County of Los Angeles
Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2001

J. Tyler McCauley • Auditor/Controller

COUNTY OF LOS ANGELES
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2001
TABLE OF CONTENTS

Page

I INTRODUCTORY SECTION:

Auditor-Controller's Letter of Transmittal i
Certificate of Achievement for Excellence in Financial Reporting xx
Board of Supervisors and Principal County Officials xxi
Organization Chart xxii

II FINANCIAL SECTION:

Independent Auditors' Report 1
General Purpose Financial Statements-Overview:
Combined Balance Sheet - All Fund Types, Account Groups and Discretely Presented Component Unit 4
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types, Expendable Trust Funds and Discretely Presented Component Unit 6
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual on Budgetary Basis - General Fund, Certain Special Revenue Funds and Certain Debt Service Funds 8
Combined Statement of Revenues, Expenses and Changes in Fund Equity (Deficit) - Proprietary Fund Types and Nonexpendable Trust Funds 11
Combined Statement of Cash Flows - Proprietary Fund Types and Nonexpendable Trust Funds 12
Combined Statement of Changes in Net Assets-Pension and Investment Trust Funds 14
Notes to Financial Statements 15
Required Supplementary Information (unaudited) 53

Supplemental Combining, Individual Fund and Individual Account Group Financial Statements and Schedules:
General Fund -
Schedule of Expenditures - Budget and Actual on Budgetary Basis 55
Special Revenue Funds:
Combining Balance Sheet 58
Combining Statement of Revenues, Expenditures and Changes in Fund Balances 62
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual on Budgetary Basis:
Totals 66
Fire Protection 67
Other Public Protection 68
Road 69
Other Streets, Highways, Roads and Bridges 70
Flood Control District 71
Street Lighting 72
Garbage Disposal 73
Sewer Maintenance 74
Health and Sanitation 75
Public Assistance 76
Public Library 77
Regional Park and Open Space District 78
Recreation 79

COUNTY OF LOS ANGELES
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2001
TABLE OF CONTENTS-Continued

Page

II FINANCIAL SECTION-Continued:

Supplemental Combining, Individual Fund and Individual Account Group Financial Statements and Schedules-Continued:
Special Revenue Funds-Continued:
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual on Budgetary Basis-Continued:
Courthouse Temporary Construction 80
Criminal Justice Temporary Construction 81
Other Special Revenue 82
Debt Service Funds:
Combining Balance Sheet 84
Combining Statement of Revenues, Expenditures and Changes in Fund Balances 86
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual on Budgetary Basis:
Totals 88
Detention Facilities 89
Flood Control District 90
Regional Park and Open Space District 91
Marina Del Rey 92
Capital Projects Funds:
Combining Balance Sheet 93
Combining Statement of Revenues, Expenditures and Changes in Fund Balances 94
Enterprise Funds:
Combining Balance Sheet 95
Combining Statement of Revenues, Expenses and Changes in Fund Equity (Deficit) 99
Combining Statement of Cash Flows 103
Internal Service Funds:
Combining Balance Sheet 113
Combining Statement of Revenues, Expenses and Changes in Fund Equity (Deficit) 114
Combining Statement of Cash Flows 115
Trust and Agency Funds:
Combining Balance Sheet - All Trust and Agency Funds 118
Nonexpendable Trust Funds:
Combining Balance Sheet 120
Combining Statement of Revenues, Expenses and Changes in Fund Balances 121
Combining Statement of Cash Flows 122
Investment Trust Funds -
Combining Statement of Changes in Net Assets 123
Agency Funds:
Combining Statement of Changes in Assets and Liabilities 124

COUNTY OF LOS ANGELES
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2001
TABLE OF CONTENTS-Continued

Page

II FINANCIAL SECTION-Continued:

Supplemental Combining, Individual Fund and Individual Account Group Financial Statements and Schedules-Continued:
Account Group:
General Fixed Assets Account Group:
Schedule of General Fixed Assets - By Source 125
Schedule of General Fixed Assets - By Function, Activity and Budget Unit 126
Schedule of Changes in General Fixed Assets - By Function, Activity and Budget Unit 131

III STATISTICAL SECTION (Not covered by Independent Auditors' Report):

Bar Chart - General Governmental Expenditures and Revenues - Last Ten Fiscal Years 137
General Governmental Expenditures by Function - Last Ten Fiscal Years 138
General Governmental Revenues by Source - Last Ten Fiscal Years 140
Property Tax Levies and Collections - Last Ten Fiscal Years 142
Gross Assessed Value of Taxable Property - Last Ten Fiscal Years 143
Property Tax Rates - Computation of Direct and Overlapping Debt - Tax Rate Area #4 - Last Ten Fiscal Years 144
Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt per Capita - Last Ten Fiscal Years 145
Computation of Legal Debt Margin 146
Estimated Direct and Overlapping Bonded Debt 147
Ratio of Annual Debt Service for General Bonded Debt to Total General Governmental Expenditures - Last Ten Fiscal Years 149
Schedule of Insurance in Force 150
Public Official Blanket Bond 151
Demographic Statistics - Last Ten Years 152
Property Value, Construction and Bank Deposits - Last Ten Years 153
Principal Taxpayers 154
Special Assessment Billings and Collections - County Improvement Districts 155
Miscellaneous Statistical Data 156

COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

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J. TYLER McCAULEY
AUDITOR-CONTROLLER

December 7, 2001

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

Dear Supervisors:

In accordance with Section 25253 of the Government Code of California, I hereby submit the Comprehensive Annual Financial Report of the County of Los Angeles for the year ended June 30, 2001. The report contains financial statements that have been prepared in accordance with generally accepted accounting principles prescribed for governmental entities, and provides a comprehensive overview of the County's financial operations and financial position. The accuracy, completeness and fairness of the presentation of all information in this report are the responsibility of the County.

