COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

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WENDY L. WATANABE
AUDITOR-CONTROLLER

March 21, 2013

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

FROM: Wendy L. Watanabe
Auditor-Controller

SUBJECT: **AUDIT OF THE LOS ANGELES COUNTY TREASURY FOR THE YEAR ENDED JUNE 30, 2012**

California Government Code Section 26920 (Code) requires annual audits of the assets in the County Treasury, with an opinion on whether the Treasurer's statement of assets is presented fairly and in accordance with generally accepted accounting principles. We contracted with an independent Certified Public Accounting firm, Macias, Gini & O'Connell, LLP (MGO), to audit the financial statements of the Los Angeles County Treasury for the year ended June 30, 2012.

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

MGO also included results of an examination of the Treasurer's compliance with certain legal provisions, regulations, contracts, and grant agreements. MGO noted no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Please call me if you have any questions, or your staff may contact Robert Smythe at (213) 253-0101.

WLW:JLS:RS:MP

Attachment

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

Attachment

Los Angeles County Treasury

Management's Discussion and Analysis and Financial Statements with Independent Auditor's Reports

For the Fiscal Year Ended June 30, 2012

MGO Certified Public Accountants.

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LOS ANGELES COUNTY TREASURY
FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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MGO Certified Public Accountants.

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2029 Century Park East, Suite 500
Los Angeles, CA 90067
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Sacramento

Walnut Creek

Oakland

Newport Beach

San Diego

Seattle

INDEPENDENT AUDITOR'S REPORT

Board of Supervisors
County of Los Angeles, California

We have audited the accompanying financial statements of the Los Angeles County Treasury (Treasury), as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Treasury's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1, the statements of the Treasury are intended to present the financial position and changes in financial position of only the Treasury. They do not purport to, and do not, present fairly the financial position of the County of Los Angeles, California, as of June 30, 2012, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Treasury as of June 30, 2012, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2012, on our consideration of the Treasury's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Macias Gini & O'Connell LLP

Los Angeles, California
December 14, 2012

LOS ANGELES COUNTY TREASURY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)

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

Mandatory Pool participants include the County of Los Angeles (County), local school and community college districts within the County and the Superior Courts. Voluntary participants in the Treasury consist of the Sanitation Districts, the Metropolitan Transportation Authority, the South Coast Air Quality Management District and certain other municipal agencies. There were approximately 2,000 Pool participants at the year ended June 30, 2012. The Treasury also maintains an SPI portfolio to manage specific investment objectives of certain Pool participants and voluntary participants. The individual investment strategies of the SPI are established by the needs of the requesting entity.

Other Specific Investments represents assets held by the Treasury, in a custodial capacity, pursuant to Section 1300.76.1, Title 28, California Code of Regulations (State Code).

As management of the Pool, SPI portfolio and Other Specific Investments, we offer readers of the Treasury's financial statements this narrative overview and analysis of the financial activities of the Treasury for the fiscal year ended June 30, 2012. We hope that the information presented provides you with a solid understanding of the Treasury's financial status as of June 30, 2012.

Financial Highlights

- The Pool's total net assets at June 30, 2012, were $21.41 billion, a decrease of $1.36 billion (5.98%) from June 30, 2011.

- The Pool had liabilities of $1.12 billion at June 30, 2012, a decrease of $404.11 million (26.45%) from June 30, 2011. The decrease was primarily due to a decrease in trades payable related to changes in market conditions making it less beneficial to invest in trades settling at a future date.

- The investment income of the Pool decreased $108.59 million (32.01%) from $339.21 million for the year ended June 30, 2011, to $230.62 million for the year ended June 30, 2012. The decrease in investment income was primarily due to a decline in investment yield. The yield on investments decreased from 1.30%, in the prior year to .93% in the current year. This was primarily due to a general decrease in market yields during fiscal year 2012 and to the maturity of older investments with higher yields.

- The fair value of the Pool showed an unrealized gain of $64.29 million (.29%) of portfolio fair value at June 30, 2012, compared to an unrealized gain of $9.58 million (.042%) of portfolio fair value at June 30, 2011.
-
- The Pool's allowable investment expenses totaled $10.02 million for the year ended June 30, 2012. This represented approximately 4.23 basis points of the average daily cash balance for the year ended June 30, 2012.

