



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

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September 8, 2010

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

FROM: Wendy L. Watanabe
Auditor-Controller

SUBJECT: **AUDIT OF THE LOS ANGELES COUNTY TREASURY FOR THE YEAR
ENDED JUNE 30, 2009**

California Government Code Section 26920 (Code) requires annual audits of the assets in the County Treasury, with an opinion on whether the Treasurer's statement of assets is presented fairly and in accordance with generally accepted accounting principles. We contracted with an independent Certified Public Accounting firm, Macias, Gini & O'Connell, LLP (MGO), to audit the financial statements of the Los Angeles County Treasury for the year ended June 30, 2009. MGO conducted the audit under the Auditor-Controller's Master Agreement.

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

MGO also prepared a management letter (Attachment 2), which includes recommendations related to improving the timeliness of investment transaction approvals and ensuring communications related to the timely issuance of the financial statements take place on a regularly scheduled basis. The Treasurer indicated they are resolving these matters. Their response is incorporated into MGO's management letter.

Board of Supervisors
September 8, 2010
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Please call me if you have any questions, or your staff may call Jim Schneiderman at (213) 253-0101.

WLW:MMO:JLS:MP

Attachments

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

Los Angeles County Treasury
Management's Discussion and Analysis and
Financial Statements with
Independent Auditor's Reports
For the Fiscal Year Ended June 30, 2009

LOS ANGELES COUNTY TREASURY
FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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SACRAMENTO

OAKLAND

WALNUT CREEK

NEWPORT BEACH

SAN DIEGO

INDEPENDENT AUDITOR'S REPORT

Board of Supervisors
County of Los Angeles, California

We have audited the accompanying financial statements of the Los Angeles County Treasury (Treasury), as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the Treasury's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements present only the Treasury and do not purport to, and do not, present fairly the financial position of the County of Los Angeles, California, as of June 30, 2009 and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Treasury as of June 30, 2009 and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 8, 2010 on our consideration of the Treasury's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Macias Fini & O'Connell LLP

Certified Public Accountants

Los Angeles, California

June 8, 2010

**LOS ANGELES COUNTY TREASURY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)**

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

Mandatory Pool participants include the County, local school and community college districts, and the Courts. There were approximately 1,700 Pool participants at the year ended June 30, 2009. The Treasury also maintains an SPI portfolio to manage specific investment objectives of certain Pool participants and other voluntary participants. The individual investment strategies of the SPI are established by the needs of the requesting entity.

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

As management of the Pool, SPI portfolio and Other Specific Investments, we offer readers of the Treasury's financial statements this narrative overview and analysis of the financial activities of the Treasury for the fiscal year ended June 30, 2009. We hope that the information presented provides you with a solid understanding of the Treasury's financial status as of June 30, 2009.

Financial Highlights

- The Pool's total net assets at June 30, 2009 were \$19.98 billion, a decrease of \$445.99 million (-2.18%) from the year ended June 30, 2008.
- The Pool had liabilities of \$200.00 million at June 30, 2009, an increase of \$197.60 million (8233.40%) from the year ended June 30, 2008. The increase is primarily due to the change in market conditions which made it more beneficial to invest in trades that settled at a future date.
- The investment income of the Pool decreased \$220.95 million (-34.37%) from \$642.89 million for the year ended June 30, 2008 to \$421.94 million for the year ended June 30, 2009. The yield on investments decreased from 4.54%, in the prior year to 2.49% in the current year. This was primarily due to a decrease in interest rates during the fiscal year 2009.
- The fair value of the Pool showed an unrealized gain of \$91.30 million (.46%) of portfolio fair value at June 30, 2009 compared to an unrealized loss of \$22.50 million (.11%) of portfolio fair value at June 30, 2008.
- The Pool's allowable administrative expenses totaled \$9.08 million for the year ended June 30, 2009. This represented approximately 4.63 basis points of the average daily cash balance for the year ended June 30, 2009.

**LOS ANGELES COUNTY TREASURY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)**

Overview of the Financial Statements

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

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

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

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

Statement of Net Assets

The Pool's net assets were \$19.98 billion at June 30, 2009, a decrease of \$445.99 million (-2.18%) from the prior year ended June 30, 2008. SPI net assets were \$344.37 million, a decrease of \$149.98 million (-30.34%) from the prior year. Other Specific Investments net assets were \$301,583 a decrease of \$43.64 million (-99.31%) from the prior year.

The Pool's total liabilities were \$200.00 million at June 30, 2009, an increase of \$197.60 million from the year ended June 30, 2008. SPI's total liabilities were \$51.53 million, an increase of \$51.53 million from year ended June 30, 2008. The increases were primarily due to the change in market conditions which made it more beneficial to invest in trades which settled on a subsequent date.