The report consists of three sections: introductory, financial and statistical. The introductory section is composed of this letter, an organization chart of the County, and a listing of the members of the Board of Supervisors and principal County officials. The financial section includes the general purpose financial statements and the combining and individual fund and account group financial statements and schedules. The statistical section includes other financial information and also demographic information, generally presented on a multi-year basis.

The report includes financial data for all County funds and the following additional entities which are considered part of the County for purposes of meeting the reporting entity requirements prescribed by the Governmental Accounting Standards Board:

- Fire Protection District
- Flood Control District
- Street Lighting Districts
- Improvement Districts
- Community Development Commission (including the Housing Authority of the County of Los Angeles)
- Children and Families First-Proposition 10 Commission
- Regional Park and Open Space District
- Garbage Disposal Districts
- Sewer Maintenance Districts
- Waterworks Districts
- Los Angeles County Employees Retirement Association
- Los Angeles County Capital Asset Leasing Corporation
- Various Joint Powers Authorities

The above entities have been included in the County's financial statements because the Board of Supervisors is financially accountable for them. Note 1 to the financial statements contains additional information regarding the relationship between the County and these entities. In addition, Note 1 discusses the reclassification of the Children & Families First-Proposition 10 Commission from a blended component unit to a discretely presented component unit.

Other local governmental entities provide public services to the residents of the County, including over eighty cities, one hundred school districts and numerous special districts that provide specialized services to the County's residents. The operations of these entities have not been included in the County's reporting entity since each entity is responsible for conducting its own day-to-day operations and is compelled to answer to its own separately elected governing board. Significant entities that do not meet the criteria for inclusion in this report include the City of Los Angeles, Los Angeles Unified School District and Los Angeles County Sanitation Districts. The Los Angeles County Superior Court is not included due to legislation (AB233) which transferred oversight responsibilities for Court operations to the State in 1997-98. However, AB233 requires the County to continue to fund certain Court-related expenditures and the County continues to receive certain Court collections. Accordingly, the County's financial statements include various Court-related financial transactions.

LOS ANGELES COUNTY AND ITS SERVICES

Los Angeles County was established by an act of the State Legislature on February 18, 1850 as one of California's original 27 counties. Located in the southern portion of the State, the County covers 4,083 square miles. With a population of 9.8 million, as of January 2001, its population is the largest of any county in the nation.

Los Angeles County was a general law county until 1913 when it became a charter county as a result of local election. The County is governed by a five member Board of Supervisors who are elected by district to serve alternating four-year terms. The Assessor, District Attorney and Sheriff are also elected officials while all other departments are headed by appointed officials.

Many municipal services are provided by the County to incorporated cities within its boundaries under the Contract Services Plan. Established in 1954, the Plan allows cities to provide municipal services without incurring the cost of creating numerous city departments and facilities by having the County provide, at cost, any or all municipal services within a city at the same level as provided in unincorporated areas, or at any higher level the city may choose. Although the Plan was developed to assist new cities, the great majority of the cities in the County now contract for one or more services.

As required under the County's charter, County ordinances, or by State or federal mandate, the County's principal functions include seven major areas: general government, public protection, public ways and facilities, health and sanitation, public assistance, education and recreation and cultural services. In the public assistance and health areas, the State and federal governments mandate certain minimum levels of services.

ECONOMIC CONDITION AND OUTLOOK

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. The County's business environment is distinguished by its diversity and it remains a leader in the high technology, electronic, energy, communication, and entertainment industries.

Los Angeles County is one of the world's largest transportation centers. Extensive air, ship, integrated rail and highway facilities serve residents, visitors and industry. The Ports of Los Angeles and Long Beach are contiguous to each other and together serve as the nation's largest harbor complex in terms of cargo tonnage and container volume. The Port of Los Angeles is the leading West Coast port in terms of passenger service. Both ports represent the fastest growing port complex in the United States. The ports currently have expansion programs exceeding $1 billion, which will allow further expansion of trade activity. The expansion has had a major economic impact on the region and has resulted in an estimated 154,700 new jobs since 1990 and trade-related employment has continued to expand each year.

Los Angeles County has more major museums per capita than any city in the world and more than $1.6 billion has been invested on museum construction in Los Angeles County over the past 10 years. The area's museums showcase some of the world's finest collections of art, sculpture, manuscripts, and antiquities as well as provide a historical view 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, Anderson Gallery, the Norton Simon Museum, the Museum of Contemporary Art and the Huntington Library.

Los Angeles County offers a full spectrum of recreational activities. Due to its geographic size, location, topography, and mild climate, County residents and visitors can enjoy any form of outdoor recreation on a year-round basis. The County owns and maintains the world' s largest manmade recreational harbor at Marina del Rey, which is home to more than 6,000 private yachts and 3,000 small boats. More than 50 million people visit Los Angeles County's 73 miles of beaches each year and biking enthusiasts enjoy the County's 22-mile beach bikeway. The Santa Monica Mountains Recreation Area offers hikers and picnickers 65,000 acres of open space parkland with 580 miles of hiking trails.