Overview of the Financial Statements

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

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

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

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

Statement of Net Assets

The Pool's net assets were $21.41 billion at June 30, 2012, a decrease of $1.36 billion (5.98%) from June 30, 2011. SPI net assets were $103.67 million, an increase of $30.47 million (41.62%) from the prior year. Other Specific Investments net assets were $302 thousand.

The Pool's total liabilities were $1.12 billion at June 30, 2012, a decrease of $404.11 million (26.45%) from June 30, 2011. The decrease was primarily due to a decrease in trades payable related to changes in market conditions making it less beneficial to invest in trades settling at a future date. There were no SPI liabilities at June 30, 2012.

Net Assets

A summary of the net assets is presented below (in thousands):

	External Investment Pool			
			Increase/(Decrease)	
	2012	2011	Amount $	Percentage
Assets				
Cash	$ 103,280	$ 67,826	$ 35,454	52.27%
Investments at Fair Value	22,161,406	24,160,172	(1,998,766)	-8.27%
Trades Receivable	238,514	-	238,514	100.00%
Interest Receivable	32,846	73,883	(41,037)	-55.54%
Total Assets	22,536,046	24,301,881	(1,765,835)	-7.27%
Liabilities				
Trades Payable	1,123,745	1,527,852	(404,107)	-26.45%
Total Liabilities	1,123,745	1,527,852	(404,107)	-26.45%
Total Net Assets	$ 21,412,301	$ 22,774,029	$ (1,361,728)	-5.98%

	Specific Purpose Investment			
			Increase/(Decrease)	
	2012	2011	Amount $	Percentage
Assets				
Investments at Fair Value	$ 103,203	$ 73,162	$ 30,041	41.06%
Interest Receivable	463	39	424	1087.18%
Total Assets	103,666	73,201	30,465	41.62%
Net Assets	$ 103,666	$ 73,201	$ 30,465	41.62%

	Other Specific Investments			
			Increase/(Decrease)	
	2012	2011	Amount $	Percentage
Assets				
Investments at Fair Value	$ 302	$ 302	$ -	0.00%
Total Assets	302	302	-	0.00%
Net Assets	$ 302	$ 302	$ -	0.00%

Changes in Net Assets

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

Pool

- Contributions by Pool Participants were $50.90 billion during the year ended June 30, 2012, a decrease of $3.05 billion (5.66%) from the prior year.

- The investment income of the Pool decreased $108.59 million (32.01%) from $339.21 million for the year ended June 30, 2011, to $230.62 million for the year ended June 30, 2012. The earnings rate decreased from 1.30% to .93% in the current year. The decrease in the Pool earnings rate can be largely attributed to the decrease in market yields during the fiscal year 2011-2012. The average daily investment balance decreased from $23.95 billion in the prior year ended June 30, 2011, to $23.61 billion in the current year. The federal funds rate, set by the Federal Reserve, remained within the target range of 0% to .25% for the year ended June 30, 2012.

- Investment expenses, which are deducted from Investment Income, were $10.02 million for the year ending June 30, 2012, a decrease of $373 thousand (3.59%) from the prior year. This decrease was primarily due to a decrease in the Treasury expenses. The $10.02 million in total investment expenses represented approximately 4.23 basis points of the average daily cash balance for the year ended June 30, 2012.

- The fair value of the Pool showed an unrealized gain of $64.29 million (.29%) of portfolio fair value at June 30, 2012, compared to an unrealized gain of $9.58 million (.042%) of portfolio fair value at June 30, 2011.

- Distributions to Pool participants were $52.53 billion during the year ended June 30, 2012, a decrease of $1.38 billion (2.57%) from the prior year.

SPI

- Contributions by SPI participants were $1.06 billion during the year ended June 30, 2012, an increase of $324.83 million (43.96%) from the prior year. The increase was primarily due to an increase in contributions by the Sanitation Districts and the initial contributions of a new participant, Puente Hills Habitat Preservation Authority (PHHPA).

- Investment income increased by $589 thousand (100.86%). The increase was primarily related to the addition of PHPPA.

- The net decrease in fair value of SPI investments decreased by $50 thousand (25.77%) at June 30, 2012 from the prior year.

- Distributions to SPI participants of $1.03 billion were approximately $266.76 million (34.76%) higher than the prior year's figure of $767.45 million.

Other Specific Investments

- There were no new contributions by participants during the year ended June 30, 2012.
- Distributions to participants were $252 during the year ended June 30, 2012, a decrease of $175 from the year ended June 30, 2011.

