



COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER



KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-2766
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J. TYLER McCaULEY
AUDITOR-CONTROLLER

January 31, 2001

To: Supervisor Michael D. Antonovich, Mayor
Supervisor Gloria Molina
Supervisor Yvonne Brathwaite Burke
Supervisor Zev Yaroslavsky
Supervisor Don Knabe

From: Michael L. Galindo *Michael Galindo*
Acting Chief Deputy Auditor-Controller

Subject: **AUDIT OF THE COUNTY TREASURY AS OF JUNE 30, 2000**

Pursuant to Government Code Section 26920 through 26923, 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, 2000.

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:EB

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 Treasurer and Tax Collector



***Independent Auditor's Report
As of June 30, 2000***

December 21, 2000

Prepared by:
Department of Auditor-Controller



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

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J. TYLER McCAULEY
AUDITOR-CONTROLLER

December 21, 2000

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

**Independent Auditor's Report on the County
Treasury as of June 30, 2000**

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, 2000 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 generally accepted auditing standards. 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 examining, on a test basis, evidence supporting the amount 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, 2000, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

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.



Patrick T. McMahon
Assistant Auditor-Controller

JTM:PTM:EB

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, 2000

INVESTMENTS AND ASSETS	AMORTIZED COST	ACCRUED INTEREST PURCHASED	PRINCIPAL COST	FAIR VALUE
INVESTMENTS IN THE EXTERNAL POOL				
BANKERS ACCEPTANCES	\$ 42,140,025	-	\$ 42,140,025	\$ 42,113,588
COMMERCIAL PAPER	1,766,257,293	-	1,766,257,293	1,765,978,956
CORPORATE AND DEPOSIT NOTES	535,690,920	563,538	536,254,458	535,530,770
MUNICIPALS	53,233,132	-	53,233,132	53,233,132
NEGOTIABLE CDs	2,117,405,997	21,902,321	2,139,308,318	2,139,445,438
U.S. AGENCIES	5,056,775,445	2,158,412	5,058,933,857	5,024,887,031
U.S. GOVERNMENTS	93,796,168	-	93,796,168	93,519,713
REPOs	523,227,000	-	523,227,000	523,227,000
TOTAL INVESTMENT IN THE EXTERNAL POOL	\$ 10,188,525,980	\$ 24,624,271	\$ 10,213,150,251	\$ 10,177,935,628
TREASURER CASH	\$ 35,525,852	-	\$ 35,525,852	\$ 35,525,852
TOTAL NET ASSETS HELD IN THE EXTERNAL POOL	\$ 10,224,051,832	\$ 24,624,271	\$ 10,248,676,103	\$ 10,213,461,480
INVESTMENTS IN THE SPECIFIC INVESTMENT TRUST FUND				
COLLATERALIZED TIME DEPOSITS	\$ 46,888,619	-	\$ 46,888,619	\$ 46,835,426
GUARANTEED INVESTMENT CONTRACTS	135,800,129	-	135,800,129	135,800,129
MUNICIPALS	9,835,772	-	9,835,772	9,835,772
TRUST DEEDS	3,279,675	-	3,279,675	3,279,675
U.S. AGENCIES	22,966,332	4,323	22,970,655	22,718,449
U.S. GOVERNMENTS	75,845,113	2,330	75,847,443	75,094,598
TOTAL INVESTMENT IN THE SPECIFIC INVESTMENT TRUST FUND	\$ 294,615,640	\$ 6,653	\$ 294,622,293	\$ 293,564,049
TOTAL NET ASSETS IN THE TREASURY	\$ 10,518,667,472	\$ 24,630,924	\$ 10,543,298,396	\$ 10,507,025,529

