



WENDY GREUEL
CONTROLLER

March 26, 2010

Honorable Members of the City Council
City of Los Angeles, California

Dear Honorable Members:

**SUBJECT: FISCAL YEAR 2008-09 AUDITED FINANCIAL STATEMENTS OF THE
MOBILE SOURCE AIR POLLUTION REDUCTION PROGRAM**

Simpson & Simpson, CPA's, the City's external audit firm, is under contract by the City Council to perform various audits of the City's financial operations and file the audit reports with the City Council. Attached to this transmittal are four copies of the fiscal year 2008-09 audited financial statements of the Mobile Source Air Pollution Reduction Program. The statements were audited by Simpson and Simpson, CPAs, a firm of independent certified public accountants. This is one of the audit reports that the City Council will receive pursuant to the audit contract. Other audit reports, such as the financial statements of the Municipal Improvement Corporation of Los Angeles, and the Single Audit of grant funds will be forwarded to the City Council as they are completed.

If you have any questions, please contact Sally Rocio of Financial Analysis and Reporting at (213) 978-7324.

Sincerely,

CLAIRE BARTELS
Chief Deputy Controller

Attachments



SIMPSON & SIMPSON
CERTIFIED PUBLIC ACCOUNTANTS

FOUNDING PARTNERS
BRAINARD C. SIMPSON, CPA
CARL P. SIMPSON, CPA

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March 25, 2010

Audit and Governmental Efficiency Committee
Los Angeles City Council
c/o City Clerk
City Hall, Room 395
200 North Spring Street
Los Angeles, California 90012

Enclosed are the financial statements with Independent Auditor's report for the Mobile Source Air Pollution Reduction Program (Program) of the City of Los Angeles for the fiscal year ended June 30, 2009.

We performed a financial audit of the Program's financial statements in accordance with auditing standards generally accepted in the United States of America. As indicated in our report dated January 29, 2010, we expressed an unqualified opinion on the financial statements indicating that they present fairly, in all material respects, the financial position and changes in financial position and budgetary comparison of the Program in conformity with accounting principles generally accepted in the United States of America.

No matters relating to internal control and other operating and administrative matters were communicated to management.

If you have any questions, please contact us at (213)736-6664.

Sincerely,

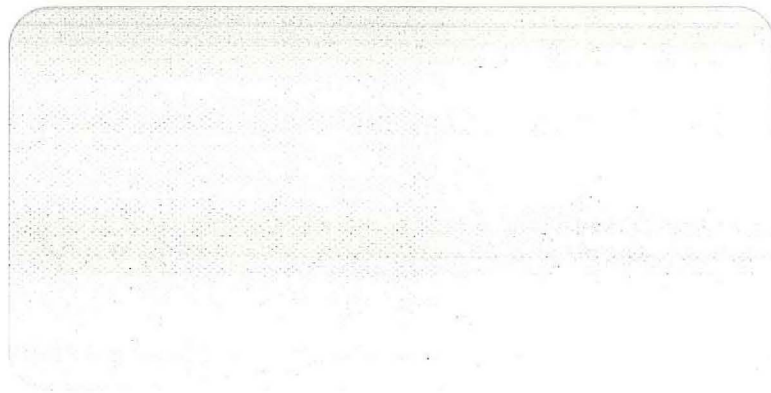
Simpson and Simpson

Enclosures: 4

Cc: Bill Lamb – Controller's Office with 2 Enclosures
Detrich Allen – Environmental Affairs Department with 15 Enclosures



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***CITY OF LOS ANGELES, CALIFORNIA
MOBILE SOURCE AIR POLLUTION
REDUCTION PROGRAM
FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORTS
JUNE 30, 2009***

CITY OF LOS ANGELES
MOBILE SOURCE AIR POLLUTION REDUCTION PROGRAM
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INDEPENDENT AUDITOR'S REPORT

Honorable Members of
the City Council
City of Los Angeles, California

We have audited the accompanying balance sheet of the Mobile Source Air Pollution Reduction Program (Program) of the City of Los Angeles, California (City) as of June 30, 2009, and the related statements of revenues, expenditures and changes in fund balance, and budgetary comparison for the year then ended. These financial statements are the responsibility of the management of the City. 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 *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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As stated in Note 1, the financial statements being presented are only for the Program and do not purport to, and do not present fairly the financial position of the City as of June 30, 2009, and changes in its financial position and budgetary comparisons 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 Mobile Source Air Pollution Reduction Program of the City of Los Angeles as of June 30, 2009, and the changes in financial position and the budgetary comparison 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 January 29, 2010 on our consideration of the Program's internal control over financial reporting for the Program and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

A handwritten signature in black ink, which appears to read 'Simpson & Simpson'.