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

Summaries of the changes in net assets for the Pool, SPI and Other Specific Investments are presented below (in thousands):

Statement of Changes in Net Assets
External Investment Pool
(In Thousands)

	2012	2011	Increase/(Decrease) Amount $	Percentage
Additions				
Contributions by Participants	$ 50,895,404	$ 53,947,708	$ (3,052,304)	-5.66%
Investment Income	230,623	339,211	(108,588)	-32.01%
Investment Expenses	(10,022)	(10,395)	373	-3.59%
Net Increase (Decrease) in Fair Value of Investments	54,097	(136,463)	190,560	139.64%
Net Increase from Investment Income	274,698	192,353	82,345	42.81%
Total Additions	51,170,102	54,140,061	(2,969,959)	-5.49%
Deductions				
Distributions to Participants	52,531,830	53,915,085	(1,383,255)	-2.57%
Net Increase (Decrease) in Net Assets	(1,361,728)	224,976	(1,586,704)	-705.28%
Net Assets beginning of year	22,774,029	22,549,053	224,976	1.00%
Net Assets end of year	$ 21,412,301	$ 22,774,029	$ (1,361,728)	-5.98%

Statement of Changes in Net Assets
Specific Purpose Investments
(In Thousands)

	2012	2011	Increase/(Decrease) Amount $	Percentage
Additions				
Contributions by Participants	$ 1,063,671	$ 738,840	$ 324,831	43.96%
Investment Income	1,173	584	589	100.86%
Investment Expenses	(33)	(18)	(15)	-83.33%
Net Decrease in Fair Value of Investments	(144)	(194)	50	25.77%
Net Increase from Investment Income	996	372	624	167.74%
Total Additions	1,064,667	739,212	325,455	44.03%
Deductions				
Distributions to Participants	1,034,202	767,446	266,756	34.76%
Net Increase (Decrease) in Net Assets	30,465	(28,234)	58,699	207.90%
Net Assets beginning of year	73,201	101,435	(28,234)	-27.83%
Net Assets end of year	$ 103,666	$ 73,201	$ 30,465	41.62%

Statement of Changes in Net Assets
Other Specific Investments
(In Thousands)

	2012	2011	Increase/(Decrease) Amount $	Percentage
Additions				
Investment Income	$ -	$ -	$ -	0.00%
Net Increase in Fair Value of Investments	1	1	-	0.00%
Net Increase from Investment Income	1	1	-	0.00%
Total Additions	1	1	-	0.00%
Deductions				
Distributions to Participants	1	1	-	0.00%
Net Increase (Decrease) in Net Assets	-	-	-	0.00%
Net Assets beginning of year	302	302	-	0.00%
Net Assets end of year	$ 302	$ 302	$ -	0.00%

Request for Information

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

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LOS ANGELES COUNTY TREASURY
STATEMENT OF NET ASSETS
JUNE 30,2012
(In Thousands)

	External Investment Pool	Specific Purpose Investments	Other Specific Investments
Assets			
Treasurer Cash	$ 103,280	$ -	$ -
Investments:			
Commercial Paper	7,190,209	-	-
Corporate and Deposit Notes	633,255	3,114	-
Local Agency Investment Fund	-	63,242	-
Los Angeles County Securities	17,000	5,065	-
Mortgage Trust Deeds	-	97	-
Negotiable Certificates of Deposit	4,019,435	-	-
U.S. Agency Securities	9,621,081	31,578	-
U.S. Treasury Securities			
U.S. Treasury Notes	181,215	-	-
U.S. Treasury Bills	499,211	-	302
U.S. Treasury Bonds	-	107	-
Total Investments	22,161,406	103,203	302
Interest Receivable	32,846	463	-
Trades Receivable	238,514	-	-
Total Receivables	271,360	463	-
Total Assets	22,536,046	103,666	302
Liabilities			
Trades Payable	1,123,745	-	-
Total Liabilities	1,123,745	-	-
Total Net Assets Held in Trust	$ 21,412,301	$ 103,666	$ 302

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

LOS ANGELES COUNTY TREASURY
STATEMENT OF CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(In Thousands)