Although the County has many of the economic attributes of an independent country, it is not financially independent. Its principal revenue sources are property taxes and federal and State aid. Because of certain State constitutional limitations on raising revenues, the County's ability to provide services at adequate levels is dependent largely on State and federal funding. Due to competing program priorities with limited intergovernmental funds, certain programs have been subject to reduced revenues without a corresponding reduction in program responsibility for the County.

The 2000-2001 County budget represented the third year of fiscal recovery from the challenging funding shortfalls of the early- and mid-1990s. Moderate appropriation increases were targeted to strengthen departmental operations and meet increased public assistance caseloads.

Significant actions taken to balance the 2000-01 budget included the following:

- Funding of approximately $194 million of annual pension contributions, including $90 million funded by General Fund local discretionary revenues, representing the third year of the multi-year effort to reduce dependency on retirement excess earnings.

- Funding of $663.6 million for continued services to unincorporated areas within the County.

- Use of $185.4 million of General Fund discretionary funds to provide for capital improvements and refurbishment projects to meet high priority health, public safety, recreation, program, and community needs.

- Use of $49.4 million in additional appropriations allocated to the Sheriff's Department, which includes negotiated increases in salaries and benefits, as well as additional positions to staff two new courthouses, enhance custody operations and community policing programs, and create an Office of Independent Review.

- Allocation of $98.6 million for the California Work Opportunity and Responsibility to Kids (CalWORKs) program and $39.2 million to fund 636 positions to support projected caseloads in the Welfare-to-Work/Greater Avenues for Independence (GAIN), In-Home Supportive Services (IHSS), and General Relief Opportunities for Work (GROW) programs.

- Use of approximately $408 million in General Fund budgetary fund balance.

The County's 2001-2002 budget reflects the County's stable fiscal condition while recognizing overall economic uncertainties, rising energy costs, and a future shortfall projected for the Department of Health Services.

Significant matters contained in the 2001-2002 budget include the following:

- Funding of approximately $259 million of annual pension contributions, including $120 million funded by General Fund local discretionary revenues, representing the fourth year of the multi-year effort to reduce dependency on retirement excess earnings.

- Use of $426 million in appropriations to fund 275 General Fund capital improvements which include new and expanded public safety facilities, refurbishment of the Civic Center Heating and Cooling Plant, seismic retrofit projects, and continuation of the deferred maintenance program.

- Use of $101.8 million in tobacco settlement funds for specific 1115 Waiver-related programs and other health-related initiatives.

- Funding of $94.9 million for social services programs including Medi-Cal enrollment efforts required by the 1115 Waiver, quality control activities, and information technology systems. Funding has also been allocated in response to increased caseloads in select programs, such as non-assistance food stamps.

- Use of $101.8 million in additional appropriations allocated to the Probation Department, which includes negotiated increases in salaries and benefits, as well as funding for a multi-agency approach to juvenile crime prevention programs.

- Use of approximately $386 million of an available $532 million in General Fund budgetary fund balance. The remaining $146 million has been placed into an appropriation for contingencies account pending the outcome of the projected State budget deficit and other economic developments.

The County concluded the 2000-2001 fiscal year with continued financial stability and an improved financial condition. However, the tragic events of September 11, 2001 have contributed to an uncertain economic future to a degree not experienced in several years. The State, in particular, is anticipating reduced revenues for the 2001-2002 fiscal year. The County remains highly dependent on the State for funding of local programs and continues to monitor developments at the State level while prudently allocating funds that are available locally.

During 2000-2001, the federal Health Care Financing Administration (now known as the Center for Medicare and Medicaid Services) approved a five-year extension of the County's 1115 Waiver demonstration project. The extension covers the period from July 1, 2000 through June 30, 2005, and is designed to provide $900 million in federal financial support for County health services. The extension is intended to enable the County to continue its restructuring efforts, to provide health services to the indigent population, and to provide enhanced reimbursement to health clinics participating in the demonstration project.

Despite the 1115 Waiver extension, the County's Health Services Department is facing a cumulative budgetary deficit of $900 million by the end of the Waiver extension period (June 30, 2005). To address the projected shortfall, the County is developing a deficit reduction plan to maintain fiscal stability with the objective of attaining a balanced budget for the duration of the Waiver extension period. It is anticipated that the deficit reduction plan will be presented to the Board in December 2001.

The County also has a significant amount of litigation in process, the adverse outcome of which could affect the County's financial position. As discussed in Note 17 to the financial statements, there are a number of lawsuits pending that seek to expand the types of employee benefits that are applied in determining pension compensation.

The Board and County management are continuing to monitor these and other financial issues and related cash flows to ensure prudent management of County financial resources.

MAJOR PROGRAMS

The following are noteworthy aspects of the County's major programs that occurred during 2000-2001:

PUBLIC PROTECTION

The 2000-2001 County budget provided $11.9 million in funding to the Sheriff's Department to enhance deputy training and maintain community policing programs in the County's unincorporated areas, $7.1 million in improvements to the Regional Crime Information and Jail Hospital Information Systems, and $5.3 million for increased services to contracting cities.