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, 2000

	<u>EXTERNAL</u> <u>INVESTMENT POOL</u>	<u>SPECIFIC</u> <u>INVESTMENT TRUST</u>
INVESTMENT INCOME (LOSS):		
NET EARNINGS	\$ 550,514,649	\$ 25,629,051
NET INCREASE (DECREASE) IN FAIR VALUE OF INVESTMENTS	<u>(1,121,381)</u>	<u>4,955,239</u>
NET INCREASE RESULTING FROM INVESTMENT INCOME	\$ 549,393,268	\$ 30,584,290
ACTIVITY BY POOL PARTICIPANTS:		
CONTRIBUTIONS BY POOL PARTICIPANTS	\$ 33,496,629,417	\$ 854,489,617
DISTRIBUTIONS TO POOL PARTICIPANTS	<u>(32,914,160,870)</u>	<u>(1,434,585,093)</u>
NET INCREASE (DECREASE) IN POOL PARTICIPATION	\$ 582,468,547	\$ (580,095,476)
TOTAL INCREASE (DECREASE) IN NET ASSETS	\$ 1,131,861,815	\$ (549,511,186)
FAIR VALUE OF NET ASSETS HELD IN TRUST, JULY 1, 1999	<u>9,081,599,665</u>	<u>843,075,235</u>
FAIR VALUE OF NET ASSETS HELD IN TRUST, JUNE 30, 2000	<u>\$ 10,213,461,480</u>	<u>\$ 293,564,049</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS STATEMENT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000

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) require that transactions be recorded on the trade date. The difference between the Treasurer's approach and GAAP required trade date accounting is immaterial. The securities portfolios are reported by the Treasurer at amortized cost.

In accordance with Government Accounting Standards Board (GASB) Statement 31, "Accounting and Financial Reporting 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 External Investment Pool. The Treasurer's investment strategy for the external investment pool is to maintain principal and to provide sufficient cash to meet expenditure needs. 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 philosophy 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 investment pool and provided as a service to external investors.

2. BANK DEPOSITS

Balances

As of June 30, 2000, the TTC maintained accounts in five banks. The carrying amount of the TTC's total deposits was \$35,421,790. The balance per the various financial institutions was \$34,581,948. The TTC's Bank of America, Sanwa Bank, Union Bank and Wells Fargo Bank active accounts are required by contract to have positive average monthly balances, but they are not required to have positive balances each day. The fifth bank account, with Citibank, was established as a requirement to process welfare checks for the Department of Public Social Services and requires a daily balance of \$50,000.

Of the total balance in financial institutions \$6,397,692 was covered by federal depository insurance or collateralized with securities monitored by the State Treasurer's Local Agency

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000

Security Program. The remaining balance of \$28,184,256 was in process of deposit and uninsured and uncollateralized. Balances in financial institutions that are in process of deposit are not required to be insured or collateralized.

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 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, 2000.

3. INVESTMENTS

Government Code Sections 53601 and 53635 authorize the TTC to invest the External 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(I) provides for additional investments under certain circumstances. These investments can include promissory notes, subordinated notes, guaranteed interest agreements, and floating rate notes (Note 6).

The investments are managed by the County Treasurer who reports to the Board of Supervisors on a monthly basis. In addition, Government Code Section 27130 requires 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 certificates of deposit and investment contracts 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 pool shares. The method used to determine the value of participants' equity withdrawn is based on the book value of the participants' 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 investment pool. The total percentage share of the Treasurer's pool that relates to these involuntary participants in addition to Los Angeles County and related entities is

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000

90.4%. The voluntary participants in the County's investment pool consist of the Sanitation Districts, the Metropolitan Transportation Authority, the South Coast Air Quality Management District, and municipal agencies. The deposits held for these entities are included in the External Investment Pool and SPI funds. Certain specific investments have been made by the County, as requested by external depositors. This investment activity occurs separately from the County's External Pool and is reported in the SPI Fund.

