contribution from General Fund	788,126.0	624,874.0	(163,252.0)	-20.71%
<b>Total Available Funds</b>	<b>\$ 18,170,816.0</b>	<b>\$ 18,490,262.0</b>	<b>\$ 319,446.0</b>	<b>1.76%</b>

(1) Reflects the Final Adopted 2008-09 General County Budget approved by the Board of Supervisors on October 7, 2008.

(2) Reflects the 2009-10 Final Adopted General County Budget approved by the Board of Supervisors on September 22, 2009.

**COUNTY OF LOS ANGELES**  
**FINAL ADOPTED 2008-09 GENERAL COUNTY BUDGET (1)**  
**Net Appropriation: By Fund and Function**  
**(In thousands)**

Function	General Fund	Hospital Enterprise Fund	Total General County
<b>REQUIREMENTS</b>			
General			
General Government	\$ 899,878.0	\$ -	\$ 899,878.0
General Services	405,109.0	-	405,109.0
Public Buildings	1,473,051.0	-	1,473,051.0
Total General	\$ 2,778,038.0	\$ -	\$ 2,778,038.0
Public Protection			
Justice	\$ 4,456,369.0	\$ -	\$ 4,456,369.0
Other Public Protection	197,283.0	-	197,283.0
Total Public Protection	\$ 4,653,652.0	\$ -	\$ 4,653,652.0
Health and Sanitation			
Public Assistance	\$ 3,350,921.0	\$ 1,897,508.0	\$ 5,248,429.0
Recreation and Cultural Services	5,126,974.0	-	5,126,974.0
Insurance and Loss Reserve	267,160.0	-	267,160.0
Reserves/Designations	73,812.0	-	73,812.0
Appropriation for Contingency	22,751.0	-	22,751.0
	-	-	-
<b>Total Requirements</b>	<b>\$ 16,273,308.0</b>	<b>\$ 1,897,508.0</b>	<b>\$ 18,170,816.0</b>
<b>AVAILABLE FUNDS</b>			
Property Taxes	\$ 3,840,369.0	\$ -	\$ 3,840,369.0
Fund Balance	1,808,804.0	-	1,808,804.0
Cancelled Prior-Year Reserves	234,734.0	110,766.0	345,500.0
Intergovernmental Revenues			
State Revenues			
In-Lieu Taxes	\$ 498,823.0	\$ -	\$ 498,823.0
Homeowners' Exemption	20,500.0	-	20,500.0
Public Assistance Subventions	1,555,257.0	-	1,555,257.0
Other Public Assistance	565,449.0	-	565,449.0
Public Protection	887,361.0	-	887,361.0
Health and Mental Health	872,547.0	40,934.0	913,481.0
Capital Projects	27,334.0	-	27,334.0
Other State Revenues	15,443.0	-	15,443.0
Total State Revenues	4,442,714.0	40,934.0	\$ 4,483,648.0
Federal Revenues			
Public Assistance Subventions	\$ 2,211,086.0	\$ -	\$ 2,211,086.0
Other Public Assistance	198,674.0	-	198,674.0
Public Protection	147,556.0	-	147,556.0
Health and Mental Health	684,579.0	7,568.0	692,147.0
Capital Projects	481.0	-	481.0
Other Federal Revenues	28,322.0	-	28,322.0
Total Federal Revenues	\$ 3,270,698.0	\$ 7,568.0	\$ 3,278,266.0
Other Governmental Agencies			
	126,963.0	-	126,963.0
Total Intergovernmental Revenues	\$ 7,840,375.0	\$ 48,502.0	\$ 7,888,877.0
Fines, Forfeitures and Penalties	217,469.0	-	217,469.0
Licenses, Permits and Franchises	56,826.0	126.0	56,952.0
Charges for Services	1,794,086.0	619,075.0	2,413,161.0
Other Taxes	177,866.0	-	177,866.0
Use of Money and Property	159,739.0	283.0	160,022.0
Miscellaneous Revenues	143,040.0	330,630.0	473,670.0
Operating Contribution from General Fund	-	788,126.0	788,126.0
<b>Total Available Funds</b>	<b>\$ 16,273,308.0</b>	<b>\$ 1,897,508.0</b>	<b>\$ 18,170,816.0</b>

(1) Reflects the Final Adopted 2008-09 General County Budget approved by the Board of Supervisors on October 7, 2008.

**COUNTY OF LOS ANGELES**  
**FINAL ADOPTED 2009-10 GENERAL COUNTY BUDGET (1)**  
**Net Appropriation: By Fund and Function**  
**(In thousands)**

Function	General Fund	Hospital Enterprise Fund	Total General County
<b>REQUIREMENTS</b>			
General			
General Government	\$ 886,467.0	\$ -	\$ 886,467.0
General Services	725,775.0	-	725,775.0
Public Buildings	1,139,464.0	-	1,139,464.0
Total General	\$ 2,751,706.0	\$ -	\$ 2,751,706.0
Public Protection			
Justice	\$ 4,409,250.0	\$ -	\$ 4,409,250.0
Other Public Protection	175,759.0	-	175,759.0
Total Public Protection	\$ 4,585,009.0	\$ -	\$ 4,585,009.0
Health and Sanitation			
Public Assistance	\$ 3,169,453.0	\$ 2,121,468.0	\$ 5,290,921.0
Recreation and Cultural Services	5,457,888.0	-	5,457,888.0
Insurance and Loss Reserve	263,341.0	-	263,341.0
Reserves/Designations	69,694.0	-	69,694.0
Appropriation for Contingency	71,703.0	-	71,703.0
	-	-	-
<b>Total Requirements</b>	<b>\$ 16,368,794.0</b>	<b>\$ 2,121,468.0</b>	<b>\$ 18,490,262.0</b>
<b>AVAILABLE FUNDS</b>			
Property Taxes			
Property Taxes	\$ 3,789,308.0	\$ -	\$ 3,789,308.0
Fund Balance	1,713,428.0	-	1,713,428.0
Cancelled Prior-Year Reserves	398,615.0	39,038.0	437,653.0
Intergovernmental Revenues			
State Revenues			
In-Lieu Taxes	\$ 448,788.0	\$ -	\$ 448,788.0
Homeowners' Exemption	20,500.0	-	20,500.0
Public Assistance Subventions	1,537,677.0	-	1,537,677.0
Other Public Assistance	484,680.0	-	484,680.0
Public Protection	798,476.0	-	798,476.0
Health and Mental Health	728,837.0	39,886.0	768,723.0
Capital Projects	24,841.0	-	24,841.0
Other State Revenues	51,709.0	-	51,709.0
Total State Revenues	4,095,508.0	39,886.0	4,135,394.0
Federal Revenues			
Public Assistance Subventions	\$ 2,506,961.0	\$ -	\$ 2,506,961.0
Other Public Assistance	231,167.0	-	231,167.0
Public Protection	180,419.0	-	180,419.0
Health and Mental Health	813,518.0	2,510.0	816,028.0
Capital Projects	20,550.0	-	20,550.0
Other Federal Revenues	28,515.0	-	28,515.0
Total Federal Revenues	\$ 3,781,130.0	\$ 2,510.0	\$ 3,783,640.0
Other Governmental Agencies	137,213.0	-	137,213.0
Total Intergovernmental Revenues	\$ 8,013,851.0	\$ 42,396.0	\$ 8,056,247.0
Fines, Forfeitures and Penalties	217,611.0	-	217,611.0
Licenses, Permits and Franchises	50,402.0	126.0	50,528.0
Charges for Services	1,730,156.0	1,172,897.0	2,903,053.0
Other Taxes	166,770.0	-	166,770.0
Use of Money and Property	111,652.0	173.0	111,825.0
Miscellaneous Revenues	177,001.0	241,964.0	418,965.0
Operating Contribution from General Fund	-	624,874.0	624,874.0
<b>Total Available Funds</b>	<b>\$ 16,368,794.0</b>	<b>\$ 2,121,468.0</b>	<b>\$ 18,490,262.0</b>

(1) Reflects the 2009-10 Final Adopted General County Budget approved by the Board of Supervisors on September 22, 2009.



# FINANCIAL SUMMARY

## PROPERTY TAX RATE, VALUATION AND LEVY

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

The County of Los Angeles levies a 1% property tax on behalf of all taxing agencies in the County. The taxes collected are allocated on the basis of a formula established by State law. Under this formula, the County and all other taxing entities receive a base year allocation plus an allocation on the basis of "situs" growth in assessed value (new construction, change of ownership, and inflation) prorated among the jurisdictions which serve the tax areas where 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 1st lien date and become delinquent, if unpaid, by August 31st. A ten percent penalty attaches to delinquent property taxes on the unsecured roll, and an additional penalty of one and one-half percent per month begins to accrue on November 1st. 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 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 2009-10 secured tax roll, and the approximate amounts of their aggregate levies for all taxing jurisdictions within the County are shown below. Property owned by the twenty largest taxpayers had a full cash value of \$35,529,923,593 which constitutes only 3.5% of the total full cash value for the entire County.

Taxpayer	Total Tax Levy 2009-10
Southern California Edison Co.	\$ 51,671,145
Douglas Emmett Residential	40,448,687
Maguire Properties	32,863,176
BP West Coast Products	32,274,318
Chevron USA Inc.	28,934,097
Trizechahn Colony Square GP LLC	23,351,074
Exxon Mobil Corporation	21,918,660
Verizon California Inc.	20,344,710
AT&T California	19,181,383
Conoco Phillips Company	18,355,367
Southern California Gas Company	17,880,387
Long Beach Unit	16,854,600
Archstone Smith/Tishman Speyer	15,925,679
Universal Studios LLC	15,476,736
Valero Energy Corporation	13,045,487
Anheuser Busch Inc.	12,212,569
EQP/ERP	11,954,999
ASN Woodland Hills East LLC	11,751,436
Boeing North American Inc.	10,903,535
Tesoro Refining and Marketing Co.	10,846,317
	<b>\$ 426,194,363</b>

Total may not add due to rounding.  
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 2004-05.

COUNTY OF LOS ANGELES  
 COMPARISON OF FULL CASH VALUE  
 PROPERTY TAXATION AND COLLECTIONS  
 FISCAL YEARS 2004-05 THROUGH 2008-09

<b>Fiscal Year</b>	<b>Full Cash Value <sup>(1)</sup></b>	<b>General Fund Secured Property Tax Levies</b>	<b>General Fund Secured Property Tax Collections <sup>(2)</sup></b>	<b>Current Collection As a Percent of Levies %</b>
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	2,348,085,882	2,232,305,540	95.07%
2008-09	1,020,346,376,948	2,503,699,652	2,388,838,218	95.41%

(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.

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 their 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 2004-05 through 2008-09.

COMMUNITY REDEVELOPMENT AGENCY (CRA)  
 PROJECTS IN THE COUNTY OF LOS ANGELES  
 FULL CASH VALUE INCREMENTS AND TAX ALLOCATIONS  
 FISCAL YEARS 2004-05 THROUGH 2008-09

<b>Fiscal Year</b>	<b>Full Cash Value Increments <sup>(1)</sup></b>	<b>Total Tax Allocations <sup>(2)</sup></b>
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	1,167,170,104
2008-09	142,705,432,962	1,279,129,462

(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.

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 in part by interfund borrowings pursuant to Section 6 of Article XVI of the California Constitution. "Interfund borrowing" is borrowing from specific funds of other governmental entities whose funds are held in the County Treasury. Because such borrowings caused disruptions in the General Fund's management of pooled investments, beginning in 1977, the County eliminated the practice of interfund borrowing and instead managed its cash flow needs by issuing tax and revenue anticipation notes (TRANs) for the General Fund and by using intrafund borrowing.

The use of "intrafund borrowing" for General Fund purposes represents borrowing against funds that are held in trust by the County. Such funds, with the exception of the Hospital Enterprise Funds, are held by the County on a pre-apportionment basis until they are eventually distributed to County operating funds (such as the General Fund) or other governmental agencies.

All intrafund borrowings used for General Fund purposes have been repaid by the County in a timely manner. Furthermore, all notes issued in connection with the County's cash management program, with the exception of the 2009-10 TRANs in the aggregate principal amount of \$1.3 billion, issued on July 1, 2009 and maturing on June 30, 2010, were repaid on their respective maturity dates.

**2008-09 Tax and Revenue Anticipation Notes**

Pursuant to California law and a resolution adopted by the Board of Supervisors on May 12, 2009, the \$1.3 billion 2009-10 TRANs are general obligations of the County attributable to the 2009-10 fiscal year and are secured by a pledge of certain unrestricted taxes, income, revenue, cash receipts and other moneys of the County.

Under the Resolution and Financing Certificate executed by the County Treasurer and Tax Collector, the County has pledged to deposit sufficient revenues during the 2009-10 fiscal year into a Repayment Fund for the purpose of repaying the 2009-10 TRANs at maturity. Such deposits are to be made in accordance with the following schedule:

COUNTY OF LOS ANGELES 2009-10 TAX AND REVENUE ANTICIPATION NOTES SCHEDULE OF DEPOSITS TO REPAYMENT FUND*		
Deposit Date		Deposit Amount
December, 2009	\$	403,000,000
January, 2010		351,000,000
February, 2010		130,000,000
March, 2010		104,000,000
April, 2010		344,409,722
<b>Total</b>	<b>\$</b>	<b>1,332,409,722</b>

\* Reflects a 2.5% coupon and \$1.3 billion in 2009-10 Notes.

The County has always fully complied with its deposit obligations with respect to its TRANs program. The following table illustrates the Unrestricted General Fund Receipts collected on a cash flow basis since Fiscal Year 2004-05.

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

	2004-05	2005-06	2006-07	2007-08	2008-09	Estimated* 2009-10
Property Taxes	\$ 2,599,369	\$ 2,933,232	\$ 3,426,681	\$ 3,568,098	\$ 3,867,816	\$ 3,386,499
Other Taxes	181,614	204,889	208,530	176,349	144,945	136,556
Licenses, Permits and Franchises	56,801	56,194	55,523	53,545	52,957	56,386
Fines, Forfeitures and Penalties	214,316	227,104	215,122	239,456	261,477	239,049
Investment and Rental Income	81,391	180,511	273,149	295,191	204,889	168,781
State In-Lieu Taxes	507,114	465,913	471,401	459,242	422,053	407,882
State Homeowner Exemptions	21,558	21,528	21,468	21,765	21,827	21,674
Charges for Current Services	1,243,492	1,314,525	1,474,540	1,516,390	1,671,756	1,551,422
Miscellaneous Revenue, incl. Tobacco Settlement	245,851	251,722	257,391	302,248	262,766	566,946
<b>TOTAL UNRESTRICTED RECEIPTS</b>	<b>\$ 5,151,506</b>	<b>\$ 5,655,618</b>	<b>\$ 6,403,805</b>	<b>\$ 6,632,284</b>	<b>\$ 6,910,486</b>	<b>\$ 6,535,195</b>

Detail may not add due to rounding.

Source: Los Angeles County Auditor-Controller.

\*Reflects a reduction in property tax receipts of \$304.8 million due to the State's suspension of Proposition 1A; and an increase of \$304.8 million in miscellaneous revenue to reflect the County's securitization of this property tax loss.

## **Intrafund and Interfund Borrowing**

To the extent necessary, the County intends to use intrafund (and not interfund) borrowing to cover its 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 tax and revenue anticipation note proceeds are utilized, the General Fund may borrow from three fund groups to meet its cash flow needs. The most significant group is the Property Tax Group, which consists of collected property taxes that are awaiting apportionment. The great majority of these amounts will be distributed to other governmental agencies such as school districts.

The second most significant borrowing source includes the various trust group funds. The largest of these funds 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 outside the County. Also in this group is the Payroll Revolving Fund, which is used as a clearing account for County payroll operations and has a cash balance that consists exclusively (except for a small portion related to the County Superior Court) of advances from funds included in the General County Budget.

The last fund group consists of the Hospital Enterprise Funds. The balances in these funds differs from those in the Property Tax Group and Trust Group in that the Hospital Enterprise Funds are included in the General County Budget. Furthermore, these funds are considered as part of the General Fund for purposes of sizing the County's annual tax and revenue anticipation note financing.

The Hospital Enterprise Funds generally represent working capital advances from the General Fund and cash generated from the County hospitals. At year-end, remaining balances are transferred back to the General Fund. The one exception in this group is the ACO - Equipment Fund, which was established for the purpose of financing hospital equipment purchases at the LAC+USC Medical Center Replacement Facility. It is expected that this fund will be depleted in Fiscal Year 2009-2010 as the LAC+USC Medical Center becomes fully operational.

The average daily balances shown for these intrafund sources are not necessarily indicative of the balances on any given day. The balances in certain funds, such as those in the Property Tax Group, can fluctuate greatly during the month. The General Fund cash balance also 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.*

The tables on pages [A-26 through A-29] provide a monthly summary of the funds available to the County for intafund borrowing in Fiscal Years 2007-08 and 2008-09.

### **General Fund Cash Flow Statements**

The final 2008-09 General Fund Cash Flow Statement and the projected General Fund Cash Flow Statement for 2009-10, with actual amounts through August 2009, are provided on pages [A-31 through A-35]. In Fiscal Year 2008-09, the County had an ending General Fund Cash balance of \$1.1 billion. For Fiscal Year 2009-10, the County is projecting an ending cash balance in the General Fund of \$223.3 million.

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

**2008-09: 12 MONTHS ACTUAL  
2009-10: 03 MONTHS ACTUAL**

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COUNTY OF LOS ANGELES  
 AVERAGE DAILY BALANCES: 2008-09  
 FUNDS AVAILABLE FOR INTRAFUND BORROWING (in thousands of \$)

	July 2008	August 2008	September 2008	October 2008	November 2008	December 2008
<b>PROPERTY TAX GROUP</b>						
Tax Collector's Trust Fund	\$ 126,564	\$ 94,888	\$ 76,340	\$ 374,075	\$ 967,048	\$ 1,363,830
Auditor Unapportioned Money	337,661	107,989	193,737	299,503	799,532	1,395,624
Unsecured Property Tax Fund	175,693	179,464	145,318	178,610	150,532	102,906
Miscellaneous Fees & Taxes	7,859	17,150	36,317	24,785	10,373	9,187
State Redemption Fund - TTC	48,949	89,869	97,167	135,011	110,367	65,466
Educ Rev Augmentation Fund	13,621	9,079	17,982	0	12,927	330,022
State Reimbursement Fund	0	0	0	0	2,378	9,537
Sales Tax Replacement Fund	3,826	17,479	25,677	28,795	29,172	35,207
VLF Replacement Fund	18,238	83,325	122,403	137,267	139,334	172,441
Rebate Fund	(2,447)	(15,199)	(17,171)	(29,115)	(33,056)	(17,707)
Subtotal	\$ 729,964	\$ 584,044	\$ 697,770	\$ 1,148,931	\$ 2,188,607	\$ 3,466,513
<b>VARIOUS TRUST GROUP</b>						
Departmental Trust Fund	\$ 420,229	\$ 425,710	\$ 407,662	\$ 377,960	\$ 391,306	\$ 393,812
Payroll Revolving Fund	128,502	117,207	119,631	116,578	102,839	113,427
Asset Dev't Implementation FD	32,224	31,002	30,886	30,977	33,018	35,482
Productivity Investment Fund	9,856	11,529	11,501	11,510	11,363	10,962
ACO Fund-Motor Vehicle/ISD	2,842	2,889	2,921	2,717	2,434	2,415
Civic Center Parking	166	100	185	254	88	126
Reporters Salary Fund	1,001	1,020	734	829	645	800
Cable TV Franchise Fund	7,438	7,070	7,679	7,736	7,738	7,678
Megaflex-Variou	33,835	34,340	34,819	35,207	35,707	36,216
Subtotal	\$ 636,093	\$ 630,867	\$ 616,018	\$ 583,768	\$ 585,138	\$ 600,918
<b>HOSPITAL GROUP</b>						
Harbor/UCLA Medical Center	\$ 3,440	\$ 2,163	\$ 4,838	\$ (1,111)	\$ (2,747)	\$ 660
Olive View Medical Center	(95)	978	(504)	1,211	831	(1,223)
LAC+USC Medical Center	(1,087)	13,972	(2,638)	(443)	5,180	(3,865)
Martin Luther King Jr., Hospital	333	(449)	2,958	171	468	(3,611)
High Desert Hospital	0	0	0	0	0	0
South/West Network Hospital	201	555	401	203	440	(77)
ACO-LAC+USC Med Equip Fund	81,018	75,186	68,163	56,436	50,425	44,464
Subtotal	\$ 83,810	\$ 92,405	\$ 73,218	\$ 56,467	\$ 54,597	\$ 36,348
<b>GRAND TOTAL</b>	<b>\$ 1,449,867</b>	<b>\$ 1,307,316</b>	<b>\$ 1,387,006</b>	<b>\$ 1,789,166</b>	<b>\$ 2,828,342</b>	<b>\$ 4,103,779</b>

Detail may not add due to rounding.

Source: Los Angeles County Auditor-Controller

January 2009	February 2009	March 2009	April 2009	May 2009	June 2009	
<b>PROPERTY TAX GROUP</b>						
\$ 852,978	\$ 448,333	\$ 544,258	\$ 1,190,274	\$ 577,817	\$ 186,923	<b>Tax Collector's Trust Fund</b>
564,782	493,314	392,192	1,407,112	519,568	322,280	<b>Auditor Unapportioned Money</b>
93,154	82,561	81,985	75,401	87,963	110,367	<b>Unsecured Property Tax Fund</b>
8,544	7,563	7,298	7,071	7,288	7,480	<b>Miscellaneous Fees &amp; Taxes</b>
56,341	44,069	40,306	35,585	33,971	37,395	<b>State Redemption Fund - TTC</b>
851	15,494	568	68,442	44,409	549	<b>Educ Rev Augmentation Fund</b>
21,215	1,419	1,419	2,528	23,589	9,819	<b>State Reimbursement Fund</b>
106,918	24,829	32,067	60,627	78,358	118	<b>Sales Tax Replacement Fund</b>
565,848	115,507	155,217	311,895	413,175	650	<b>VLF Replacement Fund</b>
(20,750)	(22,034)	(21,027)	(24,895)	(18,779)	(9,680)	<b>Rebate Fund</b>
<b>\$ 2,249,881</b>	<b>\$ 1,211,055</b>	<b>\$ 1,234,283</b>	<b>\$ 3,134,040</b>	<b>\$ 1,767,359</b>	<b>\$ 665,901</b>	<b>Subtotal</b>
<b>VARIOUS TRUST GROUP</b>						
\$ 416,005	\$ 409,920	\$ 407,761	\$ 402,498	\$ 508,002	\$ 533,356	<b>Departmental Trust Fund</b>
119,751	137,664	143,560	119,254	113,912	134,994	<b>Payroll Revolving Fund</b>
35,638	35,657	35,679	35,900	36,063	36,172	<b>Asset Dev't Implementation FD</b>
10,738	10,586	10,383	10,238	9,738	9,071	<b>Productivity Investment Fund</b>
2,409	2,442	2,424	2,431	2,450	2,439	<b>ACO Fund-Motor Vehicle/ISD</b>
132	69	166	190	182	185	<b>Civic Center Parking</b>
735	895	1,017	1,019	852	895	<b>Reporters Salary Fund</b>
8,138	8,107	8,270	7,886	7,874	7,967	<b>Cable TV Franchise Fund</b>
36,844	37,501	38,110	38,594	39,207	39,855	<b>Megaflex-Various</b>
<b>\$ 630,390</b>	<b>\$ 642,841</b>	<b>\$ 647,370</b>	<b>\$ 618,010</b>	<b>\$ 718,280</b>	<b>\$ 764,934</b>	<b>Subtotal</b>
<b>HOSPITAL GROUP</b>						
\$ 1,164	\$ (165)	\$ 1,649	\$ 841	\$ (1,368)	\$ (930)	<b>Harbor/UCLA Medical Center</b>
224	315	(2,314)	340	1,129	282	<b>Olive View Medical Center</b>
432	888	(468)	(953)	962	(727)	<b>LAC + USC Medical Center</b>
650	(1,027)	(659)	(211)	(4,115)	(355)	<b>Martin Luther King Jr., Hospital</b>
0	0	0	0	0	0	<b>High Desert Hospital</b>
489	(1,828)	(459)	60	292	(2,218)	<b>South/West Network Hospital</b>
36,831	31,915	28,264	11,878	10,979	10,021	<b>ACO-LAC+USC Med Equip Fund</b>
<b>\$ 39,790</b>	<b>\$ 30,098</b>	<b>\$ 26,013</b>	<b>\$ 11,955</b>	<b>\$ 7,879</b>	<b>\$ 6,073</b>	<b>Subtotal</b>
<b>\$ 2,920,061</b>	<b>\$ 1,883,994</b>	<b>\$ 1,907,666</b>	<b>\$ 3,764,005</b>	<b>\$ 2,493,518</b>	<b>\$ 1,436,908</b>	<b>GRAND TOTAL</b>

COUNTY OF LOS ANGELES  
 AVERAGE DAILY BALANCES: 2009-10  
 FUNDS AVAILABLE FOR INTRAFUND BORROWING (in thousands of \$)

	July 2009	August 2009	September 2009	October 2009	November 2009	December 2009
<b>PROPERTY TAX GROUP</b>						
Tax Collector's Trust Fund	\$ 169,018	\$ 58,452	\$ 49,172			
Auditor Unapportioned Money	295,548	215,969	223,660			
Unsecured Property Tax Fund	163,501	83,567	130,418			
Miscellaneous Fees & Taxes	7,289	15,703	36,892			
State Redemption Fund - TTC	60,243	121,910	124,767			
Educ Rev Augmentation Fund	4,278	21,108	0			
State Reimbursement Fund	0	0	0			
Sales Tax Replacement Fund	3,862	13,796	25,841			
VLF Replacement Fund	21,187	75,687	141,762			
Rebate Fund	(6,480)	(23,339)	(25,804)			
Utility User Tax Trust Fund	12,357	17,062	21,399			
Subtotal	\$ 730,803	\$ 599,915	\$ 728,107	\$ -	\$ -	\$ -
<b>VARIOUS TRUST GROUP</b>						
Departmental Trust Fund	\$ 455,977	451,248.0	\$ 412,273			
Payroll Revolving Fund	129,608	122,987.0	125,919			
Asset Dev't Implementation FD	36,271	35,642.0	35,707			
Productivity Investment Fund	8,465	8,440.0	8,454			
ACO Fund-Motor Vehicle/ISD	2,431	2,390.0	2,432			
Civic Center Parking	(11)	68.0	137			
Reporters Salary Fund	998	1,021.0	808			
Cable TV Franchise Fund	7,529	7,497.0	7,989			
Megaflex-Various	40,510	41,067.0	41,577			
Subtotal	\$ 681,778	\$ 670,360	\$ 635,296	\$ -	\$ -	\$ -
<b>HOSPITAL GROUP</b>						
Harbor/UCLA Medical Center	\$ 1,063	\$ 1,261	\$ 2,352			
Olive View Medical Center	1,163	3,887	3,822			
LAC+USC Medical Center	(2,893)	4,128	(265)			
Martin Luther King Jr., Hospital	(1,164)	(2,512)	1,459			
High Desert Hospital	0	0	0			
South/West Network Hospital	77	(1,758)	317			
ACO-LAC+USC Med Equip Fund	9,607	9,544	9,276			
Subtotal	\$ 7,853	\$ 14,550	\$ 16,961	\$ -	\$ -	\$ -
<b>GRAND TOTAL</b>	<b>\$ 1,420,434</b>	<b>\$ 1,284,825</b>	<b>\$ 1,380,364</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

Detail may not add due to rounding.

January 2010	February 2010	March 2010	April 2010	May 2010	June 2010	
						<b>PROPERTY TAX GROUP</b>
						Tax Collector's Trust Fund
						Auditor Unapportioned Money
						Unsecured Property Tax Fund
						Miscellaneous Fees & Taxes
						State Redemption Fund - TTC
						Educ Rev Augmentation Fund
						State Reimbursement Fund
						Sales Tax Replacement Fund
						VLF Replacement Fund
						Rebate Fund
						Utility User Tax Trust Fund
\$	-	\$	-	\$	-	Subtotal
						<b>VARIOUS TRUST GROUP</b>
						Departmental Trust Fund
						Payroll Revolving Fund
						Asset Dev't Implementation FD
						Productivity Investment Fund
						ACO Fund-Motor Vehicle/ISD
						Civic Center Parking
						Reporters Salary Fund
						Cable TV Franchise Fund
						Megaflex-Variou
\$	-	\$	-	\$	-	Subtotal
						<b>HOSPITAL GROUP</b>
						Harbor/UCLA Medical Center
						Olive View Medical Center
						LAC + USC Medical Center
						Martin Luther King Jr., Hospital
						High Desert Hospital
						South/West Network Hospital
						ACO-LAC+USC Med Equip Fund
\$	-	\$	-	\$	-	Subtotal
\$	-	\$	-	\$	-	<b>GRAND TOTAL</b>



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

**2008-09: 12 MONTHS ACTUAL  
2009-10: 03 MONTHS ACTUAL**

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**COUNTY OF LOS ANGELES**  
**GENERAL FUND CASH FLOW ANALYSIS**  
**FISCAL YEAR 2008-09**  
(in thousands of \$)

	July 2008	August 2008	September 2008	October 2008	November 2008	December 2008
<b>BEGINNING BALANCE</b>	\$ 1,492,772	\$ 993,620	\$ 499,949	\$ 378,335	\$ (128,888)	\$ (372,232)
<b>RECEIPTS</b>						
Property Taxes	\$ 90,367	\$ 135,010	\$ 275	\$ -	\$ 80,919	\$ 982,916
Other Taxes	17,662	1,639	16,739	21,056	3,959	17,960
Licenses, Permits & Franchises	2,792	7,185	2,034	4,916	887	1,311
Fines, Forfeitures & Penalties	39,206	23,819	13,363	14,480	26,157	12,332
Investment and Rental Income	31,156	33,095	13,005	12,147	20,360	9,589
Intergovernmental Revenue	338,883	163,152	415,093	279,726	385,769	291,694
Charges for Current Services	159,853	110,418	58,249	92,404	115,209	184,708
Misc. Revenue & Tobacco Settlement	(1,932)	44,569	4,281	16,207	5,905	11,592
Transfers & Reimbursements	11,510	0	1,886	64,149	88,891	141,528
Welfare Advances	122,208	167,370	520,424	347,646	228,054	272,471
Other Receipts	177,098	8,529	4,549	7,066	4,515	35,540
Intrafund Transfers	0	0	0	0	0	0
TRANS Sold	500,000	0	0	0	0	6,787
TRANS Reserve	0	0	0	0	0	0
<b>Total Receipts</b>	<b>\$ 1,488,803</b>	<b>\$ 694,786</b>	<b>\$ 1,049,898</b>	<b>\$ 859,797</b>	<b>\$ 960,625</b>	<b>\$ 1,968,428</b>
<b>DISBURSEMENTS</b>						
Welfare Warrants	\$ 182,490	\$ 192,922	\$ 185,187	\$ 295,613	\$ 194,202	\$ 229,519
Salaries & Employee Benefits	1,145,884	557,899	553,453	551,248	552,289	515,466
Services & Supplies and Fixed Assets	426,372	333,922	302,389	335,170	265,419	393,017
Payments to Hospitals & Other Funds	233,209	103,714	130,483	184,989	192,059	273,895
TRANS Pledge Transfer	0	0	0	0	0	155,000
TRANS Repayment	0	0	0	0	0	0
Intrafund Transfer Repayment	0	0	0	0	0	0
<b>Total Disbursements</b>	<b>\$ 1,987,955</b>	<b>\$ 1,188,457</b>	<b>\$ 1,171,512</b>	<b>\$ 1,367,020</b>	<b>\$ 1,203,969</b>	<b>\$ 1,566,897</b>
<b>ENDING BALANCE</b>	<b>\$ 993,620</b>	<b>\$ 499,949</b>	<b>\$ 378,335</b>	<b>\$ (128,888)</b>	<b>\$ (372,232)</b>	<b>\$ 29,299</b>
<b>TRANS Repayment Fund</b>						
Beginning Balance	0	0	0	0	0	0
Receipts	0	0	0	0	0	155,000
Disbursements	0	0	0	0	0	0
Ending Balance	0	0	0	0	0	155,000
*Detail may not add due to rounding.						

