



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

KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-2766
PHONE: (213) 974-8301 FAX: (213) 626-5427

J. TYLER McCAULEY
AUDITOR-CONTROLLER

September 14, 2004

TO: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Yvonne B. Burke
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley *Maria Oms for*
Auditor-Controller

SUBJECT: **AUDIT OF THE COUNTY TREASURY'S COMPLIANCE
WITH GOVERNMENT CODE REQUIREMENTS**

California Government Code Sections 27130 through 27137 require each county to establish a Treasury Oversight Committee and establish the requirements for the Committee. The Code also requires annual audits of the Committee to ensure compliance with the Government Code, including evaluating:

- Treasurer's compliance with the approved Investment Policy
- Treasury Oversight Committee members' compliance with the Code, requiring them to refrain from certain prohibited activities, such as being employed by campaign contributors of the Board of Supervisors, raising money for a member of the Board of Supervisors, or being employed in the financial services industry
- Treasury Oversight Committee's compliance with the open meeting requirements of the Brown Act

We have completed our review of the Treasury Oversight Committee's operations for the year ended June 30, 2003. Our review included tests of the Treasurer's investment records, obtaining signed declarations from Oversight Committee members and reviewing the Committee's agendas and minutes. In evaluating the Treasurer's compliance with the County's Investment Policy, we relied on the test work performed as part of our audit of the County Treasury as of June 30, 2003 (attached). While we did note some instances where the Treasurer may have exceeded the limits in the County's Investment Policy, these exceptions were reported to the Board of Supervisors

and the Oversight Committee by the Treasurer as part of the Treasurer's monthly Report of Investments.

Based on our audit, we have determined that the County Treasurer and the Treasury Oversight Committee are in compliance with the Government Code for the year ended June 30, 2003.

Please call me if you have any questions, or your staff may contact Maria Oms at (213) 974-8303.

JTM:MO:TK

Attachment

c: David E. Janssen, Chief Administrative Officer
Mark Saladino, Treasurer and Tax Collector
Treasury Oversight Committee Members
Violet Varona-Lukens, Executive Officer
Audit Committee
Public Information Office



**COUNTY OF LOS ANGELES
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J. TYLER McCaULEY
AUDITOR-CONTROLLER

August 30, 2004

TO: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Yvonne B. Burke
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

FROM J. Tyler McCauley 
Auditor-Controller

SUBJECT: **AUDIT OF THE COUNTY TREASURY AS OF JUNE 30, 2003**

Pursuant to Government Code Section 26920 through 26922, we examined the Treasurer and Tax Collector's (TTC) records relative to the amount and type of assets in the Treasury. Attached is our report on the Treasurer's Cash and Investments as of June 30, 2003.

The purpose of our review was to express an opinion as to the accuracy of the TTC's records relative to the amount and type of assets in the Treasury. We also reconciled the TTC's records with those of the Auditor-Controller to obtain reasonable assurance as to whether the TTC's records were free from material misstatement. We did not review the Treasurer's investment strategy, although we did review the TTC's compliance with the Government Code and the Board of Supervisors' Investment Policy.

JTM:PTM:DR:JS

Attachments

c: David E. Janssen, Chief Administrative Officer
Mark Saladino, Treasurer and Tax Collector
Public Information Officer
Violet Varona-Lukens, Executive Officer
Audit Committee Members

LOS ANGELES COUNTY TREASURY
FINANCIAL STATEMENTS
AS OF JUNE 30, 2003

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J. TYLER McCAULEY
AUDITOR-CONTROLLER

August 12, 2004

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, California 90012

**Auditor's Report on the County
Treasury as of June 30, 2003**

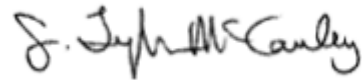
We have audited the Statement of Net Assets and Statement of Changes in Net Assets for the Los Angeles County's Treasury Pool as of June 30, 2003 and for the fiscal year then ended. These financial statements are the responsibility of the Treasurer's management. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with applicable auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and investments arising from transactions of the Treasurer as of June 30, 2003, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying statements do not include funds or investments of the Los Angeles County Employees Retirement Association, with the exception of amounts on deposit with the Treasurer as part of the External Investment Pool, which are intended mainly for warrant clearance. Retirement Association funds and investments are reported annually as of June 30th by a private accounting firm. These statements also do not

include investments made with the proceeds of debt issuance for the purpose of financing various County capital acquisitions. These investments are not part of Treasury Pool assets. These statements will also be audited by a private accounting firm.