**LOS ANGELES COUNTY TREASURY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)**

Net Assets

A summary of the net assets is presented below.

		External Investment Pool			
		2009	2008	Increase/(Decrease) Amount \$	Percentage
Assets					
Investments at Fair Value	\$	20,025,551,004	\$ 20,264,689,930	\$ (239,138,926)	-1.18%
Cash		77,829,628	66,995,475	10,834,153	16.17%
Interest Receivable		80,334,043	100,418,305	(20,084,262)	-20.00%
Total Assets		<u>20,183,714,675</u>	<u>20,432,103,710</u>	<u>(248,389,035)</u>	<u>-1.22%</u>
Liabilities					
Trades Payable		200,001,666	2,400,000	197,601,666	8233.40%
Total Liabilities		<u>200,001,666</u>	<u>2,400,000</u>	<u>197,601,666</u>	<u>8233.40%</u>
Total Net Assets	\$	<u>19,983,713,009</u>	<u>\$ 20,429,703,710</u>	<u>\$ (445,990,701)</u>	<u>-2.18%</u>

		Specific Purpose Investment			
		2009	2008	Increase/(Decrease) Amount \$	Percentage
Assets					
Investments at Fair Value	\$	393,990,164	\$ 490,817,691	\$ (96,827,527)	-19.73%
Interest Receivable		1,908,149	3,527,151	(1,619,002)	-45.90%
Total Assets		<u>395,898,313</u>	<u>494,344,842</u>	<u>(98,446,529)</u>	<u>-19.91%</u>
Liabilities					
Trades Payable		51,531,000	-	51,531,000	100.00%
Total Liabilities		<u>51,531,000</u>	<u>-</u>	<u>51,531,000</u>	
Total Net Assets	\$	<u>344,367,313</u>	<u>\$ 494,344,842</u>	<u>\$ (149,977,529)</u>	<u>-30.34%</u>

		Other Specific Investments			
		2009	2008	Increase/(Decrease) Amount \$	Percentage
Assets					
Investments at Fair Value	\$	301,583	\$ 43,945,829	\$ (43,644,246)	-99.31%
Total Assets		<u>301,583</u>	<u>43,945,829</u>	<u>(43,644,246)</u>	<u>-99.31%</u>
Total Net Assets	\$	<u>301,583</u>	<u>\$ 43,945,829</u>	<u>\$ (43,644,246)</u>	<u>-99.31%</u>

LOS ANGELES COUNTY TREASURY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)

Changes in Net Assets

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

Pool

- Contributions by Pool Participants were \$52.67 billion during the year ended June 30, 2009, an increase of \$519.08 million (1.00%) from the prior year.
- The investment income of the Pool decreased \$220.95 million (-34.37%) from \$642.89 million for the year ended June 30, 2008 to \$421.94 million for the year ended June 30, 2009. The yield on investments decreased from 4.54% to 2.49% in the current year. The decrease in the Pool earnings rate can be largely attributed to the decrease in federal funds rate during the fiscal year 2008-2009. The average daily investment balance decreased from \$19.93 billion in the prior year ended June 30, 2008, to \$19.58 billion in the current year. The federal funds rate, set by the Federal Reserve, decreased from 2.00% to 0.25% for the year ended June 30, 2009.
- Administrative expenses, which are deducted from Investment Income, were \$9.08 million for the year ending June 30, 2009, an increase of \$1.10 million (13.79%) from the prior year. This increase is primarily due to a prior year timing difference, an increase in Treasurer's expenses and an increase in Auditor-Controller charges. The \$9.08 million in total administrative expenses represented approximately 4.63 basis points of the average daily cash balance for the year ended June 30, 2009.
- The fair value of the Pool showed an unrealized gain of \$91.30 million (.46%) of portfolio fair value at June 30, 2009 compared to an unrealized loss of \$22.50 million (.11%) of portfolio fair value at June 30, 2008.
- Distributions to Pool participants were \$53.72 billion during the year ended June 30, 2009, an increase of \$2.95 billion (5.80%) from the prior year.