Los Angeles, California
January 29, 2010

CITY OF LOS ANGELES
MOBILE SOURCE AIR POLLUTION REDUCTION PROGRAM
BALANCE SHEET
June 30, 2009

ASSETS

| | |
|---|--------------------------------|
| Cash and Pooled Investments (Note 2) | \$ 6,193,213 |
| Due from Other Governmental Entities (Note 4) | 1,264,846 |
| Due from the City (Note 3) | 89,027 |
| Investment Income Receivable | <u>39,542</u> |
| Total Assets | <u><u>\$ 7,586,628</u></u> |

LIABILITIES & FUND BALANCE

Liabilities:

| | |
|-----------------------|-----------------------------|
| Accounts Payable | \$ 1,177,610 |
| Deferred Revenue | <u>3,179</u> |
| Total Liabilities | <u><u>1,180,789</u></u> |

Fund Balance:

| | |
|---|--------------------------------|
| Reserved for Encumbrances (Note 6) | 241,865 |
| Unreserved, Designated for Special Purpose (Note 6) | 4,113,138 |
| Unreserved and Undesignated | <u>2,050,836</u> |
| Total Fund Balance | <u><u>6,405,839</u></u> |
| Total Liabilities & Fund Balance | <u><u>\$ 7,586,628</u></u> |

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

CITY OF LOS ANGELES
MOBILE SOURCE AIR POLLUTION REDUCTION PROGRAM
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
For the Year Ended June 30, 2009

Revenues:

| | |
|---|---------------|
| Motor Vehicle Registration Fees – Subvention Fund | \$ 4,731,657 |
| Discretionary Fund | 625,000 |
| Investment Income | 243,214 |
| Other Income | <u>12,500</u> |

| | |
|----------------|------------------|
| Total Revenues | <u>5,612,371</u> |
|----------------|------------------|

Expenditures:

| | |
|----------------|----------------|
| Direct Program | 5,060,886 |
| Administrative | <u>231,723</u> |

| | |
|--------------------|------------------|
| Total Expenditures | <u>5,292,609</u> |
|--------------------|------------------|

| | |
|----------------------------|------------------|
| Net Change in Fund Balance | 319,761 |
| Fund Balance, July 1, 2008 | <u>6,086,078</u> |

| | |
|-----------------------------|----------------------------|
| Fund Balance, June 30, 2009 | <u><u>\$ 6,405,839</u></u> |
|-----------------------------|----------------------------|

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

CITY OF LOS ANGELES
MOBILE SOURCE AIR POLLUTION REDUCTION PROGRAM
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
For the Year Ended June 30, 2009

| | Budget | | Actual | Variance Positive (Negative) |
|--|--------------------|--------------------|--------------------|------------------------------------|
| | Original | Final | | |
| Revenues: | | | | |
| Motor Vehicle Registration Fees | | | | |
| -Subvention and Discretionary Funds | \$4,700,000 | \$ 8,963,791 | \$5,345,863 | \$ (3,617,928) |
| Interest Income | 200,000 | 200,000 | 224,146 | 24,146 |
| Other Income | -- | -- | 12,500 | 12,500 |
| Total Revenues | 4,900,000 | 9,163,791 | 5,582,509 | (3,581,282) |
| Expenditures: | | | | |
| Environmental Affairs Department | 705,106 | 751,805 | 722,266 | 29,539 |
| Personnel Department | 640,977 | 640,977 | 640,977 | -- |
| Public Works - Bureau of Engineering | 95,081 | 95,081 | 95,081 | -- |
| Public Works - Bureau of Sanitation | 204,492 | 205,282 | 204,492 | 790 |
| Transportation Department | 520,849 | 597,061 | 419,425 | 177,636 |
| Project Expenditures: | | | | |
| Alternate Fuel Vehicles | 819,289 | 2,839,816 | -- | 2,839,816 |
| Bicycle Patrol Program | 100,000 | 139,135 | 127,351 | 11,784 |
| Bicycle Transit Program & Education | 280,000 | 250,000 | 230,000 | 20,000 |
| Technical Services Contracts | 60,000 | 347,100 | 95,334 | 251,766 |
| Police Headquarters Rideshare/Bike Rack | 32,000 | 32,000 | -- | 32,000 |
| Air Quality Demonstration | 100,000 | 200,000 | -- | 200,000 |
| Van Pool Program | 343,775 | 343,815 | 342,769 | 1,046 |
| Climate Change Plan | 680,465 | 525,000 | 35,429 | 489,571 |
| California Climate Action Registry | 10,000 | 10,000 | 5,000 | 5,000 |
| Clean Lines Programmatic Support | -- | 9,813 | 7,123 | 2,690 |
| Related Costs | 1,362,972 | 1,362,972 | 1,146,719 | 216,253 |
| Audit Contract | 10,000 | 31,367 | 13,100 | 18,267 |
| Total Expenditures | 5,965,006 | 8,381,224 | 4,086,066 | 4,296,158 |
| Excess/(Deficiency) of Revenues Over Expenditures | (1,065,006) | 782,567 | 1,497,443 | 714,876 |
| Fund Balances, July 1, 2008 | 1,065,006 | 1,065,006 | 4,323,197 | |
| Appropriation of Fund Balances and Carryforward Appropriation | -- | (1,847,573) | -- | |
| Encumbrances Lapsed | -- | -- | 1,123 | |
| Fund Balances, June 30, 2009 | \$ -- | \$ -- | \$5,821,763 | |