	External Investment Pool	Specific Purpose Investments	Other Specific Investments
ADDITIONS:			
Contributions by Pool Participants	$ 50,895,404	$ 1,063,671	$ -
Investment Income:			
Interest Income	230,623	1,173	-
Investment Expenses	(10,022)	(33)	
Net Increase (Decrease) in Fair Value of Investments	54,097	(144)	1
Net Increase Resulting from Investment Income	274,698	996	1
Total Additions	51,170,102	1,064,667	1
DEDUCTIONS:			
Distributions to Pool Participants	52,531,830	1,034,202	1
Net Increase (Decrease) in Net Assets	(1,361,728)	30,465	-
Net Assets Held in Trust, July 1, 2011	22,774,029	73,201	302
Net Assets Held in Trust, June 30, 2012	$ 21,412,301	$ 103,666	$ 302

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

Note 1 - Summary of Significant Accounting Policies

The Financial Reporting Entity

The Los Angeles County Treasurer and Tax Collector (Treasury) is responsible for tax collection, banking, investment and accountability of public funds. The Treasury maintains two investment portfolios, the External Investment Pool portfolio (the Pool) and the Specific Purpose Investments (SPI) portfolio with approximately $21.41 billion and $103.67 million, respectively, in net assets as of June 30, 2012. The Treasury also maintains Other Specific Investments totaling approximately $302 thousand at June 30, 2012. The State of California allows the Board of Supervisors (Board) the ability to delegate the investment authority to the Treasury in accordance with Section 53607 of the California Government Code. On an annual basis, the Board delegates the investment authority to the Treasury.

External Investment Pool

The Pool is managed by the Treasury on behalf of the Pool participants, which include the County of Los Angeles (County), local school districts, and the Superior Courts who are required by State statutes to participate in the Pool. Voluntary participants in the Treasury consist of the Sanitation Districts, the Metropolitan Transportation Authority, the South Coast Air Quality Management District and certain other municipal agencies. The purpose of the Pool is to provide safe, liquid investment opportunities for pooled surplus funds deposited into the Treasury. Earnings on Pool investments are allocated monthly to Pool participants by the County Auditor-Controller based upon each participant's average daily balance in the allocation period. Investment gains and losses are proportionately shared by the entities participating in the Pool as an increase or reduction in investment, net of investment expenses. Section 27013 of the California Government Code authorizes the Treasury to deduct certain Treasury-related administrative fees. The Pool is not registered with the Securities and Exchange Commission (SEC) as an investment company.

Specific Purpose Investments

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

Other Specific Investments

Other Specific Investments represents assets held by the Treasury pursuant to Section 1300.76.1, Title 28, California Code of Regulations (State Code). The investments are held in the Treasury's Special Safekeeping Account on behalf of the County's Community Health Plan (CHP). The funds were assigned to the California Commission of Corporations to meet CHP deposit requirements imposed by the California Code of Regulations.

Treasury's Investment Strategy

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

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accompanying financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. The accompanying basic financial statements present only the statement of net assets and statement of changes in net assets of the Pool, SPI and Other Specific Investments, and are not intended to present fairly the financial position and changes in financial position of the County of Los Angeles as a whole in conformity with U.S. generally accepted accounting principles. Contributions from pool participants are recognized as contributions in the period in which they are received. Distributions to pool participants are recognized in the period in which they are distributed.

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

Trades Payable

Trades payable represents the purchase of investments by the Treasury where payment has not been made as of the fiscal year end. Trades payable totaled $1.12 billion for the Pool at June 30, 2012. There was no trades payable for the SPI at June 30, 2012.

Trades Receivable

Trades receivable represents securities that have been called but that have not settled at June 30, 2012. The Pool had trades receivable of $238.51 million at June 30, 2012.

Use of Estimates

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

Note 2 – Bank Deposits

As of June 30, 2012, the Treasury maintained accounts in five banks. The carrying amount of the Treasury's total deposits in financial institutions was $102.895 million plus $385 thousand in cash in the Treasury's vault.

Under California 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. In addition, under Government Code Section 53653, the Treasury has discretion to waive security for the portion of any deposits as is insured pursuant to federal law. Through contractual agreement, the Treasury has opted to waive security for the portion of deposits which is federally insured. From July 1, 2011, until June 30, 2012, no collateral was required as the FDIC insurance provided unlimited coverage in accordance with Section 343 of the Dodd-Frank Act.