J. Tyler McCauley, CPA
Auditor-Controller

JTM:DR:JS

Attachments

- c: David E. Janssen, Chief Administrative Officer
- Mark Saladino, Treasurer and Tax Collector
- Public Information Officer
- Violet Varona-Lukens, Executive Officer
- Audit Committee Members

**LOS ANGELES COUNTY TREASURY
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2003**

<u>INVESTMENTS AND ASSETS</u>	AMORTIZED COST	ACCRUED INTEREST PURCHASED	PRINCIPAL COST	FAIR VALUE
<u>INVESTMENTS IN THE EXTERNAL POOL</u>				
BANKERS ACCEPTANCE	\$ 172,304,909		172,304,909	172,285,487
COMMERCIAL PAPER	3,286,860,946		3,286,860,946	3,286,504,491
CORPORATE AND DEPOSIT NOTES	242,252,284		242,252,284	242,370,002
MUNICIPALS	33,997,162		33,997,162	33,997,162
NEGOTIABLE CDS	850,003,068	135,986	850,139,054	850,131,941
U.S. AGENCIES	7,043,377,517	1,377,938	7,044,755,455	7,062,335,040
U.S. GOVERNMENT	2,377,400,416	1,345,945	2,378,746,361	2,385,673,545
MONEY MARKET FUNDS	18,357,767		18,357,767	18,357,767
TOTAL INVESTMENT IN THE EXTERNAL POOL	\$ 14,024,554,068	2,859,869	14,027,413,937	14,051,655,435
TREASURER CASH	\$ 62,295,996		62,295,996	62,295,996
TOTAL NET ASSETS HELD IN THE EXTERNAL POOL	\$ 14,086,850,064	2,859,869	14,089,709,933	14,113,951,431
<u>INVESTMENTS IN THE SPECIFIC INVESTMENT TRUST FUND</u>				
COLLATERALIZED TIME DEPOSITS	\$ 61,263,564		61,263,564	61,437,938
MUNICIPALS	5,545,554		5,545,554	5,548,715
TRUST DEEDS	1,943,359		1,943,359	1,943,359
NEGOTIABLE CDS	133,611,394	7,636	133,619,030	133,622,400
U.S. AGENCIES	1,059,194,138	841,377	1,060,035,515	1,063,372,432
U.S. GOVERNMENT	301,918,950	318,892	302,237,842	303,046,341
REPOs	464,793,752		464,793,752	464,793,752
TOTAL NET ASSETS IN THE SPECIFIC INVESTMENT TRUST FUND	\$ 2,028,270,711	1,167,905	2,029,438,617	2,033,764,936
TOTAL NET ASSETS IN THE TREASURY	\$ 16,115,120,776	4,027,774	16,119,148,549	16,147,716,367