	January 2009	February 2009	March 2009	April 2009	May 2009	June 2009	Total 2008 -09
\$	29,299	\$ 557,595	\$ 374,935	\$ 177,162	\$ 663,772	\$ 1,243,173	
\$	831,109	\$ 165,373	\$ 8,546	\$ 769,369	\$ 796,345	\$ 7,587	\$ 3,867,816
	6,290	5,310	29,759	11,185	5,927	7,459	144,945
	1,357	3,989	13,250	9,816	2,002	3,418	52,957
	12,550	31,298	13,307	22,098	39,004	13,863	261,477
	13,916	15,744	9,058	10,325	11,788	24,706	204,889
	247,587	257,952	202,504	231,765	442,421	232,631	3,489,177
	79,637	112,746	286,861	127,489	202,409	141,773	1,671,756
	5,498	17,506	23,311	117,434	8,298	10,097	262,766
	166,254	55,430	9,847	264,158	64,513	234,542	1,102,708
	449,023	203,640	408,080	374,408	286,115	368,445	3,747,884
	8,966	72,652	26,181	6,731	47,648	54,913	454,388
	0	0	0	0	0	0	0
	0	0	0	0	0	0	506,787
	0	0	0	0	0	514,958	514,958
\$	1,822,187	\$ 941,640	\$ 1,030,704	\$ 1,944,778	\$ 1,906,470	\$ 1,614,392	\$ 16,282,508
\$	205,570	\$ 185,507	\$ 221,779	\$ 209,752	\$ 215,415	\$ 214,053	\$ 2,532,009
	507,077	503,642	468,836	501,821	476,382	501,340	6,835,337
	265,802	251,835	335,767	277,690	265,536	325,169	3,778,088
	180,442	133,316	162,095	333,947	369,736	200,518	2,498,403
	135,000	50,000	40,000	134,958	0	0	514,958
	0	0	0	0	0	514,958	514,958
	0	0	0	0	0	0	0
\$	1,293,891	\$ 1,124,300	\$ 1,228,477	\$ 1,458,168	\$ 1,327,069	\$ 1,756,038	\$ 16,673,753
\$	557,595	\$ 374,935	\$ 177,162	\$ 663,772	\$ 1,243,173	\$ 1,101,528	
	155,000	290,000	340,000	380,000	514,958	514,958	0
	135,000	50,000	40,000	134,958	0	0	514,958
	0	0	0	0	0	512,465	512,465
	290,000	340,000	380,000	514,958	514,958	2,493	2,493

**COUNTY OF LOS ANGELES**  
**GENERAL FUND CASH FLOW ANALYSIS**  
**FISCAL YEAR 2009-10**  
(in thousands of \$)

	July 2009	August 2009	September 2009	Estimated October 2009	Estimated November 2009	Estimated December 2009
<b>BEGINNING BALANCE</b>	\$ 1,101,527	\$ 1,594,708	\$ 1,086,472	\$ 841,446	\$ 484,761	\$ 102,017
<b>RECEIPTS</b>						
Property Taxes	\$ 79,583	\$ 115,075	\$ 376			
Other Taxes	5,528	9,741	7,515			
Licenses, Permits & Franchises	1,415	5,760	4,800			
Fines, Forfeitures & Penalties	34,446	26,342	13,649			
Investment and Rental Income	23,307	10,478	9,500			
Intergovernmental Revenue	213,096	187,108	254,172			
Charges for Current Services	139,195	129,588	86,544			
Misc. Revenue & Tobacco Settlement	14,875	7,254	6,702			
Transfers & Reimbursements	59,314	0	34,025			
Welfare Advances	291,585	110,732	505,340			
Other Receipts	93,439	10,520	4,654			
Intrafund Transfers	0	0	0			
TRANS Sold	1,300,000	0	0			
TRANS Reserve	0	0	0			
Total Receipts	\$ 2,255,783	\$ 612,598	\$ 927,277	\$ 1,023,175	\$ 821,777	\$ 1,923,600
<b>DISBURSEMENTS</b>						
Welfare Warrants	\$ 192,946	\$ 228,934	\$ 187,924			
Salaries & Employee Benefits	922,965	439,641	578,787			
Services & Supplies and Fixed Assets	439,626	269,209	287,226			
Payments to Hospitals & Other Funds	207,065	183,050	118,366			
TRANS Pledge Transfer	0	0	0			
TRANS Repayment	0	0	0			
Intrafund Transfer Repayment	0	0	0			
Total Disbursements	\$ 1,762,602	\$ 1,120,834	\$ 1,172,303	\$ 1,379,860	\$ 1,204,521	\$ 1,816,354
<b>ENDING BALANCE</b>	\$ 1,594,708	\$ 1,086,472	\$ 841,446	\$ 484,761	\$ 102,017	\$ 209,263
<b>TRANS Repayment Fund</b>						
Beginning Balance	0	0	0	0	0	0
Receipts	0	0	0	0	0	403,000
Disbursements	0	0	0	0	0	0
Ending Balance	0	0	0	0	0	403,000

\*Detail may not add due to rounding.

Estimated January 2010	Estimated February 2010	Estimated March 2010	Estimated April 2010	Estimated May 2010	Estimated June 2010	Estimated Total 2009 -010
\$ 209,263	\$ 515,164	\$ 376,117	\$ 37,962	\$ (203,298)	\$ 374,454	
\$ 1,954,299	\$ 1,037,730	\$ 976,950	\$ 1,535,091	\$ 1,880,689	\$ 2,437,338	\$ 17,386,307
\$ 1,648,398	\$ 1,176,777	\$ 1,315,105	\$ 1,776,351	\$ 1,302,937	\$ 2,588,469	\$ 18,264,511
\$ 515,164	\$ 376,117	\$ 37,962	\$ (203,298)	\$ 374,454	\$ 223,323	
403,000	754,000	884,000	988,000	1,332,410	1,332,410	0
351,000	130,000	104,000	344,410			1,332,410
0	0	0	0	0	1,332,410	1,332,410
754,000	884,000	988,000	1,332,410	1,332,410	0	0

## 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 September 30, 2009 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:

<b>Local Agency</b>	<b>Invested Funds (in Billions)</b>
County of Los Angeles and Special Districts	\$6.676
Schools and Community Colleges	10.183
Independent Public Agencies	2.291
<b>Total</b>	<b>\$19.150</b>

Of these entities, the involuntary participants accounted for approximately 88.04% and all discretionary participants accounted for 11.96% 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 March 31, 2009, 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 October 29, 2009, the September 30, 2009 book value of the Treasury Pool was approximately \$19.150 billion and the corresponding market value was approximately \$19.272 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 following table identifies the types of securities held by the Treasury Pool as of September 30, 2009:

<b>Type of Investment</b>	<b>% of Pool</b>
U.S. Government and Agency Obligations	46.08
Certificates of Deposit	16.32
Commercial Paper	32.88
Bankers Acceptances	0.00
Municipal Obligations	0.21
Corporate Notes & Deposit Notes	4.51
Asset Backed Instruments	0.00
Repurchase Agreements	0.00
Other	0.00

The Treasury Pool is highly liquid. As of September 30, 2009 approximately 46.27% of the investments mature within 60 days, with an average of 538.03 days to maturity for the entire portfolio.

The County complements its conservative investment policies with a well established practice of market research and due diligence. During Fiscal Year 2008-09, the Treasury Pool has not experienced a single investment loss. Furthermore, the County Investment Officer has never purchased any structured investment vehicles nor any securities with material exposure to sub-prime mortgages. The Treasury Pool also was unaffected by the September 2008 bankruptcy of Lehman Brothers and did not have any outstanding investments in Lehman Brothers during Fiscal Year 2008-09.

## 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, 2008, 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.

The County's budget is prepared in accordance with the County Budget Act prior to the issuance of GAAP financial statements. The 2008-09 County Budget has been adopted and included an available (unreserved and undesignated) fund balance of \$1,808,804,000 as of June 30, 2008 for the General Fund.

The amounts presented for the General Fund in accordance with GAAP are based on the modified accrual basis of accounting and differ from the amounts presented on a budgetary basis of accounting. The major areas of difference are as follows:

- General Fund obligations for accrued vacation and sick leave and estimated liabilities for litigation and self-insurance are recorded as budgetary expenditures to the extent that they are estimated to be payable within one year after year-end. Under the modified accrual basis of accounting, such expenditures are not recognized until they become due and payable in accordance with GASB Interpretation No. 6.
- Under the budgetary basis, revenues (primarily intergovernmental) are recognized at the time

encumbrances are established for certain programs and capital improvements. The intent of the budgetary policy is to match the use of budgetary resources (for amounts encumbered but not yet expended) with funding sources that will materialize as revenues when actual expenditures are incurred. Under the GAAP basis, revenues are not recognized until the qualifying expenditures are incurred.

- Under the budgetary basis, property tax revenues are recognized to the extent that they are collectible within one year after year-end. Under the GAAP basis, property tax revenues are recognized only to the extent that they are collectible within 60 days.
- For budgetary purposes, investment income is recognized prior to the effect of changes in the fair value of investments. Under the GAAP basis, the effects of such fair value changes have been recognized.
- In conjunction with the sale of Tobacco Bonds, the County sold a portion of its future tobacco settlement revenues. Under the budgetary basis, the bond proceeds are recognized as revenues. Under the modified accrual basis, the bond proceeds are recorded as a sale of future revenues and are being recognized over the duration of the sale agreement, in accordance with GASB Statement No. 48. This matter is also

discussed in Note 10 to the 2007-08 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.
- In conjunction with implementing GASB 45, the County determined that certain assets were held by LACERA (the OPEB Agency) in an OPEB Agency Fund. For budgetary purposes, any excess payments (beyond the pay-as-you-go amount) are recognized as expenditures. Under the modified accrual basis, the expenditures are adjusted to recognize the OPEB Agency assets at June 30, 2008.

The following table provides a reconciliation of the General Fund's June 30, 2008 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 2003-04 and provide a history of revenue and expenditure statement for the General Fund over the same period.

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COUNTY OF LOS ANGELES  
GENERAL FUND  
RECONCILIATION OF FUND BALANCE FROM BUDGETARY TO GAAP BASIS  
JUNE 30, 2008 (in thousands of \$)

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Actual Available (Unreserved and Undesignated) Fund Balance - Budgetary Basis	\$	1,808,804
Adjustments:		
Accrual of budgetary liabilities for litigation and self-insurance claims not required by GAAP		106,239
Recognition of Assets held by LACERA for future OPEB benefits		111,695
Accrual of liabilities for accrued vacation and sick leave not required by GAAP		36,766
Change in revenue accruals related to encumbrances		(22,649)
Deferral of property tax receivables		(135,696)
Deferral of unearned investment income		(6,272)
Deferral of sale of tobacco settlement revenue		(272,797)
Change in fair value of Investments		(1,755)
		<hr/>
Available (Unreserved and Undesignated) Fund Balance - GAAP Basis	\$	1,624,335

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**COUNTY OF LOS ANGELES**  
**BALANCE SHEET AT JUNE 30, 2004, 2005, 2006, 2007 and 2008.**  
**GENERAL FUND-GAAP BASIS (in thousands of \$)**

**ASSETS**

	June 30, 2004	June 30, 2005	June 30, 2006	June 30, 2007	June 30, 2008
Pooled Cash and Investments	\$ 1,767,764	\$ 2,134,177	\$ 2,506,016	\$ 2,668,854	\$ 2,343,525
Other Investments	7,116	6,594	6,502	6,400	6,236
Taxes Receivable	169,996	187,441	208,279	248,095	340,784
Other Receivables	979,784	1,102,712	1,285,684	1,357,683	1,804,965
Due from Other Funds	454,899	556,210	219,448	370,124	357,416
Advances to Other Funds	272,228	445,337	541,699	400,280	571,872
Inventories	29,843	39,713	42,562	42,561	43,906
Total Assets	<u>\$ 3,681,630</u>	<u>\$ 4,472,184</u>	<u>\$ 4,810,190</u>	<u>\$ 5,093,997</u>	<u>\$ 5,468,704</u>

**LIABILITIES**

Accounts Payable	\$ 238,415	\$ 241,753	\$ 272,245	\$ 300,087	\$ 252,794
Accrued Payroll	314,676	328,578	350,421	392,779	472,007
Other Payables	218,132	62,092	67,912	86,055	151,700
Due to Other Funds	615,635	1,001,456	800,615	602,358	561,540
Deferred Revenue	216,796	259,897	275,198	338,714	380,322
Advances Payable	167,613	235,029	286,860	278,023	263,500
Third-Party Payor liability	22,636	16,650	18,661	15,537	12,401
Total Liabilities	<u>\$ 1,793,903</u>	<u>\$ 2,145,455</u>	<u>\$ 2,071,912</u>	<u>\$ 2,013,553</u>	<u>\$ 2,094,264</u>

**EQUITY**

Fund Balance (Deficit)					
Reserved	\$ 350,565	\$ 400,627	\$ 422,055	\$ 478,280	\$ 597,466
Unreserved					
Designated	659,006	1,017,026	1,522,411	1,235,325	1,152,639
Undesignated	878,156	909,076	793,812	1,366,839	1,624,335
Total Unreserved	<u>1,537,162</u>	<u>1,926,102</u>	<u>2,316,223</u>	<u>2,602,164</u>	<u>2,776,974</u>
Total Equity	<u>1,887,727</u>	<u>2,326,729</u>	<u>2,738,278</u>	<u>3,080,444</u>	<u>3,374,440</u>
Total Liabilities and Equity	<u>\$ 3,681,630</u>	<u>\$ 4,472,184</u>	<u>\$ 4,810,190</u>	<u>\$ 5,093,997</u>	<u>\$ 5,468,704</u>

Sources: Comprehensive Annual Financial Reports for fiscal years ended June 30, 2004, 2005, 2006, 2007 and 2008.

COUNTY OF LOS ANGELES

STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
 GENERAL FUND-GAAP BASIS FISCAL YEARS 2003-04 THROUGH 2007-08 (in thousands of \$)

	2003-04	2004-05	2005-06	2006-07	2007-08
<b>REVENUES:</b>					
Taxes	\$ 1,987,861	\$ 2,816,095	\$ 3,217,726	\$ 3,572,932	\$ 3,796,296
Licenses, Permits & Franchises	57,236	58,422	61,080	61,138	58,799
Fines, Forfeitures and Penalties	202,648	220,622	232,762	234,747	251,933
Use of Money and Property	62,919	103,863	226,005	294,511	280,803
Aid from Other Government	7,218,003	6,818,550	7,025,205	7,050,121	7,261,668
Charges for Services	1,221,951	1,272,536	1,357,380	1,467,608	1,695,004
Miscellaneous Revenues	255,183	207,201	211,059	189,636	282,818
<b>TOTAL</b>	<b>\$ 11,005,801</b>	<b>\$ 11,497,289</b>	<b>\$ 12,331,217</b>	<b>\$ 12,870,693</b>	<b>\$ 13,627,321</b>
<b>EXPENDITURES</b>					
General	\$ 657,184	\$ 634,113	\$ 751,214	\$ 854,052	\$ 919,534
Public Protection	3,095,417	3,239,152	3,473,835	3,855,819	4,222,644
Health and Sanitation	1,813,290	1,844,546	2,004,361	2,126,233	2,345,484
Public Assistance	4,203,618	4,257,038	4,333,920	4,410,224	4,619,225
Recreation and Cultural Services	170,171	172,338	197,749	217,221	231,584
Debt Service	239,648	256,826	285,640	294,301	308,207
Capital Outlay	28,312	7,329	22,533	818	97,270
<b>Total</b>	<b>\$ 10,207,640</b>	<b>\$ 10,411,342</b>	<b>\$ 11,069,252</b>	<b>\$ 11,758,668</b>	<b>\$ 12,743,948</b>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 798,161	\$ 1,085,947	\$ 1,261,965	\$ 1,112,025	\$ 883,373
<b>OTHER FINANCING SOURCES (USES):</b>					
Operating Transfers from (to) Other Funds-Net	\$ (639,110)	\$ (657,058)	\$ (874,946)	\$ (771,788)	\$ (780,902)
Sales of Capital Assets	2,634	2,784	1,997	1,111	1,036
Capital Leases	28,312	7,329	22,533	818	97,270
OTHER FINANCING SOURCES (USES)-Net	\$ (608,164)	\$ (646,945)	\$ (850,416)	\$ (769,859)	\$ (682,596)
Excess (Deficiency) of Revenues and other Sources Over Expenditures and Other Uses	\$ 189,997	\$ 439,002	\$ 411,549	\$ 342,166	\$ 200,777
Beginning Fund Balance	1,697,730	1,887,727	2,326,729	2,738,278	3,173,663
Residual Equity Transfers from (to) Other Funds-Net	0	0	0	0	0
<b>Ending Fund Balance</b>	<b>\$ 1,887,727</b>	<b>\$ 2,326,729</b>	<b>\$ 2,738,278</b>	<b>\$ 3,080,444</b>	<b>\$ 3,374,440</b>

Sources: Comprehensive Annual Financial Reports for fiscal years ended June 30, 2004, 2005, 2006, 2007 and 2008.



# 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, 2009, approximately \$972.9 million in intermediate and long-term obligations were outstanding. The General Fund is responsible for repayment of \$358.6 million of the outstanding debt. State and Federal subventions secured \$63.8 million in outstanding obligations. Revenues from special districts, special funds, enterprise funds, and trust funds secured the remaining \$550.5 million in outstanding obligations.

As of July 1, 2009, the General Fund was responsible for only \$179.6 million of the \$480.8 million in payments due in 2009-10 for intermediate and long-term obligations. The table below identifies the funding sources for the debt payments due in 2009-10.

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

#### 2009-10 Payments (As of July 1, 2009)

Funding Source	2009-10 Payment
Total 2009-10 Payment Obligation	\$480,778,916
Less: Sources of Non-General Fund Entities:	
Hospital Enterprise Fund	116,451,559
Courthouse Construction Funds	32,545,578
Special Districts/Special Funds	36,852,887
Trial Court Trust Fund	18,410,756
State & Federal Subventions	96,891,871
<b>Net 2009-10 General Fund Obligation</b>	<b>\$179,626,266</b>

Source: Los Angeles County Chief Executive Office

The County's outstanding General County intermediate and long-term debt declined to \$822.3 million in principal as of October 1, 2009 reflecting debt issuance and payment activity during the fiscal year. An additional \$1.3 billion in Tax and Revenue Anticipation Notes, \$40.0 million in Bond Anticipation Notes, and \$205.5 million in Tax-Exempt Commercial Paper were also outstanding as of October 1, 2009. The following table summarizes the outstanding General County debt and note obligations.

### COUNTY OF LOS ANGELES SUMMARY OF OUTSTANDING PRINCIPAL

As of October 1, 2009 (in thousands)

Type of Obligation	Outstanding Principal
Total County	
Short-Term Obligations:	
Tax and Revenue Anticipation Notes	\$ 1,300,000.0
Bond Anticipation Notes	40,000.0
Intermediate & Long-Term Obligations	
Tax-Exempt Commercial Paper	205,500.0
Pension Obligations (1)	118,486.2
Lease Obligations	703,774.3
<b>Total Outstanding Principal</b>	<b>\$ 2,367,760.5</b>

(1) Does not include \$117.2 million in principal payments that were deposited with trustees in advance, but will not be disbursed to bondholders until June 30, 2010.

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 12, 2009, the County, on July 1, 2009, issued its 2009-10 Tax and Revenue Anticipation Notes in the principal amount of \$1.3 billion, and with a maturity date of June 30, 2010. The 2009-10 Notes are secured by a pledge of the first unrestricted taxes, income, revenue, and cash receipts received by the County during the 2009-10 fiscal year in amounts, and on dates specified in the Cash Management Section of this Appendix A. Deposit obligations to the Repayment Fund for the 2009-10 Notes will be satisfied in full in April 2010.

**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 October 1, 2009, \$40.0 million in BANs remained outstanding. The County expects to pay in full these outstanding BANs with the proceeds of intermediate-term bonds to be issued by LAC-CAL in November 2009.

**INTERMEDIATE AND 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.

**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 (LOC) issued by a consortium of three banks (WestLB AG, Bayerische Landesbank, and JPMorgan Chase Bank) and a sublease of twenty-five 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 of TECP authorized by the Board of Supervisors. Although the LOC agreement is not scheduled to expire until December 15, 2015, the banks have an option to terminate the agreement as of May 1, 2010. As of October 1, 2009, \$205.5 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.

**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 October 1, 2009, the County had approximately \$118.5 million in outstanding bonds and certificates that were issued to finance unfunded actuarial accrued liabilities to its retirement system. Payment of approximately \$117.2 million of these bonds and certificates was provided for in July 2009 by the County for those obligations maturing on June 30, 2010. 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 October 1, 2009, approximately \$688.2 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 2009-10 Budget contains sufficient appropriations to fund its 2009-10 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 0.151% in 2007 to 0.136% in 2008. The following table provides the ratio of the General Fund’s outstanding debt to total assessed valuation over the past ten years.

<b>COUNTY OF LOS ANGELES</b>			
<b>DEBT RATIOS - Principal as a percent of total valuation on July 1</b>			
<b>INTERMEDIATE AND LONG-TERM OBLIGATIONS</b>			
<b>Year</b>	<b>Outstanding Principal (1)</b>	<b>Total Assessed Valuation</b>	<b>% of Principal to Valuation</b>
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	1,789,004,365	872,103,795,877	0.205%
2007	1,444,326,104	953,468,123,997	0.151%
2008	1,385,613,183	1,020,346,376,948	0.136%

Source: Los Angeles County Chief Executive Office and Auditor-Controller  
 1. Includes Tax Exempt Commercial Paper

**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 2009-10 payments on General County obligations by funding source and debt issue;
4. A detail of the principal outstanding in 2009-10 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 obligations as of October 1, 2009 ; and
6. The County’s overlapping debt statement as of October 1, 2009.

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COUNTY OF LOS ANGELES  
DEBT SUMMARY TABLES

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REPORTS AS OF JULY 1, 2009

COMBINED PRINCIPAL AND INTEREST OBLIGATIONS AND OUTSTANDING PRINCIPAL

COMBINED PRINCIPAL AND INTEREST OBLIGATIONS AND OUTSTANDING PRINCIPAL BY FUNDING SOURCE

ENTIRE CURRENT FISCAL YEAR DEBT SERVICE OBLIGATIONS BY FUNDING SOURCE

OUTSTANDING PRINCIPAL BY FUNDING SOURCE

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REPORTS AS OF OCTOBER 1, 2009

SUMMARY OF OUTSTANDING GENERAL COUNTY OBLIGATIONS

ESTIMATED OVERLAPPING DEBT STATEMENT

<b>COUNTY OF LOS ANGELES</b>			
<b>COMBINED PRINCIPAL AND INTEREST OBLIGATIONS</b>			
<b>AS OF JULY 1, 2009</b>			
<b>Fiscal Year</b>	<b>Pension Obligation</b>		<b>Total Annual</b>
	<b>Certificates</b>	<b>Other Bonds</b>	<b>Debt Service</b>
2009-10	\$ 358,165,000	\$ 122,613,916	\$ 480,778,916
2010-11	372,130,000	107,255,208	479,385,208
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	-	-	-
<b>Total</b>	<b>\$ 730,295,000</b>	<b>\$ 1,128,863,829</b>	<b>\$ 1,859,158,829</b>

<b>COUNTY OF LOS ANGELES</b>			
<b>OUTSTANDING PRINCIPAL OBLIGATIONS</b>			
<b>AS OF JULY 1, 2009</b>			
<b>Fiscal Year</b>	<b>Pension Obligation</b>		<b>Total</b>
	<b>Certificates</b>	<b>Other Bonds</b>	<b>Outstanding Principal</b>
2009-10	\$ 235,690,862	\$ 737,246,193	\$ 972,937,056
2010-11	118,486,192	653,195,838	771,682,030
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	-	-	-

Source: Los Angeles County Chief Executive Office  
Note: Amounts do not include Tax Exempt Commercial Paper

**COUNTY OF LOS ANGELES  
COMBINED PRINCIPAL AND INTEREST OBLIGATIONS BY FUNDING SOURCE (1)  
AS OF JULY 1, 2009**

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
2009-10	\$ 179,626,266	\$ 116,451,559	\$ 32,545,578	\$ 36,852,887	\$ 18,410,756	\$ 96,891,871	\$ 480,778,916
2010-11	172,909,180	117,608,782	30,988,835	38,080,088	19,128,598	100,669,724	479,385,208
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	-	-	92,176,678
2014-15	42,083,109	16,118,727	26,513,278	3,415,709	-	-	88,130,823
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	-	-	-	-	-	-	-
<b>Total</b>	<b>\$ 711,971,154</b>	<b>\$ 322,932,210</b>	<b>\$ 475,043,404</b>	<b>\$ 114,111,114</b>	<b>\$ 37,539,354</b>	<b>\$ 197,561,595</b>	<b>\$ 1,859,158,829</b>

**COUNTY OF LOS ANGELES  
OUTSTANDING PRINCIPAL OBLIGATIONS BY FUNDING SOURCE  
AS OF JULY 1, 2009**

Fiscal Year	General Fund	Hospital Enterprise Fund	Courthouse Construction Fund	Special Districts / Special Funds	Trial Court Trust Fund	State/Federal Subvention	Total Outstanding Principal
2009-10	\$ 358,574,165	\$ 175,817,232	\$ 307,153,412	\$ 55,517,230	\$ 12,115,218	\$ 63,759,799	\$ 972,937,056
2010-11	275,074,820	126,679,761	289,019,920	42,763,744	6,090,546	32,053,240	771,682,030
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	0	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	-	-	-	-	-	-	-

Source: Los Angeles County Chief Executive Office  
Note: Amounts do not include Tax Exempt Commercial Paper

**COUNTY OF LOS ANGELES  
COMBINED PRINCIPAL AND INTEREST OBLIGATIONS BY FUNDING SOURCE  
AS OF JULY 1, 2009**

<b>Title</b>	<b>Total Debt Service</b>	<b>General Fund</b>	<b>Hospital Enterprise Fund</b>	<b>Courthouse Construction Fund</b>	<b>Special Districts / Special Funds</b>	<b>Trial Court Trust Fund</b>	<b>State / Federal Subvention</b>
<b>Long-Term Obligations</b>							
Pension Obligation Certificates							
1994 Pension Ob Certs, Ser C: LACERA Funding	\$ 61,460,000	\$ 19,976,958	\$ 15,930,063		\$ 5,767,406	\$ 3,159,228	\$ 16,626,344
1994 Pension Ob Certs, Ser D: LACERA Funding	296,705,000	96,440,994	76,904,155		27,842,797	15,251,527	80,265,527
Total Pension Obligation Certificates	\$ 358,165,000	\$ 116,417,952	\$ 92,834,218	\$ 0	\$ 33,610,203	\$ 18,410,756	\$ 96,891,871
<b>Long-Term Capital Projects</b>							
1992 Lease Rev Refg Bonds, 1992 Master Refg Proj:							
Civic Center Heating & Refrigeration Plant	\$ 5,877,576	\$ 5,877,576					
Downey Courthouse	979,549			\$ 979,549			
Sheriffs Training Academy	818,136	818,136					
San Fernando Court	1,370,322			1,370,322			
Total 1992 Lease Rev Refg Bonds, 1992 Master Refg Proj	\$ 9,045,583	\$ 6,695,712	\$ 0	\$ 2,349,871	\$ 0	\$ 0	\$ 0
1993 COPs: Disney Parking Project	\$ 10,850,000	\$ 10,850,000					
1998 Refg COPs: Disney Parking Project	3,073,543	3,073,543					
2002 Lease Rev Bonds Ser A: Edmond D. Edelman Children's Court	3,626,175			\$ 3,626,175			
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	\$ 774,876	\$ 774,876					
Alhambra Courthouse	584,736			\$ 584,736			
Burbank Courthouse	762,297			762,297			
Ameron Building (Sheriff Headquarters)	2,509,442	2,509,442					
Biscailuz Center	221,690	221,690					
Emergency Operations Center	1,963,228	1,963,228					
Harbor/UCLA Medical Center - Primary Care & Diagnostic Center	1,489,741		\$ 1,489,741				
Martin Luther King Medical Center - Trauma Center	6,228,265		6,228,265				
Martin Luther King Medical Center - Modular Building (Ped. Trauma)	107,299		107,299				
Rancho Los Amigos Medical Center - 150 Bed Inpatient Unit A	4,396,754		4,396,754				
Rancho Los Amigos Medical Center - Parking Structure	1,640,373		1,640,373				
Rancho Los Amigos Medical Center - Master Plan II (Utilities)	687,340		687,340				
San Fernando Valley Juvenile Hall	977,463	977,463					
LAC/USC Medical Center Marengo Street Parking Garage	2,602,390		2,602,390				
LAX Area Courthouse	6,951,505			6,951,505			
San Fernando Valley Courthouse (Chatsworth)	5,500,356			5,500,356			
Harbor Med Center E.P.S.	1,252,433		1,252,433				
Total 2005 Lease Rev Refg Bonds Ser A	\$ 38,650,188	\$ 6,446,699	\$ 18,404,595	\$ 13,798,894	\$ 0	\$ 0	\$ 0
2005 Lease Revenue Bonds: Calabasas Landfill Project	\$ 3,094,784				\$ 3,094,784		
2006 Lease Rev Refg Bonds Ser A:							
East Los Angeles Courthouse	\$ 1,204,438			\$ 1,204,438			
Lynwood Regional Justice Center	10,398,500	10,398,500					
Men's Central Jail - Twin Towers	9,815,700	9,815,700					
Pitchess Honor Rancho: Medium Security - N Facility Air Conditioning	758,750	758,750					
Pitchess Honor Rancho: Medium Security - N Facility Sewer System	230,300	230,300					
Pitchess Honor Rancho: Medium Security - N Facility Water Treatment	926,200	926,200					
Pitchess Honor Rancho: Medium Security - N Facility Debris Basin	214,500	214,500					
Pitchess Honor Rancho: Vehicle Maintenance Facility	544,250	544,250					
Men's Central Jail Parking Structure	2,443,950	2,443,950					
Hutton Building - Registrar / Recorder Headquarters	3,013,600	3,013,600					
Pomona Municipal Courthouse	481,350			481,350			
Pitchess Honor Rancho Laundry Expansion	232,450	232,450					
Pitchess Honor Rancho Visitors Center	580,450	580,450					
Mira Loma Men's Medium Security Facility	420,050	420,050					
Temple City Sheriff Station	995,150	995,150					
Van Nuys Courthouse	3,403,750			3,403,750			
Public Library Headquarters	147,900			147,900			
Total 2006 Lease Rev Refg Bonds Ser A	\$ 35,811,288	\$ 30,573,850	\$ 0	\$ 5,089,538	\$ 147,900	\$ 0	\$ 0
2006 Lease Rev Refg Bonds Ser B:	\$ 6,917,769			\$ 6,917,769			
Total Long-Term Capital Projects	\$ 112,097,129	\$ 57,904,272	\$ 18,404,595	\$ 32,545,578	\$ 3,242,684	\$ 0	\$ 0
Total Long-Term Obligations	\$ 470,262,129	\$ 174,322,224	\$ 111,238,814	\$ 32,545,578	\$ 36,852,887	\$ 18,410,756	\$ 96,891,871
<b>Intermediate-Term Obligations</b>							
Equipment							
2006 Lease Rev Bonds Ser A (LAC-CAL): LAC-CAL Equipment Program	\$ 2,823,000	\$ 1,380,211	\$ 1,442,789				
2008 Lease Rev Bonds Ser A (LAC-CAL): LAC-CAL Equipment Program	7,693,788	3,923,831	3,769,956				
Total Equipment	\$ 10,516,788	\$ 5,304,042	\$ 5,212,746	\$ 0	\$ 0	\$ 0	\$ 0
Total Intermediate-Term Obligations	\$ 10,516,788	\$ 5,304,042	\$ 5,212,746	\$ 0	\$ 0	\$ 0	\$ 0
Total Obligations	\$ 480,778,916	\$ 179,626,266	\$ 116,451,559	\$ 32,545,578	\$ 36,852,887	\$ 18,410,756	\$ 96,891,871

Source: Los Angeles County Chief Executive Office  
Note: Amounts do not include Tax Exempt Commercial Paper

**COUNTY OF LOS ANGELES  
OUTSTANDING PRINCIPAL BY FUNDING SOURCE  
AS OF JULY 1, 2009**

<b>Title</b>	<b>Total Outstanding Principal</b>	<b>General Fund</b>	<b>Hospital Enterprise Fund</b>	<b>Courthouse Construction Fund</b>	<b>Special Districts / Special Funds</b>	<b>Trial Court Trust Fund</b>	<b>State / Federal Subvention</b>
<b>Long-Term Obligations</b>							
Pension Obligation Certificates							
1994 Pension Ob Certs, Ser C: LACERA Funding	\$ 14,998,698	\$ 4,875,177	\$ 3,887,573		\$ 1,407,478	\$ 770,978	\$ 4,057,493
1994 Pension Ob Certs, Ser D: LACERA Funding	220,692,163	71,733,781	57,202,085		20,709,752	11,344,240	59,702,306
Total Pension Obligation Certificates	\$ 235,690,862	\$ 76,608,958	\$ 61,089,657	\$ 0	\$ 22,117,230	\$ 12,115,218	\$ 63,759,799
<b>Long-Term Capital Projects</b>							
1992 Lease Rev Refg Bonds, 1992 Master Refg Proj:							
Civic Center Heating & Refrigeration Plant	\$ 5,705,000	\$ 5,705,000					
Downey Courthouse	1,845,000			\$ 1,845,000			
Sheriffs Training Academy	1,538,357	1,538,357					
San Fernando Court	2,576,643			2,576,643			
Total 1992 Lease Rev Refg Bonds, 1992 Master Refg Proj	\$ 11,665,000	\$ 7,243,357	\$ 0	\$ 4,421,643	\$ 0	\$ 0	\$ 0
1993 COPs: Disney Parking Project	\$ 38,056,193	\$ 38,056,193					
1998 Refg COPs: Disney Parking Project	58,865,000	58,865,000					
2002 Lease Rev Bonds Ser A: Edmond D. Edelman Children's Court	9,970,000			\$ 9,970,000			
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	\$ 4,583,006	\$ 4,583,006					
Alhambra Courthouse	2,609,341			\$ 2,609,341			
Burbank Courthouse	4,509,301			4,509,301			
Ameron Building (Sheriff Headquarters)	11,201,264	11,201,264					
Biscailuz Center	994,016	994,016					
Emergency Operations Center	10,246,739	10,246,739					
Harbor/UCLA Medical Center - Primary Care & Diagnostic Center	7,765,579		\$ 7,765,579				
Martin Luther King Medical Center - Trauma Center	40,963,352		40,963,352				
Martin Luther King Medical Center - Modular Building (Ped. Trauma)	469,382		469,382				
Rancho Los Amigos Medical Center - 150 Bed Inpatient Unit A	26,088,589		26,088,589				
Rancho Los Amigos Medical Center - Parking Structure	9,737,144		9,737,144				
Rancho Los Amigos Medical Center - Master Plan II (Utilities)	3,074,126		3,074,126				
San Fernando Valley Juvenile Hall	6,417,759	6,417,759					
LAC/USC Medical Center Marengo Street Parking Garage	15,425,368		15,425,368				
LAX Area Courthouse	81,495,736			81,495,736			
San Fernando Valley Courthouse (Chatsworth)	66,785,200			66,785,200			
Harbor Med Center E.P.S.	3,519,099		3,519,099				
Total 2005 Lease Rev Refg Bonds Ser A	\$ 295,885,001	\$ 33,442,784	\$ 107,042,639	\$ 155,399,578	\$ 0	\$ 0	\$ 0
2005 Lease Revenue Bonds: Calabasas Landfill Project	\$ 33,255,000				\$ 33,255,000		
2006 Lease Rev Refg Bonds Ser A:							
East Los Angeles Courthouse	\$ 7,795,000			\$ 7,795,000			
Lynwood Regional Justice Center	57,120,000	57,120,000					
Men's Central Jail - Twin Towers	53,955,000	53,955,000					
Pitchess Honor Rancho: Medium Security - N Facility Air Conditioning	1,135,000	1,135,000					
Pitchess Honor Rancho: Medium Security - N Facility Sewer System	345,000	345,000					
Pitchess Honor Rancho: Medium Security - N Facility Water Treatment	1,385,000	1,385,000					
Pitchess Honor Rancho: Medium Security - N Facility Debris Basin	320,000	320,000					
Pitchess Honor Rancho: Vehicle Maintenance Facility	815,000	815,000					
Men's Central Jail Parking Structure	3,660,000	3,660,000					
Hutton Building - Registrar / Recorder Headquarters	7,670,000	7,670,000					
Pomona Municipal Courthouse	1,230,000			1,230,000			
Pitchess Honor Rancho Laundry Expansion	595,000	595,000					
Pitchess Honor Rancho Visitors Center	1,475,000	1,475,000					
Mira Loma Men's Medium Security Facility	1,065,000	1,065,000					
Temple City Sheriff Station	2,530,000	2,530,000					
Van Nuys Courthouse	15,525,000			15,525,000			
Public Library Headquarters	145,000			145,000			
Total 2006 Lease Rev Refg Bonds Ser A	\$ 156,765,000	\$ 132,070,000	\$ 0	\$ 24,550,000	\$ 145,000	\$ 0	\$ 0
2006 Lease Rev Refg Bonds Ser B:	\$ 100,090,000			\$ 100,090,000			
Total Long-Term Capital Projects	\$ 721,681,194	\$ 274,085,143	\$ 107,042,639	\$ 307,153,412	\$ 33,400,000	\$ 0	\$ 0
Total Long-Term Obligations	\$ 957,372,056	\$ 350,694,101	\$ 168,132,296	\$ 307,153,412	\$ 55,517,230	\$ 12,115,218	\$ 63,759,799
<b>Intermediate-Term Obligations</b>							
Equipment							
2006 Lease Rev Bonds Ser A (LAC-CAL): LAC-CAL Equipment Program	\$ 2,755,000	\$ 1,346,964	\$ 1,408,036				
2008 Lease Rev Bonds Ser A (LAC-CAL): LAC-CAL Equipment Program	12,810,000	6,533,100	6,276,900				
Total Equipment	\$ 15,565,000	\$ 7,880,064	\$ 7,684,936	\$ 0	\$ 0	\$ 0	\$ 0
Total Intermediate-Term Obligations	\$ 15,565,000	\$ 7,880,064	\$ 7,684,936	\$ 0	\$ 0	\$ 0	\$ 0
Total Obligations	\$ 972,937,056	\$ 358,574,165	\$ 175,817,232	\$ 307,153,412	\$ 55,517,230	\$ 12,115,218	\$ 63,759,799