SPI

- Contributions by SPI participants were \$403.00 million during the year ended June 30, 2009, an increase of \$113.97 million (39.43%) from the prior year. The increase in the contributions by SPI participants can be attributed to the declining interest rates during this period.
- Distributions to SPI participants of \$571.07 million were approximately \$1.24 billion (-68.42%) lower than the prior year's figure of \$1.81 billion.
- Investment income decreased by \$24.24 million (-56.20%). The decrease was primarily related to the significant decrease in the funds invested in SPI as a result of withdrawals from SPI by the Sanitation District and the Los Angeles Unified School District.
- The fair value of the SPI investments decreased by \$8.01 million (-109.48%). The decrease is primarily attributed to the reclassification of the Guaranteed Investment Contract (GIC) interest

**LOS ANGELES COUNTY TREASURY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)**

earnings. Interest earnings on the GIC are automatically re-invested in the GIC's principal balance. For fiscal year 2007-2008, these re-invested interest earnings were classified on the Statement of Changes as an increase in the fair value of investments. For fiscal year 2008-2009, the re-invested interest earnings are more appropriately classified additions on the Statement of Changes. The net effect on the Net Assets is zero due to this reclassification although the change in fair value is impacted as a result of the reclassification.

Other Specific Investments

- There were no new contributions by participants during the year ended June 30, 2009.
- Distributions to participants were \$43.74 million during the year ended June 30, 2009, an increase of \$41.57 million from the year ended June 30, 2008. The increase is primarily due to distribution of U.S. Treasury Bills totaling \$43.74 million held by the Treasurer for a private corporation pursuant a court order.

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

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

**LOS ANGELES COUNTY TREASURY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)**

Statement of Changes in Net Assets External Investment Pool				
	2009	2008	Increase/(Decrease)	
			Amount \$	Percentage
Additions				
Contributions by Participants	\$ 52,673,839,044	\$ 52,154,757,579	\$ 519,081,465	1.00%
Investment Income	421,942,724	642,892,179	(220,949,455)	-34.37%
Less: Administrative Expenses	(9,079,729)	(7,979,473)	1,100,256	13.79%
Net Increase in Fair Value of Investments	187,723,926	270,160,225	(82,436,299)	-30.51%
Net Increase from Investment Income	600,586,921	905,072,931	(304,486,010)	-33.64%
Total Additions	53,274,425,965	53,059,830,510	214,595,455	0.40%
Deductions				
Distributions to Participants	53,720,416,666	50,773,728,712	2,946,687,954	5.80%
Net Increase (Decrease) in Net Assets	(445,990,701)	2,286,101,798	(2,732,092,499)	-119.51%
Net Assets beginning of year	20,429,703,710	18,143,601,912	2,286,101,798	12.60%
Net Assets end of year	\$ 19,983,713,009	\$ 20,429,703,710	\$ (445,990,701)	-2.18%

Statement of Changes in Net Assets Specific Purpose Investments				
	2009	2008	Increase/(Decrease)	
			Amount \$	Percentage
Additions				
Contributions by Participants	\$ 403,000,995	\$ 289,031,813	\$ 113,969,182	39.43%
Investment Income	18,887,694	43,125,349	(24,237,655)	-56.20%
Less: Administrative Expenses	(94,832)	(160,083)	(65,251)	-40.76%
Net Increase (Decrease) in Fair Value of Investments	(694,141)	7,319,937	(8,014,078)	-109.48%
Net Increase from Investment Income	18,098,721	50,285,203	(32,186,482)	-64.01%
Total Additions	421,099,716	339,317,016	81,782,700	24.10%
Deductions				
Distributions to Participants	571,077,245	1,808,267,826	(1,237,190,581)	-68.42%
Net Decrease in Net Assets	(149,977,529)	(1,468,950,810)	1,318,973,281	-89.79%
Net Assets beginning of year	494,344,842	1,963,295,652	(1,468,950,810)	-74.82%
Net Assets end of year	\$ 344,367,313	\$ 494,344,842	\$ (149,977,529)	-30.34%

**LOS ANGELES COUNTY TREASURY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)**

Statement of Changes in Net Assets Other Specific Investments					
	2009		2008		Increase/(Decrease)
					Percentage
					Amount \$
Additions					
Investment Income	\$	-	\$	420	\$ (420) -100.00%
Net Increase in Fair Value of Investments		95,587		1,671,304	(1,575,717) -94.28%
Net Increase from Investment Income		95,587		1,671,724	(1,576,137) -94.28%
Total Additions		95,587		1,671,724	(1,576,137) -94.28%
Deductions					
Distributions to Participants		43,739,833		2,161,857	41,577,976 1923.25%
Net Decrease in Net Assets		(43,644,246)		(490,133)	(43,154,113) -8804.6%
Net Assets beginning of year		43,945,829		44,435,962	(490,133) -1.10%
Net Assets end of year	\$	301,583	\$	43,945,829	\$ (43,644,246) -99.31%