Note 3 – Investments

California Government Code Sections 53601 and 53635 authorize the Treasury to invest the Pool and SPI funds (Note 1) in obligations of the United States Treasury, federal agencies, municipalities, asset-backed securities, mortgage-backed securities, bankers' acceptances, commercial paper rated A-1 by Standard and Poor's Corporation (S&P) or P-1 by Moody's, negotiable certificates of deposit, medium-term notes, corporate notes, repurchase agreements, reverse repurchase agreements, time deposits, shares of beneficial interest of a Joint Powers Authority that invests in authorized securities, shares of beneficial interest issued by diversified management companies known as money market mutual funds (MMF) registered with the Securities and Exchange Commission, the State of California's Local Agency Investment Fund (LAIF), and guaranteed investment contracts. As permitted by the California Government Code, the Treasury developed, and the Board adopted, an Investment Policy that further defines and restricts the limits within which the Treasury may invest. The investments are managed by the Treasury which reports investment activity to the Board on a monthly basis. The Treasury also maintains Other Specific Investments which are invested pursuant to State Code.

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

Investments in LAIF are governed by California Government Code and overseen by a five member Local Investment Advisory Board as designated by the California Government Code. As of June 30, 2012, the total amount invested by all California local governments and special districts in LAIF was $21.89 billion. LAIF is part of the State of California's Pooled Money Investment Account (PMIA), which as of June 30, 2012 had a balance of $60.50 billion. The PMIA is not SEC registered, but is required to invest according to California Government Code. Included in the PMIA's investment portfolio are certain derivative securities or similar products in the form of structured notes totaling $800 million, and asset-backed securities totaling $1.30 billion at June 30, 2012. Collectively, these represent 3.47% of the PMIA balance of $60.50 billion. The SPI holdings in the LAIF investment pool as of June 30, 2012, were $63.24 million, which were valued using a fair value factor provided by LAIF.

The School Districts and the Superior Courts are required by legal provisions to participate in the Pool. At June 30, 2012, the total percentage share of the Pool that relates to these participants in addition to Los Angeles County and related entities is 86.00%. Voluntary participants in the Treasury consist of the Sanitation Districts, the Metropolitan Transportation Authority, the South Coast Air Quality Management District and certain municipal agencies. The deposits held for these entities are included in the Pool and SPI portfolio. Certain specific investments have been made by the County Treasury, as requested by Pool participants and external depositors. This investment activity occurs separately from the Pool and is reported in the SPI portfolio.

The table below identifies the investment types that are authorized by the County, along with the related concentration of credit limits:

Authorized Investment Type	Maximum Maturity		Maximum Percentage of Portfolio		Maximum Investment In One Issuer		Minimum Rating	
	Gov. Code	Pool Policy	Gov. Code	Pool Policy	Gov. Code	Pool Policy	Gov. Code	Pool Policy
U. S. Treasury Notes, Bills and Bonds	5 years	None (1)	None	None	None	None	None	None
U.S. Agency Securities	5 years	None (1)	None	None	None	None	None	None
Local Agency Obligations	5 years	5 years (2)	None	10%	None	10%	None	None (2)
Bankers' Acceptances	180 days	180 days	40%	40%	30%	$500 million	None	P-1
Commercial Paper	270 days	270 days	40%	40%	10%	$750 million	A-1/P-1	A-1/P-1
Certificate of Deposits (3)	5 years	3 years	30%	30%	None	$500 million	None	P-1/A
Corporate Medium-Term Notes (4)	5 years	3 years	30%	30%	None	$500 million	A	A-1/P-1/A
Repurchase Agreement	1 year	30 days	None	$1 billion	None	$500 million	None	None
Reverse Repurchase Agreement	92 days	92 days	20%	$500 million	None	$250 million	None	None
Securities Lending Agreements	92 days	92 days	20%	20% (5)	None	None	None	None
Money Market Mutual Funds	N/A	N/A	20%	15%	10%	10%	AAA	AAA
LAIF	N/A	N/A	None	$50 million (6)	None	None	None	None
Asset-Back Securities	5 years	5 years	20%	20%	None	$500 million	AA	AA (7)

(1) Pursuant to the California Government Code 53601, the Board granted authority to make investments in U.S. Treasury Notes, Bills and Bonds, and U.S. Agency Securities that have maturities beyond 5 years.

(2) Any obligation issued or caused to be issued on behalf of other County affiliates must have a minimum rating of A3 (Moody's) or A- (S&P) and the maximum maturity is limited to thirty years. All other Local Agencies are limited to 5 years.