Source: Los Angeles County Chief Executive Office  
Note: Amounts do not include Tax Exempt Commercial Paper

**COUNTY OF LOS ANGELES  
SUMMARY OF OUTSTANDING GENERAL FUND AND SPECIAL FUND OBLIGATIONS  
AS OF October 1, 2009**

Title	Outstanding Principal	Total Future Payments	2009-10 FY Payment Remaining
<b>Long-Term Obligations</b>			
Pension Obligation Certificates			
1994 Pension Obligation Bonds, Series C (Capital Appreciation Bonds)	\$ 0 (1)	\$ 0 (1)	\$ 0 (1)
1994 Pension Obligation Bonds, Series D (Variable Rate Bonds)	118,486,192 (2)	372,130,000 (2)	0 (2)
Total Pension Obligation Certificates	\$ 118,486,192	\$ 372,130,000	\$ 0
Long-Term Capital Projects			
1992 Lease Rev Refg Bonds, 1992 Master Refunding Project	\$ 11,665,000	\$ 12,203,299	\$ 9,045,583
1993 COPs: Disney Parking Project	36,249,343	164,900,000	5,425,000
1998 Refg COPs: Disney Parking Project	58,725,000	92,363,186	1,537,801
2002 Lease Rev Bonds Series A - Edmund D. Edelman Court Project Refunding	9,970,000	10,880,000	3,398,088
2002 Lease Rev Bonds Series B - 2002 Master Refunding Project	17,130,000	22,441,800	1,027,800
2005 Lease Rev Refg Bonds Series A - 2005 Master Refunding Project	295,885,000	405,446,743	38,650,189
2005 Lease Rev Bonds Series A - 2005 Calabasas Landfill Project	33,255,000	45,432,331	3,094,784
2006 Lease Rev Refg Bonds Series A - 2006 Master Refunding Project	127,525,000	146,335,063	2,993,244
2006 Lease Rev Refg Bonds Series B - 2006 Master Refunding Project	97,805,000	168,339,444	2,296,391
Total Long-Term Capital Projects	\$ 688,209,343	\$ 1,068,341,866	\$ 67,468,878
Total Long-Term Obligations	\$ 806,695,535	\$ 1,440,471,866	\$ 67,468,878
<b>Intermediate-Term Obligations</b>			
Equipment			
2006 Lease Rev Bonds Series A - LAC-CAL Equipment Program	\$ 2,755,000	\$ 2,823,000	\$ 2,823,000
2008 Lease Rev Bonds Series A - LAC-CAL Equipment Program	12,810,000	13,298,800	7,693,788
Total Equipment	\$ 15,565,000	\$ 16,121,800	\$ 10,516,788
Total Intermediate-Term Obligations	\$ 15,565,000	\$ 16,121,800	\$ 10,516,788
Total Obligations	\$ 822,260,535	\$ 1,456,593,666	\$ 77,985,666

COPs = Certificates of Participation

The Pension Obligation Certificates do not reflect principal and interest payment amounts remaining for FY 2009-10 that were deposited with the respective trustees in advance on July 15 or 30, 2009 as required by the individual Trust Agreements as follows:

- (1) \$14,998,698 in principal and \$46,461,302 in interest
- (2) \$102,205,971 in principal and \$194,499,029 in interest

Source: Los Angeles County Chief Executive Office

Note: Amounts do not include Tax Exempt Commercial Paper

**COUNTY OF LOS ANGELES**

**ESTIMATED OVERLAPPING DEBT STATEMENT AS OF OCTOBER 1, 2009**

Full Cash Value (2009-10): \$941,995,205,678 (after deducting \$141,249,910,315 redevelopment incremental valuation; including unitary utility valuation)

	Applicable %	Debt as of 10/1/09
<b>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT</b>		
Los Angeles County Flood Control District	100.000 %	\$ 84,705,000
Metropolitan Water District	46.792	137,299,426
Los Angeles Community College District	100.000	2,365,515,000
Other Community College Districts	Various (1)	1,566,771,447
Arcadia Unified School District	100.000	172,419,239
Beverly Hills Unified School District	100.000	194,629,015
Glendale Unified School District	100.000	132,765,000
Inglewood Unified School District	100.000	116,010,000
Long Beach Unified School District	100.000	518,810,606
Los Angeles Unified School District	100.000	7,793,725,000
Pasadena Unified School District	100.000	314,635,000
Pomona Unified School District	100.000	174,237,931
Other Unified School Districts	Various (1)	2,635,707,980
High School and School Districts	Various (1)	1,181,981,157
City of Los Angeles	100.000	1,369,450,000
City of Los Angeles Special Tax Lease Revenue Bonds	100.000	60,565,000
City of Industry	100.000	168,300,000
Other Cities	100.000	82,935,000
Special Districts	100.000	7,465,000
Community Facilities Districts	100.000	841,250,796
Los Angeles County Regional Park & Open Space Assessment District	100.000	222,660,000
1915 Act and Benefit Assessment Bonds - Estimate	100.000	152,575,664
<b>TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT</b>		<b>\$ 20,294,413,261</b>
<b>DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT</b>		
<b>Los Angeles County General Fund Obligations</b>	<b>100.000 %</b>	<b>\$ 895,469,344</b>
<b>Los Angeles County Pension Obligations</b>	<b>100.000</b>	<b>235,690,861</b>
Los Angeles County Office of Education Certificates of Participation	100.000	13,185,458
Community College District Certificates of Participation	Various (2)	80,418,138
Azusa Unified School District Certificates of Participation	100.000	67,560,000
Los Angeles Unified School District Certificates of Participation	100.000	422,001,710
Norwalk-La Mirada Unified School District Certificates of Participation	100.000	26,860,165
Pomona Unified School District Certificates of Participation	100.000	62,960,000
Other Unified School District Certificates of Participation	Various (2)	263,603,277
High School and School District General Fund Obligations	Various (2)	149,767,096
City of Beverly Hills General Fund Obligations	100.000	192,880,000
City of Los Angeles General Fund and Judgment Obligations	100.000	1,846,350,000
City of Long Beach General Fund Obligations	100.000	272,900,000
City of Long Beach Pension Obligations	100.000	70,340,000
City of Pasadena General Fund Obligations	100.000	380,994,972
City of Pasadena Pension Obligations	100.000	117,742,623
Other Cities' General Fund Obligations	100.000	1,330,131,132
Los Angeles County Sanitation Districts General Fund Obligations	100.000	342,614,655
Walnut Valley Water District General Fund Obligations	100.000	11,995,000
<b>TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT</b>		<b>\$ 6,783,464,431</b>
Less: School District Qualified Zone Academy Bonds supported by investment funds		(110,752,213)
Cities' self-supporting bonds		(180,404,759)
Walnut Valley Water District self-supporting General Fund Obligations		(11,995,000)
<b>TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT</b>		<b>\$ 6,480,312,459</b>
<b>GROSS COMBINED TOTAL DEBT</b>		<b>\$ 27,077,877,692 (3)</b>
<b>NET COMBINED TOTAL DEBT</b>		<b>\$ 26,774,725,720</b>

- (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 tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

**RATIOS TO 2009-10 ASSESSED VALUATION**

Total Direct and Overlapping Tax and Assessment Debt 1.870 %

**RATIOS TO FULL CASH VALUE (ADJUSTED ASSESSED VALUATION)**

Combined Gross Direct Debt (\$1,131,160,205) 0.120 %  
 Gross Combined Total Debt 2.870 %  
 Net Combined Total Debt 2.840 %

**STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/09:** **\$ 245**

Source: California Municipal Statistics. The above report is included for general information purposes only. The County has not reviewed the debt report for completeness or accuracy and makes no representations in connection therewith.



# ECONOMIC AND DEMOGRAPHIC INFORMATION

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## Economic Overview

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

The 2006 unemployment rate of 4.7% was the lowest in the County since 1988. An upward trend started in 2007, with a small increase in the unemployment rate to 5.1% followed by a substantial increase to 7.5% in 2008. The unemployment rate is forecasted to climb even higher in 2009 to a rate of 11.7%, with a projected loss of 168,000 jobs. However, this number may be partly offset by positive factors in major public and private construction projects. In the November 2008 election, voters approved \$15 billion in school district bond measures for the purpose of building new facilities and/or improving existing facilities for local schools and community colleges. Within the same election, County Measure R was approved. Effective July 1, 2009, Measure R increased the County sales tax rate by one-half of one percent to provide new funding for highway and transit projects throughout the County. These voter-approved measures, combined with the terminal expansions under way at the ports of Los Angeles and Long Beach and certain provisions of the American Recovery and Reinvestment Act (ARRA) that benefit the County are expected to provide a strong foundation for the creation of new jobs.

In terms of its industrial base, diversity continues to be Los Angeles County's greatest strength, with wholesale & retail trade and manufacturing being the leading sectors. The Los Angeles Customs District ("LACD"), which includes the Los Angeles International Airport and the two main sea ports (Long Beach and Los Angeles), is the largest in the nation. Despite the challenging economic environment, the LACD realized a modest gain in the value of two-way trade from 2007, with a 2.8% increase in 2008 to \$357.3 billion. Los Angeles is also considered the largest manufacturing center in the United States, with an average of 433,900 workers employed in the manufacturing sector in 2008.

## Quality of Life

### Higher Education

Los Angeles County is home to an extensive education system, with 112 colleges and university campuses, 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 the California Institute of the Arts, the Art Center College of Design, the Fashion Institute of Design and Merchandising, and the Otis College of Art and Design.

### Culture

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

Los Angeles County has among the largest number of museums per capita relative to other large metropolitan areas in the world. The area's museums showcase some of the world's finest collections of art, sculpture, manuscripts, and antiquities; as well as providing a historical overview of the area's ethnic heritage and experience. Major institutions include the acclaimed Los Angeles County Museum of Art, the Los Angeles County Museum of Natural History, the George C. Page Museum, the Anderson Gallery, the Norton Simon Museum, the J. Paul Getty Museum, the Museum of Contemporary Art, and the Huntington Library.

Los Angeles County features more musical and 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, 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 47.3% of the population is Hispanic; 28.8% white non-Hispanic; 14.4% Asian-Pacific Islander; and 9.6% African American. The County is also home to the highest

number of foreign-born residents in the nation and has the largest population of persons of Filipino, Guatemalan, Korean, Mexican, Salvadoran and Thai descent outside their native countries. It is estimated that 75% of the adult population has a high school diploma or higher, while 28% has a bachelor's degree or higher. Table B illustrates the recent historical growth of the County's population.

### **Employment**

The major economic downturn, which started in late 2007, affected the entire nation and hit the County especially hard during the fourth quarter of 2008. After experiencing a cyclical low of 4.7% in 2006, the unemployment rate started to climb upward in 2007, and increased to 7.5% in 2008, with a loss of 52,800 jobs. For 2009, the unemployment rate is forecasted to reach 11.7% with the loss of jobs expected to cross several sectors. The largest employment losses will occur in manufacturing (-38,800); retail (-25,100); administration & support services (-22,100); and construction (-20,100). Moderate losses will also be experienced in the leisure & hospitality and information sectors (which includes the movie industry). On the other hand, the Education and health care services sectors are expected to add 16,600 jobs (+7,900 and +8,700 respectively) in 2009, despite the difficult economic conditions. Table F details the County's non-agricultural employment numbers by sector since 2004.

### **Personal Income**

Total personal income in Los Angeles County continued to grow in 2008, but at a much slower rate than in the past. The \$398.5 billion earned in 2008 reflects a 2.1% increase from 2007. The County's total personal income in 2008 represents an estimated 25.5% of the total personal income generated in California. The sustained growth in personal income, which has increased by 22.1% since 2004, is expected to come to an end in 2009 with a projected decline of 1.6%. The Los Angeles Economic Development Corporation forecasts that personal income will regain momentum in 2010 with a projected increase of 1.0%. Table C provides a summary of the personal income levels in Los Angeles County since 2004.

### **Consumer Spending**

Los Angeles County is a national leader in consumer spending. The County experienced a steady growth in taxable retail sales from 2004 to 2007, with an increase of 11.1% from the 2004 level. In 2008, the County generated \$90.3 billion in retail sales, representing 25% of the total retail sales within California. This number reflects a 6% decrease from the \$96 billion in 2007, and is indicative of the current economic recession. Table D provides a summary of the recent growth of retail sales in Los Angeles County.

### **Industry**

With a Gross Product of \$513.6 billion in 2008, Los Angeles County is considered the leading center for business and commerce in the western United States. Its Gross Product represents approximately 28% of the total economic output in California and 3.6% of the Gross Domestic 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, electronics, energy, communications, and entertainment industries. Table A provides summary information on the Gross Product of Los Angeles County.

Though its manufacturing sector suffered a 3.5% decrease in jobs from the prior year, Los Angeles County is still considered the largest major manufacturing center in the United States, with nearly 433,900 workers employed in 2008. The largest components of the manufacturing sector include apparel, fabricated metal products, computer and electronics, and transportation equipment.

### **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 contributor to the solid economic growth of the region. The value of two-way trade in the LACD has increased by over 36% since 2004 to a record level of \$356.1 billion in 2008. As a result of the severe downturn in the global economy, the growth of international trade is expected to end in 2009, with a projected decrease in two-way trade of 29.2% to \$252 billion.

### **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. In November 2008, Los Angeles County voters approved Measure R (sales tax increase), which will provide funding for a projected \$40 billion of transportation projects throughout the County over the next 30 years, and create an estimated 210,000 new construction jobs

#### *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, Shanghai, Hong Kong, and Shenzhen. Both ports are owned and operated by their respective cities. The combined Los Angeles/Long Beach port complex has been the fastest growing port facility in the United States. The primary trading partners are China, Japan, Taiwan, South Korea and Thailand. 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 thirteenth 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 calendar year 2008, the port handled nearly 170 million metric revenue tons of cargo and 7.9 million twenty-foot equivalent cargo container units, which represents a 6.0% decrease in container volume from 2007.

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 seventeenth busiest in the world. The port covers over 3,200 acres, with 35 miles of waterfront and 8 major container terminals. In calendar year 2008, the port moved approximately \$140 billion in goods, welcomed 5,117 vessels, and handled over 6.5 million twenty-foot equivalent cargo container units. The latter figure represents a decrease of 11.3% from 2007 and is the direct result of the global economic downturn that has adversely impacted the volume of trade moving through both ports.

#### *Port Expansion*

The Ports of Los Angeles and Long Beach are currently in the process of major ongoing expansion programs 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"). The MTA is responsible for the planning, design, construction and operation of the public transportation system for Los Angeles County. The Fiscal Year 2008 operating budget for the MTA was \$3.408 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. Los Angeles is one of the top travel destinations in the United States, and the second ranked destination for international visitors behind only New York, according to the International Trade Administration, Office of Travel and Tourism Industries. In 2007, the Los Angeles Convention and Visitors Bureau estimated that 25.9 million overnight visitors stayed in Los Angeles, with total visitor expenditures reaching a record high of \$14.2 billion. The number of overnight visitors grew slightly in 2008 to 26 million, but is expected to decrease in 2009 to an estimated 24.9 million visitors.

#### **Real Estate and Construction**

After the median price of new and existing homes reached its peak in the third quarter of 2007, the residential housing market in Los Angeles County experienced a noticeable downturn in 2008, with all of the major indicators for the housing market showing significant deterioration. The final data for 2008 indicates that new and existing home sales, residential building permits and residential purchase lending have decreased by 13%, 33% and 42%, respectively, compared to 2007. 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 19.0% from April 2008 to April 2009.

The significant decline in new home construction in Los Angeles County, combined with falling home prices in 2008, were major factors contributing to a 27% decrease in the inventory of unsold new housing. On the other hand, stricter refinance requirements and greater scrutiny by the banks of potential borrowers (a direct result of the current financial crisis) has led to a significant number of homeowners being in default on homes they can no longer afford as their mortgages "reset" at higher rates. At the close of 2008 notices of default recorded increased by 59% from the same period in 2007. A report released in August 2009 shows notices of default up by 26.6% in the second quarter of 2009 when compared to the second quarter of 2008.

The non-residential real estate sector struggled in 2008, with a decrease in new construction and developers experiencing higher vacancy rates. The total non-residential building valuation of \$4.5 billion in 2008 represents a decrease of 5.2% from 2007. Construction lending also experienced a significant decrease of 49% to \$3.5 billion over the same measurement period. Although there were major business expansions in Los Angeles (7.6 million square feet) during 2008, which would normally indicate growth, the rise in vacancy rates for both office and industrial markets (increases of 12.2% and 2.2%, respectively) are indicative of a struggling commercial real estate market.

Despite the severe downturn in the housing market, Los Angeles County has maintained a stable assessed valuation. This is due in part to the significant "stored value" in secured property as a result of Proposition 13. In its 2009 Annual Report, the Los Angeles County Assessor is reporting the third successive trillion-dollar Assessment Roll of \$1.108 trillion for Fiscal Year 2009-10, which represents a moderate decrease of \$958 million or .09% in total assessed valuation from 2008-09.



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COUNTY OF LOS ANGELES  
ECONOMIC AND DEMOGRAPHIC STATISTICAL TABLES

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GROSS PRODUCT

POPULATION LEVELS

TOTAL PERSONAL INCOME

TAXABLE RETAIL SALES

UNEMPLOYMENT RATES

AVERAGE ANNUAL EMPLOYMENT

SUMMARY OF AIRPORT AND PORT ACTIVITY

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

TOTAL TONNAGE OF MAJOR WEST COAST PORTS

INTERNATIONAL CONTAINER TRAFFIC AT MAJOR U.S. PORTS

REAL ESTATE AND CONSTRUCTION INDICATORS

BUILDING PERMITS AND VALUATIONS

LARGEST PRIVATE SECTOR EMPLOYERS

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

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Los Angeles County	\$397,500	\$418,700	\$446,800	\$508,000	\$513,600
State of California	1,524,900	1,628,000	1,727,400	1,798,300	1,846,800
United States	11,734,300	12,455,800	13,244,600	13,794,200	14,264,600
Los Angeles County as a % of California	26.07%	25.72%	25.87%	28.25%	27.81%

Source: Los Angeles Economic Development Corporation

**TABLE B: POPULATION LEVELS**

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Los Angeles County	10,123,900	10,190,300	10,232,500	10,273,100	10,347,400
State of California	36,454,500	38,899,400	37,298,400	37,712,600	38,148,500 *
Los Angeles County as a % of California	27.77%	26.20%	27.43%	27.24%	27.12%

\* Estimated

Source: Los Angeles Economic Development Corporation

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

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Los Angeles County	\$326,402	\$346,053	\$373,322	\$390,296	\$398,500
Orange County	125,798	135,070	145,436	150,214	153,087
Riverside and San Bernardino Counties	96,756	103,716	111,762	117,134	118,736
Ventura County	30,438	32,127	34,505	36,210	35,798
State of California	1,266,000	1,348,300	1,436,400	1,519,500	1,563,900 *
Los Angeles County as a % of California	25.78%	25.67%	25.99%	25.69%	25.48%

\* Estimated

Source: Los Angeles Economic Development Corporation

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

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Los Angeles County	\$86,497	\$92,271	\$95,544	\$96,096	\$90,330
State of California	350,200	375,800	389,100	387,000	356,300 *
Los Angeles County as a % of California	24.70%	24.55%	24.56%	24.83%	25.35%

Source: Los Angeles Economic Development Corporation

**TABLE E: UNEMPLOYMENT RATES**

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Los Angeles County	6.5%	5.4%	4.8%	5.1%	7.5%
State of California	6.3%	5.4%	4.9%	5.4%	7.2% *
United States	5.5%	5.1%	4.6%	4.6%	5.8%

Source: Los Angeles Economic Development Corporation

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

<b>Employment Sector</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
Wholesale & Retail Trade	620.5	633.7	649.0	653.0	641.9
Government	587.1	583.7	589.4	595.7	603.7
Manufacturing	483.6	471.7	461.7	449.7	433.9
Leisure & Hospitality	372.8	377.8	388.6	397.4	399.5
Health Care & Social Assistance	371.6	373.9	379.3	387.5	396.3
Professional, Scientific & Technical Services	237.7	250.9	264.0	273.9	270.4
Administrative & Support Services	253.6	257.7	271.9	272.7	257.1
Information	211.9	207.6	205.6	209.8	211.3
Finance & Insurance	161.1	161.7	165.2	165.6	162.0
Transportation & Utilities	165.0	166.2	169.0	165.8	156.2
Construction	140.2	148.7	157.5	157.6	145.1
Educational Services	95.4	97.4	99.4	102.9	105.1
Real Estate	76.7	77.8	79.8	80.3	79.2
Management of Enterprises	71.2	67.6	63.0	58.8	56.6
Other	148.5	148.0	149.2	151.5	150.9
<b>Total</b>	<b>3,996.5</b>	<b>4,024.2</b>	<b>4,092.5</b>	<b>4,115.8</b>	<b>4,100.8</b>

Source: Los Angeles County Economic Development Corporation

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

<b>Type of Activity</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
<b>International Air Cargo (Tons)</b>					
Los Angeles International Airport	1,048.4	1,098.8	1,088.0	1,114.2	970.1
As Percentage of Total Air Cargo	51.83%	53.63%	53.79%	55.41%	56.30%
<b>Total Air Cargo (Tons)</b>					
Los Angeles International Airport	2,022.9	2,048.8	2,022.7	2,010.8	1,723.0
Bob Hope Airport (Burbank)	45.0	48.0	52.2	48.7	38.9
<b>Total</b>	<b>2,067.9</b>	<b>2,096.8</b>	<b>2,074.9</b>	<b>2,059.6</b>	<b>1,762.0</b>
<b>International Air Passengers</b>					
Los Angeles International Airport	16,476.1	17,486.3	16,911.1	17,248.0	16,684.8
As Percentage of Total Passengers	27.14%	28.44%	27.70%	27.62%	27.89%
<b>Total Air Passengers</b>					
Los Angeles International Airport	60,704.6	61,489.4	61,041.1	62,438.6	59,815.6
Bob Hope Airport (Burbank)	4,916.8	5,512.6	5,689.3	5,921.3	5,331.4
<b>Total</b>	<b>65,621.4</b>	<b>67,002.0</b>	<b>66,730.4</b>	<b>68,359.9</b>	<b>65,147.1</b>
<b>Container Volume (TEUs)</b>					
Port of Los Angeles	7,321.4	7,484.6	8,469.9	8,355.0	7,850.0
Port of Long Beach	5,779.9	6,709.8	7,290.4	7,312.5	6,487.8
<b>Total</b>	<b>13,101.3</b>	<b>14,194.4</b>	<b>15,760.3</b>	<b>15,667.5</b>	<b>14,337.8</b>

Source: Los Angeles World Airports, LAX - Statistics; Burbank Airport - Statistics; Port of Los Angeles- Statistics; Port of Long Beach - Statistics

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

<u>Customs District</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Los Angeles, CA	\$261,800	\$291,700	\$326,500	\$347,500	\$356,100
New York, NY	244,400	267,200	294,700	323,600	353,600
Detroit, MI	104,100	136,300	162,800	184,700	242,000
Houston, TX	207,300	230,000	239,800	248,900	234,900
New Orleans, LA	113,000	127,400	149,900	172,700	214,200
Laredo, TX	130,300	138,700	156,000	166,400	173,300
Chicago, IL	94,900	108,400	120,800	132,900	153,600
Seattle, WA	86,500	100,100	119,100	132,400	130,100
San Francisco, CA	93,200	98,300	110,600	111,700	114,100
Savannah, GA	59,900	72,200	82,100	93,400	101,000

Source: Los Angeles Economic Development Corporation

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

<u>Port</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Los Angeles-Long Beach, CA	177,592	186,533	210,503	211,691	201,444
Tacoma, WA	30,739	34,193	32,516	33,753	34,698
Oakland, CA	24,683	27,831	28,597	29,449	28,411
Seattle, WA	23,977	29,515	28,692	29,514	26,728
Portland, OR	20,357	18,728	20,173	23,167	21,683
Kalama, WA	9,307	9,506	8,444	9,624	12,320
Vancouver, WA	5,021	4,101	5,441	6,173	5,903
San Diego, CA	4,704	5,307	6,705	6,548	5,561
Port Hueneme	3,413	4,042	4,603	3,971	3,571

Source: Los Angeles County Economic Development Corporation

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

<u>Port</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Los Angeles-Long Beach, CA	13,101	14,195	15,760	15,667	14,338
New York, NY	4,478	4,785	5,086	5,299	5,265
Savannah, GA	1,663	1,902	2,160	2,604	2,616
Oakland, CA	2,048	2,274	2,392	2,388	2,236
Norfolk, VA	1,809	1,982	2,046	2,128	2,083
Seattle, WA	1,466	1,746	1,636	1,628	1,376
Houston, TX	1,091	1,231	1,295	1,416	1,371
Tacoma, WA	1,211	1,401	1,552	1,403	1,348
Charleston, SC	1,402	1,512	1,517	1,408	1,331

Source: Los Angeles County Economic Development Corporation

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

<b>Indicator</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
1. Construction Lending (in millions)	\$ 6,237	\$ 6,986	\$ 8,435	\$ 6,886	\$ 3,520
2. Residential Purchase Lending (in millions)	\$ 53,813	\$ 62,485	\$ 57,046	\$ 38,388	\$ 22,256
3. New & Existing Median Home Prices	\$ 395,425	\$ 469,045	\$ 511,365	\$ 532,281	\$ 397,474
4. New & Existing Home Sales	137,471	132,535	109,212	74,917	65,278
5. Notices of Default Recorded	16,528	16,299	26,296	53,414	84,806
6. Unsold New Housing (at year-end)	628	1,115	3,630	4,273	3,117
7. Office Market Vacancy Rates	14.8%	11.2%	9.4%	9.7%	12.2%
8. Industrial Market Vacancy Rates	2.4%	2.0%	1.5%	1.5%	2.2%

Source: Real Estate Research Council of Southern California - 4th Quarter 2008 Report

**TABLE L: BUILDING PERMITS AND VALUATIONS**

	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
<b>Residential Building Permits</b>					
1. New Residential Permits (Units)					
a. Single Family	11,752	11,911	10,097	7,509	3,539
b. Multi-Family	15,183	13,736	16,251	12,854	10,165
<b>Total Residential Building Permits</b>	<b>26,935</b>	<b>25,647</b>	<b>26,348</b>	<b>20,363</b>	<b>13,704</b>
<b>Building Valuations</b>					
2. Residential Building Valuations (in millions of \$)					
a. Single Family	\$ 2,924	\$ 2,916	\$ 2,561	\$ 2,048	\$ 1,134
b. Multi-Family	1,916	1,810	2,205	2,011	1,409
c. Alterations and Additions	1,728	1,962	1,982	1,898	1,411
<b>Residential Building Valuations Subtotal</b>	<b>\$ 6,568</b>	<b>\$ 6,688</b>	<b>\$ 6,747</b>	<b>\$ 5,957</b>	<b>\$ 3,954</b>
3. Non-Residential Building Valuations (in millions of \$)					
a. Office Buildings	\$ 307	\$ 233	\$ 241	\$ 716	\$ 446
b. Retail Buildings	484	552	482	493	469
c. Hotels and Motels	63	93	119	343	256
d. Industrial Buildings	178	277	182	109	135
e. Alterations and Additions	1,404	1,669	1,694	2,005	2,158
f. Other	738	1,000	1,178	1,073	1,027
<b>Non-Residential Building Valuations Subtotal</b>	<b>\$ 3,174</b>	<b>\$ 3,824</b>	<b>\$ 3,896</b>	<b>\$ 4,739</b>	<b>\$ 4,491</b>
<b>Total Building Valuations (in millions)</b>	<b>\$ 9,741</b>	<b>\$ 10,512</b>	<b>\$ 10,643</b>	<b>\$ 10,696</b>	<b>\$ 8,445</b>

Source: Real Estate Research Council of Southern California

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

Company (in order of 2007 Ranking)	Industry	Headquarters	No. of Employees	
			L.A. County	Total
1 Kaiser Permanente	Health Care Provider	Oakland, CA	32,784	154,512
2 Northrop Grumman Corp.	Aerospace/Defense Contractor	Los Angeles, CA	20,500	120,000
3 Boeing Co.	Aerospace/Defense Contractor	Chicago, IL	16,510	153,650
4 Kroger Co.	Grocery Retailer	Cincinnati, OH	14,000	310,000
5 Vons	Grocery Retailer	Pleasanton, CA	13,603	207,000
6 University of Southern California	Education-Private University	Los Angeles, CA	12,604	12,604
7 Target Corp.	Retailer	Minneapolis, MN	12,441	352,000
8 Bank of America Corp.	Banking and Financial Services	Charlotte, NC	11,000	195,675
9 The Home Depot	Home Improvement Specialty Retailer	Atlanta, GA	10,000	350,000
10 AT&T Inc.	Telecommunications	San Antonio, TX	9,770	303,670
11 Cedars-Sinai Medical Center	Medical Center	Los Angeles, CA	9,519	9,519
12 Wells Fargo	Diversified Financial Services	San Francisco, CA	8,956	166,502
13 California Institute of Technology	University and Jet Propulsion Lab	Pasadena, CA	8,580	8,580
14 Amgen Inc.	Biotechnology	Thousand Oaks, CA	8,259	20,300
15 Fedex Corp.	Delivery Services	Memphis, TN	7,975	N/A
16 ABM Industries, Inc.	Building Maint. & Engineering Svcs.	San Francisco, CA	7,530	75,000
17 Catholic Healthcare West	Hospitals	San Francisco, CA	7,460	47,063
18 Providence Health System	Health Care Provider	Seattle, WA	7,167	N/A
19 Edison International	Electric Utility	Rosemead, CA	7,158	17,464
20 Long Beach Memorial Medical Ctr.	Regional Hospital	Huntington Beach, CA	5,340	N/A
21 Washington Mutual Inc.	Banking and Financial Services	Seattle, WA	5,100	50,000
22 Sempra Energy	Energy Services/Electric Utility	San Diego, CA	4,678	13,206
23 Lockheed Martin Corp.	Advanced Technology Manufacturer	Bethesda, MD	4,500	14,000
24 Adventist Health	Hospitals	Roseville, CA	4,365	18,050
25 Childrens Hospital Los Angeles	Hospital	Los Angeles, CA	3,818	3,818

N/A - Not Available

Source: Los Angeles Business Journal: "The Lists 2008" (data as of August 2007)

COUNTY OF LOS ANGELES  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2008  
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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, 2008, 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/additions of the following opinion units:

Opinion Unit	Assets	Net assets or fund balance	Revenues/ Additions
Governmental Activities	1%	2%	1%
Business-type Activities	4%	7%	11%
Aggregate Remaining Fund Information	70%	71%	1%

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

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County, as of June 30, 2008, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund, the Fire Protection District, the Flood Control District, the Public Library, and the

Regional Park and Open Space District, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the basic financial statements, the County implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and GASB Statement No. 50, *Pension Disclosures – An Amendment of GASB Statements No. 25 and 27*, for the year ended June 30, 2008. The provisions of GASB Statement No. 45 required the County to restate beginning fund balances/net assets as of July 1, 2007, and is discussed in detail in Note 2 to the basic financial statements.

The management's discussion and analysis on pages 3 through 21 and the schedules of funding progress on pages 102 and 103 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.