Request for Information

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

LOS ANGELES COUNTY TREASURY
STATEMENT OF NET ASSETS
JUNE 30, 2009

	External Investment Pool	Specific Purpose Investments	Other Specific Investments
Assets			
Treasurer Cash	\$ 77,829,628	\$ -	\$ -
Investments:			
Commercial Paper	7,218,659,455	-	-
Corporate and Deposit Notes	811,756,578	2,473,332	-
Local Agency Investment Fund	-	67,051,303	-
Los Angeles County Securities	40,000,000	5,315,000	-
Mortgage Trust Deeds	-	783,530	-
Negotiable Certificates of Deposit	3,280,308,967	-	-
U.S. Agency Securities	8,674,826,004	145,578,610	-
U.S. Treasury Securities			
U.S. Treasury Notes	-	20,296,223	-
U.S. Treasury Bills	-	-	301,583
U.S. Treasury Bonds	-	106,536	-
Guaranteed Investment Contracts	-	152,385,630	-
Total Investments	20,025,551,004	393,990,164	301,583
Interest Receivable	80,334,043	1,908,149	-
Total Assets	20,183,714,675	395,898,313	301,583
Liabilities			
Trades Payable	200,001,666	51,531,000	-
Total Liabilities	200,001,666	51,531,000	-
Total Net Assets Held in Trust	\$ 19,983,713,009	\$ 344,367,313	\$ 301,583

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

**LOS ANGELES COUNTY TREASURY
STATEMENT OF CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	External Investment Pool	Specific Purpose Investments	Other Specific Investments
ADDITIONS:			
Contributions by Pool Participants	\$ 52,673,839,044	\$ 403,000,995	\$ -
Investment Income:			
Investment Income	421,942,724	18,887,694	-
Administrative Expenses	(9,079,729)	(94,832)	-
Net Increase (Decrease) in Fair Value of Investments	187,723,926	(694,141)	95,587
Net Increase Resulting from Investment Income	600,586,921	18,098,721	95,587
Total Additions	53,274,425,965	421,099,716	95,587
DEDUCTIONS:			
Distributions to Pool Participants	53,720,416,666	571,077,245	43,739,833
Net Decrease in Net Assets	(445,990,701)	(149,977,529)	(43,644,246)
Net Assets Held in Trust, July 1, 2008	20,429,703,710	494,344,842	43,945,829
Net Assets Held in Trust, June 30, 2009	\$ 19,983,713,009	\$ 344,367,313	\$ 301,583

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

**LOS ANGELES COUNTY TREASURY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Note 1 - Summary of Significant Accounting Policies

The Financial Reporting Entity

The Los Angeles County (County) Treasurer and Tax Collector (Treasury) is responsible for tax collection, banking, investment and accountability of public funds. The County Treasury maintains two investment portfolios, the External Investment Pool portfolio (the Pool) and the Specific Purpose Investments (SPI) portfolio with approximately \$19.98 billion and \$344.37 million, respectively, in net assets as of June 30, 2009. The Pool is managed by the County Treasury on behalf of the Pool participants, which include the County, local school districts, and the Superior Courts who are required by State statutes to participate in the Pool. Voluntary participants in the County Treasury consist of the Sanitation Districts, the Metropolitan Transportation Authority, the South Coast Air Quality Management District and certain other municipal agencies. The deposits held for these entities are invested in the Pool and SPI portfolios. The Treasury also maintains Other Specific Investments totaling approximately \$301,583 at June 30, 2009. These assets are held by the Treasury for a municipal agency per State Code. The State of California allows the Board of Supervisors (Board) the ability to delegate the investment authority to the County Treasury in accordance with Section 53607 of the California Government Code.

Effective September 29, 2004, the California Government Code Section 27131 was revised to make the establishment of a county Treasury Oversight Committee optional and no longer mandatory. As a result of this change, the Board disbanded the County Treasury Oversight Committee on November 12, 2008, due to its limited functions. The Pool is not registered with the Securities and Exchange Commission (SEC) as an investment company.

Treasury's Investment Strategy

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

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

**LOS ANGELES COUNTY TREASURY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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

Trades Payable

Trades payable represents purchase of investments by the Treasury where payment has not been made as of the fiscal year end. Trades payable totaled \$200.00 million for the Pool and \$51.53 million for SPI at June 30, 2009.

Trades Receivable

Trades receivable represents pending sale of investments by the Treasury that have not settled at June 30, 2009. The Pool had no trades receivable at June 30, 2009.

Use of Estimates

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

Note 2 – Bank Deposits

As of June 30, 2009, the County Treasury maintained accounts in five banks. The carrying amount of the County Treasury's total deposits in financial institutions was \$77,354,244 plus \$475,384 in cash in the County Treasury's vault.