(3) Euro Certificate of Deposits are further restricted to a maximum maturity of one year and a maximum percentage of portfolio of 10%.

(4) Floating Rate Notes are further restricted to a maximum maturity of five years, maximum of 10% of the portfolio, and maximum investment in one issuer of $500 million. The maximum maturity may be seven years, provided that the Board's authorization to exceed maturities in excess of five years is in effect, of which $100 million par value may be greater than five years to maturity.

(5) The maximum par value is limited to a combined total of reverse repurchase agreements and securities lending agreements of 20% of the base value of the portfolio.

(6) The maximum percentage of the portfolio is based on the investment limit established by LAIF for each account, not by Pool Policy. Bond proceeds are considered a one-time deposit, have no maximum deposit amount, and are maintained on thirty-day increments.

(7) All Asset-Backed securities must be rated at least "AA" and the issuer's corporate debt rating must be at least "A".

Risk Disclosures

As of June 30, 2012, the major classes of the investments consisted of the following (in thousands):

Pool	Fair Value	Principal	Interest Rate Range (%)	Maturity Range	Weighted Average Maturity in Years
Commercial Paper	$ 7,190,209	$ 7,190,060	0.16% - 0.49%	07/02/12 - 08/28/12	0.05
Corporate and Deposit Notes	633,255	632,106	0.32% - 5.45%	07/20/12 - 01/30/15	0.83
Los Angeles County Securities	17,000	17,000	0.55% - 0.56%	06/30/14	2.00
Negotiable Certificates of Deposit	4,019,435	4,019,708	0.18% - 0.44%	07/02/12 - 06/25/15	0.30
U.S. Agency Securities	9,621,081	9,565,029	0.19% - 5.25%	08/13/12 - 12/18/17	3.87
U.S. Treasury Securities:					
U.S. Treasury Notes	181,215	173,970	1.38% - 2.38%	08/31/14 - 11/30/15	2.88
U.S. Treasury Bills	499,211	499,245	0.16% - 0.20%	03/07/13 - 06/27/13	0.84
Total Investments	$ 22,161,406	$ 22,097,118			1.82

SPI	Fair Value	Principal	Interest Rate Range (%)	Maturity Range	Weighted Average Maturity in Years
Local Agency Investment Fund	$ 63,242	$ 63,165	0% - 15.00%	7/2/2012-8/25/37	0.74
Corporate and Deposit Note	3,114	3,094	3.75% - 5.45%	01/15/13 - 11/14/14	1.47
Mortgage Trust Deeds	97	97	5.50%	01/01/14 - 04/01/17	4.00
Los Angeles County Securities	5,065	5,065	5.00%	09/02/21	9.18
U.S. Agency Securities	31,578	31,625	0.75% - 3.70%	09/14/16 - 01/17/30	13.72
U.S.Treasury Securities:					
U.S. Treasury Bonds	107	86	7.25%	05/15/16	3.88
Total Investments	$ 103,203	$ 103,132			5.15

Other Specific Investments	Fair Value	Principal	Interest Rate Range (%)	Maturity Range	Weighted Average Maturity in Years
U.S. Treasury Bills	$ 302	$ 302	0.13%	12/06/12	0.43
Total Investments	$ 302	$ 302			0.43

Interest Rate Risk

The Treasury manages the Pool's exposure to declines in fair value by limiting its weighted average maturity to a target of 1.5 years, in accordance with the Investment Policy. For purposes of computing weighted average maturity, the maturity date of variable-rate notes is the stated maturity. 50.96% of the Pool's $22.16 billion in investments at June 30, 2012, mature in six months or less. Of the remainder, 43.02% have a maturity of more than one year. At June 30, 2012, the weighted average maturity in years for the Pool was 1.82.

The California Government Code and the Investment Policy allow the Treasury to purchase floating rate notes, that is, any instruments that have a coupon interest rate that is adjusted periodically due to changes in a base or benchmark rate. The Investment Policy limits the amount of floating rate notes to 10% of the Pool portfolio. The Investment Policy also prohibits the purchase of inverse floating rate notes and hybrid or complex structured investments and for the fiscal year ended June 30, 2012, there were none.