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

CITY OF LOS ANGELES
MOBILE SOURCE AIR POLLUTION REDUCTION PROGRAM
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

1. Summary of Significant Accounting Policies

a. Mobile Source Air Pollution Reduction Program

California Assembly Bill 2766 (AB 2766) authorizes air pollution control districts to levy fees on motor vehicles. Fees are to be used to reduce air pollution from motor vehicles. Under this program, the California Department of Motor Vehicles (DMV) collects the fees and subvenes the amounts to the South Coast Air Quality Management District (SCAQMD) for vehicles registered in the SCAQMD. Forty cents of every dollar subvented to SCAQMD are allocated to the cities and counties in the SCAQMD proportionately based upon population. The revenues allocated to the City of Los Angeles (City) are deposited in the Mobile Source Air Pollution Reduction Special Revenue Fund (Fund) administered by the Department of Environmental Affairs.

Due to the City's budgetary accounting policies and procedures, certain Fund revenues are transferred to the General Fund for expenditure under eligible projects administered by the Departments of Transportation, Environmental Affairs, Personnel, Department of Public Works, and General Services Department. For purposes of financial statement presentation, all financial activities of the City's Mobile Source Air Pollution Reduction Program (Program), which includes direct program activities of the Fund and project expenditures of AB 2766 monies incurred in the General Fund, are presented herein. This presentation is consistent with the periodic progress reports submitted to the SCAQMD. However, due to this financial reporting perspective, differences occur in the amounts reported in the accompanying Statement of Revenues, Expenditures and Changes in Fund Balance and the Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) for the fiscal year ended June 30, 2009. See Note 5 for reconciliation between the two different bases.

The accompanying financial statements present only the Program and are not intended to present fairly the financial position, changes in financial position and budgetary comparisons of the City of Los Angeles in conformity with accounting principles generally accepted in the United States of America.

CITY OF LOS ANGELES
MOBILE SOURCE AIR POLLUTION REDUCTION PROGRAM
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

1. Summary of Significant Accounting Policies (Continued)

b. Basis of Accounting

The balance sheet and the statement of revenues, expenditures and changes in fund balance have been prepared on the modified accrual basis of accounting appropriate for governmental fund financial statements. Revenues are recognized in the accounting period in which they become susceptible to accrual (i.e., when they become both measurable and available to pay liabilities of the current period). Expenditures are recognized when the related fund liability is incurred and amounts are due and payable.

The Program's annual budget is prepared on a modified cash basis of accounting, which is different from GAAP. Revenues are recognized when cash is received, and expenditures include both cash disbursements and current year encumbered appropriations that has not been paid at the end of the budget year. To provide a meaningful comparison of actual results with the budget, the actual results of the Program are presented in the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (non-GAAP Budgetary Basis) in accordance with the budgetary basis of accounting.

The Program uses encumbrance accounting, under which purchase orders, contracts, and other commitments for expenditure of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrances outstanding at year-end are reported as a reservation of fund balance since they do not represent expenditures or liabilities. These commitments will be honored in subsequent year carry-forward appropriations.

c. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts in the financial statements and accompanying notes. Actual results could differ from the estimates.