Safekeeping of Securities

At June 30, 2000 all External Pool and SPI investments were safekept by the Bank of New York, 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, the County's External Pool and SPI investments are categorized to give an indication of the level of credit risk assumed as of June 30, 2000. 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 Fund, the State Investment Pool, and Trust Deed investments are not evidenced by issued securities and, per GASB Number 3, are not classified into credit risk categories. The County's External Pool and SPI securities are categorized on the following schedule:

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000

GASB #3
INVESTMENTS AS OF JUNE 30, 2000

EXTERNAL POOL	CATEGORY			FAIR VALUE	INTEREST RATE RANGE	MATURITY RANGE
	1	2	3			
BANKERS ACCEPTANCES	\$ 14,877,000	\$ -	\$ 27,236,588	\$ 42,113,588	6.17% - 6.75%	8/14/00 - 11/29/00
COMMERCIAL PAPER	1,765,978,956	-	-	1,765,978,956	6.54% - 6.86%	7/03/00 - 9/29/00
CORPORATE AND DEPOSIT NOTES	535,530,770	-	-	535,530,770	5.94% - 6.88%	7/14/00 - 9/06/01
MUNICIPALS	53,233,132	-	-	53,233,132	6.28% - 6.79%	6/30/06 - 8/1/07
NEGOTIABLE CDS	2,139,445,438	-	-	2,139,445,438	5.79% - 7.11%	7/03/00 - 6/22/01
U.S. AGENCIES	5,024,887,031	-	-	5,024,887,031	4.44% - 9.25%	7/03/00 - 12/1/08
U.S. GOVERNMENT	93,519,713	-	-	93,519,713	5.01% - 6.29%	11/30/00 - 2/01/01
REPOs	523,227,000	-	-	523,227,000	6.40% - 6.70%	7/05/00
TOTAL EXTERNAL POOL INVESTMENTS	\$ <u>10,150,699,040</u>	\$ <u>-</u>	\$ <u>27,236,588</u>	\$ <u>10,177,935,628</u>		

SPI	CATEGORY			FAIR VALUE	INTEREST RATE RANGE	MATURITY RANGE
	1	2	3			
MUNICIPALS	\$ 9,835,772	\$ -	\$ -	\$ 9,835,772	5.00% - 10.00%	7/21/00 - 12/02/27
U.S. AGENCIES	22,718,449	-	-	22,718,449	---	---
U.S. GOVERNMENT	75,094,598	-	-	75,094,598	4.37% - 10.79%	8/15/00 - 5/15/16
	\$ <u>107,648,819</u>	\$ <u>-</u>	\$ <u>-</u>			
GUARANTEED INVESTMENT CONTRACTS				135,800,129	5.57% - 5.80%	9/27/00 - 9/28/00
STATE INVESTMENT POOL				46,835,426	---	---
TRUST DEEDS				3,279,675	5.50% - 8.00%	10/15/03 - 4/01/17
TOTAL SPI INVESTMENTS				\$ <u>293,564,049</u>		

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000

The County has not provided nor obtained any legally binding guarantees during the fiscal year ended June 30, 2000 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 yield, which includes net gains on investments sold, on all investments held by the County Treasurer for the fiscal year ended June 30, 2000 was 5.62%.

The unrealized loss on investments held in the Treasurer's External Pool was \$35,215,000 and \$1,064,897 for SPI as of June 30, 2000. These amounts take into account all changes in fair value (including purchases, sales, and redemptions) that occurred during the year.

Reverse Repurchase Agreements

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

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

Derivatives

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

The County's investment guidelines limit the amount of floating rate notes to 10% of the Los Angeles County Treasury pool portfolio and prohibit the purchase of inverse floating

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000

rate note and hybrid or complex structured investments. As of June 30, 2000, there was \$430,238,831 in floating rate notes. See Note 6 for more details on floating rate notes.