*Macian Fini & O'Connell LLP*

Certified Public Accountants

Los Angeles, California  
December 15, 2008

## **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, 2008. 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 \$17.313 billion. However, net assets are classified into three categories and the unrestricted component is negative \$773 million. See further discussion on page B-7.

During the current year, the County's net assets decreased by a total of \$462 million. Net assets related to governmental activities decreased by \$314 million, while net assets related to business-type activities decreased by \$148 million. The County implemented Governmental Accounting Standards Board Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" (GASB 45). GASB 45 had a material effect on the County's changes in net assets during the current year. See further discussion on page B-7.

At the end of the current year, the County's General Fund reported a total fund balance of \$3.374 billion. The amount of unreserved fund balance was \$2.777 billion. Of the unreserved total, \$1.153 billion was designated.

The County's capital asset balances were \$17.525 billion at year-end and increased by \$267 million during the year.

During the current year, the County's total long-term debt decreased by \$191 million. Bond maturities of \$566 million exceeded the \$375 million of newly issued and accreted long-term debt.

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

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

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

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

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

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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

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

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

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

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

**FUND FINANCIAL STATEMENTS**

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

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

FUND FINANCIAL STATEMENTS-Continued

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

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

REQUIRED SUPPLEMENTARY INFORMATION

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

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

**Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the County, assets exceeded liabilities by \$17.313 billion at the close of the most recent fiscal year.

Summary of Net Assets  
As of June 30, 2008 and 2007  
(in thousands)

	Governmental		Business-type		Total	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 8,052,812	\$ 7,517,376	\$ 994,087	\$ 854,182	\$ 9,046,899	\$ 8,371,558
Capital assets	<u>15,074,565</u>	<u>14,929,975</u>	<u>2,450,785</u>	<u>2,328,116</u>	<u>17,525,350</u>	<u>17,258,091</u>
Total assets	<u><u>23,127,377</u></u>	<u><u>22,447,351</u></u>	<u><u>3,444,872</u></u>	<u><u>3,182,298</u></u>	<u><u>26,572,249</u></u>	<u><u>25,629,649</u></u>
Current and other liabilities	1,377,389	1,321,963	218,966	198,490	1,596,355	1,520,453
Long-term liabilities	<u>6,179,573</u>	<u>5,684,764</u>	<u>1,483,193</u>	<u>1,247,234</u>	<u>7,662,766</u>	<u>6,931,998</u>
Total liabilities	<u><u>7,556,962</u></u>	<u><u>7,006,727</u></u>	<u><u>1,702,159</u></u>	<u><u>1,445,724</u></u>	<u><u>9,259,121</u></u>	<u><u>8,452,451</u></u>
Net assets:						
Invested in capital assets, net of related debt	13,913,070	14,192,494	2,259,617	2,190,999	16,172,687	16,383,493
Restricted net assets	1,605,763	1,443,083	307,985	186,266	1,913,748	1,629,349
Unrestricted net assets (deficit)	<u>51,582</u>	<u>(194,953)</u>	<u>(824,889)</u>	<u>(640,691)</u>	<u>(773,307)</u>	<u>(835,644)</u>
Total net assets	<u><u>15,570,415</u></u>	<u><u>15,440,624</u></u>	<u><u>1,742,713</u></u>	<u><u>1,736,574</u></u>	<u><u>17,313,128</u></u>	<u><u>17,177,198</u></u>
Total liabilities and net assets	<u><u>\$ 23,127,377</u></u>	<u><u>\$ 22,447,351</u></u>	<u><u>\$ 3,444,872</u></u>	<u><u>\$ 3,182,298</u></u>	<u><u>\$ 26,572,249</u></u>	<u><u>\$ 25,629,649</u></u>

Significant changes in assets and liabilities included the following:

Current and Other Assets

Current and other assets increased for governmental activities by \$535 million. The major changes were associated with health and mental health services program receivables (\$323 million) and other postemployment benefits (OPEB) related receivables (\$120 million). Various other changes comprised the remaining increase of \$92 million. The County's newly established managed care rate supplement provided increased receivables of \$129 million. Mental health program receivables (primarily from federal and State sources) grew by \$106 and Mental Health Services Act (Proposition 63) receivables increased by \$88 million as certain collections were received shortly after year-end in the current year. OPEB related receivables were recognized in the current year for the first time in conjunction with implementing GASB 45, as discussed in Note 2 to the basic financial statements.

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

Long-Term Liabilities

Long-term liabilities increased by \$495 million for governmental activities and by \$236 million for business-type activities. Newly established liabilities for OPEB, net of reductions to previously recorded liabilities as discussed in Note 2 to the basic financial statements, significantly increased the County's long-term liabilities. Specific adjustments related to OPEB and other changes in long-term liabilities are discussed and referenced in Notes 2 and 10 to the basic financial statements.

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

Capital Assets, Net of Related Debt

The largest portion of the County's net assets (\$16.173 billion) represents its investment in capital assets (i.e., land, structures and improvements, infrastructure, and equipment, net of related depreciation), less any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted Net Assets

The County's restricted net assets at year-end were \$1.914 billion. Asset restrictions are primarily due to external restrictions imposed by State legislation and bond covenants. Net assets that pertain to the various separate legal entities included in the basic financial statements are also generally restricted because their funding sources require that funds be used for specific purposes.

Unrestricted Net Assets (Deficit)

The County's total unrestricted net assets are negative \$773 million. This amount consisted of a positive balance for governmental activities (\$52 million) and a negative balance for business-type activities (\$825 million). The deficits related to business-type activities are primarily due to unfunded liabilities related to workers' compensation, accrued vacation and sick leave, litigation and self-insurance claims, medical malpractice, and third party payors. As discussed in Notes 2 and 8 to the basic financial statements, the County implemented provisions of GASB 45 and unfunded other postemployment benefit (OPEB) liabilities of \$1.234 billion arose during the current year, of which \$214 million pertained to business-type activities. The ongoing financial losses incurred by the County's healthcare business activities have limited the opportunities to accumulate reserves or incremental funding to address long-term accounting liabilities.

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

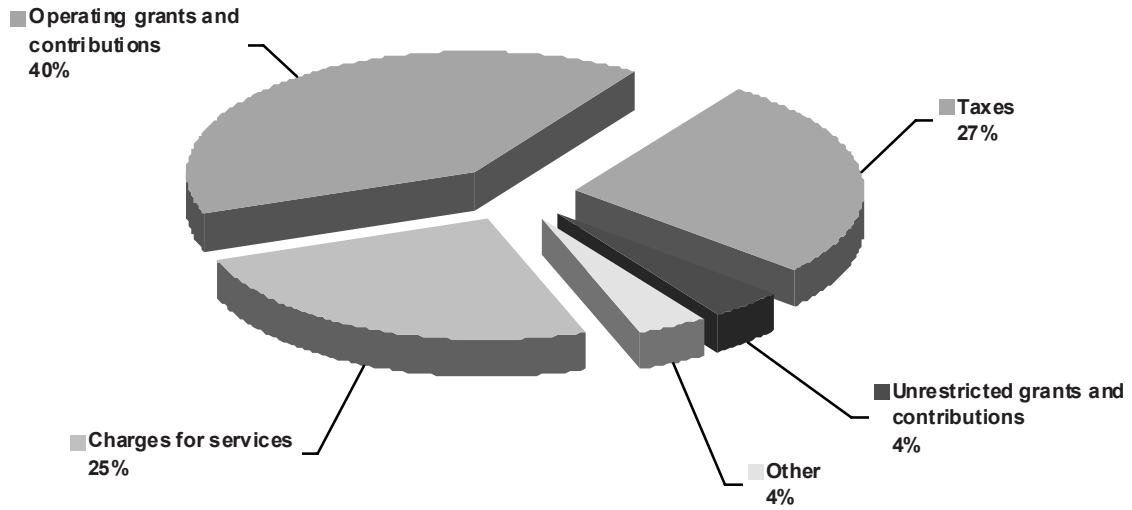
The following table indicates the changes in net assets for governmental and business-type activities:

Summary of Changes in Net Assets  
For the Years Ended June 30, 2008 and 2007  
(in thousands)

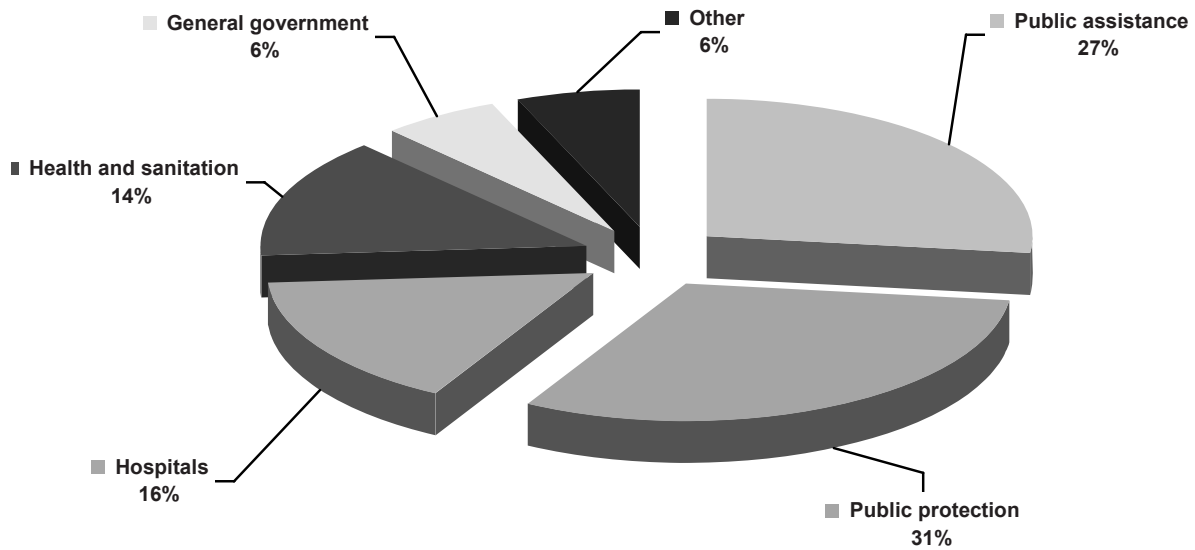
	Governmental		Business-type		Total	
	Activities		Activities			
	2008	2007	2008	2007	2008	2007
<b>Revenues:</b>						
<b>Program revenues:</b>						
Charges for services	\$ 2,738,552	\$ 2,396,868	\$ 1,806,747	\$ 1,957,979	\$ 4,545,299	\$ 4,354,847
Operating grants and contributions	7,113,135	6,980,549	263,471	304,720	7,376,606	7,285,269
Capital grants and contributions	184,502	25,135	2,897	12,992	187,399	38,127
<b>General revenues:</b>						
Taxes	5,034,399	4,688,595	4,405	3,782	5,038,804	4,692,377
Unrestricted grants and contributions	778,936	761,705	37	35	778,973	761,740
Investment earnings	324,132	335,851	14,073	18,043	338,205	353,894
Miscellaneous	<u>229,810</u>	<u>259,357</u>	<u>24,950</u>	<u>50,443</u>	<u>254,760</u>	<u>309,800</u>
Total revenues	<u>16,403,466</u>	<u>15,448,060</u>	<u>2,116,580</u>	<u>2,347,994</u>	<u>18,520,046</u>	<u>17,796,054</u>
<b>Expenses:</b>						
General government	1,171,448	807,155			1,171,448	807,155
Public protection	5,799,593	4,872,413			5,799,593	4,872,413
Public ways and facilities	299,304	282,827			299,304	282,827
Health and sanitation	2,638,135	2,223,695			2,638,135	2,223,695
Public assistance	5,061,367	4,539,458			5,061,367	4,539,458
Education	112,035	99,136			112,035	99,136
Recreation and cultural services	290,669	266,967			290,669	266,967
Interest on long-term debt	191,551	239,608			191,551	239,608
Hospitals			3,092,682	2,894,493	3,092,682	2,894,493
Aviation			4,182	5,761	4,182	5,761
Waterworks			74,810	97,504	74,810	97,504
Community Development Commission			246,195	211,077	246,195	211,077
Total expenses	<u>15,564,102</u>	<u>13,331,259</u>	<u>3,417,869</u>	<u>3,208,835</u>	<u>18,981,971</u>	<u>16,540,094</u>
<b>Excess (deficiency) before transfers and special item</b>	839,364	2,116,801	(1,301,289)	(860,841)	(461,925)	1,255,960
Transfers	(1,152,946)	(1,049,213)	1,152,946	1,049,213		
Special item		<u>267,473</u>				<u>267,473</u>
Changes in net assets	(313,582)	1,335,061	(148,343)	188,372	(461,925)	1,523,433
Net assets – beginning, as restated	<u>15,883,997</u>	<u>14,105,563</u>	<u>1,891,056</u>	<u>1,548,202</u>	<u>17,775,053</u>	<u>15,653,765</u>
Net assets – ending	<u>\$ 15,570,415</u>	<u>\$ 15,440,624</u>	<u>\$ 1,742,713</u>	<u>\$ 1,736,574</u>	<u>\$ 17,313,128</u>	<u>\$ 17,177,198</u>

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

**REVENUES BY SOURCE – ALL ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2008**



**EXPENSES BY TYPE – ALL ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2008**



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

As discussed in Note 2 to the basic financial statements, the County restated beginning net asset balances in conjunction with implementing GASB 45. The beginning net assets were increased from the amounts previously reported for governmental and business-type activities by \$443 million and \$154 million, respectively. During the current year, net assets decreased for both governmental activities (\$314 million) and business-type activities (\$148 million). Following are specific major factors that resulted in the net asset changes.

Governmental Activities

Revenues from governmental activities grew by \$955 million (6.2%) 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 \$346 million higher than the previous year. The additional growth in tax revenues was concentrated in property taxes (\$372 million). However, documentary transfer taxes decreased by \$31 million as real estate transfer activity declined during the current year. The continued property tax growth was attributable to the early lien date (January 1, 2007), which preceded the start of the fiscal year by six months. This gap, combined with the stabilizing effect of Proposition 13, enabled the County to continue to experience growth in this area. The net increase in other taxes was \$5 million in comparison to the prior year.
- Program revenues recognized from charges for services increased by \$342 million. The largest source of this increase (\$189 million) was associated with health and sanitation programs. The County successfully concluded a multi-year effort to secure an agreement with the State to provide supplemental funding to Medi-Cal managed care capitation rates. The supplemental funding resulted in a \$140 million increase in current year revenues, of which \$56 million was attributable to FY 2006-2007 services. In addition, charges for public protection services (primarily law enforcement) were \$84 million higher than the previous year as charges were adjusted due to cost increases. Charges for various other governmental services increased by \$69 million compared to the prior year.

Expenses related to governmental activities increased by \$2.233 billion during the current year. As discussed in Note 8 to the basic financial statements, the County began to measure OPEB costs in accordance with GASB 45 during the current year. The County continued to fund OPEB costs on a pay-as-you go basis and there are newly recognized OPEB obligations of \$1.234 billion in the current year for all activities. Of this amount, \$1.020 billion was related to governmental activities. The following table summarizes total increased expenses by category, the amount related to other postemployment benefit costs, and changes related to all other expenses (in thousands):

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

Governmental Activities-Continued

<u>Expense Category</u>	<u>Increase in Total Expenses</u>	<u>Expense Increase Related to OPEB Accruals</u>	<u>Increase (Decrease) in All Other Expenses</u>
General Government	\$ 364,293	\$ 141,422	\$ 222,871
Public Protection	927,180	446,845	480,335
Health and Sanitation	414,440	117,491	296,949
Public Assistance	521,909	286,448	235,461
All other areas	<u>5,021</u>	<u>27,774</u>	<u>(22,753)</u>
Total	<u>\$ 2,232,843</u>	<u>\$ 1,019,980</u>	<u>\$ 1,212,863</u>

Excluding accrued OPEB obligations, expenses increased by \$1.213 billion. The largest increase was related to the public protection category, which grew by \$480 million. Of this amount, salaries and employee benefits increased by \$402 million, primarily due to previously negotiated increases that became effective in the current year. Other factors that contributed to the increase were expanded medical services for inmates, additional staffing for jails and patrol of unincorporated areas, and additional positions to improve various operational areas of the Probation Department.

Health and sanitation expenses (excluding accrued OPEB costs) increased by nearly \$300 million. Major factors contributing to this variance included higher salary and benefit costs (\$71 million), a newly established managed care intergovernmental transfer expense (\$65 million), and increases in contracted mental health services (\$62 million).

Business-type Activities

Revenues from business-type activities decreased in comparison to the prior year by \$231 million (9.9%). The most significant change was in the area of charges for services, which decreased by \$151 million. The County's business-type healthcare activities experienced a \$134 million reduction in charges for services. This decrease was consistent with the downturn in average daily hospital census, from 1,415 in the prior year to 1,317 in the current year. The reduced revenues and census figures were concentrated at the Martin L. King facility. This facility was converted from a full service hospital to a multi-service ambulatory care center, thereby eliminating inpatient services in August 2007. This change coincided with the net decrease in average daily census as noted above.

Expenses related to business-type activities increased from the previous year by \$209 million. The increased expenses were principally related to the Hospitals, where expenses were higher by \$198 million. The recognition of accrued OPEB costs (as previously discussed for governmental activities) increased Hospital expenses by \$214 million. Therefore, despite negotiated salary and employee benefit increases, expenses were very comparable to the prior year as cost increases were offset by the downsizing of the Martin Luther King Jr. facility.

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

**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 \$6.003 billion, an increase of \$348 million in comparison with the prior year. Of the total fund balance, \$1.532 billion is reserved to indicate the extent that funds have been committed or are otherwise unavailable for spending. An additional \$1.725 billion has been designated and set aside for intended spending purposes as indicated in the financial statements. The remaining \$2.746 billion of the balances are unreserved and undesignated.

Revenues from all governmental funds for the current year were \$16.273 billion, an increase of \$1.035 billion (6.8%) from the previous year. Expenditures for all governmental funds in the current year were \$14.880 billion, an increase of \$1.031 billion (7.4%) from the previous year. In addition, other financing uses exceeded other financing sources by \$1.045 billion as compared to \$1.028 billion in the prior year.

The General Fund is the County's principal operating fund. During the current year, the fund balance in the General Fund increased by \$201 million (6.3%). At the end of the current fiscal year, the General Fund's total fund balance was \$3.374 billion. Of this amount, \$597 million was reserved and therefore unavailable for spending. Of the unreserved total of \$2.777 billion, \$1.153 billion has been designated (earmarked) and the remaining \$1.624 billion is considered both unreserved and undesignated.

General Fund revenues during the current year were \$13.627 billion, an increase of \$757 million (5.9%) from the previous year. General Fund expenditures during the current year were \$12.744 billion, an increase of \$985 million (8.4%) from the previous year. Other financing sources/uses-net was negative \$683 million in the current year as compared to negative \$770 million in the prior year.

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

Governmental Funds-Continued

Following are significant changes in General Fund revenues and expenditures:

- Revenues from taxes increased by \$223 million (6.3%). Of this net increase, property taxes increased by \$254 million. However, documentary transfer taxes decreased by \$31 million as real estate activity declined during the current year. As previously mentioned, property tax revenues were not immediately impacted by the downturn in the housing market and provisions of Proposition 13 are also a stabilizing factor when housing prices decrease.
- Intergovernmental revenues from federal sources increased by \$249 million. Of this amount, \$209 million was related to public assistance programs operated by the Departments of Public Social Service and Children and Family Services. The increased revenues were driven by higher levels of reimbursable expenditures. There was also a shift in funding sources for certain programs, whereby federal revenues provided funding for costs that were previously reimbursed from State revenues.
- Revenues from charges for services increased by \$227 million. The largest source of this increase (\$140 million) was associated with the County's managed care program. An additional increase (\$35 million) was recognized in the Sheriff's Department and was related to recoveries of increased salaries and benefits from contracting agencies. The remaining increase in this revenue category (\$52 million) was recognized from a variety of programs that charge for services.
- Current expenditures increased by \$875 million (7.6%), and there were increases in all functional areas. The most significant increase was in the area of public protection, where expenditures were higher by \$367 million. Of this amount, salaries and employee benefits increased by \$331 million. These costs were notably higher in the Sheriff's Department (\$222 million) and Probation Department (\$48 million), and were largely due to negotiated salary and benefit increases, as there was limited program expansion in these areas. Expenditures also increased in the areas of health and sanitation (\$219 million) and public assistance (\$209 million).

The Fire Protection District reported a year-end fund balance of \$170 million, which represented an increase of \$23 million from the previous year. Revenues increased by \$40 million, of which \$31 million was attributable to property taxes and the remaining increase was associated with a variety of other revenues. Expenditures were higher by \$22 million, of which \$19 million was related to salaries and benefits. Transfers out were \$15 million lower than the previous year as there were reduced transfers made to capital projects funds for future facilities' needs.

The Flood Control District reported a year-end fund balance of \$162 million, which was \$14 million higher than the previous year. Revenues and expenditures were mostly unchanged from the prior year, with each decreasing approximately \$3 million or 1.1% and 1.5%, respectively.

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

Governmental Funds-Continued

The Public Library Fund reported a year-end fund balance of \$29 million, which was \$8 million higher than the previous year. The principal factors associated with the fund balance growth were higher property tax revenues and "transfers in," which increased by \$4 million and \$6 million, respectively.

The Regional Park and Open Space District reported a year-end fund balance of \$286 million, which was \$25 million higher than the previous year. Current year revenues (\$93 million) were similar to the previous year (\$91 million) while expenditures declined by \$9 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 consist of four hospital enterprise funds and an additional fund (Martin L. King Jr. Ambulatory Care Center) which was converted from a full-service hospital in the current year to a multi-service ambulatory care center. Each of these funds incurred a net loss prior to contributions and transfers.

The County is legally required to provide local matching funds to the health care system in order to remain eligible for federal and State assistance. Such funds were provided to the hospitals as operating subsidies from the County General Fund during the year. The amount of subsidy, per facility, ranged from \$76 million for M. L. King Ambulatory Care Center to \$501 million for the LAC+USC Medical Center. The total subsidy amount was \$1.001 billion and is reflected in the Statement of Revenues, Expenses and Changes in Fund Net Assets as "transfers in." By comparison, the total General Fund subsidy in the prior year was \$883 million.

An additional source of local funding for the Hospitals is the Health Services Measure B Special Revenue Fund ("Measure B Fund"). The Measure B Fund receives voter approved property taxes for trauma and emergency services. In each of the current and prior years, the Measure B Fund provided \$147 million of transfers to the Hospitals.

The Waterworks Funds reported year-end net assets of \$895 million, a \$2 million reduction from the previous year. However, the District's cash and investment position improved in the current year by \$7 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 15 to the basic financial statements. There are approximately 100 separate budget units within the General Fund, excluding capital improvement projects, which are individually budgeted.

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

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 \$102 million in the General Fund's available (unreserved and undesignated) fund balance from the previous year.

Budgetary Summary - Revenues/Financing Sources

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

<u>Category</u>	Increase (Decrease) From Original Budget	Final Budget Amount	Actual Amount	Variance- Positive (Negative)
Taxes	\$ 14,877	\$ 3,842,971	\$ 3,826,908	\$ (16,063)
Intergovernmental revenues	65,800	7,855,542	7,243,478	(612,064)
Charges for services	13,820	1,758,279	1,695,004	(63,275)
All other revenues	124,586	654,505	899,843	245,338
Other sources and transfers	13,630	493,733	307,274	(186,459)
<b>Total</b>	<u>\$ 232,713</u>	<u>\$14,605,030</u>	<u>\$13,972,507</u>	<u>\$(632,523)</u>

Changes from Amounts Originally Budgeted

During the year, net increases in budgeted revenues and other financing sources approximated \$233 million. The most significant changes occurred in the following areas:

- Estimated revenues from intergovernmental sources were increased by \$66 million. The increase was primarily associated with additional revenues from Homeland Security grant funds (\$43 million). The remaining \$23 million was related to additional funding that was targeted to the Sheriff's Department, social service programs and services for children and families.
- The increase of \$125 million related to "all other revenues" was mostly attributable to tobacco settlement revenues of \$105 million. The County's policy is to budget tobacco settlement revenues after they have been received. Estimated revenues from investment income were increased by \$14 million as a result of higher than anticipated investment yield and miscellaneous revenue increases accounted for the remaining \$6 million.

Actual Revenues/Financing Sources Compared with Final Budget Amounts

Actual revenues and other financing sources recognized by the General Fund were approximately \$633 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 \$612 million lower than the amount budgeted. Social service programs, including children and family services, accounted for approximately \$188 million of this variance, which was mostly attributable to lower than anticipated caseloads and reimbursable social service related expenditures. Approximately \$187 million (mostly federal assistance) was associated with mental health services, due to lower than expected reimbursable costs. An additional \$164 million pertained to anticipated reimbursement of capital improvement, disaster recovery and homeland security projects and programs that were not completed prior to year-end. The remaining variance of \$73 million was related to a variety of other programs that received intergovernmental revenues.
- The actual amount of “other sources and transfers” was \$186 million lower than the amount budgeted. Of this amount, “transfers in” totaling \$117 million were assumed in the budget for capital improvements and extraordinary building maintenance projects which did not incur expected costs. Mental health programs funded by the Mental Health Services Act Fund (Proposition 63) did not fully materialize at the budgeted level and “transfers in” were \$52 million lower than budgeted. There were various other sources and transfers that comprised the remaining variance of \$17 million.
- The amount budgeted for “all other revenues” was exceeded by \$245 million. Investment income exceeded the amount budgeted by \$103 million as the yield on investments was higher than anticipated. Miscellaneous revenues were \$94 million higher than budget, half of which was related to health and mental health services and the remainder from various sources. Revenues from property tax penalties exceeded the budgeted amount by approximately \$46 million and the remaining variance of \$2 million was generated by diverse revenue sources.

Budgetary Summary - Expenditures/Other Financing Uses

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

<u>Category</u>	Increase (Decrease) From Original Budget	Final Budget Amount	Actual Amount	Variance- Positive
General government	\$ 62,645	\$ 1,363,585	\$ 912,999	\$ 450,586
Public protection	94,808	4,575,551	4,414,810	160,741
Health and sanitation	(19,114)	2,693,857	2,469,110	224,747
Public assistance	31,598	5,016,098	4,739,945	276,153
All other expenditures	(56,059)	1,624,864	436,851	1,188,013
Transfers out	63,653	1,088,103	1,064,589	23,514
Contingencies	302	302		302
Reserves/designations-net	54,880	(50,973)	(168,244)	117,271
<b>Total</b>	<b>\$ 232,713</b>	<b>\$ 16,311,387</b>	<b>\$ 13,870,060</b>	<b>\$2,441,327</b>

**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 \$233 million. As discussed below, the most significant changes occurred in the following areas:

- Appropriations were increased for the public protection category by approximately \$95 million. Funding was added to the Emergency Preparedness and Response budget (\$44 million) and the Sheriff's Department (\$33 million). The source of the additional funding was primarily grant revenues that were added to the original budget. The remaining \$18 million consisted of a variety of supplemental allocations.
- Appropriations for "transfers out" were increased by \$64 million. Of this amount, General Fund operating subsidies to the Hospital Funds were increased by \$46 million (from \$946 million originally budgeted to \$992 million). The remaining \$18 million increase was related to various transfers to Special Revenue Funds.
- Overall appropriations were increased for the general government category by \$63 million. The most significant factor associated with this net change was an increase of \$65 million to the Judgment and Damages budget unit for estimated settlement payments.

Actual Expenditures/Other Financing Uses Compared with Final Budget Amount

Actual expenditures/other financing uses for the current year were \$2.441 billion lower (approximately 15%) than the final total budget of \$16.311 billion. Although there were budgetary savings in all categories, following are the functional areas that recognized the largest variations from the final budget:

- The category referred to as "all other expenditures" reflected actual spending of \$1.188 billion less than the budgeted amount. Nearly all (\$1.177 billion) of this variance was related to the capital outlay category. There were many capital improvements anticipated in the budget that remained in the planning stages and did not incur expenditures during the year. Most of the unused balance has been reestablished in the following year's budget to ensure the continuity of the projects, many of which are multi-year in nature.
- The general government function reported actual expenditures that were \$451 million less than the amount budgeted. Of this amount, \$265 million represented budgetary savings for items that are not associated with specific County departments, such as provisional appropriations, central non-departmental appropriations, and extraordinary maintenance and repairs. The remaining \$186 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.

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

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

- Actual public assistance expenditures were \$276 million lower than the final budget. Of this amount, \$236 million was concentrated in social service, children, and family programs. Administrative costs were lower than anticipated due to vacant positions, hiring delays, and delays in implementing certain programs. As information became available during the year regarding potential cuts in State funded programs, there was a corresponding slowdown in hiring. The remaining variance amount of \$40 million was related to other public assistance programs.
- Overall expenditures for the health and sanitation category were \$225 million less than the budgeted amount. Appropriations related to mental health services exceeded actual expenditures by \$167 million, primarily due to less than anticipated costs for services and supplies and to a lesser extent, salary savings. The remaining variance of \$58 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, 2008 were \$17.525 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.

The total increase in the County's capital assets (net of depreciation) for the current fiscal year was \$267 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	\$ 7,262,068	\$ 7,240,287	21,781
Buildings and improvements	3,059,365	3,044,116	15,249
Infrastructure	5,197,564	5,291,789	(94,225)
Equipment	437,770	370,197	67,573
Construction-in-progress	<u>1,568,583</u>	<u>1,311,702</u>	<u>256,881</u>
Total	<u>\$17,525,350</u>	<u>\$17,258,091</u>	<u>\$ 267,259</u>

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

The County's most significant capital asset activity during the current year was concentrated in the area of construction-in-progress. For governmental activities, there were additions of approximately \$78 million to flood and road infrastructure projects that remained in progress. For business-type activities, the new LAC+USC Medical Center neared completion and its capitalized costs during the current year approximated \$70 million and its outstanding contractual commitments as of June 30, 2008 approximated \$21 million. The Harbor/UCLA Medical Center Surgery/Emergency Replacement Project continued to progress and its capitalized costs during the current year were \$30 million.

**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>Increase (Decrease)</u>
Bonds and Notes Payable	\$ 1,942,453	\$ 1,848,630	\$ 93,823
Pension Bonds Payable	<u>900,824</u>	<u>1,185,197</u>	<u>(284,373)</u>
Total	<u>\$ 2,843,277</u>	<u>\$ 3,033,827</u>	<u>\$(190,550)</u>

During the current year, the County's liabilities for long-term debt decreased by \$191 million, or 6.3%. Specific changes related to governmental and business-type activities are presented in Note 10 to the basic financial statements. During the current year, significant long-term debt transactions were as follows:

- Refunding bonds totaling \$94 million, along with other funding sources, were used to advance refund outstanding bond principal of \$127 million.
- New debt of \$50 million was issued to finance the acquisition of equipment. Equipment debt totaling \$53 million was redeemed during the year in accordance with maturity schedules.
- New debt of \$203 million was issued to finance the construction of various hospital improvements.
- Pension bonds totaling \$284 million were redeemed during the year.

In addition to the above borrowing, the County continued to finance General Fund cash flow shortages occurring periodically during the fiscal year by selling \$500 million in tax and revenue anticipation notes which reached maturity on June 30, 2008, and by periodic borrowing from available trust funds.

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

Bond Ratings

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

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

During the current year, the County's Equipment/Non-Essential Leases were upgraded by Moody's from A3 to A2. All other bond ratings were maintained at the same level as the previous year.

**Economic Conditions and Outlook**

The Board of Supervisors adopted the County's 2008-2009 Budget on June 17, 2008. The Budget was adopted based on estimated fund balances that would be available at the end of 2007-2008. The Board updated the Budget on October 7, 2008 to reflect final 2007-2008 fund balances and other pertinent financial information. For the County's General Fund, the 2008-2009 Budget, as updated in October 2008, utilized \$1.809 billion of available fund balance, which exceeded the previously estimated fund balance of \$1.419 billion. Of the additional fund balance of \$390 million, \$155 million was used to carryover lapsed appropriations and \$48 million was appropriated for one-time purchases of a critical nature. The remaining surplus of \$187 million was set aside to manage potential State funding reductions and the impact of the ongoing economic downturn.

The County's economic outlook mirrors the rest of the nation as it faces the challenges of a recessionary environment. The County's new homebuilding and resale housing market has been, and continues to be, in decline. The resale housing market presents the biggest risk to the County, which could have a negative impact on property tax revenues. For the year ended June 30, 2008, property tax revenues represented 27.5% of total revenues recognized from governmental activities. These revenues are the County's single most important source of funding and are vital to programs which rely on discretionary funding sources. County management is closely monitoring changes in assessed property values and adjusting revenue estimates as new information becomes available. For 2008-2009, a five-percent (5%) growth assumption was used for property tax revenues, down from the nine-percent (9%) growth factor that was used in 2007-2008.

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

As a result of growth limits on assessed values imposed by Proposition 13, there is a significant amount of home value appreciation that occurred over the last five years that has not been reflected on the property tax rolls. This increase will likely help offset any future valuation reductions. Unless the housing decline extends for several years or becomes more severe, the County's property tax base is not likely to be materially affected.

The County's financial outlook is also affected by ongoing and severe budget problems at the State level. The State Legislative Analyst's Office (LAO) has estimated that the State's budget deficit will be approximately \$8.4 billion by the end of 2008-2009. The deficit is attributable to the deteriorating economy which has affected the State's three major revenue sources, the personal income tax, sales and use taxes, and the corporate income tax. For 2009-2010, the LAO forecasts a worsening situation, with an additional annual deficit estimated at \$19.4 billion. Many County programs receive substantial State funding and the County is likely to be confronted with program curtailments and increased local funding requirements. The County is highly dependent upon cash receipts from the State and is closely monitoring the State's liquidity and ability to make timely cash remittances to the County.