At June 30, 2012, the Pool contained floating rate notes at fair value of $844.10 million (3.81% of the Pool). The notes are tied to one-month and three-month London Interbank Offered Rate (LIBOR) with monthly and quarterly coupon resets. The fair value of variable securities is generally less susceptible to changes in value than fixed rate securities because the variable-rate coupon resets back to the market rate on a periodic basis. There were several variable rate notes at fair value of $8.67 million in the SPI and no variable rate notes in the Other Specific Investments.

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

Custodial Credit Risk

Custodial credit risk for investments is the risk that the Treasury will not be able to recover the value of investment securities that are in the possession of an outside party. Investments are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Treasury and are held by either the counterparty, or the counterparty's trust department or agent but not in the Treasury's name. At year-end, all Pool, SPI and Other Specific Investment securities, except for the County Improvement Bonds and Bond Anticipation Notes (BANs), certain certificates of participation issued by County entities, LAIF and mortgage trust deeds, were either held by the Treasury or by the custodian bank in the name of the Treasury. The bonds, BANs, and certain certificates of participation were held in the Treasury's vault and are recorded in the Los Angeles County Securities line item. The mortgage trust deeds were held and administered by Bank of America or by the Treasury. The LAIF investments were held by the State of California.

Credit Risk and Concentration of Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The County mitigates these risks by holding a diversified portfolio of high quality investments.

The Investment Policy establishes acceptable credit ratings for investments from any two Nationally Recognized Statistical Rating Organizations (NRSRO). For an issuer of short-term debt, the rating must be no less that A-1 (S&P) or P-1 (Moody's), while an issuer of long term debt shall be rated no less that an "A." All investments purchased in the fiscal year met the credit rating criteria in the Investment Policy, at the issuer level. However, while the NRSROs did rate the issuer of the investments purchased, the NRSRO did not, in all instances, rate the investment itself (e.g., commercial paper, bankers' acceptance, corporate and deposit notes, and negotiable certificates of deposit). Accordingly, for purposes of reporting the credit quality distribution of investments in the table shown on page 20, some investments are reported as not rated.

The Investment Policy also permits investments in LAIF, pursuant to California Government Code Section 16429.1. At June 30, 2012, a portion of the SPI was invested in LAIF, which is unrated as to credit quality.

The Investment Policy, approved annually by the Board, limits the maximum total par value for each permissible security type (e.g. commercial paper and certificates of deposit) to a certain percentage of the Pool portfolio. Exceptions to this are obligations of the United States government, and United States government agencies or government-sponsored enterprises, which do not have a limit. Further, the Treasury restricts investments in any one issuer based on the issuer's ratings from a NRSRO. For bankers' acceptances, certificates of deposit, corporate notes and floating rate notes, the highest issuer limit, for those issuers with ratings of P-1/Aaa (Moody's) and A-1/AAA (S&P), was $500 million, approximately 2.12% of the Pool daily investment balance. For commercial paper, the highest issuer limit, for those issuers with ratings of P-1/Aaa (Moody's) and A-1/AAA (S&P), was $750 million, or 3.18% of the Pool's daily investment balance.

The Pool and SPI had the following U.S. Agency securities in a single issuer that represent 5 percent or more of total investments at June 30, 2012, (in thousands):

Issuer	Pool		SPI	
	Fair Value	% of Portfolio	Fair Value	% of Portfolio
Federal Farm Credit Bank	$ 2,355,659	10.63%	$ 8,050	7.81%
Federal Home Loan Bank	2,198,723	9.92%	9,642	9.35%
Federal Home Lone Mortgage Corp	2,297,278	10.37%	5,240	5.08%
Federal National Mortgage Association	2,769,422	12.50%	8,647	8.38%

The following is a summary of the credit quality distribution and concentration of credit risk by investment type as a percentage of each portfolio's fair value at June 30, 2012:

Pool	S&P	Moody's	% of Portfolio
Commercial Paper	Not Rated	Not Rated	32.45%
Corporate and Deposit Notes	AA-	Aa3	0.79%
	AA+	A1	1.00%
	A+	A2	0.05%
	AA-	Not Rated	0.68%
	Not Rated	Not Rated	0.34%
Los Angeles County Securities	Not Rated	Not Rated	0.08%
Negotiable Certificates of Deposit	AA-	Aa2	0.22%
	AA-	Aa3	0.22%
	AA-	Not Rated	0.45%
	Not Rated	Aa2	0.23%
	Not Rated	P-1	0.79%
	Not Rated	Not Rated	16.22%
U.S. Agency Securities	AA+	Aaa	42.31%
	AA+	Not Rated	1.10%
U.S. Treasury Securities:			
U.S. Treasury Notes	Not Rated	Aaa	0.82%
U.S. Treasury Bills	Not Rated	Not Rated	2.25%
			100.00%