The County's justice-related budget units were augmented by $11.3 million to provide additional funding for the prosecution of cases related to the investigation of the City of Los Angeles Police Department's Rampart Division. Appropriations of $2.1 million, offset by revenues, were also allocated to the District Attorney's budget to provide funding for a coordinated response with other County and cities' public protection agencies to gang-related crimes.

HEALTH AND MENTAL HEALTH SERVICES

The 2000-2001 budget for the Department of Health Services appropriated over $4 billion to maintain program funding at levels consistent with the prior fiscal year. Appropriations were further augmented by an additional $60 million from the County's share of tobacco settlement funds as required by the terms and conditions of the 1115 Waiver extension. Additional tobacco settlement funds were also appropriated to fund tobacco prevention and control services, including youth outreach and mobilization, community consortium projects, community coalitions and media services.

Funding and increased positions were allocated for grant-funded substance abuse, environmental health, and violence intervention programs. Funding was also augmented to provide for the Healthy Families Program and the Public Health Nurse Home Visitation Program. The 2000-2001 budget also provided funding to establish an ethics and compliance unit, to implement a process to respond to systemic medical service problems, and to improve the emergency medical services and trauma system.

The Mental Health Department's 2000-2001 budget was increased to fund new or expanded mental health programs. The major programs that were targeted included Homeless Outreach, Supportive Housing, and children's care programs and services. Funding was also provided for unavoidable cost increases in prescription medications.

During 2000-2001, the County received approximately $103 million of tobacco settlement funds as its second-year share of the nationwide settlement that was negotiated with the major tobacco manufacturers. The Board has adopted a resolution specifying that the funds are to be designated for health care purposes. As of June 30, 2001, the designation balance was approximately $172 million and represented the cumulative unused amount of funding that had been received.

ADULT AND CHILDREN'S SERVICES

The 2000-2001 administrative budget for the Department of Public Social Services reflected additional appropriations of $17.3 million to support projected caseloads in the Welfare-to-Work/Greater Avenues for Independence (GAIN) and Community Services programs. The Department's budget also included additional appropriations of $9.8 million to strengthen administrative support for various programs and operations, $5.3 million for the In-Home Supportive Services program, $3.4 million to implement and coordinate the Long-Term Family Self Sufficiency Plan projects, and $1.5 million to support caseload increases in the Supplemental Security Income Advocacy Program.

In the Department of Children and Family Services, appropriations were increased by $18.3 million to fund cost of living adjustments for foster care providers. County funds were also allocated to provide for $7.4 million of matching funds required for the Family Preservation Program and the Emergency Workload Relief Augmentation Fund. The Temporary Assistance to Needy Families (TANF) program was allocated $1.8 million to provide for the continuance of emergency assistance activities.

CAPITAL PROJECTS

The 2000-2001 budget appropriated $457 million for capital and refurbishment projects to meet high priority health, public safety, recreation, program, and community needs. The amounts funded included $185.4 million in General Fund discretionary funds and $271.6 million in revenues derived from State and federal grants, as well as other external revenues, Special Revenue Funds, and Capital Project Funds.

Funds were allocated for major projects that included the East Los Angeles Civic Center, Sheriff's stations, parks, courts, MacLaren Children's Center, libraries, and probation camps. Historic renovation and/or seismic retrofit projects were funded for Patriotic Hall, the Harbor/UCLA Medical Center, and the El Pueblo facilities. Other improvements included the Internal Services Data Center architectural program, general improvements for unreinforced masonry buildings, and soil remediation activities.

INFORMATION TECHNOLOGY

The County continued to allocate new funding in the area of information technology by appropriating over $12 million for new initiatives. The specific programs included financial system upgrades, enhanced financial reporting capabilities, upgrades to the network infrastructure in the Hall of Records facility, and the development of a system to improve the quality and timeliness of health care and other services to children in foster care.

PROGRAM FOCUS

This year we have chosen to highlight the operations of the Department of Consumer Affairs (DCA). The DCA was established in 1975 with the purpose of providing consumer counseling, information, and investigative services to Los Angeles County residents. The department has since grown to include over 50 employees, operating in 11 locations throughout the County and serving more than 700,000 consumers annually through 8 programs, with an operating budget of approximately $3.9 million.

The DCA seeks to provide comprehensive consumer protection as described by the following mission statement:

- To serve the public by providing consumer protection services, including consumer counseling, complaint mediation and investigation, and consumer education.
- To promote public safety and welfare by deterring consumer fraud and advancing fair competition in the marketplace.
- To increase the efficiency of and access to the justice system by educating litigants about the Small Claims Court process and relieving overcrowding.
- To alert the public of early warning signs of real estate fraud and to investigate cases of fraud.
- To promote alternative dispute resolution processes that divert cases from the courts by providing mediation and conciliation to potential litigants.
- To protect the interests of cable television subscribers by the administration and monitoring of cable television franchises in the unincorporated areas of the County.

The Department offers consumer assistance both at the Civic Center and at 10 branch offices located throughout the County, serving a diverse range of clients -- from seniors and dependent adults to young families attempting to purchase their first home or obtain credit. Departmental staff are assisted in their duties by a nationally recognized DCA volunteer and college intern program, which provides the County with an in-kind donation of approximately $200,000 per year. During 2000-2001, the DCA investigated over 5,000 consumer complaints, resulting in approximately $9 million dollars in consumer restitution and seven cases of civil or criminal prosecution.