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

The total balance of deposits in financial institutions was covered by federal depository insurance or collateralized with securities monitored by the Local Agency Security Program (LASD) of California Department of Financial Institutions. LASD confirmed that the pools of collateral related to the County Treasury's deposits were maintained at required levels as of June 30, 2009.

Note 3 – Investments

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

**LOS ANGELES COUNTY TREASURY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

deposit, medium-term notes, corporate notes, repurchase agreements, reverse repurchase agreements, time deposits, shares of beneficial interest of a Joint Powers Authority that invests in authorized securities, shares of beneficial interest issued by diversified management companies known as money market mutual funds (MMF), registered with the Securities and Exchange Commission, the State's Local Agency Investment Fund (LAIF), and guaranteed investment contracts. As permitted by the Government Code, the County Treasury developed, and the Board adopted, an Investment Policy that further defines and restricts the limits within which the Treasury may invest. For instance, the Government Code limits the maximum maturity of negotiable certificates of deposit and corporate notes to 5 years; whereas, the Investment Policy further restricts the maximum maturity of these investments to 3 years. The Investment Policy further restricts the money market mutual fund investments to a maximum of 15% of the Pool; whereas, the Government Code limits this investment to 20% of the Pool. The investments are managed by the County Treasury who reports investment activity to the Board on a monthly basis. The County Treasury also maintains Other Specific Investments which are invested pursuant to State Code.

Investments held by the County Treasury are stated at fair value, except for certain non-negotiable securities that are reported at cost because they are not transferable and have terms that are not affected by changes in market interest rates, such as repurchase agreements, money market mutual funds, mortgage trust deeds, Los Angeles County securities, guaranteed investment contracts and investments in the Local Agency Investment Fund. The fair value of investments is determined monthly and is provided by the custodian bank. The method used to determine the value of participant's equity withdrawn is based on the book value, which is amortized cost, of the participant's percentage participation on the date of such withdrawals.

Investments in LAIF are governed by California Government Code and overseen by a five member Local Investment Advisory Board as designated by the California Government Code. As of June 30, 2009 the total amount invested by all California local governments and special districts in LAIF was \$25.16 billion. LAIF is part of the State of California's Pooled Money Investment Account (PMIA), which as of June 30, 2009 had a balance of \$50.74 billion. The PMIA is not SEC registered, but is required to invest according to California State Government Code. Included in the PMIA's investment portfolio are certain derivative securities or similar products in the form of structured notes totaling \$5.17 billion, and asset-backed securities totaling \$2.30 billion at June 30, 2009. Collectively, these represent 14.71% of the PMIA balance of \$50.74 billion. The SPI holdings in the LAIF investment pool were valued using a fair value factor provided by LAIF.

The School Districts and the Superior Courts are required by legal provisions to participate in the Pool. At June 30, 2009, the total percentage share of the Pool that relates to these participants in addition to Los Angeles County and related entities is 89.05%. Voluntary participants in the County Treasury consist of the Sanitation Districts, the Metropolitan Transportation Authority, the South Coast Air Quality Management District and certain municipal agencies. The deposits held for these entities are included in the Pool and SPI portfolio. Certain specific investments have been made by the County Treasury, as requested by Pool participants and external depositors. This investment activity occurs separately from the Pool and is reported in the SPI portfolio.

**LOS ANGELES COUNTY TREASURY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Risk Disclosures

As of June 30, 2009, the major classes of the County's investments consisted of the following:

<u>Pool</u>	<u>Fair Value</u>	<u>Principal</u>	<u>Interest Rate Range (%)</u>	<u>Maturity Range</u>	<u>Weighted Average Maturity in Years</u>
Commercial Paper	\$ 7,218,659,455	7,218,783,422	0.18% - 0.82%	07/01/09 - 08/28/09	0.05
Corporate and Deposit Notes	811,756,578	800,532,928	0.62% - 7.38%	07/06/09 - 03/03/12	1.01
Los Angeles County Securities	40,000,000	40,000,000	0.51% - 0.88%	06/30/10 - 06/30/11	1.63
Negotiable Certificates of Deposit	3,280,308,967	3,280,014,666	0.20% - 2.55%	07/01/09 - 03/09/10	0.08
U.S. Agency Securities	8,674,826,004	8,594,917,935	1.85% - 7.20%	09/15/09 - 05/19/14	2.93
Total Investments	\$ 20,025,551,004	19,934,248,951			1.35