As indicated in the Statement of Changes in Fiduciary Net Assets, the Pension Trust Fund incurred a net investment loss of \$1.426 billion in the current year. The Required Supplementary Information (unaudited) section of this report indicates a funded ratio of 93.8% as of June 30, 2007, which is the most recently completed actuarial valuation. It is estimated that the June 30, 2008 actuarial valuation will indicate a funded ratio of approximately 95%. The Pension Trust Fund has significant ongoing exposure to the equity markets, has incurred additional investment losses since June 30, 2008, and the financial markets remain highly volatile. Such losses, combined with investment performance for the remainder of the 2008-2009 fiscal year, will be actuarially measured as of June 30, 2009 and their impact on future County contribution rates will be determined at that time, in conjunction with the three year smoothed method.

**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, 2008 (in thousands)

	PRIMARY GOVERNMENT			COMPONENT UNIT
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	FIRST 5 LA
<b>ASSETS</b>				
Pooled cash and investments: (Notes 1 and 5)				
Operating (Note 1)	\$ 3,552,235	\$ 189,627	\$ 3,741,862	\$ 875,166
Other (Note 1)	975,706	91,001	1,066,707	
Total pooled cash and investments	<u>4,527,941</u>	<u>280,628</u>	<u>4,808,569</u>	<u>875,166</u>
Other investments (Note 5)	330,038	55,495	385,533	
Taxes receivable	443,224	915	444,139	
Accounts receivable - net		773,485	773,485	
Interest receivable	29,739	980	30,719	3,272
Other receivables	2,120,735	53,944	2,174,679	41,391
Internal balances (Note 14)	389,818	(389,818)		
Inventories	97,008	23,248	120,256	
Restricted assets (Note 5)	5,420	157,376	162,796	
Net pension obligation (Note 7)	108,889	37,834	146,723	
Capital assets: (Notes 6 and 9)				
Capital assets, not being depreciated	7,594,368	1,236,283	8,830,651	2,039
Capital assets, net of accumulated depreciation	<u>7,480,197</u>	<u>1,214,502</u>	<u>8,694,699</u>	<u>11,809</u>
Total capital assets	<u>15,074,565</u>	<u>2,450,785</u>	<u>17,525,350</u>	<u>13,848</u>
<b>TOTAL ASSETS</b>	<u>23,127,377</u>	<u>3,444,872</u>	<u>26,572,249</u>	<u>933,677</u>
<b>LIABILITIES</b>				
Accounts payable	329,879	80,176	410,055	32,440
Accrued payroll	550,630	114,754	665,384	
Other payables	158,263	11,561	169,824	
Accrued interest payable	15,388	659	16,047	
Unearned revenue (Note 7)	50,947	3,972	54,919	1,174
Advances payable	272,282	7,844	280,126	
Noncurrent liabilities: (Note 10)				
Due within one year	895,435	430,705	1,326,140	63
Due in more than one year	<u>5,284,138</u>	<u>1,052,488</u>	<u>6,336,626</u>	<u>208</u>
<b>TOTAL LIABILITIES</b>	<u>7,556,962</u>	<u>1,702,159</u>	<u>9,259,121</u>	<u>33,885</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt (Notes 6 and 10)	13,913,070	2,259,617	16,172,687	13,848
Restricted for:				
Capital projects	121,251		121,251	
Debt service	587	255,295	255,882	
Permanent trust	3,455		3,455	
Special purpose	1,480,470	52,690	1,533,160	885,944
Unrestricted (deficit)	<u>51,582</u>	<u>(824,889)</u>	<u>(773,307)</u>	
<b>TOTAL NET ASSETS</b>	<u>\$ 15,570,415</u>	<u>\$ 1,742,713</u>	<u>\$ 17,313,128</u>	<u>\$ 899,792</u>

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

COUNTY OF LOS ANGELES  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2008 (in thousands)

FUNCTIONS	EXPENSES	PROGRAM REVENUE		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
<b>PRIMARY GOVERNMENT:</b>				
Governmental activities:				
General government	\$ 1,171,448	\$ 445,948	\$ 42,829	\$ 81,523
Public protection	5,799,593	1,273,710	1,147,407	12,806
Public ways and facilities	299,304	39,767	159,602	88,773
Health and sanitation	2,638,135	708,097	1,521,459	1,400
Public assistance	5,061,367	61,568	4,238,169	
Education	112,035	3,098	1,675	
Recreation and cultural services	290,669	206,364	1,994	
Interest on long-term debt	191,551			
Total governmental activities	<u>15,564,102</u>	<u>2,738,552</u>	<u>7,113,135</u>	<u>184,502</u>
Business-type activities:				
Hospitals	3,092,682	1,730,231	54,922	
Aviation	4,182	3,030	314	1,484
Waterworks	74,810	61,514	50	1,413
Community Development Commission	246,195	11,972	208,185	
Total business-type activities	<u>3,417,869</u>	<u>1,806,747</u>	<u>263,471</u>	<u>2,897</u>
Total primary government	<u>\$ 18,981,971</u>	<u>\$ 4,545,299</u>	<u>\$ 7,376,606</u>	<u>\$ 187,399</u>
<b>COMPONENT UNIT -</b>				
First 5 LA	<u>\$ 139,587</u>	<u>\$</u>	<u>\$ 143,428</u>	<u>\$</u>

**GENERAL REVENUES:**

Taxes:

- Property taxes
- Utility users taxes
- Voter approved taxes
- Documentary transfer taxes
- Other taxes

Sales and use taxes, levied by the State

Grants and contributions not restricted to special programs

Investment earnings

Miscellaneous

**TRANSFERS - NET**

Total general revenues and transfers

**CHANGE IN NET ASSETS**

NET ASSETS, JULY 1, 2007, as restated (Note 2)

NET ASSETS, JUNE 30, 2008

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
\$ (601,148)	\$	\$ (601,148)	
(3,365,670)		(3,365,670)	
(11,162)		(11,162)	
(407,179)		(407,179)	
(761,630)		(761,630)	
(107,262)		(107,262)	
(82,311)		(82,311)	
(191,551)		(191,551)	
<u>(5,527,913)</u>		<u>(5,527,913)</u>	
	(1,307,529)	(1,307,529)	
	646	646	
	(11,833)	(11,833)	
	<u>(26,038)</u>	<u>(26,038)</u>	
	<u>(1,344,754)</u>	<u>(1,344,754)</u>	
<u>(5,527,913)</u>	<u>(1,344,754)</u>	<u>(6,872,667)</u>	
			<u>\$ 3,841</u>
4,514,909	4,405	4,519,314	
65,583		65,583	
255,580		255,580	
56,439		56,439	
62,935		62,935	
78,953		78,953	
778,936	37	778,973	
324,132	14,073	338,205	34,996
229,810	24,950	254,760	468
<u>(1,152,946)</u>	<u>1,152,946</u>		
<u>5,214,331</u>	<u>1,196,411</u>	<u>6,410,742</u>	<u>35,464</u>
(313,582)	(148,343)	(461,925)	39,305
15,883,997	1,891,056	17,775,053	860,487
<u>\$ 15,570,415</u>	<u>\$ 1,742,713</u>	<u>\$ 17,313,128</u>	<u>\$ 899,792</u>

FUNCTIONS

PRIMARY GOVERNMENT:

Governmental activities:

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

Business-type activities:

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

Total primary government

COMPONENT UNIT -

Total - First 5 LA

GENERAL REVENUES:

Taxes:

- Property taxes
- Utility users taxes
- Voter approved taxes
- Documentary transfer taxes
- Other taxes

- Sales and use taxes, levied by the State
- Grants and contributions not restricted to special programs

- Investment earnings
- Miscellaneous

TRANSFERS - NET

Total general revenues and transfers

CHANGE IN NET ASSETS

NET ASSETS, JULY 1, 2007, as restated (Note 2)

NET ASSETS, JUNE 30, 2008

COUNTY OF LOS ANGELES  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2008 (in thousands)

	GENERAL FUND	FIRE PROTECTION DISTRICT	FLOOD CONTROL DISTRICT	PUBLIC LIBRARY
<b>ASSETS:</b>				
Pooled cash and investments: (Notes 1 and 5)				
Operating (Note 1)	\$ 1,494,243	121,353	145,474	27,929
Other (Note 1)	849,282	42,043	11,445	4,110
Total pooled cash and investments	<u>2,343,525</u>	<u>163,396</u>	<u>156,919</u>	<u>32,039</u>
Other investments (Notes 4 and 5)	6,236			120
Taxes receivable	320,281	70,407	19,855	9,217
Interest receivable	20,503	618	735	160
Other receivables	1,804,965	39,034	5,860	1,347
Due from other funds (Note 14)	357,416	6,441	24,906	1,993
Advances to other funds (Note 14)	571,872		6,213	
Inventories	43,906	6,797		1,066
<b>TOTAL ASSETS</b>	<u>\$ 5,468,704</u>	<u>286,693</u>	<u>214,488</u>	<u>45,942</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Accounts payable	\$ 252,794	5,780	9,996	2,408
Accrued payroll	472,007	49,779		4,918
Other payables	151,700	2,118		375
Due to other funds (Note 14)	561,540	7,662	22,154	2,393
Deferred revenue (Note 7)	380,322	51,317	20,439	6,757
Advances payable	263,500			
Third party payor liability (Notes 10 and 13)	12,401			
<b>TOTAL LIABILITIES</b>	<u>2,094,264</u>	<u>116,656</u>	<u>52,589</u>	<u>16,851</u>
<b>FUND BALANCES:</b>				
Reserved for:				
Encumbrances	532,752	16,629	112,849	8,675
Inventories	43,906	6,797		1,066
Housing programs				
Debt service				
Endowments and annuities				
Assets unavailable for appropriation	20,808	25	12,011	15
Unreserved, designated for:				
Budget uncertainties	292,113	49,500		
Program expansion	302,763	25,423		5,379
Health services	242,408			
Capital projects	315,355	51,222	13,314	
Special revenue funds - program expansion				
Unreserved, undesignated, reported in:				
General fund	1,624,335			
Special revenue funds		20,441	23,725	13,956
Capital projects funds				
<b>TOTAL FUND BALANCES</b>	<u>3,374,440</u>	<u>170,037</u>	<u>161,899</u>	<u>29,091</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 5,468,704</u>	<u>286,693</u>	<u>214,488</u>	<u>45,942</u>

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

REGIONAL PARK AND OPEN SPACE DISTRICT	NONMAJOR GOVERNMENTAL FUNDS	ELIMINATIONS (NOTE 4)	TOTAL GOVERNMENTAL FUNDS
\$ 283,342	1,420,830		\$ 3,493,171
3,728	56,769		967,377
<u>287,070</u>	<u>1,477,599</u>		<u>4,460,548</u>
	585,059	(269,995)	321,420
3,868	19,596		443,224
1,387	6,077		29,480
4,839	205,845		2,061,890
323	361,496		752,575
	11,034		589,119
	37,563		89,332
<u>\$ 297,487</u>	<u>2,704,269</u>	<u>(269,995)</u>	<u>\$ 8,747,588</u>
\$ 936	53,715		\$ 325,629
	481		527,185
464	1,866		156,523
4,073	347,071		944,893
6,009	41,318		506,162
	7,327		270,827
	877		13,278
<u>11,482</u>	<u>452,655</u>		<u>2,744,497</u>
84,450	161,872		917,227
	37,563		89,332
	1,167		1,167
	717,083	(269,995)	447,088
	3,455		3,455
	41,167		74,026
	43,097		384,710
39,489			373,054
			242,408
	70,000		449,891
	275,287		275,287
			1,624,335
162,066	710,825		931,013
	190,098		190,098
<u>286,005</u>	<u>2,251,614</u>	<u>(269,995)</u>	<u>6,003,091</u>
<u>\$ 297,487</u>	<u>2,704,269</u>	<u>(269,995)</u>	<u>\$ 8,747,588</u>

ASSETS:

Pooled cash and investments: (Notes 1 and 5)

Operating (Note 1)

Other (Note 1)

Total pooled cash and investments

Other investments (Notes 4 and 5)

Taxes receivable

Interest receivable

Other receivables

Due from other funds (Note 14)

Advances to other funds (Note 14)

Inventories

TOTAL ASSETS

LIABILITIES AND FUND BALANCES

LIABILITIES:

Accounts payable

Accrued payroll

Other payables

Due to other funds (Note 14)

Deferred revenue (Note 7)

Advances payable

Third party payor liability (Notes 10 and 13)

TOTAL LIABILITIES

FUND BALANCES:

Reserved for:

Encumbrances

Inventories

Housing programs

Debt service

Endowments and annuities

Assets unavailable for appropriation

Unreserved, designated for:

Budget uncertainties

Program expansion

Health services

Capital projects

Special revenue funds - program expansion

Unreserved, undesignated, reported in:

General fund

Special revenue funds

Capital projects funds

TOTAL FUND BALANCES

TOTAL LIABILITIES AND FUND BALANCES

COUNTY OF LOS ANGELES  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2008 (in thousands)

Fund balances - total governmental funds (page B-29) \$ 6,003,091

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	\$	7,015,260	
Construction-in-progress		579,108	
Buildings and improvements - net		2,659,802	
Equipment - net		274,157	
Infrastructure - net		4,470,576	14,998,903

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	\$	324,998	
Long-term receivables		183,881	508,879

The net pension obligation (an asset) pertaining to governmental fund types is not recorded in governmental fund statements. 101,589

Accrued interest payable is not recognized in governmental funds. (15,279)

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)	\$	(1,575,458)	
Pension bonds payable		(623,720)	
Capital lease obligations		(173,309)	
Accrued vacation/sick leave		(709,855)	
Workers' compensation		(1,745,246)	
Litigation/self-insurance		(139,640)	
OPEB obligation		(974,336)	(5,941,564)

Assets and liabilities of certain internal service funds are included in governmental activities in the accompanying statement of net assets. (85,204)

Net assets of governmental activities (page B-25) \$ 15,570,415

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, 2008 (in thousands)

	GENERAL FUND	FIRE PROTECTION DISTRICT	FLOOD CONTROL DISTRICT	PUBLIC LIBRARY
<b>REVENUES:</b>				
Taxes	\$ 3,796,296	611,359	93,153	71,007
Licenses, permits and franchises	58,799	12,592	741	
Fines, forfeitures and penalties	251,933	4,415	1,429	638
Revenue from use of money and property:				
Investment income (Note 5)	223,591	2,685	6,610	980
Rents and concessions (Note 9)	56,614	90	7,428	12
Royalties	598		369	
Intergovernmental revenues:				
Federal	2,944,622	1,455	6,086	162
State	4,207,046	16,982	3,396	2,055
Other	110,000	30,955	4,747	1,358
Charges for services	1,695,004	181,586	118,798	2,366
Miscellaneous	282,818	273	1,420	614
<b>TOTAL REVENUES</b>	<b>13,627,321</b>	<b>862,392</b>	<b>244,177</b>	<b>79,192</b>
<b>EXPENDITURES:</b>				
Current:				
General government	919,534			
Public protection	4,222,644	807,151	211,267	
Public ways and facilities				
Health and sanitation	2,345,484			
Public assistance	4,619,225			
Education				105,385
Recreation and cultural services	231,584			
Debt service:				
Principal	101,931	8,489		1,130
Interest and other charges	186,647	7,896		1,616
Capital leases	19,629			
Capital outlay	97,270			898
<b>TOTAL EXPENDITURES</b>	<b>12,743,948</b>	<b>823,536</b>	<b>211,267</b>	<b>109,029</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>883,373</b>	<b>38,856</b>	<b>32,910</b>	<b>(29,837)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in (Note 14)	342,906		244	41,660
Transfers out (Note 14)	(1,123,808)	(16,488)	(19,048)	(4,798)
Issuance of debt (Note 10)				
Refunding bonds issued (Note 10)				
Payment to refunded bonds escrow agent (Note 10)				
Capital leases (Note 9)	97,270			898
Sales of capital assets	1,036	158	175	3
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(682,596)</b>	<b>(16,330)</b>	<b>(18,629)</b>	<b>37,763</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>200,777</b>	<b>22,526</b>	<b>14,281</b>	<b>7,926</b>
FUND BALANCE, JULY 1, 2007, as restated (Note 2)	3,173,663	147,511	147,618	21,165
<b>FUND BALANCE, JUNE 30, 2008</b>	<b>\$ 3,374,440</b>	<b>170,037</b>	<b>161,899</b>	<b>29,091</b>

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

REGIONAL PARK AND OPEN SPACE DISTRICT	NONMAJOR GOVERNMENTAL FUNDS	ELIMINATIONS (NOTE 4)	TOTAL GOVERNMENTAL FUNDS
\$	251,678		\$ 4,823,493
	7,379		79,511
805	81,915		341,135
13,112	88,282	(12,189)	323,071
	14,226		78,370
	11		978
	197,427		3,149,752
	392,485		4,621,964
	23,345		170,405
78,613	164,928		2,241,295
	157,520		442,645
<u>92,530</u>	<u>1,379,196</u>	<u>(12,189)</u>	<u>16,272,619</u>
	15,107		934,641
	87,861		5,328,923
	318,468		318,468
	116,911		2,462,395
	151,368		4,770,593
	299		105,684
32,944	7,500		272,028
	142,977	(34,240)	220,287
	75,284	(12,189)	259,254
			19,629
	89,922		188,090
<u>32,944</u>	<u>1,005,697</u>	<u>(46,429)</u>	<u>14,879,992</u>
<u>59,586</u>	<u>373,499</u>	<u>34,240</u>	<u>1,392,627</u>
423	217,119		602,352
(35,216)	(553,327)		(1,752,685)
	3,000		3,000
	94,315		94,315
	(94,315)		(94,315)
	2,727		4,099
<u>(34,793)</u>	<u>(330,481)</u>		<u>(1,045,066)</u>
24,793	43,018	34,240	347,561
261,212	2,208,596	(304,235)	5,655,530
<u>\$ 286,005</u>	<u>2,251,614</u>	<u>(269,995)</u>	<u>\$ 6,003,091</u>

REVENUES:

Taxes
Licenses, permits and franchises
Fines, forfeitures and penalties
Revenue from use of money and property:
Investment income (Note 5)
Rents and concessions (Note 9)
Royalties
Intergovernmental revenues:
Federal
State
Other
Charges for services
Miscellaneous
TOTAL REVENUES

EXPENDITURES:

Current:
General government
Public protection
Public ways and facilities
Health and sanitation
Public assistance
Education
Recreation and cultural services
Debt service:
Principal
Interest and other charges
Capital leases
Capital outlay
TOTAL EXPENDITURES

EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES

OTHER FINANCING SOURCES (USES):

Transfers in (Note 14)
Transfers out (Note 14)
Issuance of debt (Note 10)
Refunding bonds issued (Note 10)
Payment to refunded bonds escrow agent (Note 10)
Capital leases (Note 9)
Sales of capital assets
TOTAL OTHER FINANCING SOURCES (USES)

NET CHANGE IN FUND BALANCES

FUND BALANCE, JULY 1, 2007, as restated (Note 2)

FUND BALANCE, JUNE 30, 2008

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, 2008 (in thousands)

Net change in fund balances - total governmental funds (page B-33)		\$ 347,561
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	\$ 356,061	
Less - current year depreciation expense	<u>(338,817)</u>	17,244
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.		(3,341)
Contribution of capital assets is not recognized in the governmental funds.		25,481
Revenue timing differences result in more revenue in government-wide statements.		69,138
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.		(3,000)
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	\$ 108,075	
General obligation bonds	373	
Certificates of participation	69,961	
Assessment bonds	34,240	
Other long term notes and loans	<u>25,638</u>	238,287
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	\$ 62,691	
Change in litigation/self-insurance	(60,227)	
Change in accrued vacation/sick leave	(47,495)	
Change in OPEB liability	(974,336)	
Change in third party payor liability	400	
Change in accrued interest payable	3,150	
Change in accretion of tobacco settlement bonds	(19,554)	
Change in accretion of pension bonds	<u>88,826</u>	(946,545)
The change in the net pension obligation (an asset) is not recognized in governmental funds.		(20,577)
The portion of internal service funds that is reported with governmental activities.		<u>(37,830)</u>
Change in net assets of governmental activities (page B-27)		<u><u>\$ (313,582)</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, 2008 (in thousands)

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL ON BUDGETARY BASIS	VARIANCE FROM FINAL BUDGET OVER (UNDER)
<b>REVENUES:</b>				
Taxes	\$ 3,828,094	3,842,971	3,826,908	(16,063)
Licenses, permits and franchises	56,880	60,924	58,799	(2,125)
Fines, forfeitures and penalties	206,047	206,124	251,933	45,809
Revenue from use of money and property:				
Investment income	100,625	114,727	217,378	102,651
Rents and concessions	51,693	52,243	56,614	4,371
Royalties	156	156	598	442
Intergovernmental revenues:				
Federal	3,128,513	3,173,676	2,948,385	(225,291)
State	4,568,927	4,588,722	4,189,202	(399,520)
Other	92,302	93,144	105,891	12,747
Charges for services	1,744,459	1,758,279	1,695,004	(63,275)
Miscellaneous	114,518	220,331	314,521	94,190
<b>TOTAL REVENUES</b>	<b>13,892,214</b>	<b>14,111,297</b>	<b>13,665,233</b>	<b>(446,064)</b>
<b>EXPENDITURES:</b>				
Current:				
General government	1,300,940	1,363,585	912,999	(450,586)
Public protection	4,480,743	4,575,551	4,414,810	(160,741)
Health and sanitation	2,712,971	2,693,857	2,469,110	(224,747)
Public assistance	4,984,500	5,016,098	4,739,945	(276,153)
Recreation and cultural services	249,014	250,844	240,237	(10,607)
Debt Service-				
Interest	18,365	18,365	18,365	
Capital Outlay	1,413,544	1,355,655	178,249	(1,177,406)
<b>TOTAL EXPENDITURES</b>	<b>15,160,077</b>	<b>15,273,955</b>	<b>12,973,715</b>	<b>(2,300,240)</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(1,267,863)</b>	<b>(1,162,658)</b>	<b>691,518</b>	<b>1,854,176</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Sales of capital assets	676	676	1,036	360
Transfers in	479,427	493,057	306,238	(186,819)
Transfers out	(1,024,450)	(1,088,103)	(1,064,589)	23,514
Appropriation for contingencies		(302)		302
Changes in reserves and designations	105,853	50,973	168,244	117,271
<b>OTHER FINANCING SOURCES (USES) - NET</b>	<b>(438,494)</b>	<b>(543,699)</b>	<b>(589,071)</b>	<b>(45,372)</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(1,706,357)</b>	<b>(1,706,357)</b>	<b>102,447</b>	<b>1,808,804</b>
<b>FUND BALANCE, JULY 1, 2007 (Note 15)</b>	<b>1,706,357</b>	<b>1,706,357</b>	<b>1,706,357</b>	
<b>FUND BALANCE, JUNE 30, 2008 (Note 15)</b>	<b>\$</b>		<b>1,808,804</b>	<b>1,808,804</b>

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

COUNTY OF LOS ANGELES  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL ON BUDGETARY BASIS  
FIRE PROTECTION DISTRICT  
FOR THE YEAR ENDED JUNE 30, 2008 (in thousands)

	FIRE PROTECTION DISTRICT			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL ON BUDGETARY BASIS	VARIANCE FROM FINAL BUDGET OVER (UNDER)
<b>REVENUES:</b>				
Taxes	\$ 611,230	618,757	618,757	
Licenses, permits and franchises	8,252	8,252	12,592	4,340
Fines, forfeitures and penalties	2,655	2,655	4,415	1,760
Revenue from use of money and property:				
Investment income	1,000	1,870	2,442	572
Rents and concessions	86	86	90	4
Intergovernmental revenues:				
Federal	11,892	12,592	1,455	(11,137)
State	15,586	17,122	16,982	(140)
Other	28,291	28,291	30,955	2,664
Charges for services	165,615	181,994	181,586	(408)
Miscellaneous	628	628	273	(355)
<b>TOTAL REVENUES</b>	<b>845,235</b>	<b>872,247</b>	<b>869,547</b>	<b>(2,700)</b>
<b>EXPENDITURES:</b>				
Current-Public protection:				
Salaries and employee benefits	709,669	734,519	718,220	(16,299)
Services and supplies	112,610	116,354	98,470	(17,884)
Other charges	960	960	882	(78)
Capital assets	15,996	18,099	8,357	(9,742)
<b>TOTAL EXPENDITURES</b>	<b>839,235</b>	<b>869,932</b>	<b>825,929</b>	<b>(44,003)</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>6,000</b>	<b>2,315</b>	<b>43,618</b>	<b>41,303</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Sales of capital assets	103	103	158	55
Transfers in	43	43		(43)
Transfers out	(10,951)	(15,951)	(15,951)	
Changes in reserves and designations	(51,822)	(43,137)	(41,104)	2,033
<b>OTHER FINANCING SOURCES (USES) - NET</b>	<b>(62,627)</b>	<b>(58,942)</b>	<b>(56,897)</b>	<b>2,045</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(56,627)</b>	<b>(56,627)</b>	<b>(13,279)</b>	<b>43,348</b>
<b>FUND BALANCE, JULY 1, 2007 (Note 15)</b>	<b>56,627</b>	<b>56,627</b>	<b>56,627</b>	
<b>FUND BALANCE, JUNE 30, 2008 (Note 15)</b>			<b>\$ 43,348</b>	<b>43,348</b>

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

COUNTY OF LOS ANGELES  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL ON BUDGETARY BASIS  
FLOOD CONTROL DISTRICT  
FOR THE YEAR ENDED JUNE 30, 2008 (in thousands)

	FLOOD CONTROL DISTRICT			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL ON BUDGETARY BASIS	VARIANCE FROM FINAL BUDGET OVER (UNDER)
<b>REVENUES:</b>				
Taxes	\$ 93,125	94,451	94,451	
Licenses, permits and franchises	1,176	1,176	741	(435)
Fines, forfeitures and penalties	1,200	1,200	1,429	229
Revenue from use of money and property:				
Investment income	5,421	5,808	6,538	730
Rents and concessions	8,633	8,633	7,428	(1,205)
Royalties	200	200	369	169
Intergovernmental revenues:				
Federal	5,119	5,119	6,086	967
State	3,055	3,096	3,396	300
Other	2,300	5,300	4,747	(553)
Charges for services	113,449	113,449	119,275	5,826
Miscellaneous	1,165	1,165	728	(437)
<b>TOTAL REVENUES</b>	<b>234,843</b>	<b>239,597</b>	<b>245,188</b>	<b>5,591</b>
<b>EXPENDITURES:</b>				
Current-Public protection:				
Services and supplies	239,013	219,860	210,961	(8,899)
Other charges	19,871	20,121	19,613	(508)
Capital assets	160	160	116	(44)
Capital Outlay	4,325	27,118	21,712	(5,406)
<b>TOTAL EXPENDITURES</b>	<b>263,369</b>	<b>267,259</b>	<b>252,402</b>	<b>(14,857)</b>
<b>DEFICIENCY OF REVENUES OVER EXPENDITURES</b>	<b>(28,526)</b>	<b>(27,662)</b>	<b>(7,214)</b>	<b>20,448</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Sales of capital assets	921	921	175	(746)
Transfers in			244	244
Transfers out	(1,330)	(1,790)	(23)	1,767
Long-term debt proceeds			692	692
Appropriation for contingencies		726		(726)
Changes in reserves and designations	12,630	11,500	21,226	9,726
<b>OTHER FINANCING SOURCES (USES) - NET</b>	<b>12,221</b>	<b>11,357</b>	<b>22,314</b>	<b>10,957</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(16,305)</b>	<b>(16,305)</b>	<b>15,100</b>	<b>31,405</b>
<b>FUND BALANCE, JULY 1, 2007 (Note 15)</b>	<b>16,305</b>	<b>16,305</b>	<b>16,305</b>	
<b>FUND BALANCE, JUNE 30, 2008 (Note 15)</b>	<b>\$</b>		<b>31,405</b>	<b>31,405</b>

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

COUNTY OF LOS ANGELES  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL ON BUDGETARY BASIS  
PUBLIC LIBRARY  
FOR THE YEAR ENDED JUNE 30, 2008 (in thousands)

	PUBLIC LIBRARY			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL ON BUDGETARY BASIS	VARIANCE FROM FINAL BUDGET OVER (UNDER)
REVENUES:				
Taxes	\$ 73,489	73,489	71,918	(1,571)
Fines, forfeitures and penalties			638	638
Revenue from use of money and property:				
Investment income	180	180	922	742
Rents and concessions	15	15	12	(3)
Intergovernmental revenues:				
Federal			162	162
State	2,054	2,054	2,055	1
Other	1,360	1,360	1,358	(2)
Charges for services	2,112	2,112	2,366	254
Miscellaneous	1,088	1,088	614	(474)
TOTAL REVENUES	80,298	80,298	80,045	(253)
EXPENDITURES:				
Current-Education:				
Salaries and employee benefits	78,935	78,935	70,580	(8,355)
Services and supplies	45,998	51,309	38,291	(13,018)
Other charges	752	752	604	(148)
Capital assets	695	1,564	1,216	(348)
TOTAL EXPENDITURES	126,380	132,560	110,691	(21,869)
DEFICIENCY OF REVENUES OVER EXPENDITURES	(46,082)	(52,262)	(30,646)	21,616
OTHER FINANCING SOURCES (USES):				
Sales of capital assets			3	3
Transfers in	41,644	47,853	41,660	(6,193)
Transfers out	(4,376)	(4,405)	(4,401)	4
Changes in reserves and designations	(1,981)	(1,981)	(785)	1,196
OTHER FINANCING SOURCES (USES) - NET	35,287	41,467	36,477	(4,990)
NET CHANGE IN FUND BALANCE	(10,795)	(10,795)	5,831	16,626
FUND BALANCE, JULY 1, 2007 (Note 15)	10,795	10,795	10,795	
FUND BALANCE, JUNE 30, 2008 (Note 15)	\$		16,626	16,626

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, 2008 (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	\$ 1,202	1,202	805	(397)
Revenue from use of money and property-				
Investment income	12,530	12,530	13,349	819
Charges for services	78,038	78,038	78,562	524
TOTAL REVENUES	91,770	91,770	92,716	946
EXPENDITURES:				
Current-Recreation and cultural services:				
Services and supplies	4,994	5,350	3,884	(1,466)
Other charges	191,109	191,109	42,466	(148,643)
TOTAL EXPENDITURES	196,103	196,459	46,350	(150,109)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(104,333)	(104,689)	46,366	151,055
OTHER FINANCING SOURCES (USES):				
Transfers in	98,618	98,974	83,140	(15,834)
Transfers out	(131,365)	(131,365)	(117,933)	13,432
Appropriation for contingencies	(3,301)	(3,301)		3,301
Changes in reserves and designations	22,217	22,217	32,740	10,523
OTHER FINANCING SOURCES (USES) - NET	(13,831)	(13,475)	(2,053)	11,422
NET CHANGE IN FUND BALANCE	(118,164)	(118,164)	44,313	162,477
FUND BALANCE, JULY 1, 2007 (Note 15)	119,700	119,700	119,700	
FUND BALANCE, JUNE 30, 2008 (Note 15)	\$ 1,536	1,536	164,013	162,477

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, 2008 (in thousands)