Services provided by the DCA include:

- Consumer advocacy, counseling and investigative services.
- A real estate fraud and information program, functioning as the central reporting agency for real estate fraud complaints within Los Angeles County.
- A cable TV franchise service that administers and monitors 37 cable television franchises throughout the unincorporated areas of the County.
- A small claims court advisory program, providing assistance to litigants in six locations throughout the County.
- A mediation and dispute resolution service, which provides an efficient, non-litigious solution to the consumer, business, and neighbor disputes.
- A pilot DCA administered Self-Help Legal Access Center at the Van Nuys Courthouse, which assists pro-per litigants.
- A fully interactive Departmental website, allowing the public to interact with the DCA, learn about upcoming events and access consumer protection information via the Internet.

The DCA constantly strives to identify the needs of special populations and communities, acting as an advocate for the funding and development of appropriate support programs. To further this goal, the DCA is currently seeking to:

- Implement a Consumer Toll-Free telephone number for all Los Angeles County residents.
- Expand the counseling, outreach and investigative services it provides to at-risk senior citizens.
- Explore the feasibility of translating the Department's website into multiple languages.
- Evaluate the existing file server to determine its capacity and reliability to support the Department's information technology initiatives that will improve and enhance the speed and quality of service to all County residents.

FINANCIAL INFORMATION

INTERNAL AND BUDGETARY CONTROLS

The County has developed a system of internal accounting controls designed to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use and to provide reliable records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting controls should not exceed the benefits likely to be derived therefrom and that the evaluation of costs and benefits requires estimates and judgments by management. All internal accounting control evaluations occur within the above framework. We believe that the County's system of internal accounting controls adequately safeguards assets and also provides reasonable assurance of proper recording of financial transactions.

In accordance with the provisions of Section 29000-29144 of the Government Code, commonly known as the County Budget Act, the County prepares and adopts a budget on or before August 30 of each fiscal year. Expenditures are controlled at the object level for all budget units within the County, except for fixed asset expenditures which are controlled at the sub-object level.

Encumbrance accounting is utilized to ensure effective budgetary control and accountability. Unencumbered appropriations lapse at year-end and encumbrances outstanding at the time are reported as reservations of fund balance for subsequent year expenditures.

The Board of Supervisors must approve transfers of appropriations. The Board must also approve necessary supplemental appropriations, normally financed by unanticipated revenues during the year.

In addition to these procedural controls, the Auditor-Controller's Audit Division performs periodic internal control, operational and management audits of the various departments to help ensure that prescribed procedures are complied with and that operations are conducted in an efficient manner. In addition, the Auditor-Controller operates a fraud hotline that provides County employees and citizens with a way to anonymously report fraudulent activities by County employees, vendors, contractors, inspectors, etc. Allegations reported over the hotline are evaluated and investigated.

CASH MANAGEMENT

The majority of the entities included in the report have their funds on deposit with the Los Angeles County Treasury Pool (LACTP). The Treasurer invests LACTP funds primarily in certificates of deposit, obligations of various agencies of the federal government and of Los Angeles County, corporate notes, repurchase and reverse repurchase agreements, and commercial paper. In accordance with Governmental Accounting Standards Board

Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," the financial statements reflect the fair value of investments.

The Treasurer's investment policy is to minimize credit and market risks while maintaining a competitive yield on its portfolio. Investments are placed in conformance with State law and the Treasurer's investment policy. Any deviations from the policy are reported to the Los Angeles County Board of Supervisors monthly and the Treasury Oversight Committee quarterly.

While the Treasurer did not enter into any reverse repurchase agreements during 2000-2001, the Treasurer has determined that, prudently managed and controlled, the use of reverse repurchase agreements can provide incremental gains thereby adding value to the portfolio. The Treasurer's policy limits the maximum par value to $500 million and proceeds from reverse repurchase agreements may only be reinvested in instruments with maturities at or before the maturity of the reverse repurchase agreement.

Floating rate notes (derivatives) are used as part of the Treasurer's investment strategy. The Treasurer's investment policy precludes the use of complex or hybrid structured investments such as inverse floating rate notes, range notes, and interest only strips derived from mortgage pools.

As of June 30, 2001, LACTP investments had the following maturity ranges:

Maturity Period	% of Total
1 to 60 days	39.3%
61 days to 1 year	30.3%
Over 1 year	30.4%

The Pension Trust Fund is managed by the Retirement Association's Board of Investments. Its investments are made in accordance with State law which authorizes a "Prudent Expert" guideline as to the form and type of investments which may be purchased. Examples of the fund's investments include domestic and global stocks and convertibles, obligations of various federal agencies, domestic corporate bonds, and real estate.

The average earnings rate for LACTP for 2000-2001 was 6.07 percent. The Pension Trust Fund's total fund return was negative 5.2 percent, due primarily to declining stock markets.

The Governmental Accounting Standards Board has established rating criteria to be utilized as indicators, but not absolute measurements, of credit risk for deposits and investments. Credit risk is the risk that the issuer of a security will not redeem it. A low risk category is not necessarily good and a high risk category is not necessarily bad.

Additional factors such as the internal controls and financial stability of the parties involved must be taken into consideration. As of June 30, 2001, the significant majority of the County's investments were in the low risk category. Note 3 to the financial statements provides additional information regarding deposits and investments.