<u>SPI</u>	<u>Fair Value</u>	<u>Principal</u>	<u>Interest Rate Range (%)</u>	<u>Maturity Range</u>	<u>Weighted Average Maturity in Years</u>
Local Agency Investment Fund	\$ 67,051,303	66,959,956	-	N/A	0.64
Corporate and Deposit Notes	2,473,332	2,540,069	1.48% - 5.33%	08/03/09 - 02/01/11	1.45
Mortgage Trust Deeds	783,530	783,530	4.50% - 5.50%	08/01/12 - 04/01/17	5.28
Los Angeles County Securities	5,315,000	5,315,000	5.00%	09/02/21	12.18
U.S. Agency Securities	145,578,610	143,923,298	2.15% - 5.59%	09/18/09 - 7/7/14	2.77
U.S. Treasury Securities:					
U.S. Treasury Notes	20,296,223	20,027,168	3.38% - 4.88%	10/15/09 - 07/31/11	0.30
U.S. Treasury Bonds	106,536	86,483	7.25%	05/15/16	6.88
Guaranteed Investment Contracts	152,385,630	135,300,000	4.87%	03/15/10	0.71
Total Investments	\$ 393,990,164	374,935,504			1.61

<u>Other Specific Investments</u>	<u>Fair Value</u>	<u>Principal</u>	<u>Interest Rate Range (%)</u>	<u>Maturity Range</u>	<u>Weighted Average Maturity in Years</u>
U.S. Treasury Securities	\$ 301,583	301,531	0.35%	12/10/09	0.45
Total Investments	\$ 301,583	301,531			0.45

**LOS ANGELES COUNTY TREASURY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Interest Rate Risk

The County Treasury manages the Pool's exposure to declines in fair value by limiting its weighted average maturity to a target of 1.5 years, in accordance with the Investment Policy. For purposes of computing weighted average maturity, the maturity date of variable-rate notes is the stated maturity. 54.43% of the Pool's \$20,025,551,004 in investments at June 30, 2009 mature in six months or less. Of the remainder, 43.61% have a maturity of more than one year. At June 30, 2009, the weighted average maturity in years for the Pool was 1.35.

As of June 30, 2009, the variable-rate notes comprised 3.28% of the Pool investments. The notes are tied to one-month and three-month London Interbank Offered Rate (LIBOR) with monthly and quarterly coupon resets. The fair value of variable securities is generally less susceptible to changes in value than fixed rate securities because the variable-rate coupon resets back to the market rate on a periodic basis. Variable-rate notes comprised 0.57% of SPI. There were no variable-rate notes in Other Specific Investments.

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

Custodial Credit Risk

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

Credit Risk 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 mitigates these risks by holding a diversified portfolio of high quality investments.

The County's Investment Policy establishes acceptable credit ratings for investments from any two Nationally Recognized Statistical Rating Organizations (NRSRO). For an issuer of short-term debt, the rating must be no less than A-1 (S&P) or P-1 (Moody's), while an issuer of long term debt shall be rated no less than an "A." All investments purchased in the fiscal year met the credit rating criteria in the Investment Policy, at the issuer level. However, while the NRSROs did rate the issuer of the investments purchased, the NRSRO did not, in all instances, rate the investment itself (e.g., commercial paper, corporate and deposit notes, negotiable certificates of deposit and guaranteed investment contracts). Accordingly, for purposes of reporting the credit quality distribution of investments in the following table, some investments are reported as not rated.

The Investment Policy also permits investments in the State of California's Local Agency Investment Fund, pursuant to California Government Code Section 16429.1. At June 30, 2009, a portion of the

**LOS ANGELES COUNTY TREASURY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

County's other investments was invested in the State of California 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 Pool portfolio. Exceptions to this are obligations of the United States government, and United States government agencies or government-sponsored enterprises, which do not have a limit. Further, the Treasurer restricts investments in any one issuer based on the issuer's ratings from a NRSRO. For commercial paper, bankers acceptances, certificates of deposit, corporate notes and floating rate notes, the highest issuer limit, for those issuers with ratings of P-1/Aaa (Moody's) and A-1/AAA (S&P), was \$500.00 million, approximately 2.55% of the Pool daily investment balance. For commercial paper, the highest issuer limit was \$750.00 million, or 3.83% of the Pool's daily investment balance.

The Pool and SPI had the following U.S. Agency securities in a single issuer that represent 5 percent or more of total investments at June 30, 2009:

<u>Issuer</u>	<u>Pool</u>	<u>SPI</u>
Federal Farm Credit Bank	\$ 2,121,656,346	\$ 6,157,575
Federal Home Loan Bank	2,951,637,464	37,034,109
Federal Home Loan Mortgage Corp	3,601,532,194	102,386,926

In addition, SPI had a total of \$152,385,630 invested in Guaranteed Investment Contracts (GIC) with FSA Capital Management Services.