	BUSINESS-TYPE ACTIVITIES -				
	Harbor UCLA Medical Center	Olive View UCLA Medical Center	LAC+USC Medical Center	Martin Luther King Jr. Ambulatory Care Center	Rancho Los Amigos National Rehab Center
<b>ASSETS</b>					
Current assets:					
Pooled cash and investments: (Notes 1 and 5)					
Operating (Note 1)	\$ 614	477	89,644	316	230
Other (Note 1)	18,655	17,846	41,332	8,764	3,495
Total pooled cash and investments	<u>19,269</u>	<u>18,323</u>	<u>130,976</u>	<u>9,080</u>	<u>3,725</u>
Other investments (Note 5)					
Taxes receivable					
Accounts receivable - net (Note 13)	129,592	126,221	255,939	180,785	65,355
Interest receivable	2		533	1	1
Other receivables	10,778	10,289	24,485	4,766	3,627
Due from other funds (Note 14)	47,403	56,131	192,968	19,648	20,740
Advances to other funds (Note 14)					
Inventories	3,370	4,162	12,296	2,013	1,407
Total current assets	<u>210,414</u>	<u>215,126</u>	<u>617,197</u>	<u>216,293</u>	<u>94,855</u>
Noncurrent assets:					
Restricted assets (Note 5)	39,509	31,345	74,935	1,090	7,314
Net pension obligation (Note 7)	5,979	5,188	15,700	6,663	4,304
Capital assets: (Notes 6 and 9)					
Land and easements	1,001	15,171	18,183	2,277	217
Buildings and improvements	77,672	152,939	163,685	194,951	187,179
Equipment	37,887	28,050	115,021	48,771	11,864
Infrastructure					
Construction in progress	51,078	1,954	896,740		6,550
Less accumulated depreciation	<u>(72,805)</u>	<u>(100,937)</u>	<u>(194,214)</u>	<u>(139,696)</u>	<u>(99,986)</u>
Total capital assets - net	<u>94,833</u>	<u>97,177</u>	<u>999,415</u>	<u>106,303</u>	<u>105,824</u>
Total noncurrent assets	<u>140,321</u>	<u>133,710</u>	<u>1,090,050</u>	<u>114,056</u>	<u>117,442</u>
<b>TOTAL ASSETS</b>	<u><b>350,735</b></u>	<u><b>348,836</b></u>	<u><b>1,707,247</b></u>	<u><b>330,349</b></u>	<u><b>212,297</b></u>
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable	11,587	10,781	41,513	4,951	3,756
Accrued payroll	27,497	20,263	49,976	7,738	9,280
Other payables	2,110	1,770	3,243	1,745	1,000
Accrued interest payable	89		85	206	219
Due to other funds (Note 14)	18,591	45,451	64,410	21,872	6,632
Advances from other funds (Note 14)	96,862	71,315	199,678	146,920	53,508
Advances Payable			7,844		
Unearned revenue (Note 7)	391	339	1,735	436	282
Current portion of long-term liabilities (Note 10)	102,869	64,436	190,990	39,321	25,701
Total current liabilities	<u>259,996</u>	<u>214,355</u>	<u>559,474</u>	<u>223,189</u>	<u>100,378</u>
Noncurrent liabilities:					
Accrued vacation and sick leave (Note 10)	28,680	19,432	49,269	8,336	9,898
Bonds and notes payable (Note 10)	9,655		14,202	38,746	35,614
Pension bonds payable (Notes 7 and 10)	24,729	21,455	64,930	27,557	17,801
Capital lease obligations (Notes 9 and 10)					143
Workers' compensation (Notes 10 and 17)	27,324	27,982	124,641	61,556	22,190
Litigation and self-insurance (Notes 10 and 17)	12,062	4,424	52,292	13,958	190
OPEB obligation (Notes 8 and 10)	41,378	36,490	88,279	16,681	16,863
Third party payor liability (Notes 10 and 13)	16,029	10,573	80,723	5,054	8,079
Total noncurrent liabilities	<u>159,857</u>	<u>120,356</u>	<u>474,336</u>	<u>171,888</u>	<u>110,778</u>
<b>TOTAL LIABILITIES</b>	<u><b>419,853</b></u>	<u><b>334,711</b></u>	<u><b>1,033,810</b></u>	<u><b>395,077</b></u>	<u><b>211,156</b></u>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt (Notes 6 and 10)	51,620	95,575	947,800	66,283	68,934
Restricted:					
Debt service	39,420	31,345	74,850	884	7,095
Special purpose					
Unrestricted (deficit)	<u>(160,158)</u>	<u>(112,795)</u>	<u>(349,213)</u>	<u>(131,895)</u>	<u>(74,888)</u>
<b>TOTAL NET ASSETS (DEFICIT) (Note 3)</b>	<u><b>\$ (69,118)</b></u>	<u><b>14,125</b></u>	<u><b>673,437</b></u>	<u><b>(64,728)</b></u>	<u><b>1,141</b></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	
\$ 91,792	4,448	\$ 187,521	\$ 61,170	
893	6	90,991	8,339	
<u>92,685</u>	<u>4,454</u>	<u>278,512</u>	<u>69,509</u>	
915	55,495	55,495	8,618	
426	3	915		
8,892	6,700	757,892		
2,469	48	966	273	
1,164		69,537	5,759	
		339,407	59,358	
		1,164		
		23,248	7,676	
<u>106,551</u>	<u>66,700</u>	<u>1,527,136</u>	<u>151,193</u>	
		154,193	8,603	
		37,834	7,300	
10,799	199,160	246,808		
117,000	177,225	1,070,651	1,734	
481	3,105	245,179	207,477	
1,095,023	39,720	1,134,743		
31,465	1,688	989,475		
<u>(457,749)</u>	<u>(185,504)</u>	<u>(1,250,891)</u>	<u>(118,729)</u>	
<u>797,019</u>	<u>235,394</u>	<u>2,435,965</u>	<u>90,482</u>	
<u>797,019</u>	<u>235,394</u>	<u>2,627,992</u>	<u>106,385</u>	
<u>903,570</u>	<u>302,094</u>	<u>4,155,128</u>	<u>257,578</u>	
2,520	3,995	79,103	6,778	
		114,754	23,445	
	1,693	11,561	1,740	
		599	169	
5,022	162	162,140	44,307	
		568,283	22,000	
		7,844		
475	314	3,972	578	
93	1,443	424,853	43,798	
<u>8,110</u>	<u>7,607</u>	<u>1,373,109</u>	<u>142,815</u>	
	204	115,819	36,540	
86	3,674	101,977	30,565	
		156,472	30,191	
		143		
		263,693	56,898	
		82,926	1,341	
		199,691	42,559	
		120,458		
<u>86</u>	<u>3,878</u>	<u>1,041,179</u>	<u>198,094</u>	
<u>8,196</u>	<u>11,485</u>	<u>2,414,288</u>	<u>340,909</u>	
796,915	230,891	2,258,018	54,690	
98,459	2,968	255,021	729	
	52,690	52,690	2,920	
	4,060	(824,889)	(141,670)	
<u>\$ 895,374</u>	<u>290,609</u>	<u>1,740,840</u>	<u>\$ (83,331)</u>	
		1,873		
		<u>\$ 1,742,713</u>		

ASSETS

Current assets:

Pooled cash and investments: (Notes 1 and 5)

Operating (Note 1)

Other (Note 1)

Total pooled cash and investments

Other investments (Note 5)

Taxes receivable

Accounts receivable - net (Note 13)

Interest receivable

Other receivables

Due from other funds (Note 14)

Advances to other funds (Note 14)

Inventories

Total current assets

Noncurrent assets:

Restricted assets (Note 5)

Net pension obligation (Note 7)

Capital assets: (Notes 6 and 9)

Land and easements

Buildings and improvements

Equipment

Infrastructure

Construction in progress

Less accumulated depreciation

Total capital assets - net

Total noncurrent assets

TOTAL ASSETS

LIABILITIES

Current liabilities:

Accounts payable

Accrued payroll

Other payables

Accrued interest payable

Due to other funds (Note 14)

Advances from other funds (Note 14)

Advances Payable

Unearned revenue (Note 7)

Current portion of long-term liabilities (Note 10)

Total current liabilities

Noncurrent liabilities:

Accrued vacation and sick leave (Note 10)

Bonds and notes payable (Note 10)

Pension bonds payable (Notes 7 and 10)

Capital lease obligations (Notes 9 and 10)

Workers' compensation (Notes 10 and 17)

Litigation and self-insurance (Notes 10 and 17)

OPEB obligation (Notes 8 and 10)

Third party payor liability (Notes 10 and 13)

Total noncurrent liabilities

TOTAL LIABILITIES

NET ASSETS

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

Restricted:

Debt service

Special purpose

Unrestricted (deficit)

TOTAL NET ASSETS (DEFICIT) (Note 3)

Adjustment to reflect the consolidation of internal

service fund activities related to enterprise funds

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

COUNTY OF LOS ANGELES  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2008 (in thousands)

	BUSINESS-TYPE ACTIVITIES -				
	Harbor UCLA Medical Center	Olive View UCLA Medical Center	LAC+USC Medical Center	Martin Luther King Jr. Ambulatory Care Center	Rancho Los Amigos National Rehab Center
OPERATING REVENUES:					
Net patient service revenues (Note 13)	\$ 385,281	323,861	711,346	195,379	110,009
Rentals					
Charges for services					
Other	16,382	13,588	45,979	2,122	4,907
<b>TOTAL OPERATING REVENUES</b>	<b>401,663</b>	<b>337,449</b>	<b>757,325</b>	<b>197,501</b>	<b>114,916</b>
OPERATING EXPENSES:					
Salaries and employee benefits	390,251	294,515	740,286	133,005	140,169
Services and supplies	102,380	87,449	202,501	47,825	25,943
Other professional services	113,359	112,146	283,659	77,933	31,400
Depreciation and amortization (Note 6)	4,692	5,004	9,896	4,948	2,799
Medical malpractice	4,091	5,895	11,282	2,388	187
Rent	3,477	2,569	8,504	2,358	1,540
<b>TOTAL OPERATING EXPENSES</b>	<b>618,250</b>	<b>507,578</b>	<b>1,256,128</b>	<b>268,457</b>	<b>202,038</b>
<b>OPERATING LOSS</b>	<b>(216,587)</b>	<b>(170,129)</b>	<b>(498,803)</b>	<b>(70,956)</b>	<b>(87,122)</b>
NONOPERATING REVENUES (EXPENSES):					
Taxes					
Interest income	591	473	5,815	372	284
Interest expense	(6,536)	(4,460)	(14,357)	(8,893)	(6,840)
Intergovernmental transfers expense (Note 13)	(40,247)	(38,143)	(104,100)	(8,051)	(9,118)
Intergovernmental revenues:					
State					
Federal					
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>(46,192)</b>	<b>(42,130)</b>	<b>(112,642)</b>	<b>(16,572)</b>	<b>(15,674)</b>
<b>LOSS BEFORE CONTRIBUTIONS AND TRANSFERS</b>	<b>(262,779)</b>	<b>(212,259)</b>	<b>(611,445)</b>	<b>(87,528)</b>	<b>(102,796)</b>
Capital contributions					
Transfers in (Note 14)	217,485	190,937	605,142	82,951	90,683
Transfers out (Note 14)	(732)	(451)	(31,191)	(507)	(23)
<b>CHANGE IN NET ASSETS</b>	<b>(46,026)</b>	<b>(21,773)</b>	<b>(37,494)</b>	<b>(5,084)</b>	<b>(12,136)</b>
<b>TOTAL NET ASSETS (DEFICIT), JULY 1, 2007, as restated (Note 2)</b>	<b>(23,092)</b>	<b>35,898</b>	<b>710,931</b>	<b>(59,644)</b>	<b>13,277</b>
<b>TOTAL NET ASSETS (DEFICIT), JUNE 30, 2008</b>	<b>\$ (69,118)</b>	<b>14,125</b>	<b>673,437</b>	<b>(64,728)</b>	<b>1,141</b>

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

ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES	
Waterworks Funds	Nonmajor Enterprise Funds	Total	Internal Service Funds	
\$		\$ 1,725,876	\$	OPERATING REVENUES:
	14,622	14,622	22,705	Net patient service revenues (Note 13)
61,514	379	61,893	409,450	Rentals
982	504	84,464		Charges for services
				Other
62,496	15,505	1,886,855	432,155	TOTAL OPERATING REVENUES
		1,698,226	354,241	OPERATING EXPENSES:
47,403	247,045	760,546	66,070	Salaries and employee benefits
2,017	254	620,768	13,119	Services and supplies
25,379	2,805	55,523	27,796	Other professional services
		23,843		Depreciation and amortization (Note 6)
		18,448		Medical malpractice
				Rent
74,799	250,104	3,177,354	461,226	TOTAL OPERATING EXPENSES
(12,303)	(234,599)	(1,290,499)	(29,071)	OPERATING LOSS
4,405		4,405		NONOPERATING REVENUES (EXPENSES):
4,304	2,234	14,073	1,331	Taxes
(11)	(272)	(41,369)	(7,317)	Interest income
		(199,659)		Interest expense
				Intergovernmental transfers expense (Note 13)
87	25	112		Intergovernmental revenues:
	209,454	209,454	621	State
				Federal
8,785	211,441	(12,984)	(5,365)	TOTAL NONOPERATING REVENUES (EXPENSES)
(3,518)	(23,158)	(1,303,483)	(34,436)	LOSS BEFORE CONTRIBUTIONS AND TRANSFERS
1,413		1,413		Capital contributions
21	350	1,187,569	196	Transfers in (Note 14)
		(32,904)	(4,528)	Transfers out (Note 14)
(2,084)	(22,808)	(147,405)	(38,768)	CHANGE IN NET ASSETS
897,458	313,417		(44,563)	TOTAL NET ASSETS (DEFICIT), JULY 1, 2007, as restated (Note 2)
\$ 895,374	290,609		\$ (83,331)	TOTAL NET ASSETS (DEFICIT), JUNE 30, 2008
		(938)		Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds
		\$ (148,343)		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, 2008 (in thousands)

	BUSINESS-TYPE ACTIVITIES -				
	Harbor UCLA Medical Center	Olive View UCLA Medical Center	LAC+USC Medical Center	Martin Luther King Jr. Ambulatory Care Center	Rancho Los Amigos National Rehab Center
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Cash received from patient services	\$ 376,700	281,825	747,263	119,890	125,344
Rentals received					
Cash received from charges for services					
Other operating revenues	16,397	13,609	45,986	2,123	4,909
Cash received for services provided to other funds	17,218	17,862	26,527	7,575	369
Cash paid for salaries and employee benefits	(349,286)	(264,541)	(669,104)	(143,600)	(123,069)
Cash paid for services and supplies	(79,058)	(63,081)	(171,283)	(16,480)	(8,062)
Other operating expenses	(120,227)	(116,531)	(303,888)	(84,404)	(32,968)
Cash paid for services from other funds	(36,023)	(32,916)	(105,278)	(40,538)	(17,518)
Net cash provided by (required for) operating activities	<u>(174,279)</u>	<u>(163,773)</u>	<u>(429,777)</u>	<u>(155,434)</u>	<u>(50,995)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>					
Cash advances received from other funds	161,827	132,889	362,464	216,945	61,843
Cash advances paid/returned to other funds	(140,853)	(99,522)	(318,100)	(121,079)	(79,265)
Interest paid on pension bonds	(3,964)	(3,438)	(10,404)	(4,416)	(2,853)
Interest paid on advances	(1,213)	(578)	(2,696)	(2,204)	(1,504)
Intergovernmental transfers	(40,247)	(38,143)	(104,100)	(8,051)	(9,118)
Intergovernmental receipts					
Transfers in	217,485	190,937	605,142	82,951	90,683
Transfers out	(732)	(451)	(31,191)	(507)	(23)
Net cash provided by (required for) noncapital financing activities	<u>192,303</u>	<u>181,694</u>	<u>501,115</u>	<u>163,639</u>	<u>59,763</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Proceeds from taxes					
Proceeds from bonds and notes	69,500	31,700	94,300	1,000	6,500
Interest paid on capital borrowing	(1,481)	(494)	(1,373)	(2,555)	(2,783)
Principal payments on bonds and notes	(1,637)	(10,025)	(1,554)	(3,786)	(4,022)
Principal payments on capital leases					(125)
Acquisition and construction of capital assets	(39,599)	(9,644)	(106,319)	(824)	(925)
Net cash provided by (required for) capital and related financing activities	<u>26,783</u>	<u>11,537</u>	<u>(14,946)</u>	<u>(6,165)</u>	<u>(1,355)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES -</b>					
Interest income received	<u>308</u>	<u>233</u>	<u>5,637</u>	<u>50</u>	<u>75</u>
Net increase (decrease) in cash and cash equivalents	45,115	29,691	62,029	2,090	7,488
Cash and cash equivalents, July 1, 2007	<u>13,663</u>	<u>19,977</u>	<u>143,882</u>	<u>8,080</u>	<u>3,551</u>
Cash and cash equivalents, June 30, 2008	<u>\$ 58,778</u>	<u>49,668</u>	<u>205,911</u>	<u>10,170</u>	<u>11,039</u>

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

ENTERPRISE FUNDS			GOVERNMENTAL	
Waterworks	Nonmajor		Internal	
Funds	Enterprise	Total	Service	
	Funds		Funds	
\$		\$ 1,651,022	\$	CASH FLOWS FROM OPERATING
	14,322	14,322	22,631	ACTIVITIES:
61,104		61,104	426,670	Cash received from patient services
982	504	84,510		Rentals received
		69,551		Cash received from charges for services
	285	(1,549,315)	(320,055)	Other operating revenues
(46,982)	(246,509)	(631,455)	(53,473)	Cash received for services provided to other funds
(1,942)	(254)	(660,214)	(13,119)	Cash paid for salaries and employee benefits
		(232,273)		Cash paid for services and supplies
				Other operating expenses
				Cash paid for services from other funds
13,162	(231,652)	(1,192,748)	62,654	Net cash provided by (required for) operating
				activities
		935,968		CASH FLOWS FROM NONCAPITAL
		(758,819)		FINANCING ACTIVITIES:
		(25,075)	(4,840)	Cash advances received from other funds
		(8,195)		Cash advances paid/returned to other funds
		(199,659)		Interest paid on pension bonds
87	209,479	209,566	621	Interest paid on advances
21	350	1,187,569	196	Intergovernmental transfers
		(32,904)	(4,528)	Intergovernmental receipts
				Transfers in
108	209,829	1,308,451	(8,551)	Transfers out
				Net cash provided by (required for)
				noncapital financing activities
		4,221		CASH FLOWS FROM CAPITAL AND
	6	203,006	50,360	RELATED FINANCING ACTIVITIES:
(11)	(272)	(8,969)	(3,168)	Proceeds from taxes
(17)	(710)	(21,751)	(53,245)	Proceeds from bonds and notes
		(125)	(145)	Interest paid on capital borrowing
(15,160)	(1,947)	(174,418)	(33,383)	Principal payments on bonds and notes
				Principal payments on capital leases
(10,967)	(2,923)	1,964	(39,581)	Acquisition and construction of capital assets
				Net cash provided by (required for) capital
				and related financing activities
4,521	2,241	13,065	1,056	CASH FLOWS FROM INVESTING ACTIVITIES -
				Interest income received
6,824	(22,505)	130,732	15,578	Net increase (decrease) in cash and cash
				equivalents
85,861	82,454	357,468	71,152	Cash and cash equivalents, July 1, 2007
\$ 92,685	59,949	\$ 488,200	\$ 86,730	Cash and cash equivalents, June 30, 2008

Continued...

COUNTY OF LOS ANGELES  
STATEMENT OF CASH FLOWS - Continued  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2008 (in thousands)

	BUSINESS-TYPE ACTIVITIES -				
	Harbor UCLA Medical Center	Olive View UCLA Medical Center	LAC+USC Medical Center	Martin Luther King Jr. Ambulatory Care Center	Rancho Los Amigos National Rehab Center
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (REQUIRED FOR) OPERATING ACTIVITIES:					
Operating loss	\$ (216,587)	(170,129)	(498,803)	(70,956)	(87,122)
Adjustments to reconcile operating loss to net cash provided by (required for) operating activities:					
Depreciation and amortization	4,692	5,004	9,896	4,948	2,799
Other charges - net	1,849	2,916	(6,606)	(1,180)	(166)
(Increase) decrease in:					
Accounts receivable - net	(14,659)	(49,706)	(71,576)	(62,394)	11,505
Interest receivable					
Other receivables	(1,583)	(165)	(2,212)	2,091	(542)
Due from other funds	22,279	15,389	82,085	4,759	(841)
Inventories	490	(76)	743	1,268	(214)
Net pension obligation	1,211	1,050	3,180	1,349	872
Increase (decrease) in:					
Accounts payable	1,226	291	2,304	(4,782)	1,393
Accrued payroll	4,954	3,123	7,994	(5,457)	1,922
Other payables	199	160	266	74	75
Accrued vacation and sick leave	3,702	(4,546)	3,892	(4,853)	7,177
Due to other funds	(14,850)	(10,938)	(68,459)	(6,810)	(205)
Unearned revenue			(2,446)		
Pension bonds payable	(11,588)	(10,053)	(30,431)	(12,914)	(8,341)
Workers' compensation liability	(2,392)	875	(8,512)	(4,359)	(2,766)
Litigation and self-insurance liability	700	4,382	(443)	(1,375)	159
OPEB obligation	44,378	39,136	94,679	17,890	18,085
Third party payor liability	1,700	9,514	54,672	(12,733)	5,215
TOTAL ADJUSTMENTS	42,308	6,356	69,026	(84,478)	36,127
NET CASH PROVIDED BY (REQUIRED FOR) OPERATING ACTIVITIES	<u>\$ (174,279)</u>	<u>(163,773)</u>	<u>(429,777)</u>	<u>(155,434)</u>	<u>(50,995)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS:					
Pooled cash and investments	\$ 19,269	18,323	130,976	9,080	3,725
Other investments					
Restricted assets	39,509	31,345	74,935	1,090	7,314
TOTAL	<u>\$ 58,778</u>	<u>49,668</u>	<u>205,911</u>	<u>10,170</u>	<u>11,039</u>

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

ENTERPRISE FUNDS			GOVERNMENTAL	
Waterworks	Nonmajor		ACTIVITIES	
Funds	Enterprise	Total	Internal	
	Funds		Service	
			Funds	
\$ (12,303)	(234,599)	\$ (1,290,499)	\$ (29,071)	RECONCILIATION OF OPERATING
				LOSS TO NET CASH PROVIDED BY
				(REQUIRED FOR) OPERATING ACTIVITIES:
				Operating loss
				Adjustments to reconcile operating
				loss to net cash provided by (required for)
				operating activities:
25,379	2,805	55,523	27,796	Depreciation and amortization
	509	(2,678)	141	Other charges - net
		(186,830)		(Increase) decrease in:
				Accounts receivable - net
			41	Interest receivable
(45)	(1,843)	(4,299)	(916)	Other receivables
(700)	10	122,981	17,152	Due from other funds
		2,211	274	Inventories
		7,662	1,478	Net pension obligation
				Increase (decrease) in:
1,480	1,324	3,236	965	Accounts payable
		12,536	3,456	Accrued payroll
	(7)	767	159	Other payables
	285	5,657	1,513	Accrued vacation and sick leave
(1,059)	(142)	(102,463)	11,204	Due to other funds
335	6	(2,105)	(57)	Unearned revenue
		(73,327)	(14,145)	Pension bonds payable
		(17,154)	(2,980)	Workers' compensation liability
75		3,498		Litigation and self-insurance liability
		214,168	45,644	OPEB obligation
		58,368		Third party payor liability
<u>25,465</u>	<u>2,947</u>	<u>97,751</u>	<u>91,725</u>	TOTAL ADJUSTMENTS
\$ <u>13,162</u>	<u>(231,652)</u>	\$ <u>(1,192,748)</u>	\$ <u>62,654</u>	NET CASH PROVIDED BY (REQUIRED FOR)
				OPERATING ACTIVITIES
				RECONCILIATION OF CASH AND CASH
				EQUIVALENTS TO THE STATEMENT OF
				NET ASSETS:
\$ 92,685	4,454	\$ 278,512	\$ 69,509	Pooled cash and investments
	55,495	55,495	8,618	Other investments
		154,193	8,603	Restricted assets
\$ <u>92,685</u>	<u>59,949</u>	\$ <u>488,200</u>	\$ <u>86,730</u>	TOTAL

COUNTY OF LOS ANGELES  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2008 (in thousands)

	PENSION TRUST FUND	INVESTMENT TRUST FUNDS	AGENCY FUNDS
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>ASSETS</b>			
Pooled cash and investments (Note 5)	\$ 86,438	\$ 13,284,552	\$ 1,261,788
Other investments: (Note 5)		474,638	43,927
Stocks	19,285,947		
Bonds	11,296,770		
Short-term investments	741,505		
Commodities	638,575		
Real estate	3,996,568		
Mortgages	260,913		
Alternative assets	3,296,714		
Cash collateral on loaned securities	2,322,698		
Taxes receivable			310,536
Interest receivable	132,306	129,447	2,498
Other receivables	849,578		
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>TOTAL ASSETS</b>	<u>42,908,012</u>	<u>13,888,637</u>	<u>\$ 1,618,749</u>
<b>LIABILITIES</b>			
Accounts payable	1,799,138		
Other payables (Note 5)	2,384,203		
Due to other governments			1,618,749
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>TOTAL LIABILITIES</b>	<u>4,183,341</u>	<u>                    </u>	<u>\$ 1,618,749</u>
<b>NET ASSETS</b>			
Held in trust for pension benefits and investment trust participants	<u>\$ 38,724,671</u>	<u>\$ 13,888,637</u>	

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

COUNTY OF LOS ANGELES  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2008 (in thousands)

	<u>PENSION TRUST FUND</u>	<u>INVESTMENT TRUST FUNDS</u>
ADDITIONS:		
Contributions:		
Pension trust contributions:		
Employer	\$ 788,029	\$
Member	414,752	
Contributions to investment trust funds		40,191,455
Total contributions	<u>1,202,781</u>	<u>40,191,455</u>
Investment earnings:		
Investment income	4,929,295	584,425
Net decrease in the fair value of investments	(6,258,819)	
Securities lending income (Note 5)	122,531	
Total investment earnings (losses)	<u>(1,206,993)</u>	<u>584,425</u>
Less - Investment expenses:		
Expense from investing activities	114,183	
Expense from securities lending activities (Note 5)	104,941	
Total net investment expense	<u>219,124</u>	
Net investment earnings (losses)	<u>(1,426,117)</u>	<u>584,425</u>
Miscellaneous	<u>1,767</u>	
NET INCREASE (DECREASE) IN ADDITIONS	<u>(221,569)</u>	<u>40,775,880</u>
DEDUCTIONS:		
Salaries and employee benefits	33,626	
Services and supplies	14,597	
Benefit payments	1,887,684	
Distribution from investment trust funds		39,869,092
Miscellaneous	25,959	
TOTAL DEDUCTIONS	<u>1,961,866</u>	<u>39,869,092</u>
CHANGE IN NET ASSETS	(2,183,435)	906,788
NET ASSETS HELD IN TRUST, JULY 1, 2007	<u>40,908,106</u>	<u>12,981,849</u>
NET ASSETS HELD IN TRUST, JUNE 30, 2008	<u>\$ 38,724,671</u>	<u>\$ 13,888,637</u>

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

COUNTY OF LOS ANGELES  
NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

Blended Component Units

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

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

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

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

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.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Discretely Presented Component Unit-Continued

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 when they have external restrictions imposed by creditors, grantors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. At June 30, 2008, the restricted net assets balances were \$1.606 billion and \$308 million for governmental activities and business-type activities, respectively. For governmental activities, \$92 million was restricted by enabling legislation.

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

Fund Financial Statements

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Fund Financial Statements-Continued

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:

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.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Fund Financial Statements-Continued

Martin Luther King, Jr. Ambulatory Care Center

The Martin Luther King, Jr. Multi-Service Ambulatory Care Center (MLK-MACC), formerly known as Martin Luther King, Jr.-Harbor Hospital, began the 2007-08 fiscal year providing general adult medical, surgical and low-risk obstetrical and gynecological care with a basic emergency room. Upon the loss of the hospital's licensing/accreditation on August 25, 2007, inpatient and emergency services were closed and the facility was re-organized as MLK-MACC. The MLK-MACC provides urgent care services, comprehensive outpatient services, including, primary, specialty and subspecialty services in surgery, medicine, pediatrics, obstetrics, HIV/AIDS, and dental services.

Rancho Los Amigos National Rehabilitation Center

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

Waterworks Funds

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

The following fund types have also been reported:

Internal Service Funds

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

Fiduciary Fund Types

Pension Trust Fund

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

Investment Trust Funds

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

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

Agency Funds

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Basis of Accounting

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

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

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

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

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.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Basis of Accounting-Continued

The County applies all applicable Financial Accounting Standards Board (FASB) 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 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 \$24 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, 2008. The County prepares a separate budgetary document, the County Budget, which demonstrates legal compliance with budgetary control.

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

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

Property Taxes

All jurisdictions within California derive their taxing authority from the State Constitution and various legislative provisions contained in the Government Code and Revenue and Taxation Code. Property is assessed at 100% of full cash or market value (with some exceptions) pursuant to Article XIII A of the California State Constitution and statutory provisions by the County Assessor and State Board of Equalization. The total 2007-2008 assessed valuation of the County of Los Angeles exceeded \$1 trillion for the first time and approximated \$1,010 billion.

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Property Taxes-Continued

The County is divided into 11,242 tax rate areas, which are unique combinations of various jurisdictions servicing a specific geographic area. The rates levied within each tax rate area vary only in relation to levies assessed as a result of voter-approved taxes or indebtedness.

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

Deposits and Investments

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

Deposits and investments are reflected in the following asset accounts:

Pooled Cash and Investments

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

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

Operating Pooled Cash and Investments

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Deposits and Investments-Continued

Other Pooled Cash and Investments

This account represents amounts identified in various agency funds as of June 30, 2008 that were owed to or were more appropriately classified in County operating funds. Accordingly, certain cash balances have been reclassified from the agency funds as required by GASB Statement No. 34.

Other Investments

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

Restricted Assets

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

Inventories

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

Of the amounts reported as inventories in the governmental activities, \$37,563,000 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.

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.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Capital Assets-Continued

The County's capitalization thresholds are \$5,000 for equipment, \$100,000 for buildings and improvements and \$100,000 for infrastructure assets. Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities, or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and the related accumulated depreciation, as applicable, are removed from the respective accounts and any resulting gain or loss is included in the results of operations. Specific disclosures related to capital assets appear in Note 6.

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

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

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

Advances Payable

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

Vacation and Sick Leave Benefits

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

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

Long-term Debt

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Long-term-Debt-Continued

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

Cash Flows

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

Use of Estimates

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

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

As discussed below, the County implemented the following GASB Statements in the 2007-2008 fiscal year:

Governmental Accounting Standards Board Statement No. 45

For the fiscal year ended June 30, 2008, the County implemented GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." This Statement establishes standards for the measurement, recognition, and display of other post employment benefits (OPEB) expenses/expenditures and related liabilities (assets), note disclosures and required supplementary information (RSI). This matter is further discussed in Note 8.

Long-Term Disability Benefits

The County provides long-term disability benefits (LTD benefits) that were determined to be within the definition of OPEB. Prior to GASB 45, the County had recognized liabilities for LTD benefits in the government-wide financial statements and the proprietary funds. These amounts were classified as Litigation and Self-Insurance liabilities. Although the previously recorded liability amounts were actuarially determined, they were not in compliance with provisions of GASB 45. Effective July 1, 2007, the County began to measure LTD benefits in accordance with GASB 45, which provides for the prospective measurement of such expenses. Previously recorded LTD benefit liabilities have been removed and beginning fund balances have been restated (increased) as indicated at the end of this Note.

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

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

Governmental Accounting Standards Board Statement No. 45-Continued

Employer Assets Held by OPEB Administrator

In conjunction with implementing GASB 45, the County determined that certain assets were held by LACERA (the OPEB administrator) in an OPEB Agency Fund. These amounts were held on behalf of the County and earmarked for future OPEB benefit payments. However, the County has not yet established an OPEB trust (or equivalent arrangement) and GASB 45 requires that such amounts be recorded as employer assets. Effective July 1, 2007, the County has recognized assets (Other Receivables) in all applicable funds to reflect the OPEB related amount held by LACERA. Accordingly, beginning fund balances have been restated (increased) as indicated at the end of this Note.

Governmental Accounting Standards Board Statement No. 50

GASB Statement No. 50, "Pension Disclosures," amends Statements 25 and 27 to more closely align the financial reporting requirements for pensions with those for OPEB. GASB Statement No. 50 did not have an impact on the County's financial statements, but required additional and rearranged disclosures in Note 7.

Restatement of Fund Balances/Net Assets

In order to meet the guidelines presented in GASB Statement 45, the County restated beginning balances to reflect the removal of the long-term disability (LTD) liabilities, as previously presented. Additionally, the County restated beginning balances to reflect the inclusion of LACERA's OPEB Agency Fund. The effects of the changes are as follows (in thousands):

	Fund Balance /Net Assets July 1, 2007 as <u>previously reported</u>	Effect of Removal of <u>LTD Liabilities</u>	Effect of LACERA OPEB <u>Agency Fund</u>	Fund Balance /Net Assets July 1, 2007 <u>as restated</u>
Government-wide:				
Governmental activities	\$ 15,440,624	\$ 338,959	\$ 104,414	\$ 15,883,997
Business-type activities	1,736,574	132,558	21,924	1,891,056
Governmental funds:				
Major Governmental funds:				
General Fund	3,080,444		93,219	3,173,663
Fire Protection District	141,941		5,570	147,511
Public Library	20,213		952	21,165
Internal Service Fund-Public Works	(79,791)	20,859	4,673	(54,259)
Proprietary funds:				
Major enterprise funds:				
Harbor/UCLA Medical Center	(47,974)	20,339	4,543	(23,092)
Olive View/UCLA Medical Center	12,695	19,197	4,006	35,898
LAC+USC Medical Center	651,917	49,322	9,692	710,931
Martin Luther King Jr./				
Ambulatory Care Center	(92,358)	30,882	1,832	(59,644)
Rancho Los Amigos National				
Rehab Center	(1,392)	12,818	1,851	13,277

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

3. NET ASSET DEFICITS

The following funds had net asset deficits at June 30, 2008 (in thousands):

	<u>Accumulated Deficit</u>
Enterprise Funds:	
Harbor/UCLA Medical Center	\$ 69,118
M. L. King, Jr. Ambulatory Care Center	64,728
Internal Service Fund-	
Public Works	91,811

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

4. ELIMINATIONS

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

Fund Financial Statements

At June 30, 2008, the governmental fund financial statements reflect an investment asset (referred to as "Other Investments") held by the JPAs of \$269,995,000 that has been recorded in the Nonmajor Governmental Funds. The governmental fund financial statements do not reflect a liability for the related bonds payable (\$269,995,000), 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.

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

4. ELIMINATIONS-Continued

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 (\$269,995,000) and investment earnings and interest expense (\$12,189,000 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 \$269,995,000 that were publicly issued are included among the liabilities presented in the Government-wide Financial Statements. Disclosures related to those outstanding bonds appear in Note 10 and are captioned "Assessment Bonds."

5. CASH AND INVESTMENTS

Investments in the County's cash and investment pool, other cash and investments, and Pension Trust Fund investments, are stated at fair value. Aggregate pooled cash and investments and other cash and investments are as follows at June 30, 2008 (in thousands):

	<u>Pooled Cash and Investments</u>	<u>Other Investments</u>	<u>Restricted Assets</u>		<u>Total</u>
			<u>Pooled Cash and Investments</u>	<u>Other Investments</u>	
Governmental Funds	\$ 4,460,548	\$ 321,420			\$ 4,781,968
Proprietary Funds	348,021	64,113	\$ 25,194	\$ 137,602	574,930
Fiduciary Funds (excluding Pension Trust Fund)	14,546,340	518,565			15,064,905
Pension Trust Fund	86,438	41,839,690			41,926,128
Component Unit	<u>875,166</u>				<u>875,166</u>
Total	<u>\$ 20,316,513</u>	<u>\$ 42,743,788</u>	<u>\$ 25,194</u>	<u>\$ 137,602</u>	<u>\$ 63,223,097</u>

Deposits-Custodial Credit Risk

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

At June 30, 2008, the carrying amount of the County's deposits was \$97,696,000 and the balance per various financial institutions was \$96,817,000. 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, 2008, the carrying amount of Pension Trust Fund deposits was \$44,087,000. 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.

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

5. CASH AND INVESTMENTS-Continued

Investments

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

The investments are managed by the County Treasurer who reports on a monthly basis to the Board of Supervisors. In addition, Treasury investment activity is subject to an annual investment policy review, compliance oversight, quarterly financial reviews, and annual financial reporting.

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.

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, 2008.

The School Districts and the Superior Court are required by legal provisions to participate in the County's investment pool. Eighty-one percent (81%) of the Treasurer's external investment pool consists of these involuntary participants. Voluntary participants in the County's external investment pool include the Sanitation Districts, Metropolitan Transportation Authority, the South Coast Air Quality Management District and other special districts with independent governing boards. The deposits held for both involuntary and voluntary entities are included in the External Pooled Investment Trust Fund. Certain specific investments have been made by the County, as directed by external depositors. This investment activity occurs separately from the County's investment pool and is reported in the Specific Investment Trust Fund. The pool is not registered as an investment company with the Securities and Exchange Commission (SEC) nor is it an SEC Rule 2a7-like pool. California Government Code statutes and the County Board of Supervisors set forth the various investment policies that the County Treasurer must follow.