GENERAL GOVERNMENT FUNCTIONS

For governmental type funds, the financial statements include a Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances. These statements are presented in accordance with generally accepted accounting principles (GAAP). In addition, a Statement of Revenues, Expenditures and Changes in Fund Balances, Budget and Actual on Budgetary Basis is presented in accordance with the County's budgetary basis of accounting. The two bases differ in the timing in which revenues and expenditures are recognized. Footnotes 1 and 15 to the financial statements provide details regarding specific differences between the two methods of accounting.

The County's principal fund is the General Fund. Under the GAAP basis, the General Fund total fund balance as of June 30, 2001 was approximately $1.126 billion, representing a net increase from the previous year of approximately $219 million.

Under the budgetary basis, there was a net increase in fund balance from the previous year of approximately $233 million, and the June 30, 2001 fund balance was approximately $1.107 billion.

The following is a combined schedule (in thousands) of General Fund and budgeted Special Revenue and Debt Service Funds 2000-2001 revenues, other financing sources and residual equity transfers presented on the budgetary basis of accounting:

Category	Amount	% of Total	Increase (Decrease) From 1999-00
Taxes	$ 2,128,416	17%	$ 169,063
Intergovernmental revenues	6,934,731	55%	457,827
Charges for services	1,442,357	11%	111,297
All other revenue	838,877	7%	(18,869)
Other sources and transfers	1,265,807	10%	56,452
Total	$12,610,188	100%	$ 775,770

While numerous factors caused the changes between 1999-2000 and 2000-2001, the following are the most noteworthy.

The increase in tax revenues primarily resulted from growth in property tax revenues in the General Fund. Continued growth in assessed property values and reduced taxpayer refunds were major factors that led to the increased revenues.

Intergovernmental revenues increased due to growth in State funded revenues derived from motor vehicle related taxes and fees. Revenues associated with the administration of social service programs grew as a result of increased reimbursable costs related to program expansion. In addition, various mental health programs received increased funding from the State and federal government.

The net change in revenues from charges for services was primarily due to increased cost recovery associated with the Sheriff's Department's operations. Revenues also increased due to additional amounts recovered from the Road Special Revenue Fund.

All other revenues decreased primarily due to a reduction in the revenues recognized from the County's share of the nationwide tobacco litigation settlement. This reduction was partially offset by increased investment income that resulted from higher levels of cash that were available for investment.

Other sources and transfers increased due to higher beginning encumbrance balances in the General Fund as well as the Road and Flood Control District Special Revenue Funds. In addition, operating transfers from other funds increased in the Other Special Revenue Fund.

The following is a combined schedule (in thousands) of General Fund and budgeted Special Revenue and Debt Service Funds 2000-2001 expenditures, other financing uses and residual equity transfers presented on the budgetary basis of accounting:

Category	Amount	% of Total	Increase (Decrease) From 1999-00
General government	$ 744,540	6%	$ 111,843
Public protection	3,890,273	31%	260,534
Public ways and facilities	373,876	3%	15,562
Health and sanitation	2,019,137	16%	192,090
Public assistance	4,039,899	33%	148,164
Recreation	405,381	3%	(13,106)
All other expenditures	187,031	2%	4,719
Other uses and transfers	683,846	6%	92,124
Total	$12,343,983	100%	$ 811,930

The following are noteworthy factors contributing to the changes from the prior year.

General government expenditures were higher due to various factors that included cost increases for utilities and increased expenditures for judgments and damages. Negotiated salary increases and reduced reliance on retirement contribution credits were also factors.

Public protection expenditures increased due to negotiated salary and benefit increases. The City of Los Angeles Rampart investigation required additional resources in several of the County's justice-related departments and resulted in increased expenditures. Cost increases also were incurred for the Deputy Sheriff Training Program.

The increase in public ways and facilities expenditures was attributable to increased road and highway construction activities in the Other Streets, Highways, Roads and Bridges Special Revenue Fund.

The increase in health and sanitation expenditures was concentrated primarily in the area of mental health services. New or expanded mental health program initiatives included the Early and Periodic Screening and Diagnosis Treatment Program, the Homeless Outreach Program, and services to enhance work opportunities for the mentally ill. General Fund health expenditures also increased due to expanded public health services, alcohol and drug programs, and increased delivery of health care through the County's Office of Managed Care.

The increase in public assistance expenditures is related to additional costs for salaries and benefits that were required to administer various social service programs and activities. Expenditures for the In-Home Supportive Services (IHSS) program also increased due to higher caseloads and a salary increase for the IHSS workers.

The increase in other uses and transfers was primarily due to additional transfers from the General Fund to the Hospital Enterprise Funds to satisfy terms and conditions of the 1115 Waiver extension.

PENSION TRUST FUND OPERATIONS

The Pension Trust Fund became fully funded after the County issued approximately $1.965 billion in pension bonds in 1994-95. In conjunction with the pension bond issue, the County executed an agreement with LACERA to share surplus Pension Trust Fund earnings. Under the terms of the agreement, contributions are currently not required unless LACERA's funding ratio drops below 97.5%.