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS STATEMENT

**LOS ANGELES COUNTY TREASURY
STATEMENT OF CHANGES IN NET ASSETS
FISCAL YEAR ENDED JUNE 30, 2003**

	EXTERNAL INVESTMENT POOL	SPECIFIC PURPOSE INVESTMENTS
INVESTMENT INCOME (LOSS):		
NET EARNINGS	\$ 267,035,164	\$ 34,223,715
NET INCREASE (DECREASE) IN FAIR VALUE OF INVESTMENTS	(6,733,445)	3,493,068
NET INCREASE RESULTING FROM INVESTMENT INCOME	\$ 260,301,719	\$ 37,716,783
ACTIVITY BY POOL PARTICIPANTS		
CONTRIBUTIONS BY POOL PARTICIPANTS	\$ 46,776,107,729	\$ 5,728,405,872
DISTRIBUTIONS TO POOL PARTICIPANTS	(45,467,909,004)	(4,333,409,788)
NET INCREASE (DECREASE) IN INVESTMENT TRANSACTIONS	\$ 1,308,198,725	\$ 1,394,996,084
TOTAL INCREASE (DECREASE) IN NET ASSETS	\$ 1,568,500,444	\$ 1,432,712,868
FAIR VALUE OF NET ASSETS HELD IN TRUST, JULY 1, 2002	12,545,450,987	601,052,068
FAIR VALUE OF NET ASSETS HELD IN TRUST, JUNE 30, 2003	\$ 14,113,951,431	\$ 2,033,764,936

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS STATEMENT

**LOS ANGELES COUNTY TREASURY
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
AS OF JUNE 30, 2003**

	<u>AGENCY FUNDS</u>
ASSETS	
Other Investments (Note 3)	\$ <u>43,578,624</u>
TOTAL ASSETS	\$ <u><u>43,578,624</u></u>
 LIABILITIES	
Deposits Payable	\$ <u>43,578,624</u>
TOTAL LIABILITIES	\$ <u><u>43,578,624</u></u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS STATEMENT

**LOS ANGELES COUNTY TREASURY
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FIDUCIARY FUNDS
AS OF JUNE 30, 2003**

	<u>Balance July 1, 2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2003</u>
<u>TOTAL AGENCY FUNDS</u>				
ASSETS				
Other investments (Note 3)	\$ <u>302,377</u>	<u>43,276,247</u>	<u>0</u>	\$ <u>43,578,624</u>
TOTAL ASSETS	\$ <u>302,377</u>	<u>43,276,247</u>	<u>0</u>	\$ <u>43,578,624</u>
LIABILITIES				
Deposits Payable	\$ <u>302,377</u>	<u>43,276,247</u>	<u>0</u>	\$ <u>43,578,624</u>
TOTAL LIABILITIES	\$ <u>302,377</u>	<u>43,276,247</u>	<u>0</u>	\$ <u>43,578,624</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS STATEMENT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Treasurer and Tax Collector (TTC) records investment purchases, maturities and sales on the settlement date. Generally Accepted Accounting Principles (GAAP) requires that transactions be recorded on the trade date. The difference between the Treasurer's approach and GAAP required trade date accounting is immaterial. The County's investments are reported by the Treasurer at amortized cost.

In accordance with Government 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. Special disclosures related to GASB 31 appear in Note 3.

Treasurer's Investment Strategy

The Los Angeles County Treasurer maintains two portfolios. The Pooled Surplus Investment (PSI) portfolio is used to account for net assets of the County's Investment Pool (Pool). The Treasurer's investment strategy for the Pool is to maintain principal and to provide sufficient cash to meet disbursements. The cash flow needs of the Pool members are monitored daily to ensure that sufficient liquidity is maintained to meet the needs of participants. The Treasurer's basic investment strategy is to buy and hold, to a designated maturity, high quality fixed income investments.

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

2. BANK DEPOSITS

As of June 30, 2003, the Treasurer maintained accounts in five banks. The carrying amount of the Treasurer's total deposits was \$62,243,852, plus \$52,144 in cash in the Treasurer's vault. Of the total balance in financial institutions, \$5,927,649 was covered by federal depository insurance or collateralized with securities monitored by the State Treasurer's Local Agency Security Program. The remaining balance of \$26,155,675 was uninsured and uncollateralized.

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 105 to 150 percent of the total amount of the public deposits.

The Local Agency Security Program of the State of California Office of the Treasurer confirmed that the pools of collateral related to the Treasurer's deposits were maintained at required levels as of June 30, 2003. However, during the audit period, the Local Agency Security Program indicated that Bank of America did not maintain

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

adequate collateral for up to one week. Bank of America subsequently obtained adequate collateral with no impact on the County.