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

5. CASH AND INVESTMENTS-Continued

Investments-Continued

County pooled and other investments (excluding Pension Trust Fund other investments) at June 30, 2008 (in thousands) are as follows:

	Fair Value
U.S. Government securities	\$ 7,744,671
Negotiable certificates of deposit	4,349,618
Commercial paper	7,089,527
Corporate and deposit notes	1,314,561
Municipal bonds	5,370
Los Angeles County securities	190,404
Guaranteed investment contracts	251,437
Investment in money market funds	227,022
Investment in State and local agency investment funds	112,235
1st and 2nd mortgages	866
Total	\$ 21,285,711

Pension Trust Fund investments are reported in the basic financial statements at fair value at June 30, 2008 (in thousands) and are as follows:

	Fair Value
Domestic and international equity	\$ 21,564,558
Fixed income	12,038,275
Real estate	3,996,568
Private equity	3,296,714
Commodities	638,575
Mortgages	260,913
Total	\$ 41,795,603

The Pension Trust Fund also had deposits with the Los Angeles County Treasury Pool at June 30, 2008 totaling \$86,438,000. 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, 2008 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.

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

5. CASH AND INVESTMENTS-Continued

Investments-Continued

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

	<u>Fair Value</u>	<u>Principal</u>	<u>Interest Rate % Range</u>	<u>Maturity Range</u>	<u>Weighted Average Maturity (Years)</u>
U. S. Government securities	\$7,356,400	\$7,371,943	2.41% - 9.25%	7/3/08 - 5/29/13	3.87
Negotiable certificates of deposit	4,339,502	4,340,612	2.40% - 3.058%	7/3/08 - 8/21/09	0.13
Commercial paper	7,061,349	7,062,687	2.30% - 3.00%	7/1/08 - 9/2/08	0.04
Corporate and deposit notes	1,314,332	1,318,842	2.20% - 5.20%	7/1/08 - 1/21/11	0.82
Los Angeles County securities	190,404	190,404	2.35% - 4.66%	6/30/10 - 12/1/37	25.90
Money market mutual funds	518	518	0.25%	7/1/08	
Deposits	<u>79,202</u>	<u>79,202</u>			
	<u>\$20,341,707</u>	<u>\$20,364,208</u>			1.75

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 % Range</u>	<u>Maturity Range</u>	<u>Weighted Average Maturity (Years)</u>
Local Agency Investment Fund \$	112,235	112,238			0.5
Commercial paper	28,178	28,178	4.21%	8/20/08	0.14
Corporate and deposit notes	229	230	5.33%	8/3/09	1.09
Mortgage trust deeds	866	866	4.50% - 5.50%	8/1/12 - 4/1/17	6.25
Municipal bonds	5,370	5,370	5.00%	9/2/21	13.15
Negotiable certificates of deposit	10,116	10,000	5.05%	3/16/09	0.71
Guaranteed investment contracts	251,437	251,437	4.65% - 4.87%	1/6/09 - 3/15/10	1.42
U.S. agency securities	282,170	280,424	3.63% - 5.59%	7/18/08 - 6/10/13	1.03
U.S. treasury bonds	430	315	7.25% - 11.25%	2/15/15 - 5/15/16	6.96
U.S. treasury notes	61,744	60,507	3.25% - 4.88%	8/15/08 - 7/31/11	0.79
U.S. treasury bills	43,927	43,577	2.05% - 2.09%	8/14/08 - 12/11/08	0.29
Money market mutual funds	226,504	226,504	0.35%	7/1/08	
Deposits	<u>18,494</u>	<u>18,494</u>			
	<u>\$ 1,041,700</u>	<u>\$1,038,140</u>			

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, 2008, more than 58% have a maturity of six months or less. Of the remainder, less than 40% have a maturity of more than one year.

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

5. CASH AND INVESTMENTS-Continued

Interest Rate Risk-Continued

As of June 30, 2008, variable-rate notes comprised 5.61% 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, 2008, 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, 2008, a portion of the County's other investments was invested in the State of California's Local Agency Investment Fund which is unrated as to credit quality.

The County's Investment Policy, approved annually by the Board of Supervisors, limits the maximum total par value for each permissible security type (e.g., commercial paper and certificates of deposit) to a certain percentage of the investment pool. Exceptions to this are obligations of the United States government and United States government agencies or government-sponsored enterprises, which do not have limits. Further, the County restricts investments in any one issuer based on the issuer's Nationally Recognized Statistical Rating Organization (NRSRO) ratings. For bankers acceptances, certificates of deposit, corporate notes and floating rate notes, the highest issuer limit was \$575 million, approximately 2.7% of the investment pool's daily investment balance. For commercial paper, the highest issuer limit was \$750 million, or 3.5% of the investment pool's daily investment balance.

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

	<u>S &amp; P</u>	<u>Moody's</u>	<u>% of Portfolio</u>
Pooled Cash and Investments:			
Commercial paper	A-1	P-1	34.85%
Corporate and deposit notes	A-1+	P-1	6.49%
Los Angeles County securities	A	A2	0.94%
Negotiable certificates of deposit	A-1	P-1	21.41%
U.S. Government securities	AAA	Aaa	36.31%
Money market mutual funds	AAAm	Aaa	0.00%
			<u>100.00%</u>

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

5. CASH AND INVESTMENTS-Continued

Credit Risk and Concentration of Credit Risk-Continued

Other Investments:

Local Agency Investment Fund	Not rated	Not rated	10.97%
Commercial paper	A-1+	P-1	2.75%
Corporate and deposit notes	A-1+	P-1	0.02%
Mortgage trust deeds	AA	Aa3	0.08%
Municipal bonds	AA	Aa3	0.53%
Negotiable certificates of deposit	A-1+	P-1	0.99%
Guaranteed investment contracts	Not rated	Not rated	24.57%
U.S. agency securities	AAA	Aaa	27.58%
U.S. treasury securities	AAA	Aaa	10.37%
Money market mutual funds	AAAm	Aaa	<u>22.14%</u>
			<u>100.00%</u>

The earned yield, which includes net gains on investments sold, on all investments held by the Treasurer's Pool for the fiscal year ended June 30, 2008 was 4.62%.

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, 2008 (in thousands):

Statement of Net Assets

Net assets held in trust for all pool participants	\$ 20,341,707
Equity of internal pool participants	\$ 6,940,990
Equity of external pool participants	<u>13,400,717</u>
Total equity	<u>\$ 20,341,707</u>

Statement of Changes in Net Assets

Net assets at July 1, 2007	\$ 18,010,933
Net change in investments by pool participants	<u>2,330,774</u>
Net assets at June 30, 2008	<u>\$ 20,341,707</u>

The unrealized loss on investments held in the Treasurer's Pool was \$22,501,000 as of June 30, 2008. 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.

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

5. CASH AND INVESTMENTS-Continued

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, 2008, there were approximately \$1,137,950,000 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, 2008, forward currency contracts receivable and payable totaled \$146,108,000 and \$146,262,000, respectively.

Securities Lending Transactions

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

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

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, 2008, 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, 2008. 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, 2008, the fair value of securities on loan was \$2.25 billion. The value of the cash collateral received for those securities was \$2.32 billion and there was no non-cash collateral. Securities lending assets (Other Investments) and liabilities (Other Payables) of \$2.3 billion are recorded in the Pension Trust Fund. Pension Trust Fund income, net of expenses, from securities lending was \$17.6 million for the year ended June 30, 2008.

For the year ended June 30, 2008, the Los Angeles County Treasury Pool did not enter into any securities lending transactions.

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

5. CASH AND INVESTMENTS-Continued

Summary of Deposits and Investments

Following is a summary of the carrying amount of deposits and investments at June 30, 2008 (in thousands):

	County	Pension Trust Fund	Total
Deposits	\$ 97,696	\$ 44,087	\$ 141,783
Investments	<u>21,285,711</u>	<u>41,795,603</u>	<u>63,081,341</u>
	<u>\$ 21,383,407</u>	<u>\$ 41,839,690</u>	<u>\$ 63,223,097</u>

6. CAPITAL ASSETS

Capital assets activity of the primary government for the year ended June 30, 2008 is as follows (in thousands):

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
<u>Governmental Activities</u>				
Capital assets, not depreciated:				
Land	\$ 2,339,457	12,487	(1,246)	\$ 2,350,698
Easements	4,655,380	9,187	(5)	4,664,562
Construction in progress-buildings and improvements	224,014	88,856	(57,603)	255,267
Construction in progress-infrastructure	<u>214,828</u>	<u>165,838</u>	<u>(56,825)</u>	<u>323,841</u>
Subtotal	<u>7,433,679</u>	<u>276,368</u>	<u>(115,679)</u>	<u>7,594,368</u>
Capital assets, depreciated:				
Buildings and improvements	3,963,481	101,640	(19,791)	4,045,330
Equipment	978,264	151,695	(37,086)	1,092,873
Infrastructure	<u>6,958,759</u>	<u>93,699</u>	<u>(4)</u>	<u>7,052,454</u>
Subtotal	<u>11,900,504</u>	<u>347,034</u>	<u>(56,881)</u>	<u>12,190,657</u>
Less accumulated depreciation for:				
Buildings and improvements	(1,328,529)	(72,424)	16,492	(1,384,461)
Equipment	(657,160)	(123,267)	36,306	(744,121)
Infrastructure	<u>(2,418,519)</u>	<u>(163,360)</u>	<u>1</u>	<u>(2,581,878)</u>
Subtotal	<u>(4,404,208)</u>	<u>(359,051)</u>	<u>52,799</u>	<u>(4,710,460)</u>
Total capital assets, being depreciated, net	<u>7,496,296</u>	<u>(12,017)</u>	<u>(4,082)</u>	<u>7,480,197</u>
Governmental activities capital assets, net	<u>\$14,929,975</u>	<u>264,351</u>	<u>(119,761)</u>	<u>15,074,565</u>
<u>Business-type Activities</u>				
Capital assets, not depreciated:				
Land	\$ 216,328		(55)	\$ 216,273
Easements	29,122	1,413		30,535
Construction in progress-buildings and improvements	857,957	100,818	(140)	958,635
Construction in progress-infrastructure	<u>14,903</u>	<u>16,289</u>	<u>(352)</u>	<u>30,840</u>
Subtotal	<u>1,118,310</u>	<u>118,520</u>	<u>(547)</u>	<u>1,236,283</u>

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

6. CAPITAL ASSETS-Continued

Business-type Activities-Continued

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2008</u>
Capital assets, being depreciated:				
Buildings and improvements	1,071,044	440	(833)	1,070,651
Equipment	223,024	68,528	(17,618)	273,934
Infrastructure	<u>1,135,018</u>	<u>334</u>	<u>(609)</u>	<u>1,134,743</u>
Subtotal	<u>2,429,086</u>	<u>69,302</u>	<u>(19,060)</u>	<u>2,479,328</u>
Less accumulated depreciation for:				
Buildings and improvements	(661,880)	(10,999)	724	(672,155)
Equipment	(173,931)	(27,074)	16,089	(184,916)
Infrastructure	<u>(383,469)</u>	<u>(24,373)</u>	<u>87</u>	<u>(407,755)</u>
Subtotal	<u>(1,219,280)</u>	<u>(62,446)</u>	<u>16,900</u>	<u>(1,264,826)</u>
Total capital assets, being depreciated, net	<u>1,209,806</u>	<u>6,856</u>	<u>(2,160)</u>	<u>1,214,502</u>
Business-type activities capital assets, net	<u>\$ 2,328,116</u>	<u>125,376</u>	<u>(2,707)</u>	<u>\$ 2,450,785</u>
Total Capital Assets, net	<u>\$17,258,091</u>	<u>\$389,727</u>	<u>\$(122,468)</u>	<u>\$17,525,350</u>

Depreciation Expense

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

Governmental activities:	
General government	\$ 32,064
Public protection	177,575
Public ways and facilities	84,677
Health and sanitation	14,700
Public assistance	7,616
Education	1,839
Recreation and cultural services	19,707
Capital assets held by the County's internal service funds are charged to the various functions based on their usage of the assets	<u>20,873</u>
Total depreciation expense, governmental activities	<u>\$ 359,051</u>
Business-type activities:	
Hospitals	\$ 27,339
Aviation	1,680
Waterworks	25,379
Community Development Commission	1,125
Capital assets held by the County's internal service funds are charged to the various functions based on their usage of the assets	<u>6,923</u>
Total depreciation expense, business-type activities	<u>\$ 62,446</u>

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

6. CAPITAL ASSETS-Continued

Discretely Presented Component Unit

Capital assets activity for the First 5 LA component unit for the year ended June 30, 2008 was as follows (in thousands):

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2008</u>
Capital assets, not depreciated-				
Land	\$ 2,039	\$	\$	\$ 2,039
Capital assets, depreciated:				
Buildings and improvements	16,874	416		17,290
Equipment	<u>1,213</u>	<u>456</u>		<u>1,669</u>
Subtotal	<u>18,087</u>	<u>872</u>		<u>18,959</u>
Less accumulated depreciation for:				
Buildings and improvements	(5,876)	(239)		(6,115)
Equipment	<u>(698)</u>	<u>(337)</u>		<u>(1,035)</u>
Subtotal	<u>(6,574)</u>	<u>(576)</u>		<u>(7,150)</u>
Total capital assets being depreciated, net	<u>11,513</u>	<u>296</u>		<u>11,809</u>
Component unit capital assets, net	<u>\$ 13,552</u>	<u>\$ 296</u>	<u>\$</u>	<u>\$ 13,848</u>

7. PENSION PLAN

Plan Description

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

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

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

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

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

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

7. PENSION PLAN-Continued

Funding Policy

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

The following employer rates were in effect for 2007-2008:

	A	B	C	D	E
General Members	18.14%	11.44%	11.14%	11.33%	11.29%
Safety Members	26.89%	20.93%			

The rates were determined by the actuarial valuation performed as of June 30, 2006 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 2007-2008, the County contributed the full amount of the ARC.

Annual Pension Cost and Net Pension Obligation

The County's annual pension cost and net pension obligation for 2007-2008, computed in accordance with GASB 27, as amended by GASB 50, were as follows (in thousands):

Annual required contribution (ARC):		
County		\$ 827,789
Non County entities		122
Total ARC		827,911
Interest on net pension obligation (asset)		(13,674)
Adjustment to ARC		44,110
Annual pension cost		858,347
Contributions made:		
County		827,789
Non County entities		841
Total contributions		828,630
Cost in excess of contributions		29,717
Net pension obligation (asset), July 1, 2007		(176,440)
Net pension obligation (asset), June 30, 2008		\$ (146,723)

Fiscal Year Ended	Trend Information (in thousands)		Net Pension Obligation (Asset)
	Annual Pension Cost (APC)	Percentage of APC Contributed	
June 30, 2006	\$ 822,468	82.3%	\$ (267,485)
June 30, 2007	842,896	89.2%	(176,440)
June 30, 2008	858,347	96.5%	(146,723)

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

7. PENSION PLAN-Continued

Funded Status and Funding Progress

As of June 30, 2007, the most recent actuarial valuation date, the funded ratio was determined to be 93.8%. The actuarial value of assets was \$37 billion, and the actuarial accrued liability (AAL) was \$39.5 billion, resulting in an unfunded AAL of \$2.5 billion. The covered payroll was \$5.6 billion and the ratio of the unfunded AAL to the covered payroll was 43.8%.

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

Actuarial Methods and Assumptions

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

The County contribution rate (effective for the 2007-2008 fiscal year) was equal to 2.24% of payroll (using the level percentage of payroll amortization method, over a 30-year open period) plus the normal cost rate of 10.16%, for a total rate of 12.40% of payroll.

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

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

Pension Obligation Bonds and Certificates

During 1994-95 the County sold approximately \$1,965,230,000 in par value pension bonds and utilized the proceeds to fund LACERA. A portion of the bonds (\$1,365,230,000) were fixed rate. The remaining \$600,000,000 were variable rate bonds, which were restructured into fixed rate bonds during 1995-96. In conjunction with the 1994-95 issuance of the pension bonds, the County entered into debt service advance agreements. Under the agreements, the County received \$79,022,000 in exchange for future interest that the County would have earned on deposits with the trustee between the time the County is required to pay debt service payments to the trustee and the time the trustee pays the bondholders. These proceeds have been recorded as unearned revenue on the government-wide statements and deferred revenue on the fund-based statements, and are being amortized over the life of the bonds on the basis of annual debt service requirements. As of June 30, 2008, the unamortized balance was \$9,604,000.

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

7. PENSION PLAN-Continued

Pension Obligation Bonds and Certificates-Continued

For the year ended June 30, 2008, the combined principal and interest payments for both the bonds and certificates were \$295,292,000 and \$86,323,000, respectively. For governmental activities, the total debt service was \$283,213,000. For business-type activities, the total debt service was \$ 98,402,000. At June 30, 2008, the total outstanding principal on both bonds and certificates was \$900,824,000, including accretions of \$548,569,000 on deep discount bonds. The bonds have interest rates varying from 7.07% to 9.19%.

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

Year Ending <u>June 30</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 86,771	\$151,001	\$ 29,793	\$ 52,773
2010	86,851	178,557	30,354	62,403
2011	<u>87,801</u>	<u>187,956</u>	<u>30,685</u>	<u>65,688</u>
Total	<u>261,423</u>	<u>\$517,514</u>	<u>90,832</u>	<u>\$180,864</u>
Accretions	<u>407,116</u>		<u>141,453</u>	
Total Pension Bonds Payable	<u>\$ 668,539</u>		<u>\$ 232,285</u>	

8. OTHER POSTEMPLOYMENT BENEFITS

Plan Description

As discussed in Note 2, the County implemented GASB Statement No. 45 for the fiscal year ended June 30, 2008. GASB 45 establishes financial reporting standards designed to measure, recognize, and display OPEB costs.

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

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

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

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

8. OTHER POSTEMPLOYMENT BENEFITS-Continued

Funding Policy

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

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

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

A trust fund has not been established for the retiree health benefits or the long-term disability benefits. The County's contribution is on a pay-as-you-go basis. During the 2007-2008 fiscal year, the County made payments to LACERA totaling \$352 million for retiree health care benefits. Included in this amount was \$9 million paid through the 401(h) Account, \$29.6 million for Medicare Part B reimbursements and \$6.1 million in death benefits. Additionally, \$34.9 million was paid by member participants. The County also made payments of \$29 million for long-term disability benefits.

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

The County's Annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The following table shows the ARC, the amount actually contributed and the net OPEB Obligation (in thousands):

Annual OPEB required contribution (ARC)	<u>\$ 1,615,272</u>
Annual OPEB cost (expense)	1,615,272
Less: Contributions made (pay-as-you-go)	<u>(381,124)</u>
Cost in excess of contributions	1,234,148
Net OPEB obligation, July 1, 2007	<u>0</u>
Net OPEB obligation, June 30, 2008	<u>\$ 1,234,148</u>

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

8. OTHER POSTEMPLOYMENT BENEFITS-Continued

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

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

Funded Status and Funding Progress

As of July 1, 2006, the most recent actuarial valuation date for OPEB health care benefits, the funded ratio was 0%. The actuarial value of assets was zero. The actuarial accrued liability (AAL) was \$20.3 billion, resulting in an unfunded AAL of \$20.3 billion. The covered payroll was \$5.2 billion and the ratio of the unfunded AAL to the covered payroll was 389.98%.

As of July 1, 2007, the most recent actuarial valuation date for OPEB long-term disability benefits, the funded ratio was 0%. The actuarial value of assets was zero. The actuarial accrued liability (AAL) was \$929.3 million, resulting in an unfunded AAL of \$929.3 million. The covered payroll was \$5.6 billion and the ratio of the unfunded AAL to the covered payroll was 16.55%.

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

Actuarial Methods and Assumptions

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

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

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

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

While the actuarial valuations for OPEB health care and OPEB long-term disability benefits were prepared by two different firms, they both used the same methods and assumptions. The projected unit credit cost method was used. Both valuations assumed an annual investment rate of return of 5%, an inflation rate of 3.5% per annum and projected salary increases of 4.01% to 9.98%. The total expected increase in salary is the increase due to promotions and longevity, adjusted for an assumed 3.75% per annum increase in the general wage level of the membership. An actuarial asset valuation was not performed. Finally, the firms used the level percentage of projected payroll over a rolling (open) 30 year amortization period.

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

8. OTHER POSTEMPLOYMENT BENEFITS-Continued

Actuarial Methods and Assumptions-Continued

The healthcare cost trend initial and ultimate rates are as follows:

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

9. LEASES

Operating Leases

The following is a schedule of future minimum rental payments required under operating leases entered into by the County that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2008 (in thousands):

<u>Year Ending June 30</u>	<u>Governmental Activities</u>
2009	\$ 79,052
2010	57,451
2011	42,423
2012	30,811
2013	23,721
2014-2018	46,350
2019-2023	8,602
2024-2028	6
Total	<u>\$ 288,416</u>

Rent expenditures related to operating leases were \$ 80,944,000 for the year ended June 30, 2008.

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, 2008 (in thousands):

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2009	\$ 32,785	\$ 145
2010	27,736	147
2011	21,606	
2012	18,330	
2013	18,235	
2014-2018	74,614	
2019-2023	68,940	
2024-2028	69,190	

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

9. LEASES-Continued

Capital Leases-Continued

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2029-2033	58,501	
2034-2038	32,239	
Total	<u>\$ 422,176</u>	<u>\$ 292</u>
Less: Amount representing interest	<u>248,807</u>	<u>19</u>
Present value of future minimum lease payments	<u>\$ 173,369</u>	<u>\$ 273</u>

The following is a schedule of property under capital leases by major classes at June 30, 2008 (in thousands):

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Land	\$ 17,279	\$
Buildings and improvements	191,263	1,200
Equipment	71,207	393
Accumulated depreciation	<u>(80,147)</u>	<u>(958)</u>
Total	<u>\$ 199,602</u>	<u>\$ 635</u>

Future rent revenues to be received from noncancelable subleases are \$1,345,000 as of June 30, 2008.

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 89 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 27 years and are also accounted for in the General Fund. The Marina del Rey leases cover remaining periods ranging from 1 to 59 years and are accounted for in the General Fund.

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

9. 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 \$429,493,000. The carrying value of the capital assets associated with the golf course and regional park operating leases is not determinable.

The following is a schedule of future minimum rental receipts on noncancelable leases as of June 30, 2008 (in thousands):

<u>Year Ending June 30</u>	<u>Governmental Activities</u>
2009	\$ 38,233
2010	38,614
2011	38,585
2012	37,842
2013	35,770
Thereafter	<u>1,294,335</u>
Total	<u>\$ 1,483,379</u>

The following is a schedule of rental income for these operating leases for the year ended June 30, 2008 (in thousands):

	<u>Governmental Activities</u>
Minimum rentals	\$ 38,437
Contingent rentals	<u>23,542</u>
Total	<u>\$ 61,979</u>

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

10. LONG-TERM OBLIGATIONS

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

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

10. LONG-TERM OBLIGATIONS-Continued

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, 2008</u>
Los Angeles County Flood Control District Refunding Bonds 2.5% to 5.0%	\$ 143,195	\$ 81,035
Los Angeles County Flood Control District Revenue Bonds 4.0% to 4.12%	20,540	18,175
Regional Park and Open Space District Bonds (issued by Public Works Financing Authority), 3.0% to 5.25%	275,535	289,156
Community Development Commission (CDC) Notes Payable, 2.31% to 7.91%	69,295	45,856
NPC Bond Anticipation Notes, 2.35% to 4.658%	9,450	9,450
NPC Bonds 3.0% to 4.0%	34,042	19,769
Marina del Rey Loans Payable, 4.5% to 4.7%	23,500	20,705
Public Buildings Certificates of Participation, 2.8% to 7.75%	944,106	757,055
Los Angeles County Securitization Corporation Tobacco Settlement Asset-Backed Bonds 5.25% to 6.65%	319,827	363,476
Total	<u>\$ 1,839,490</u>	<u>\$ 1,604,677</u>

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

	<u>Original Par Amount of Debt</u>	<u>Balance June 30, 2008</u>
NPC Bond Anticipation Notes, 2.35% to 4.658%	\$ 5,550	\$ 5,550
NPC Bonds 3.0% to 4.0%	19,993	11,611
Public Buildings Certificates of Participation, 2.8% to 7.0%	140,064	110,507
Commercial Paper, 1.35% to 1.9%	205,500	205,500
Waterworks District Bonds, 3.3% to 8.0%	280	104
Community Development Commission Mortgage Notes, 0.00% to 7.3%	11,395	4,504
Total	<u>\$ 382,782</u>	<u>\$ 337,776</u>

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

10. LONG-TERM OBLIGATIONS-Continued

General Obligation Bonds

The Flood Control District issued general obligation bonds to finance flood control projects. These bonds fully matured in November, 2007.

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

<u>Year Ending</u> <u>June 30</u>	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2009	\$ 18	\$ 9
2010	19	7
2011	21	6
2012	22	3
2013	<u>24</u>	<u>1</u>
Total	<u>\$ 104</u>	<u>\$ 26</u>

Assessment Bonds

The Regional Park and Open Space District issued voter approved assessment bonds in 1997, some of which were advance refunded in 2004-2005 and the remainder in 2007-2008, to fund the acquisition, restoration, improvement and preservation of beach, park, wildlife and open space resources within the District. As discussed in Note 4, the bonds were purchased by the Public Works Financing Authority (Authority) and similar bonds were issued as a public offering. The bonds issued by the Authority are payable from the 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>
2009	\$ 23,120	\$ 12,822
2010	24,215	11,692
2011	25,375	10,514
2012	26,560	9,270
2013	27,855	7,925
2014-2018	116,295	18,922
2019-2023	<u>26,575</u>	<u>1,391</u>
Subtotal	269,995	<u>\$ 72,536</u>
Add: Unamortized Bond Premiums	<u>19,161</u>	
Total Assessment Bonds	<u>\$ 289,156</u>	

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

10. LONG-TERM OBLIGATIONS-Continued

Certificates of Participation-Continued

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):

<u>Year Ending June 30</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 87,794	\$ 38,728	\$ 17,322	\$ 7,270
2010	83,399	35,998	15,747	6,549
2011	72,244	33,611	14,609	5,873
2012	71,026	31,096	13,165	5,236
2013	64,440	28,889	12,610	4,488
2014-2018	177,607	126,104	41,297	12,076
2019-2023	131,563	87,776		
2024-2028	64,910	22,718		
2029-2033	52,585	6,997		
2034-2038	<u>6,750</u>	<u>169</u>		
Subtotal	812,318	<u>\$ 412,086</u>	114,750	<u>\$ 41,492</u>
Accretions	72,826			
Unamortized Bond Premiums	28,875		7,368	
Unamortized Loss	<u>(37,985)</u>			
Total Certificates of Participation	<u>\$ 876,034</u>		<u>\$ 122,118</u>	

Tobacco Settlement Asset-Backed Bonds

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

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

10. LONG-TERM OBLIGATIONS-Continued

Tobacco Settlement Asset-Backed Bonds-Continued

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

Year Ending <u>June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2011	\$	\$ 21,197
2012		21,197
2013		21,197
2014-2018		105,987
2019-2023	60,280	97,864
2024-2028	46,370	85,681
2029-2033		69,311
2034-2038	62,196	60,224
2039-2043	53,157	38,738
2044-2048	<u>97,824</u>	<u>16,173</u>
Subtotal	319,827	<u>\$ 537,569</u>
Accretions	<u>43,649</u>	
Total Tobacco Settlement Asset-Backed Bonds	<u>\$ 363,476</u>	

Notes, Loans, and Commercial Paper

Bond Anticipation Notes (BANS) are issued by the Los Angeles County Capital Assets Leasing Corporation (LACCAL Equipment Acquisition Internal Service Fund) to provide interim financing for equipment purchases. BANS are purchased by the County Treasury Pool and are payable within five years. In addition, the BANS are issued with a formal agreement that, in the event they are not liquidated within the five-year period, they convert to capital leases with a three-year term secured by County real property. During the 2007-2008 fiscal year, LACCAL issued additional BANS in the amount of \$25,000,000.

CDC notes are secured by annual contributions from the United States Department of Housing and Urban Development (HUD) and housing units constructed with the note proceeds. Commission mortgage notes are secured by revenues from the operation of housing projects and from housing assistance payments from HUD. During the 2007-08 fiscal year, CDC issued additional notes payable in the amount of \$3,000,000 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.

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

10. LONG-TERM OBLIGATIONS-Continued

Notes, Loans, and Commercial Paper-Continued

Tax-exempt commercial paper notes (TECP) are issued by the County to pay for the construction costs for the various hospital construction projects. Repayment of the TECP is secured by a letter of credit and a sublease of twenty-one County-owned properties. 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. During the 2007-2008 fiscal year, the County issued additional TECP in the amount of \$203,000,000.

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

<u>Year Ending</u> <u>June 30</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 2,736	\$ 3,310	\$ 206,331	\$ 98
2010	12,529	3,296	5,905	45
2011	3,232	3,144	350	13
2012	3,895	2,965		
2013	4,009	2,759		
2014-2018	19,755	10,690	974	
2019-2023	17,982	5,294		
2024-2028	10,395	1,514		
2029-2033	1,478	67		
Indeterminate maturity			1,994	
Total	<u>\$ 76,011</u>	<u>\$ 33,039</u>	<u>\$ 215,554</u>	<u>\$ 156</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	\$	\$	\$ 104	\$ 26
Assessment Bonds	269,995	72,536		
Certificates of Participation	812,318	412,086	114,750	41,492
Tobacco Settlement Asset-Backed Bonds	319,827	537,569		
Notes, Loans, and Commercial Paper	76,011	33,039	215,554	156
Subtotal	1,478,151	<u>\$1,055,230</u>	330,408	<u>\$ 41,674</u>
Add: Accretions Unamortized Bond Premiums	116,475		7,368	
Less: Unamortized Loss on Advance Refunding of Debt	(37,985)			
Total Bonds and Notes Payable	<u>\$ 1,604,677</u>		<u>\$ 337,776</u>	

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

10. 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 July 5, 2007, the County issued \$94,315,000 of Regional Park and Open Space District lease revenue refunding bonds, maturing on various dates between 2007 and 2019. These bonds, with an average rate of 3.76%, were issued to refund the outstanding principal amount of \$126,520,000 of bonds issued in 1997, with an average interest rate of 5.29%.

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 the refunding issue are as follows (in thousands):

Proceeds of refunding bonds issued	\$ 94,315
Prior years' bond reserves and/or premiums	23,876
County equity contribution	<u>13,020</u>
Deposit to escrow	<u>\$ 131,211</u>
Future years' aggregate debt service payment reduction	\$ 16,449
Present value savings (economic gain)	\$ 6,465

For the advance refunding transaction, the carrying amount of the refunded debt was less than the reacquisition price. This difference was \$4,691,000. This amount has been reported as a reduction 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, 2008, the amount of outstanding bonds and certificates of participation considered defeased was \$241,895,000. All of this amount was related to governmental activities.

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

10. LONG-TERM OBLIGATIONS-Continued

Changes in Long-term Liabilities

The following is a summary of long-term liabilities and corresponding activity for the year ended June 30, 2008 (in thousands):

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions/</u> <u>Accretions</u>	<u>Transfers/</u> <u>Maturities</u>	<u>Balance</u> <u>June 30, 2008</u>	<u>Due Within</u> <u>One Year</u>
Governmental activities:					
Bonds and notes payable	\$ 1,688,286	\$ 153,658	\$ 237,267	\$ 1,604,677	\$ 120,401
Pension bonds payable (Note 7)	879,585		211,046	668,539	218,197
Capital lease obligations (Note 9)	98,450	98,168	23,249	173,369	15,537
Accrued vacation and sick leave	700,200	94,482	45,474	749,208	42,859
Workers' compensation liability (Note 17)	1,875,134	208,106	273,777	1,809,463	308,156
Litigation and self-insurance liability, as restated (Note 17)	86,582	92,182	37,705	141,059	108,056
OPEB obligation (Note 8)		1,019,980		1,019,980	68,951
Third party payor liability	<u>17,568</u>	<u>1,850</u>	<u>6,140</u>	<u>13,278</u>	<u>13,278</u>
Total governmental activities	<u>\$ 5,345,805</u>	<u>\$ 1,668,426</u>	<u>\$ 834,658</u>	<u>\$ 6,179,573</u>	<u>\$ 895,435</u>
Business-type activities:					
Bonds and notes payable	\$ 160,344	221,639	44,207	337,776	224,490
Pension bonds payable (Note 7)	305,612		73,327	232,285	75,813
Capital lease obligations (Note 9)	398		125	273	130
Accrued vacation and sick leave	119,151	15,669	10,012	124,808	8,989
Workers' compensation liability (Note 17)	328,119	23,373	40,527	310,965	47,272
Litigation and self-insurance liability, as restated (Note 17)	102,832	22,173	18,675	106,330	23,404
OPEB obligation (Note 8)		214,168		214,168	14,477
Third party payor liability (Note 13)	<u>98,220</u>	<u>82,065</u>	<u>23,697</u>	<u>156,588</u>	<u>36,130</u>
Total business-type activities	<u>\$ 1,114,676</u>	<u>\$ 579,087</u>	<u>\$ 210,570</u>	<u>\$ 1,483,193</u>	<u>\$ 430,705</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 2007-2008, thereby increasing liabilities for Bonds and Notes Payable by \$21,783,000 for governmental activities. Amounts accreted for Pension Bonds in previous years were paid during 2007-2008 thereby decreasing liabilities for Pension Bonds Payable for governmental and business-type activities by \$95,207,000 and \$33,079,000, respectively, for interest accretions. Note 17 contains information about changes in the combined current and long-term liabilities for workers' compensation and litigation and self-insurance liabilities.