During 2000-2001, LACERA's independent actuary completed an actuarial valuation as of June 30, 2000. The June 30, 2000 valuation reported that LACERA's funding status (the ratio of system assets to system liabilities) had decreased to 102.9% from the June 30,

1999 level of 103.3%. Although the funding status remains at a level where County contributions are not required, the County has continued with its multi-year plan of incrementally increasing contributions with an overall strategy of eventually eliminating reliance on the retirement surplus. Additional information regarding pension costs is provided in Note 6 to the financial statements.

PROPRIETARY FUND OPERATIONS

The County's principal proprietary funds are the Hospital Enterprise Funds. Because of the high ratio of indigent patients, the funds must be subsidized through an annual subsidy (operating transfer) from the General Fund. The subsidy for 2000-2001 was approximately $519 million.

As discussed in Note 20 to the financial statements, a fixed assets impairment write-off of $42.9 million was recognized in the Hospital funds. During the year, the County reevaluated the status of various construction projects that were initiated several years ago at each of the Hospital facilities and determined that a write-off should be recognized in the Construction-In-Progress amounts that had previously been capitalized.

Another major proprietary fund is the Public Works Internal Service Fund, which is utilized to account for the cost of services provided by the Department of Public Works to the Road Fund, Flood Control District, various other special districts and agencies, and the General Fund.

Both the Hospital Enterprise Funds and the Public Works Internal Service Fund have fund deficits. Contributing to the deficits is the recording of obligations, primarily those related to employee compensation and benefits, as fund liabilities when incurred in accordance with GAAP for proprietary fund types. In regards to the Hospital Enterprise Funds, medical malpractice liabilities and third party payor liabilities including those pertaining to the 1995-96 Medicaid Demonstration Project are also contributing to the deficits. The County is currently funding the liabilities for these funds as they become due and payable.

As discussed in Note 19 to the financial statements, the County expanded the scope of activities that were previously reported within the Community Development Commission (CDC) Enterprise Fund. The reclassified activities were formerly reported within the CDC Special Revenue Fund. The new method of reporting these CDC activities was recommended by the federal Department of Housing and Urban Development (HUD), which is CDC's principal source of funding. CDC management believes this change will facilitate regulatory reporting and enhance internal accountability for various housing programs.

DEBT ADMINISTRATION

As of June 30, 2001, the County had the following outstanding debt issues:

	Amount
Los Angeles County Detention Facilities Projects General Obligation Bonds	$ 42,375,000
Los Angeles County Flood Control District Storm Drain General Obligation Bonds	$ 23,640,000
Los Angeles County Flood Control District Certificates of Participation	$ 168,245,000
Joint Powers Authorities Bonds	$ 438,020,000
Nonprofit Corporation Bonds and Bond Anticipation Notes	$ 67,075,000
Public Buildings Certificates of Participation and Commercial Paper	$ 1,688,691,000
Public Financing Certificates of Participation	$ 3,625,000
Marina del Rey Certificates of Participation and Loans	$ 146,877,000
Waterworks District Bonds	$ 466,000
Community Development Commission Notes	$ 22,861,000
Regional Park and Open Space District Bonds	$ 438,020,000
Pension Obligation Bonds and Certificates	$ 2,234,120,000

Included in the above are the following issues during 2000-2001:

Nonprofit Corporation Bonds and BANS	$ 55,180,000
Public Buildings Bonds and Commercial Paper	$ 130,390,000

In addition to the above debt, the County had outstanding capital lease obligations of $56,730,000 as of June 30, 2001.

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

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

Under current State statutes, the County's general obligation bonded debt issuances are subject to a legal limitation based on 1.25% percent of total assessed value of real and personal property. As of June 30, 2001, the County's net general obligation bonded debt of $42.375 million was well below the legal limit of $7.281 billion.

In addition to the above borrowing, the County continued to finance General Fund cash flow shortages occurring periodically during the fiscal year by selling $600 million in tax and revenue anticipation notes which reached maturity on June 29, 2001, and by periodic borrowing from available trust funds.

CONSTITUTIONAL LIMITATIONS ON TAXES AND APPROPRIATIONS

Article XIIIA and XIIIB

Article XIIIA of the California Constitution limits the taxing powers of California public agencies. Article XIIIA 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 which are 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 in the consumer price index or comparable local data, or declining property value caused by damage, destruction or other factors.

The foregoing limitation does not apply to ad valorem taxes or special assessments to pay the interest and redemption charges on any indebtedness approved by the voters before July 1, 1978 or any bonded indebtedness for the acquisition or improvement of real property approved by two-thirds of the voters voting on a proposition subsequent to that date.

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, crime, special events, public official bond, public safety reserve employee death and disability, and fiduciary liability for the deferred compensation plans. The County also has insurance on most major structures.

The County retains the risk for all other loss exposures. Major areas of risk include workers' compensation and long-term disability, medical malpractice, law enforcement, theft and damage to property, errors and omissions and torts.

Contract claims administrators provide assistance in loss control and prevention programs for workers' compensation, automobile and general, and medical malpractice risks. In addition, the County has established a Risk Management Advisory Committee and each major department has a safety officer who is responsible for loss control. The County's Risk Management Inspector General is responsible for performing independent reviews and investigations of the processes, procedures, actions, and omissions related to claims or litigation against the County. Reducing the County's exposure to claims and losses and minimizing liability for damages are the major areas of focus for this position.