3. INVESTMENTS

Government Code Sections 53601 and 53635 authorize the Treasurer to invest the Investment Pool and SPI funds (Notes 4 and 5, respectively) in obligations of the United States Treasury, federal agencies, municipalities, asset-backed securities, bankers' acceptances, commercial paper rated A-1 by Standard and Poor's Corporation or P-1 by Moody's Commercial Paper Record, negotiable certificates of deposit, medium-term notes, repurchase agreements and reverse repurchase agreements. Also, Government Code Section 53601(l) provides for additional investments under certain circumstances. These investments can include promissory notes, subordinated notes, guaranteed interest agreements and floating rate notes. In addition, the County Treasurer developed and the Board of Supervisors (Board) adopted an investment policy that further defines the limits within which the Treasurer may invest.

The investments are managed by the County Treasurer who reports to the Board on a monthly basis. In addition, Government Code Sections 27131 and 27132 require that the County establish a County Treasury Oversight Committee to review and monitor the County's investment policy. The Committee membership includes the Treasurer and Tax Collector, Auditor-Controller, Chief Administrative Officer, Superintendent of Schools and a non-County representative.

Investments held by the County Treasurer are stated at fair value, except for certain non-negotiable securities that are reported at cost because they are not transferable and have terms that are not affected by changes in market interest rates. The fair value of 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 participant's equity withdrawn is based on the book value of the participant's percentage participation on the date of such withdrawals.

The School Districts and the Courts are required by legal provisions to participate in the County's Pool. The total percentage share of the Pool that relates to these involuntary participants in addition to Los Angeles County and related entities is 86.7%. The voluntary participants in the County's Pool 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 County's Pool and SPI portfolio. Certain specific investments have been made by the County, as requested by external depositors. This investment activity occurs separately from the County's Pool and is reported in the SPI portfolio.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

Safekeeping of Securities

At June 30, 2003 all Pool and SPI investments were safekept by the Bank of New York, Western Trust, except for the bonds and Bond Anticipation Notes (BANs), certain certificates of participation issued by Los Angeles County entities, the State Investment Pool investment and the trust deed mortgages.

The bonds, BANs, and certain certificates of participation were held in the Treasurer's vault, and the trust deed mortgages were held and administered by various branches of Bank of America or by the Treasurer.

In accordance with GASB Statement Number 3 "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements", the County's Investments are categorized to give an indication of the level of credit risk assumed as of June 30, 2003. Category 1 includes investments that are insured or registered or for which the securities are held by the County or its agent in the agent's nominee name, with subsidiary records listing the County, as the legal owner. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the County's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by the counterparty's trust department or agent but not in the County's name.

Guaranteed Investment Contracts, Money Market Funds, the State Investment Pool, and Trust Deed investments are not evidenced by securities that exist physically and, per GASB Number 3, are not classified into credit risk categories. The County's Investments are categorized on the following schedule:

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

PSI	CATEGORY			FAIR VALUE	INTEREST RATE RANGE	MATURITY RANGE
	1	2	3			
BANKERS ACCEPTANCE	\$ 172,285,487	\$ -	\$ -	\$ 172,285,487	0.96%	07/18/03
COMMERCIAL PAPER CORPORATE AND DEPOSIT NOTES	3,286,504,491	-	-	3,286,504,491	0.88% - 1.32%	07/01/03 - 08/25/03
MUNICIPALS	242,370,002	-	-	242,370,002	1.23% - 1.52%	07/08/03 - 03/15/05
NEGOTIABLE CDS	33,997,162	-	-	33,997,162	1.58% - 4.96%	06/30/05 - 08/01/07
U.S. AGENCIES	850,131,941	-	-	850,131,941	1.02% - 1.24%	07/07/03 - 06/23/04
U.S. GOVERNMENT	7,062,335,040	-	-	7,062,335,040	0.89% - 9.25%	07/01/03 - 12/01/08
	2,385,673,545	-	-	2,385,673,545	1.88% - 3.63%	12/31/03 - 11/30/04
	<u>\$ 14,033,297,668</u>	<u>\$ 0</u>	<u>\$ 0</u>			
MONEY MARKET FUND				18,357,767	0.0%	07/11/03 - 07/14/03
OTHER INVESTMENTS (NOTE 3)				<u>43,578,624</u>	0.92% - 1.12%	08/21/03 - 12/18/03
TOTAL PSI INVESTMENTS				<u>\$ 14,095,234,059</u>		