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

11. SHORT-TERM DEBT

On July 2, 2007, the County issued \$500,000,000 short-term Tax and Revenue Anticipation Notes at an effective interest rate of 3.62%. 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 2007. The notes matured and were redeemed on June 30, 2008.

12. CONDUIT DEBT OBLIGATIONS

Community Facilities and Improvement District Bonds

As of June 30, 2008, various community facilities and improvement districts established by the County had outstanding special tax bonds payable totaling \$82,800,000 and limited obligation improvement bonds totaling \$11,645,000. 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 outstanding as of June 30, 2008, was \$723,704,000.

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

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

12. CONDUIT DEBT OBLIGATIONS-Continued

Industrial Development and Other Conduit Bonds

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

As of June 30, 2008, the amount of industrial development and other conduit bonds outstanding was \$14,080,000.

13. HOSPITAL AND OTHER PROGRAM REVENUES

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

Medi-Cal Hospital / Uninsured Care Demonstration Project

The Medicaid Demonstration Project, which was a sub-state waiver, included the Supplemental Project Pool (SPP) program and the Federally Reimbursable Ambulatory Care Service Costs. This sub-state waiver was terminated on June 30, 2005. A new Statewide Project, the California's Medi-Cal Hospital / Uninsured Care Demonstration Project, 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 currently includes 21 public hospitals, including all University of California owned hospitals, identified as Designated Public Hospitals, and private and non-designated public safety net hospitals that serve large numbers of Medi-Cal patients).

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

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

13. HOSPITAL AND OTHER PROGRAM REVENUES-Continued

Medi-Cal Hospital / Uninsured Care Demonstration Project-Continued

Under the Demonstration Project, payments for the public hospitals are comprised of: 1) FFS cost-based reimbursement for inpatient hospital services; 2) DSH payments and 3) distribution from a newly created pool of federal funding for uninsured care, known as the Safety Net Care Pool (SNCP), which was capped Statewide at \$586 million for FY 2007-08. 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 (non-federal plus federal match) may not exceed 75% of the hospital's uncompensated care costs to ensure compliance with the OBRA 1993 hospital-specific DSH limit. The gross IGT funded DSH payment must be "retained" by the hospital.

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

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, 2008, the estimated cost of the IGTs and the related estimated revenues are as follows (in thousands):

<u>Program</u>	<u>Intergovernmental Transfers Expense</u>	<u>Revenues</u>
Medicaid Demonstration Project	\$199,659	\$808,358

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 2007-08 program year is established at each hospital's total net Medi-Cal inpatient payments for 2006-07. The State DHS estimates the aggregate baseline funding for the Statewide designated public hospitals to be \$2.258 billion.

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

13. HOSPITAL AND OTHER PROGRAM REVENUES-Continued

Baseline Payments-Continued

The estimated FY 2007-08 baseline for Los Angeles County hospitals is as follows (in thousands):

<u>Hospital Name</u>	<u>Baseline Amount</u>
LAC+USC Medical Center	\$ 360,349
Harbor-UCLA Medical Center	175,827
MLK, Jr.-Harbor Hospital	15,813
Rancho Los Amigos National Rehabilitation Center	82,624
Olive View -UCLA Medical Center	<u>113,381</u>
Total	<u>\$ 747,994</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, undocumented immigrants, shortfalls between Medi-Cal psychiatric and Medi-Cal managed care payments. The non-federal share of these funds will be a combination of CPEs for these services and IGTs that are subject to interim and final cost settlement. There is an annual fixed allotment of federal DSH funds. The waiver allocates almost all of these funds to public hospitals. (The State DHS estimates the aggregate value of federal DSH funds for the Statewide designated public hospitals to be \$1.025 billion as of June 30, 2008.)
- 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.

Stabilization Payments

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

SB 1100 requires the California Department of Health Services (CDHS) 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 payments determined through this process shall not be modified for any reason other than mathematical errors or mathematical omissions on the part of the State of California.

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

13. HOSPITAL AND OTHER PROGRAM REVENUES-Continued

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.

South Los Angeles Medical Services Preservation Fund

On October 12, 2007, State Senate Bill (SB) 474 established an annual fund to stabilize health services for low-income, underserved populations of South Los Angeles. The "South Los Angeles Medical Services Preservation Fund" is intended to address the regional impact of the closure of the MLK-Harbor Hospital (currently MLK-MACC) and will help defray the County's costs for treating uninsured patients in the South Los Angeles area. The estimated amount of the funds identified to MLK-MACC for FY 2007-08 is \$87.7 million for 10.5 months.

SB 474 also requires the County to make intergovernmental transfers to the State to fund the non-federal share of increased Medi-Cal payments to those private hospitals that serve the South Los Angeles population formerly served by MLK-Harbor Hospital. An IGT expense of \$4.385 million is recorded as health care expenditures in the County's General Fund.

Other Medi-Cal Programs

Cost Based Reimbursement Clinics (CBRC)

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

Cost Report Settlements

Medi-Cal field audits for FY 2004-05 have been completed and audit reports have been issued for all hospitals and health centers with the exception of Martin Luther King, Jr. MACC (MLK), formerly known as MLK-Harbor Hospital, and Rancho Los Amigos National Rehabilitation Center (Rancho). FY 2005-06 Medi-Cal audits are in progress.

The hospitals have various outstanding appeals pertaining to Medi-Cal audit settlements. The FYs 2002-03 and 2003-04 informal level appeals for Medi-Cal have been resolved and \$3.5 million will be paid to the County as a result of the resolution of those appeals.

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

13. HOSPITAL AND OTHER PROGRAM REVENUES-Continued

Other Medi-Cal Programs-Continued

Medi-Cal Managed Care Supplement

In October 2006, the State submitted a proposal to the CMS to allow supplements to the Medi-Cal managed care capitation rates. The County and the State continued to work with CMS and finally obtained approval for the supplements on April 10, 2008. The term of the State agreement will be for the period of October 1, 2006 through September 30, 2008 and expires on December 31, 2008. The County does not receive managed care payments directly from the State; rather, the State contracts with L.A. Care which then subcontracts for services with various provider networks, including DHS' Community Health Plan. The estimated aggregate gross payment for FYs 2006-07 and 2007-08 is \$129.475 million. An estimated IGT expenditure of \$64.75 million was recorded as health care expenditures in the County's General Fund.

Revenues from the various Medi-Cal programs (FFS, DSH, SNCP, CBRC, AB 915, SB 1732, and Managed Care) represent approximately 78% of the hospitals' patient care revenue for the year ended June 30, 2008.

Medicare Program

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

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

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

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

Revenues from the Medicare program represent approximately 8% of patient care revenue for the year ended June 30, 2008.

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 (AB 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, 2008 was \$9.9 million.

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

13. HOSPITAL AND OTHER PROGRAM REVENUES-Continued

Other Program Revenues-Continued

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

Accounts Receivable-net

The following is a summary, by hospital, of accounts receivable and allowances for uncollectible amounts for the year ended June 30, 2008 (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	\$ 561,552	298,403	852,741	196,388	192,493	\$2,101,577
Less: Allowance for uncollectible amounts	<u>431,960</u>	<u>172,182</u>	<u>596,802</u>	<u>15,603</u>	<u>127,138</u>	<u>1,343,685</u>
Accounts Receivable - net	<u>\$ 129,592</u>	<u>126,221</u>	<u>255,939</u>	<u>180,785</u>	<u>65,355</u>	<u>\$ 757,892</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, 2008, based on established rates, is as follows (in thousands):

Charges forgone	\$1,298,794
Less: Federal and State subventions	<u>9,939</u>
Net charges forgone	<u>\$1,288,855</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

14. INTERFUND TRANSACTIONS

Interfund Receivables/Payables

Interfund receivables and payables have been eliminated in the government-wide financial statements, except for "internal balances" that are reflected between the governmental and business-type activities. Interfund receivables and payables have been recorded in the fund financial statements. Such amounts arise due to the exchange of goods or services (or subsidy transfers) between funds that were pending the transfer of cash as of June 30, 2008.

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, 2008 are as follows (in thousands):

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Fire Protection District	\$ 2,265
	Flood Control District	4,289
	Public Library	2,135
	Regional Park and Open Space District	4,073
	Internal Service Funds	8,059
	Waterworks Enterprise Funds	24
	Harbor-UCLA Medical Center	14,675
	Olive View-UCLA Medical Center	38,402
	LAC+USC Medical Center	31,991
	M.L. King Ambulatory Care Center	18,969
	Rancho Los Amigos Nat'l Rehab Center	5,249
	Nonmajor Enterprise Funds	14
	Nonmajor Governmental Funds	<u>227,271</u>
	<u>357,416</u>	
Fire Protection District	General Fund	3,303
	Internal Service Funds	4
	LAC+USC Medical Center	6
	Nonmajor Governmental Funds	<u>3,128</u>
	<u>6,441</u>	
Flood Control District	General Fund	3,554
	Internal Service Funds	19,250
	Nonmajor Enterprise Funds	1
	Nonmajor Governmental Funds	<u>2,101</u>
	<u>24,906</u>	
Public Library	General Fund	1,343
	Nonmajor Governmental Funds	<u>650</u>
	<u>1,993</u>	
Regional Park and Open Space Dist	General Fund	<u>323</u>

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

14. INTERFUND TRANSACTIONS-Continued

Interfund Receivables/Payables-Continued

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Internal Service Funds	General Fund	11,224
	Fire Protection District	75
	Flood Control District	17,628
	Public Library	4
	Waterworks Enterprise Funds	4,988
	Harbor-UCLA Medical Center	2
	M.L. King Ambulatory Care Center	14
	Rancho Los Amigos Nat'l Rehab Center	45
	Nonmajor Enterprise Funds	144
	Nonmajor Governmental Funds	<u>25,234</u>
		<u>59,358</u>
Waterworks Enterprise Funds	General Fund	2
	Internal Service Funds	<u>2,467</u>
		<u>2,469</u>
Harbor-UCLA Medical Center	General Fund	25,178
	Fire Protection District	29
	Olive View-UCLA Medical Center	3,666
	LAC+USC Medical Center	9,851
	M.L. King Ambulatory Care Center	708
	Rancho Los Amigos Nat'l Rehab Center	26
	Nonmajor Governmental Funds	<u>7,945</u>
	<u>47,403</u>	
Olive View-UCLA Medical Center	General Fund	44,634
	Fire Protection District	98
	Harbor-UCLA Medical Center	21
	LAC+USC Medical Center	27
	M.L. King Ambulatory Care Center	24
	Rancho Los Amigos Nat'l Rehab Center	15
	Nonmajor Governmental Funds	<u>11,312</u>
	<u>56,131</u>	
LAC+USC Medical Center	General Fund	128,870
	Fire Protection District	129
	Harbor-UCLA Medical Center	3,859
	Olive View-UCLA Medical Center	3,323
	M.L. King Ambulatory Care Center	2,109
	Rancho Los Amigos Nat'l Rehab Center	1,297
	Nonmajor Governmental Funds	<u>53,381</u>
	<u>192,968</u>	
M.L. King Ambulatory Care Center	General Fund	10,152
	Harbor-UCLA Medical Center	34
	Olive View-UCLA Medical Center	60
	LAC+USC Medical Center	<u>9,402</u>
		<u>19,648</u>

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

14. INTERFUND TRANSACTIONS-Continued

Interfund Receivables/Payables-Continued

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Rancho Los Amigos Nat'l Rehab Center	General Fund	7,493
	Fire Protection District	66
	LAC+USC Medical Center	13,133
	M.L. King Ambulatory Care Center	48
		<u>20,740</u>
Nonmajor Enterprise Funds	Internal Service Funds	<u>48</u>
Nonmajor Governmental Funds	General Fund	325,464
	Fire Protection District	5,000
	Flood Control District	237
	Public Library	254
	Internal Service Funds	14,479
	Waterworks Enterprise Funds	10
	Nonmajor Enterprise Funds	3
	Nonmajor Governmental Funds	16,049
		<u>361,496</u>
Total Interfund Receivables/Payables		<u>\$ 1,151,340</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, 2008 are as follows (in thousands):

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>
General Fund	Public Library	\$ 41,391
	Internal Service Funds	14
	Harbor-UCLA Medical Center	181,834
	Olive View-UCLA Medical Center	165,183
	LAC+USC Medical Center	501,220
	M.L. King Ambulatory Care Center	75,599
	Rancho Los Amigos Nat'l Rehab Center	77,591
	Nonmajor Governmental Funds	80,976
		<u>1,123,808</u>
Fire Protection District	Nonmajor Governmental Funds	<u>16,488</u>

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

14. INTERFUND TRANSACTIONS-Continued

Interfund Transfers-Continued

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>
Flood Control District	Internal Service Funds	23
	Nonmajor Governmental Funds	<u>19,025</u>
		<u>19,048</u>
Public Library	General Fund	3,876
	Nonmajor Governmental Funds	<u>922</u>
		<u>4,798</u>
Regional Park and Open Space District	Nonmajor Governmental Funds	<u>35,216</u>
Internal Service Funds	General Fund	3,903
	Waterworks Enterprise Funds	21
	Nonmajor Governmental Funds	<u>604</u>
		<u>4,528</u>
Harbor-UCLA Medical Center	Nonmajor Governmental Funds	<u>732</u>
Olive View-UCLA Medical Center	Nonmajor Governmental Funds	<u>451</u>
LAC+USC Medical Center	Harbor-UCLA Medical Center	9,749
	M.L. King Ambulatory Care Center	7,352
	Rancho Los Amigos Nat'l Rehab Center	13,092
	Nonmajor Governmental Funds	<u>998</u>
		<u>31,191</u>
M.L. King Ambulatory Care Center	Nonmajor Governmental Funds	<u>507</u>
Rancho Los Amigos Nat'l Rehab Center	Nonmajor Governmental Funds	<u>23</u>
Nonmajor Governmental Funds	General Fund	335,127
	Flood Control District	244
	Public Library	269
	Regional Park and Open Space District	423
	Internal Service Funds	159
	Harbor-UCLA Medical Center	25,902
	Olive View-UCLA Medical Center	25,754
	LAC+USC Medical Center	103,922
	Nonmajor Enterprise Funds	350
	Nonmajor Governmental Funds	<u>61,177</u>
		<u>553,327</u>
Total Interfund Transfers		<u>\$1,790,117</u>

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

14. INTERFUND TRANSACTIONS-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, 2008 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	96,862
	Olive View-UCLA Medical Center	71,315
	LAC+USC Medical Center	199,678
	M.L. King Ambulatory Care Center	146,920
	Rancho Los Amigos Nat'l Rehab Center	<u>53,508</u>
		<u>571,872</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>\$ 590,283</u>

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

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

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

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

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

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

- Under the budgetary basis, revenues (primarily intergovernmental) are recognized at the time encumbrances are established for certain programs and capital improvements. The intent of the budgetary policy is to match the use of budgetary resources (for amounts encumbered, but not yet expended) with funding sources that will materialize as revenues when actual expenditures are incurred. Under the modified accrual basis, revenues are not recognized until the qualifying expenditures are incurred.
- For the General Fund, obligations for accrued vacation and sick leave and estimated liabilities for litigation and self-insurance are recorded as budgetary expenditures to the extent that they are estimated to be payable within one year after year-end. Under the modified accrual basis of accounting, such expenditures are not recognized until they become due and payable in accordance with GASB Interpretation No. 6.
- In conjunction with the sale of pension obligation bonds in 1994-95, the County sold the right to future investment income on debt service deposits. Under the budgetary basis, the proceeds were included in 1994-95 revenues. Under the modified accrual basis, the proceeds were recorded as deferred revenue (unearned) and are being amortized over the life of the bonds. This matter is also discussed in Note 7.
- In conjunction with the sale of Tobacco Settlement Asset-Backed bonds in 2005-06, the County sold 25.9% of its future tobacco settlement revenues. Under the budgetary basis, the proceeds were recognized as revenues. Under the modified accrual basis, the proceeds were recorded as a sale of future revenues and were being recognized over the duration of the sale agreement, in accordance with GASB Statement No. 48. This matter is also discussed in Note 10, under the caption, "Tobacco Settlement Asset-Backed Bonds."
- Under the budgetary basis, property tax revenues are recognized to the extent that they are collectible within one year after year-end. Under the modified accrual basis, property tax revenues are recognized only to the extent that they are collectible within 60 days.
- For budgetary purposes, investment income is recognized prior to the effect of changes in the fair value of investments. Under the modified accrual basis, the effects of such fair value changes have been recognized.
- In conjunction with implementing GASB 45, the County determined that certain assets were held by LACERA (the OPEB administrator) in an OPEB Agency Fund. For budgetary purposes, any excess payments (beyond the pay-as-you-go amount) are recognized as expenditures. Under the modified accrual basis, the expenditures are adjusted to recognize the OPEB Agency assets at June 30, 2008. This matter is also discussed in Note 2.

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

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

The following schedule is a reconciliation of the budgetary and GAAP fund balances 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	\$ 1,808,804	\$ 43,348	\$ 31,405	\$ 16,626	\$ 164,013
Reserves and designations	<u>1,750,106</u>	<u>150,411</u>	<u>138,174</u>	<u>15,136</u>	<u>123,939</u>
Subtotal	<u>3,558,910</u>	<u>193,759</u>	<u>169,579</u>	<u>31,762</u>	<u>287,952</u>
Adjustments:					
Accrual of estimated liability for litigation and self-insurance claims	106,239	(1,001)		(62)	
Accrual of vacation and sick leave benefits	36,766				
Deferral of unearned investment income	(6,272)	(309)		(69)	
Deferral of sale of tobacco settlement revenue	(272,797)				
Change in revenue accruals	<u>( 48,406)</u>	<u>(22,412)</u>	<u>(7,680)</u>	<u>(2,540)</u>	<u>(1,947)</u>
Subtotal	<u>(184,470)</u>	<u>(23,722)</u>	<u>(7,680)</u>	<u>(2,671)</u>	<u>(1,947)</u>
Fund balance - GAAP basis	<u>\$ 3,374,440</u>	<u>\$ 170,037</u>	<u>\$ 161,899</u>	<u>\$ 29,091</u>	<u>\$ 286,005</u>

16. OTHER COMMITMENTS

Construction Commitments

At June 30, 2008, the LAC+USC Medical Center Hospital Enterprise Fund had contractual commitments of approximately \$20,638,000 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. There were also contractual commitments of approximately \$4,041,000 for various hospital construction projects that were financed by commercial paper.

LACERA Capital Commitments

At June 30, 2008, LACERA had outstanding capital commitments to various investment managers, approximating \$2,470,000,000. Subsequent to June 30, 2008, LACERA funded \$229,000,000 of these capital commitments.

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

16. OTHER COMMITMENTS-Continued

Investment Purchase Commitments

At June 30, 2008, the County had open trade commitments with various brokers to purchase investments approximating \$2,400,000 with settlement dates subsequent to year end. These investment transactions had not been recorded as of June 30, 2008, since the County neither takes delivery of the securities nor earns interest on the investments until the settlement date. By July 1, 2008, the County had purchased such investments.

17. RISK MANAGEMENT

The County purchases insurance for certain risk exposures such as aviation, employee fidelity, boiler and machinery in certain structures, art objects, catastrophic hospital general liability, volunteer, special events, public official bond, crime, safety reserve employee death and disability, and fiduciary liability for the deferred compensation plans. There have been no settlements related to these programs that exceeded insurance coverage in the last three years. The County also has insurance on most major structures. Losses did not exceed coverage in 2006-2007 or 2007-2008.

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

As indicated in the following table, the County's workers' compensation liabilities as of June 30, 2008 were approximately \$2.120 billion. This amount is undiscounted and is based on an actuarial study of the County's self-insured program as of June 30, 2008. Approximately \$171,599,000 of the total liabilities pertain to salary continuation payments and other related costs mandated by the State Labor Code.

As of June 30, 2008, the County's best estimate of these liabilities is \$2.368 billion. As discussed in Note 2, the County restated beginning balances to reflect the removal of the LTD disability liability in accordance with GASB 45. Changes in the reported liability since July 1, 2006 resulted from the following (in thousands):

	<u>Beginning of Fiscal Year Liability, as restated</u>	<u>Current Year Claims and Changes In Estimates</u>	<u>Claim Payments</u>	<u>Balance At Fiscal Year-End</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>
<u>2007-2008</u>				
Workers' Compensation	\$ 2,203,253	\$ 231,480	\$(314,305)	\$ 2,120,428
Other (as restated, July 1, 2007)	<u>189,414</u>	<u>114,355</u>	<u>(56,380)</u>	<u>247,389</u>
Total 2007-2008	<u>\$ 2,392,667</u>	<u>\$ 345,835</u>	<u>\$(370,685)</u>	<u>\$ 2,367,817</u>

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

17. RISK MANAGEMENT-Continued

In addition to the above estimated liabilities, the County has determined that claims seeking damages of approximately \$539.8 million are reasonably possible of creating adverse judgments against the County. Because of the uncertainty of their outcome, no loss has been accrued for these claims.

18. 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.

A class action lawsuit was filed against the County, contending the County's utility taxes do not meet the requirements of Proposition 62 and are therefore invalid. Discussions have taken place with the plaintiffs and on July 1, 2008, the Board authorized a settlement of the lawsuit. The monetary provisions of the settlement are estimated at \$65 million and liabilities of this amount have been recognized in the government-wide financial statements (governmental activities). As discussed in Note 19 (Unincorporated Los Angeles County Utility Users' Tax), the County placed a measure on the November 4, 2008 ballot in conjunction with the settlement. County management believes there is no additional material exposure for this matter.

19. SUBSEQUENT EVENTS

Tax and Revenue Anticipation Notes ("TRANS")

On July 1, 2008, the County issued \$500,000,000 in 2008-09 TRANS which will mature on June 30, 2009. The TRANS are collateralized by taxes and other revenues attributable to the 2008-09 fiscal year and were issued in the form of Fixed Rate Notes at an effective interest rate of 1.58%.

Capital Asset Leasing Corporation Bond Anticipation Notes

On both September 4, 2008 and October 31, 2008, the Corporation issued a \$5,000,000 Bond Anticipation Note each with an initial interest rate of 1.97% and 0.612% respectively. The rates are adjustable on January 2 and July 1, of each year. The notes were purchased by the Los Angeles County Treasury Pool and are due on June 30, 2011. Proceeds of the notes are being used to purchase equipment. The notes are to be paid from the proceeds of lease revenue bonds.

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

19. SUBSEQUENT EVENTS-Continued

Unincorporated Los Angeles County Utility User Tax

On November 4, 2008, the voters approved the Unincorporated Los Angeles County Utility Users' Tax Continuation Measure (Measure U) to validate and reduce the Los Angeles County's existing utility users' tax from 5 percent to 4.5 percent. The funds will be used to continue funding the essential services, including sheriff's deputies, parks, libraries, street repairs, and other general fund services. The adoption of this measure prospectively addresses the validity of taxes that are collectible for FY 2008-2009. As discussed in Note 18, there is a pending lawsuit that addresses the collection of taxes prior to the adoption of this measure. The lawsuit is expected to be settled in March, 2009.

Recent Financial Market Events

While there have been numerous fluctuations in the financial markets in the past several months, the County Treasurer's Pool has not sustained material negative effects.

Subsequent to June 30, 2008, Pension Trust Fund investments managed by LACERA experienced material reductions in investment values due to the downturn in the financial markets. As of October 31, 2008, LACERA's investment portfolio, excluding securities lending collateral, had declined by an estimated \$6.91 billion in value to \$32.6 billion (unaudited). The most significant decline was in the domestic and international public equity portfolios. These portfolios declined \$5.96 billion, or 31%, during this period. LACERA's stand-alone audited financial report (see Note O to the financial statements) discusses specific market events which impacted LACERA's investment portfolios subsequent to June 30, 2008.

REQUIRED SUPPLEMENTARY INFORMATION  
(Unaudited)

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((b-a)/c)
06/30/05	\$ 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%
06/30/07	37,041,832	39,502,456	2,460,624	93.8%	5,615,736	43.8%

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

Retiree Health Care(1)

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

Long-Term Disability(1)

July 1, 2007	\$ 0	\$ 929,265	\$ 929,265	0%	\$ 5,615,736	16.55%
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(1) There is no data available prior to this first valuation.



## 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.

“Additional Rental” means the amounts specified as such the Lease.

“Base Rental” means the amount referred to as such in the Lease, as such amounts may be adjusted from time to time in accordance with the terms thereof, but does not include Additional Rental.

“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.

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

“Bonds” means the bonds executed by the Lessor and authenticated and delivered by the Trustee 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.

“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.

“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.

“Code” means the Internal Revenue Code of 1986.

“Continuing Disclosure Certificate” means the Continuing Disclosure Certificate to be executed and delivered by the Lessee relating to the Bonds.

“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” means all Equipment Components identified in the Lease, as the same may be amended from time to time.

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

“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.

“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.

“Interest Payment Date” means June 1 and December 1 in each year, commencing June 1, 2010, except that if such date is on a date which is not a Business Day then payment will be made on the next succeeding Business Day without incurring additional interest.

“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 a date on or before each Interest Payment Date.

“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 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, as of any date of calculation, the lessor of (i) \$1,000,000.00 or (ii) the total remaining unpaid principal and interest on the Bonds.

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

“Trustee” means The Bank of New York Mellon Trust Company, N.A. 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 \$40,000,000 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 and the Lessee 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 and the Lessee 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 such excess in the Reserve Fund (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 and the Lessee of such fact. Upon receipt of such notice, the Lessor shall cause the Lessee to 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.

## **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 that 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 at no additional cost, 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 or following its removal of the Trustee, the retiring 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.

## **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.

#### **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.

### **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. This section will survive the termination of the Indenture and the earlier removal or resignation of the Trustee.

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.

### **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 Qualified Investments which, in the written opinion of a certified public accountant, is in an amount sufficient, together with the earnings to accrue on the Qualified Investments 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) June 1, 2013 unless such Term is otherwise terminated or extended as hereinafter provided. If on June 1, 2013, 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 June 1, 2013, 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 on or before each Interest Payment Date during the Term of the Lease, each such date being a "Lease Payment Date." The interest component of Base Rental payable on or before 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 or before December 1 in any year shall be for the period of June 1 of such year (or from the Closing Date in the case of the first year) to November 30 of such year. The principal component of Base Rental payable on or before 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 or before December 1 in any year shall be for the period of June 1 of such year (or from the Closing Date in the case of the first 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, on or before 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 Qualified Investments 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 Qualified Investments 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 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 BOND COUNSEL OPINION

[Closing Date]

Los Angeles County Capital Asset Leasing Corporation  
Los Angeles, California

County of Los Angeles  
Los Angeles, California

We have acted as Bond Counsel in connection with the issuance of \$24,025,000 aggregate principal amount of Los Angeles County Capital Asset Leasing Corporation Lease Revenue Bonds, 2009 Series A (LAC-CAL Equipment Program) (the “Bonds”), dated the date hereof. In such connection, we have reviewed: the Lease Agreement, dated as of November 1, 2009 (the “Lease”), between the Los Angeles County Capital Asset Leasing Corporation, as lessor (the “Corporation”) and the County of Los Angeles, California, as lessee (the “County”); an Indenture, dated as of November 1, 2009, by and between the Corporation And The Bank of New York Mellon Trust Company, N.A, as Trustee (the “Indenture”); a Tax Certificate of the County and the Corporation with Exhibits, dated the date hereof (collectively the “Tax Certificate”); opinions of County Counsel, counsel to the Corporation and counsel to the Trustee; certificates of the County, the Trustee, the Corporation and others; and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture and the Lease.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or such events do occur or any other matters come to our attention after the date hereof. Our engagement with respect to the Bonds is concluded with their issuance on this date and we disclaim any obligation to update this opinion. We have assumed and relied on, without undertaking to verify, the genuineness of the documents, certificates and opinions presented to us (whether as originals or as copies) and of the signatures thereon, the accuracy of the factual matters represented, warranted or certified in such documents and certificates, the correctness of the legal conclusions contained in such opinions, and the due and legal execution of such documents and certificates by, and validity thereof against, any parties other than the

County and the Corporation. Furthermore, we have relied upon the accuracy, which we have not independently verified, of the representations and certifications, and have assumed compliance with the covenants, of the County and the Corporation in the Lease, the Indenture, the Tax Certificate and other relevant documents to which each is a party. The accuracy of certain of those representations and certifications, and compliance by the County and the Corporation with certain of their covenants, may be necessary for interest on the Bonds to be and to remain excluded from gross income for federal income tax purposes. Failure to comply with certain of such covenants subsequent to issuance of the Bonds may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to their date of issuance. The rights and obligations under the Bonds, the Lease, the Indenture, and their enforceability, may be subject to bankruptcy, insolvency, reorganization, moratorium, arrangement, fraudulent conveyance and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against counties and non-profit public benefit corporations in the State of California (the "State"). We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the documents mentioned in the preceding sentence, nor do we express any opinion with respect to the state or quality of title to, or interest in, any of the personal property described in or subject to the Lease or the accuracy or sufficiency of the description of any such property contained therein. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof and under existing law, we are of the following opinions:

1. The Bonds constitute the valid and binding limited obligations of the Corporation.
2. The Indenture has been duly authorized, executed and delivered by, and constitutes the valid and binding obligation of, the Corporation.
3. The Lease has been duly authorized, executed and delivered by the County and the Corporation and constitutes the valid and binding obligation of the County and the Corporation. The obligation of the County to make the Base Rental payments during the term of the Lease constitutes a valid and binding obligation of the County, payable from funds of the County lawfully available therefor, and does not constitute a debt of the County or of the State or of any political subdivision thereof within the meaning of any constitutional or statutory debt limit or restriction, and does not constitute an obligation for which the County or the State is obligated to levy or pledge any form of taxation or for which the County or the State has levied or pledged any form of taxation.

4. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”) and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income taxes. We express no opinion as to any other tax consequences regarding the Bonds.

Although a portion of the interest on certain tax-exempt obligations earned by certain corporations may be included in the calculation of adjusted current earnings for purposes of the federal corporate alternative minimum tax, interest on certain tax-exempt obligations issued in 2009 and 2010, including the Bonds, is excluded from that calculation. Interest on the Bonds may be subject to a federal branch profits tax imposed on certain foreign corporations doing business in the United States and to a federal tax imposed on excess net passive income of certain S corporations.

Respectfully submitted,



## 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 November 1, 2009 in connection with \$24,025,000 principal amount of Los Angeles County Capital Asset Leasing Corporation Lease Revenue Bonds, 2009 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 November 1, 2009 (the “Indenture”), by and between the County and The Bank of New York Mellon Trust Company, N.A., as Trustee (the “Trustee”), a Resolution of the Board of Supervisors of the County adopted November 3, 2009 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 on behalf of the Corporation 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.

“MSRB” means the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system.

“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.

“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.

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, 2009, provide to the MSRB, in a format prescribed by the MSRB, 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 the MSRB, 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 MSRB an Annual Report by the date specified in subsection (a) above, the County shall send a notice to the MSRB 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 format for filing with the MSRB; 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 to the MSRB.

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 the MSRB or the Commission. If the document included by reference is a final official statement, it must be available from the MSRB. 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 MSRB. 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.

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, (1) 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.

[Remainder of page intentionally left blank.]

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

[Signature page of Continuing Disclosure Certificate]

**EXHIBIT A**

NOTICE TO the MSRB 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, 2009 Series A (LAC-CAL Equipment Program)  
Date of Issuance: November \_\_, 2009

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 November 1, 2009 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 F concerning The Depository Trust Company, New York, New York (“DTC”) and DTC’s book-entry system has been obtained from DTC, and neither the County (as defined in the front part of this Official Statement) nor Corporation (as defined in the front part of this Official Statement) take responsibility for the accuracy thereof. The County and the Corporation cannot and do not give any assurances that DTC, Direct Participants or Indirect Participants will distribute to the Beneficial Owners (all as defined below): (a) payments of the principal or interest components with respect to the Bonds (“Debt Service”); (b) confirmations of ownership interest in the Bonds; or (c) 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, Direct Participants or 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.*

*Neither the County, the Corporation, nor The Bank of New York Mellon Trust Company, N.A. as trustee (the “Trustee”) will have any responsibility or obligations to DTC, the Direct Participants, the Indirect Participants of DTC or the Beneficial Owners, as defined below, with respect to: (1) the accuracy of any records maintained by DTC or any Direct Participants or Indirect Participants of DTC; (2) the payment by DTC or any Direct Participants or Indirect Participants of DTC of any amount due to any Beneficial Owner in respect of the Debt Service on the Bonds; (3) the delivery by DTC or any Direct Participants or Indirect Participants of DTC of any notice to any Beneficial Owner that is required or permitted to be given to owners under the terms of the Indenture (as such term is defined in the Official Statement to which this Appendix F is attached); or (4) any consent given or other action taken by DTC as registered owner of the Bonds.*

1. DTC will act as securities depository for the Bonds (herein, the “Securities”). The Securities 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 Securities, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

2. DTC, the world’s largest depository, 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 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instrument 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 is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the

DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC’s records. The ownership interest of each actual purchaser of each Security (“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 Securities 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 Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities 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 Securities with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Securities 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.

5. 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 Securities may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities 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.

6. Redemption notices shall be sent to DTC. If less than all of the Securities within a maturity are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Securities unless authorized by a Direct Participant in accordance with DTC’s MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the County as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts the Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, principal and interest payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the County or the 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 or 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, or the County, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of 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.

9. A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to the Trustee, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to the Trustee. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to the Trustee's DTC account.

10. DTC may discontinue providing its services as securities depository with respect to the Securities at any time by giving reasonable notice to the County and the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Security certificates are required to be printed and delivered.

10. The County may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered in accordance with the provisions of the Indenture.

#### **Discontinuation of Book-Entry Only System; Payment to Beneficial Owners**

In the event that the book-entry system described above is no longer used with respect to the Bonds, the provisions of the Indenture relating to place of payment, transfer and exchange of the Bonds, regulations with respect to exchanges and transfers, bond register, Bonds mutilated, destroyed or stolen, and evidence of signatures of Holders and ownership of Bonds will govern the payment, registration, transfer, exchange and replacement of the Bonds. Interested persons should contact the County for further information regarding such provisions of the Indenture.