The following is a summary of the credit quality distribution and concentration of credit risk by investment type as a percentage of each portfolio's fair value at June 30, 2009:

**LOS ANGELES COUNTY TREASURY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

<u>Pool</u>	<u>S&P</u>	<u>Moody's</u>	<u>% of Portfolio</u>
Commercial Paper	Not Rated	Not Rated	36.41%
Corporate and Deposit Notes	A	A2	0.26%
	A	A3	0.25%
	A+	Aa2	0.04%
	A+	Aa3	0.88%
	AA	Aa1	1.14%
	AA-	A1	0.10%
	AA+	Aa2	1.04%
	Not Rated	Aa2	0.13%
	Not Rated	Aa3	0.25%
	Los Angeles County Securities	AA-	Aa2
Negotiable Certificated of Deposit	Not Rated	Not Rated	15.19%
	Not Rated	Aa1	0.35%
U.S. Agency Securities	AAA	Aaa	43.76%
			100.00%

<u>SPI</u>			
Local Agency Investment Fund	Not Rated	Not Rated	17.02%
Corporate and Deposit Notes	AA	Aa1	0.06%
	AA+	Aa2	0.57%
Mortgage Trust Deeds	AA-	Aa3	0.20%
Los Angeles County Securities	AA-	Aa3	1.35%
Guaranteed Investment Contracts	Not Rated	Not Rated	38.68%
U.S Agency Securities	AAA	Aaa	36.95%
U.S. Treasury			
U.S. Treasury Notes	AAA	Aaa	5.15%
U.S. Treasury Bonds	AAA	Aaa	0.02%
			100.00%

<u>Other Specific Investments</u>			
U.S. Treasury Bills	AAA	Aaa	100.00%
			100.00%

Safekeeping Securities

At June 30, 2009, all Pool, SPI investments and Other Specific Investments were safe kept by The Bank of New York Mellon Corporation, except for the County Improvement Bonds and Bond Anticipation Notes (BANs), certain certificates of participation issued by County entities, GIC, LAIF and mortgage trust deeds.

LOS ANGELES COUNTY TREASURY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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

The County has not provided nor obtained any legally binding guarantees during the fiscal year ended June 30, 2009 to support the value of shares in the Pool.

Investment Income

The earnings rate, which includes investment income, net of allowable administrative expenses, on all Pool investments held by the County Treasury for the fiscal year ended June 30, 2009 was 2.49% on an average daily investment balance of the Pool portfolio of \$19,575,347,655.

The change in fair value of investments consists of both unrealized and realized gains and losses. Realized gains and losses on investments held in more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in the prior year(s) (as an unrealized gain or loss) and the current year (as a realized gain or loss). Securities in the aggregate amount of \$7,962,910,414 and \$73,605,324 were called or sold during the year with a net loss of \$116,170 for the Pool and a net gain \$116,106 for SPI, respectively. The net increase in the fair value of investments for the year ended June 30, 2009 was \$187,723,926 for the Pool, \$95,587 for Other Specific Investments. There was a \$694,141 net decrease in the fair value of investments for the SPI for the year ended June 30, 2009.

Derivatives

The California Government Code and the County Treasury's Investment Policy allow the County Treasury to purchase floating rate notes, that is, any instruments that have a coupon interest rate that is adjusted periodically due to changes in a base or benchmark rate.

The County Treasury's Investment Policy limits the amount of floating rate notes to 10% of the Pool portfolio. The Pool contained floating rate notes at fair market value of \$656,090,300 (3.28% of the Pool) as of June 30, 2009. The policy also prohibits the purchase of inverse floating rate notes and hybrid or complex structured investments and for the fiscal year ended June 30, 2009, there were none.

Los Angeles County Securities – External Investment Pool

The Board authorized the Treasury to purchase Los Angeles County Capital Asset Leasing Corporation's (LACCAL) BANS for the Pool, which are floating rate notes. LACCAL is a nonprofit corporation established by the Board to issue tax-exempt bonds to finance the purchase of certain equipment on behalf of the County. The BANS were created to provide LACCAL with operating cash prior to the sale of financing bonds. LACCAL issues BANS and sells them to the County Treasury periodically, based on cash needs. As part of the 2008-2009 Debt Management Guidelines, the Board authorized the issuance of an aggregate amount of BANS not to exceed \$65.00 million. As of June 30, 2009, the Pool had \$40,000,000 invested in LACCAL BANS.

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

**LOS ANGELES COUNTY TREASURY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Los Angeles County Securities – Specific Purpose Investments (SPI)

As of June 30, 2009, the Los Angeles County Securities category included the Rancho Palos Verdes Redevelopment Agency Tax Allocation Bond for \$5,315,000 issued on December 2, 1997. It earns an interest rate of 5% per annum and matures in September 2021. The original loan provided funding for landslide mitigation measures in the Abalone Cove area pursuant to a 1987 settlement agreement.