SPI	CATEGORY			FAIR VALUE	INTEREST RATE RANGE	MATURITY RANGE
	1	2	3			
MUNICIPALS	\$ 5,548,715	\$ -	\$ -	\$ 5,548,715	5.00% - 7.00%	01/02/05 - 09/02/21
NEGOTIABLE CDS	133,622,400	-	-	133,622,400	1.14% - 1.23%	07/01/03 - 09/09/03
U.S. AGENCIES	1,063,372,432	-	-	1,063,372,432	1.06% - 7.13%	09/15/03 - 04/03/08
U.S. GOVERNMENT	303,046,341	-	-	303,046,341	0.84% - 11.25%	07/03/03 - 05/15/16
REPO	464,793,752	-	-	464,793,752	4.53%	6/30/04
	<u>\$ 1,970,383,640</u>	<u>\$ 0</u>	<u>\$ 0</u>			
COLLATERALIZED TIME DEPOSITS				61,437,938	0.00%	12/31/03
TRUST DEEDS				<u>1,943,359</u>	4.50% - 6.83%	12/01/04 - 04/01/17
TOTAL SPI INVESTMENTS				<u>\$ 2,033,764,936</u>		

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

The County has not provided nor obtained any legally binding guarantees during the fiscal year ended June 30, 2003 to support the value of shares in the Treasurer's Investment Pool.

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 portfolio is adequate to meet cash flow requirements and to preclude the County from having to sell investments below original cost for that purpose.

The earned rate, which includes net gains on investment sold, on all investments held by the County Treasurer for the fiscal year ended June 30, 2003 was 2.16%.

The unrealized gain on investments held in the Treasurer's Investment Pool was \$24,241,498 and the unrealized gain on investments held in SPI was \$4,326,319 as of June 30, 2003. These amounts take into account all changes in fair value (including purchases, sales, and redemptions) that occurred during the year.

Derivatives

The California Government Code and the County's Investment Policy allow 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 Policy limits the amount of floating rate notes to 10% of the Pool portfolio. The Pool contained floating rate notes at par of \$1,226,219,162 (8.7% of the Investment Pool) as of June 30, 2003. The Policy also prohibits the purchase of inverse floating rate notes and hybrid or complex structured investments and as of June 30, 2003, there were none.

Included in the floating rate notes are Marina del Rey Certificates of Participation (COPs), which were issued by the County to finance Fiscal Year 1992-93 General Fund operations, issuance cost and required reserves. The certificates are payable only from Marina del Rey operating lease revenues and other Marina del Rey associated revenues. These COPs have a variable interest rate, payable semi-annually, with a maturity date of August 1, 2007.

The Board authorized the Treasurer 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 Treasurer periodically, based on cash needs. As part of the 2002-2003 Debt Management Guidelines, the Board authorized

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

the issuance of an aggregate amount of BANS not to exceed \$60 million. As of June 30, 2003, the Pool had \$15 million 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.

Fiduciary/Agency Funds

The Fiduciary/Agency Fund is used to account for assets held by the Los Angeles County Treasurer in a trustee capacity. The "Other investments" amount reported on the Statement of Fiduciary Net Assets as of June 30, 2003 was \$43,578,624.