OTHER INFORMATION

INDEPENDENT AUDIT

The financial statements have been audited by KPMG LLP, with its subcontractor, Vasquez Farukhi & Co. In accordance with the requirements of the Office of Management and Budget Circular A-133, as revised, the auditors are also in the process of completing an annual financial and compliance audit of federal funds received by the County. The County's single audit for 1999-2000 has been completed.

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the County of Los Angeles for its Comprehensive Annual Financial Report for the past nineteen fiscal years.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles (GAAP) and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to Certificate of Achievement Program requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

ACKNOWLEDGEMENTS

I would like to express my appreciation to my Accounting Division, the various County departments who assisted in the preparation of this report and also acknowledge the efforts of our independent auditors.

Sincerely,

J. Tyler McCauley
Auditor-Controller

Certificate of Achievement for Excellence in Financial Reporting

Presented to

County of Los Angeles, California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2000

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

COUNTY OF LOS ANGELES
BOARD OF SUPERVISORS AND PRINCIPAL COUNTY OFFICIALS
JUNE 30, 2001

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Gloria Molina
First District

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Third District

Yvonne Brathwaite Burke
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Executive Officer
Board of Supervisors

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Assessor

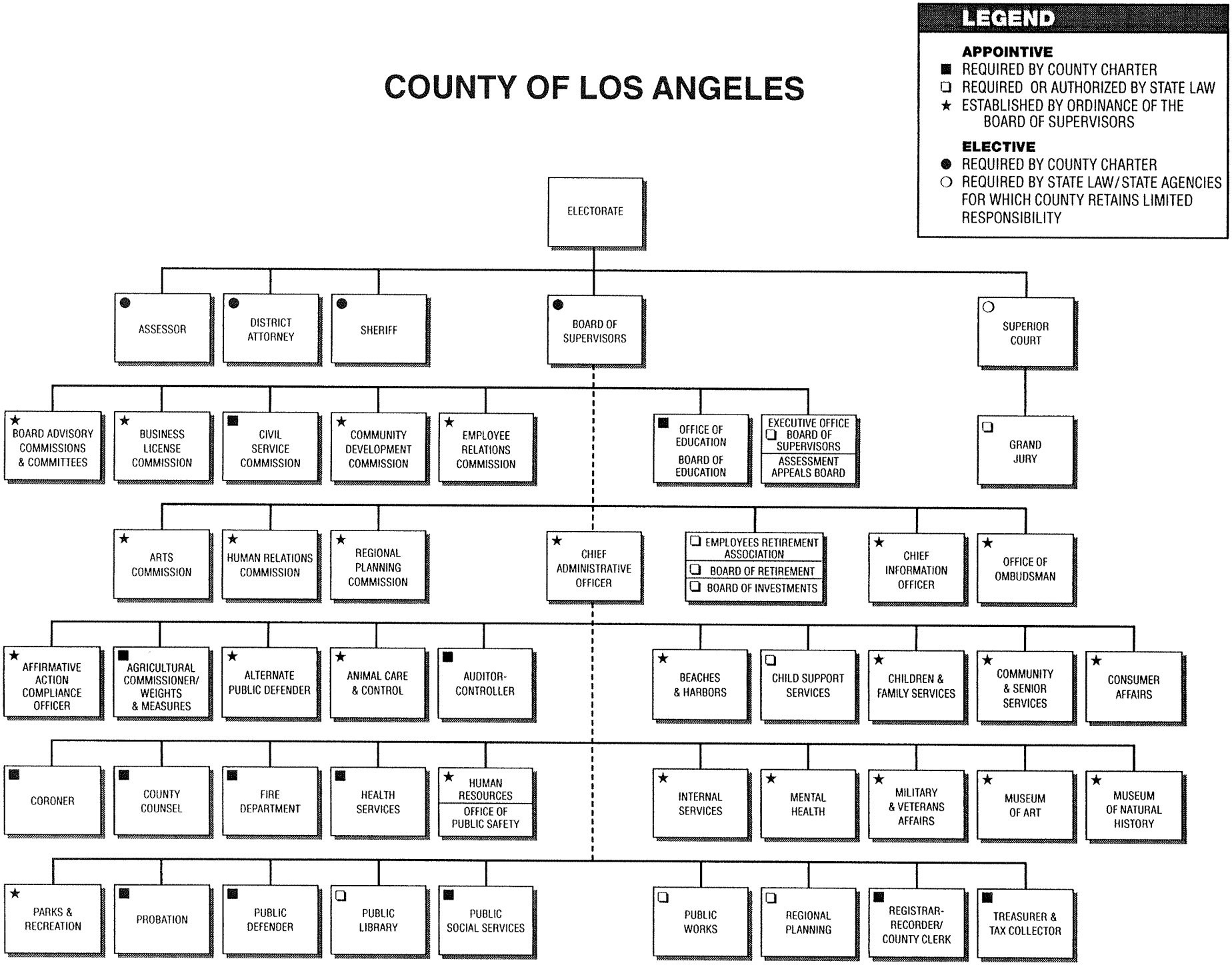
Steve Cooley
District Attorney

Leroy D. Baca
Sheriff

David E. Janssen
Chief Administrative Officer

Mark J. Saladino
Treasurer and Tax Collector

J. Tyler McCauley
Auditor-Controller

Lloyd W. Pellman
County Counsel

COUNTY OF LOS ANGELES