Mortgage Trust Deeds

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

The trust deeds, which are fully secured, have terms of 15 to 30 years and fixed interest rates of between 4.5% and 5.5%, except for one loan that had a variable rate of 4.5% as of June 30, 2009. As of June 30, 2009, \$783,530 in mortgage trust deeds are included in the SPI portfolio.

Note 4 – Interest Receivable

Receivables primarily consist of interest accrued on investments. In addition, certain securities were purchased with accrued interest. At June 30, 2009, the Pool had \$80,334,043 of interest receivable of which \$1,780,324 represents accrued interest purchased. At June 30, 2009, the SPI portfolio had \$1,908,149 of interest receivable and no accrued interest purchased.

Note 5 – External Investment Pool

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

Note 6 – Specific Purpose Investments

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

Note 7 – Other Specific Investments

Other Specific Investments represents assets held by the County Treasury pursuant to State Code and totaled \$301,583 at June 30, 2009.

**LOS ANGELES COUNTY TREASURY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

This amount is comprised of \$301,583 in U.S. Treasury Bills, held in the Treasury's Special Safekeeping Account on behalf of the County's Community Health Plan (CHP). The funds were assigned to the California Commission of Corporations to meet CHP deposit requirements imposed by the California Code of Regulations.



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SACRAMENTO

OAKLAND

WALNUT CREEK

NEWPORT BEACH

SAN DIEGO

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

Board of Supervisors
County of Los Angeles, California

We have audited the basic financial statements of the Los Angeles County Treasury (Treasury) as of and for the year ended June 30, 2009, and have issued our report thereon dated June 8, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported Treasury management, in a separate letter dated June 8, 2010.

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

Macias Jini & O'Connell LLP
Certified Public Accountants

Los Angeles, California
June 8, 2010

LOS ANGELES COUNTY TREASURY

Report to Management

For the Year Ended June 30, 2009



MACIAS GINI & O'CONNELL LLP
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WALNUT CREEK

NEWPORT BEACH

SAN DIEGO

June 8, 2010

Board of Supervisors
County of Los Angeles, California

In planning and performing our audit of the basic financial statements of the Los Angeles County Treasury (Treasury), for the year ended June 30, 2009, we considered the Treasury's internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the basic financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal accounting controls and operating efficiencies. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. We previously reported on the Treasury's internal control in our report dated June 8, 2010, in conjunction with our audit of the Treasury's basic financial statements for the year ended June 30, 2009. This letter does not affect that report.

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

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with Treasury personnel and have included management's responses to our recommendations in the attached memorandum. We will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

Macias Gini & O'Connell LLP

Macias Gini & O'Connell LLP

Current Year Findings and Recommendations

2009-01 - Timely Review and Approval Procedures

The Treasury's investment transactions are documented on trade tickets. These trade tickets contain a section allowing documentation of review and approval by both staff and management of the Treasury's Internal Controls Group. During our testing of 110 sales, calls, withdrawals, purchases, and maturities transactions, MGO noted 15 (14%) trade tickets that were not reviewed or approved by a second reviewer on a timely basis. However, per our review of the trade tickets detail, MGO did not note any noncompliance with the Investment Policy.

Recommendation

Treasury management should continue to improve its formal review and approval policies and procedures to ensure that all investment transactions are properly reviewed and approved on a timely basis and trade tickets are signed and dated accordingly.

Management Response

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

2009-02 - Timely Issuance of Financial Statements

During our audit of the Treasury's financial statements for the year ended June 30, 2009, we noted that while the Treasury follows formal policies and procedures over preparing the annual financial statements and related note disclosures, we found a few instances where communications, both internal to the Treasury and external with the auditors, may have led to slight delays in the timely issuance of the financial statements. To ensure that the Treasury's financial statements are issued timely, continued improvement of communications, both internal and external, would help to minimize any delays in preparing the annual financial statements and related audit opinion on those financial statements. This communication could be formal status meetings and progress reports with all parties involved in the process.

Recommendation

MGO recommends that the Treasury take steps to ensure that both internal and external communications related to the timely issuance of the financial statements take place on a regularly scheduled basis to help provide another level of assurance that any delays to the financial statements and associated note disclosure process are minimized.

Management Response

The Treasury agrees with MGO's observation and recommendation and will instruct staff to conduct more frequent status meetings with all parties involved to ensure the timely issuance of the financial statements. Treasury staff will also collaborate with the external auditors to improve communication so that in instances where desired results are not achieved, the matter can be elevated timely to the appropriate level of management to further minimize miscommunication and delays.