This amount is comprised, in part, of \$303,624 in US Treasury bills held in the TTC's Special Safekeeping Account on behalf of the County's Community Health Plan (CHP). The funds were assigned to the California Commissioner of Corporations to meet CHP deposit requirements imposed by the California Code of Regulations. The remaining \$43,275,000, also in Treasury bills, was held in the TTC's Special Safekeeping Account II. The funds were deposited by Philip Morris USA Inc. to stay enforcement, pending appeal, of a judgment by the Superior Court for the County of Los Angeles.

4. COUNTY INVESTMENT POOL

The TTC 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. Interest earned on Pool investments is deposited monthly based upon the average daily deposit balance during 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.

Investments purchased with the intent to be held to maturity are accounted for in the non-trading portion of the Pool. Investments purchased with the intent to be sold prior to maturity are accounted for in the trading portion of the Pool. During the period July 1, 2002 through June 30, 2003, the Treasurer did not purchase any investments for trading purposes.

5. SPECIFIC PURPOSE INVESTMENTS

The Treasurer maintains the SPI portfolio to manage specific investments requested by specific entities with the approval of the Treasurer. Revenue/loss distribution is credited to the specific entity for which the investment was made.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

6. MUNICIPAL SECURITIES IN SPI

As of June 30, 2003, the Municipal Securities category of the SPI fund includes the following investments:

A Rancho Palos Verdes Redevelopment Agency Tax Allocation Bond for \$5,455,000 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.

A Calle Del Barco Community Improvement Bond for \$90,554 was issued in 1979. It earns an interest rate of 7% per annum and matures on January 2, 2005.

7. TRUST DEED MORTGAGES

In December 1986 and October 1987, the Board of Supervisors approved the disbursing of funds for trust deed mortgages 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 5.5% and 6.825%, except for one loan that had a variable rate of 4.5% June 30, 2003. They are included with the General Fund investments of SPI. As of June 30, 2003, the General Fund investments of the SPI fund contained \$1,943,359 in Trust Deed Mortgages.

8. INVESTMENT PURCHASE COMMITMENTS

At June 30, 2003, the County had open trade commitments with various brokers to purchase investments approximating \$305,000,000 in the PSI account with settlement dates subsequent to June 30, 2003. These investment transactions had not been recorded as of June 30, 2003 since the County had not taken delivery of the securities nor earned interest on the investments until the settlement date. By July 9, 2003, the County had completed the purchases of these investments.

9. SUBSEQUENT EVENTS

Capital Asset Leasing Corporation Bond Anticipation Notes

On October 29, 2003 and January 16, 2004, the Corporation issued \$5,000,000 Bond Anticipation Notes with initial interest rates of 1.52% and 1.46%, respectively. The rates

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003

are adjustable on January 2 and July 1 of each year. The notes were purchased by the Pool and are due on June 30, 2006. Proceeds of the notes are being used to purchase equipment. The notes are to be repaid from the proceeds of lease revenue bonds.



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

KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-2766
PHONE: (213) 974-8301 FAX: (213) 626-5427

J. TYLER McCaULEY
AUDITOR-CONTROLLER

August 12, 2004

TO: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Yvonne B. Burke
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley 
Auditor-Controller

SUBJECT: **REPORT ON COMPLIANCE AND ON INTERNAL CONTROLS OVER
FINANCIAL REPORTING**

We have audited the financial statements of the Los Angeles County Treasury Pool as of and for the twelve months ended June 30, 2003, and have issued our report thereon dated August 12, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and California Government Code Section 26920 through 26923.

Compliance

As part of obtaining reasonable assurance about whether the Treasurer and Tax Collector's (TTC's) financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, 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 object of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no material instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the TTC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of

performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

It should be noted that this report is dated August 12, 2004 because auditing standards require us to date it as of the last day of fieldwork. It is actually being distributed on August 30, 2004.

JTM:DR:JS

- c: David E. Janssen, Chief Administrative Officer
- Mark Saladino, Treasurer and Tax Collector
- Violet Varona-Lukens, Executive Officer
- Public Information Officer
- Audit Committee Members