4. EXTERNAL INVESTMENT POOL

The TTC maintains the External Investment Pool, which includes all funds in the County pool deposited by County entities and separate 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 External Pool. Investments purchased with the intent to be sold prior to maturity are accounted for in the trading portion of the External Pool. During the period July 1, 1999 through June 30, 2000, the TTC did not purchase any investments for trading purposes.

5. SPECIFIC PURPOSE INVESTMENTS

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

6. FLOATING RATE NOTES

The Government Code permits the County Treasurer to purchase floating rate notes, that is, any instruments that have a coupon interest rate that is adjusted periodically due to changes in a base or benchmark rate. The County's investment guidelines limit the amount of floating rate notes to 10% of the External Pool and prohibit the purchase of inverse floating rate notes and hybrid or complex structured investments. As of June 30, 2000, the External Pool contained floating rate notes at a cost of \$430,238,831 (4.2% of the External Pool).

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.

NOTES TO FINANCIAL SCHEDULES
JUNE 30, 2000

The Board of Supervisors authorized the Treasurer to purchase Los Angeles County Capital Asset Leasing Corporation's (LACCAL) BANS for the PSI portfolio, 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 1999-2000 Debt Management Guidelines, the Board authorized the issuance of an aggregate amount of BANS not to exceed \$60 million. As part of the 1999-2000 Final Budget, the Board approved \$57,200,000 in anticipated equipment purchases. As of June 30, 2000, the External Pool had \$25,000,000 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.

7. MUNICIPAL SECURITIES IN SPI

As of June 30, 2000, 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 December 2027. This bond replaced a \$10 million loan from the General Fund that provided funding for landslide mitigation measures in the Abalone Cove area pursuant to a 1987 settlement agreement. At the time of the agreement, the tax increments from the area should have been sufficient to meet the loan obligations. However, due to the downturn in the real estate market in the early 1990's, the tax increment was insufficient to meet the required payments. To avert the imposition of assessments on property owners and to ensure that the County loan is repaid, the \$10,000,000 County investment was replaced with a payment of \$4,000,000 and a \$5,500,000 Tax Allocation Bond secured by the general property tax payments from a much larger area.

SPI also includes a Hydroelectric Lease Project Note for \$4,247,564 used to finance the construction of a hydroelectric generating facility. The bond interest rate is currently 10% and is set to mature on September 9, 2016. Also, a \$133,208 Calle Del Barco Community Improvement Bond that was issued in 1979 and matures on January 2, 2005. The note has an interest rate of 7%.

8. 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

NOTES TO FINANCIAL SCHEDULES
JUNE 30, 2000

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 8.0% on June 30, 2000. As of June 30, 2000, the General Fund investments of the SPI fund contained \$3,279,675 in Trust Deed Mortgages.

9. INVESTMENT PURCHASE COMMITMENTS

At June 30, 2000, the County had open trade commitments (forward contracts) with various brokers to purchase investments approximately \$275,000,000 with settlement dates subsequent to year-end. These investment transactions had not been recorded as of June 30, 2000 since the County neither takes delivery of the securities nor earns interest on the investments until the settlement date. By July 18, 2000, the County had purchased such investments.

10. SUBSEQUENT EVENTS

Tax and Revenue Anticipation Notes ("TRANS")

On July 3, 2000, the County issued \$600,000,000 in 2000-2001 TRANS, which will mature on June 29, 2001. The TRANS are collateralized by taxes and other revenue attributable to the 2000-2001 fiscal year and were issued in the form of Fixed Rate Notes at an interest rate of 4.15%. The proceeds were deposited into the External Investment Pool.

Capital Asset Leasing Corporation Bond Anticipation Note

On October 5, 2000, the Corporation issued a \$5,000,000 Bond Anticipation Note due June 30, 2003. Proceeds of the note are being used to purchase equipment. The note is to be repaid from the proceeds of lease revenue bonds.

The note, which was purchased by the Los Angeles County External Investment Pool, has an initial interest rate of 6.81%. The rate is adjustable on January 2 and July 1 of each year.