SPI			
Local Agency Investment Fund	Not Rated	Not Rated	61.28%
Corporate and Deposit Notes	AA+	A1	3.02%
Mortgage Trust Deeds	Not Rated	Not Rated	0.09%
Los Angeles County Securities	Not Rated	Not Rated	4.91%
U.S. Agency Securities	AA+	Aaa	30.60%
U.S. Treasury			
U.S. Treasury Bonds	Not Rated	Aaa	0.10%
			100.00%

Other Specific Investments			
U.S. Treasury Bills	Not Rated	Not Rated	100.00%
			100.00%

Safekeeping Securities

At June 30, 2012, all Pool, SPI investments and Other Specific Investments were safe kept by Citibank N.A. except for the County Improvement Bonds and Bond Anticipation Notes (BANs), certain certificates of participation issued by County entities, LAIF and mortgage trust deeds.

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

The County has not provided nor obtained any legally binding guarantees during the fiscal year ended June 30, 2012, to support the value of shares in the Pool.

Investment Income

The earnings rate, which includes investment income, net of allowable investment expenses, on all Pool investments held by the Treasury for the fiscal year ended June 30, 2012, was .93% on an average daily investment balance of the Pool portfolio of $23.61 billion.

The change in fair value of investments consists of both unrealized and realized gains and losses. Realized gains and losses on investments held in more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in the prior year(s) (as an unrealized gain or loss) and the current year (as a realized gain or loss). Securities in the aggregate amount of $13.61 billion in the Pool and $1.03 billion in SPI were called or sold, respectively, during the year with a net gain of $14.82 million for the Pool and a net loss of $1,475 for SPI, respectively. The net increase in the fair value of investments for the year ended June 30, 2012, was $54.10 million for the Pool and a net decrease of $144 thousand for SPI. There was a $330 net increase in the fair value of investments for the Other Specific Investment for the year ended June 30, 2012.

Los Angeles County Securities – External Investment Pool

The Board authorized the Treasury to purchase Los Angeles County Capital Asset Leasing Corporation's (LACCAL) BANS for the Pool, which are floating rate notes. The LACCAL BANS comprised 2.01% of the total floating rate notes as of June 30, 2012. 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 Treasury periodically, based on cash needs. The Board authorized the issuance of an aggregate amount of BANS not to exceed $51.80 million for the fiscal year 2011-2012. As of June 30, 2012, the Pool had $17 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.

Los Angeles County Securities – Specific Purpose Investments (SPI)

As of June 30, 2012, the Los Angeles County Securities category included the Rancho Palos Verdes Redevelopment Agency Tax Allocation Bond for $5.17 million issued on December 2, 1997 with $5.07 million outstanding at June 30, 2012. It earns an interest rate of 5% per annum and matures in September 2021. The original loan provided funding for landslide mitigation measures in the Abalone Cove area pursuant to a 1987 settlement agreement.

Mortgage Trust Deeds

In December 1986 and October 1987, the Board approved the disbursing of funds for mortgage trust deeds as part of the settlements of the Flying Triangle and the Abalone Cove landslide litigation. Such disbursements are authorized under California 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 $8.50 million.

The trust deeds, which are fully secured, have terms of 15 to 30 years and fixed interest rate of 5.50%. As of June 30, 2012, $97 thousand in mortgage trust deeds are included in the SPI portfolio.

Note 4 – Interest Receivable

Receivables primarily consist of interest accrued on investments. In addition, certain securities were purchased with accrued interest. At June 30, 2012, the Pool had $32.85 million of interest receivable of which $713.88 thousand represents accrued interest purchased. At June 30, 2012, the SPI portfolio had $463 thousand of interest receivable and no accrued interest purchased.

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

Board of Supervisors
County of Los Angeles, California

We have audited the basic financial statements of the Los Angeles County Treasury (Treasury) as of and for the year ended June 30, 2012, and have issued our report thereon dated December 14, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

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

Macias Gini & O'Connell LLP

Los Angeles, California
December 14, 2012