CITY OF LOS ANGELES
MOBILE SOURCE AIR POLLUTION REDUCTION PROGRAM
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

2. Cash and Pooled Investments

a. Cash and Investments Held by City Treasurer

The Program participates in the City's general cash and pooled investment program. As of June 30, 2009, cash and pooled investment of the Program held by the City Treasurer were \$6,193,213. The Program's participation in the City's general and special investment pools was approximately 0.11%. Interest earned on pooled investments is allocated to the Program. Interest earned from the general pool is apportioned to the Program based on the relationship of the Program's respective daily cash balances to aggregate cash and pooled investments.

The cash balances of substantially all funds on deposit in the City Treasury are pooled and invested by the City Treasurer for the purpose of maximizing interest earnings through pooled investment activities but safety and liquidity still take precedence over return. Investments in the City Treasury are stated at fair value based on quoted market prices except for money market investments that have remaining maturities of one year or less at time of purchase, which are reported at amortized cost.

Pursuant to California Government Code Section 53607 and the Los Angeles City Council File No. 94-2160, the City Treasury provides an Annual Statement of Investment Policy (Policy) to the City Council. The Policy governs the City's pooled investment practices. The Policy addresses soundness of financial institutions in which the Treasurer will deposit funds, and types of investment instruments permitted by California Government Code Sections 53600-53635 and 16429.1.

Examples of investments permitted by the City's pooled investment policy are obligations of the U.S. Treasury and government agencies, commercial paper notes, negotiable certificates of deposits, guaranteed investment contracts, banker's acceptances, medium term corporate notes, money market accounts, and the State of California Local Agency Investment Fund.

CITY OF LOS ANGELES
MOBILE SOURCE AIR POLLUTION REDUCTION PROGRAM
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

2. Cash and Pooled Investments (Continued)

At June 30, 2009 the investments held in the City Treasury's General and Special Investment Pool Programs and their maturities are as follows:

| Type of Investments | Amount | Investment Maturities | | | |
|---------------------------------|-------------------------|-------------------------|-----------------------|-----------------------|-------------------------|
| | | 1 to 30 Days | 31 to 60 Days | 61 to 365 Days | 366 Days to 5 Years |
| U.S. Treasury Notes | \$ 1,613,049,749 | \$ -- | \$ -- | \$ -- | \$ 1,613,049,749 |
| U.S. Treasury Bills | 44,984,303 | -- | 44,984,303 | -- | -- |
| U.S. Sponsored Agency Issues | 1,428,908,127 | 164,841,838 | 82,200,687 | 182,051,620 | 999,813,982 |
| Medium Term Notes | 1,047,778,903 | -- | 25,152,500 | 125,865,554 | 896,760,849 |
| Commercial Paper | 1,348,313,030 | 992,287,350 | 235,582,372 | 120,443,308 | -- |
| Guaranteed Investment Contracts | 70,081,400 | 70,081,400 | -- | -- | -- |
| Certificates of Deposit | 9,000,000 | -- | -- | 9,000,000 | -- |
| Short Term Investment Funds | 3,250 | 3,250 | -- | -- | -- |
| Total General and Special Pools | <u>\$ 5,562,118,762</u> | <u>\$ 1,227,213,838</u> | <u>\$ 387,919,862</u> | <u>\$ 437,360,482</u> | <u>\$ 3,509,624,580</u> |

Interest Rate Risk. The City's pooled investment policy limits the maturity of its investments to a maximum of five (5) years for U.S. Treasury and federal agency securities, medium term corporate notes, and bonds issued by local agencies; 270 days for commercial paper; and 32 days for repurchase agreements.

Credit Risk. The City's pooled investment policy requires that for all classes of investments, except linked banking program certificates of deposits, the issuers' minimum credit ratings shall be Standard and Poor's Corporation (S&P) A-1/A or Moody's Investor Services (Moody's) P-1/A2 and, if available, Fitch IBCA F1/A. In addition, domestic banks are limited to those with a current Fitch Ratings BankWatch of "B/C" or better and an A-1 short-term rating. The City Treasurer is granted the authority to specify approved California banks with a Fitch Ratings BankWatch of "C" or better and an A-2 rating where appropriate. In addition to an "AAA" rating for country risk, foreign banks with domestic licensed offices must be rated "B" or better and TBW-1 short-term rating by Fitch Ratings BankWatch. Domestic savings banks must be rated "B/C" or better and a TBW-1 short-term rating by Fitch Ratings BankWatch.

Medium term notes must be issued by corporations operating within the United States and having total assets in excess of \$500 million. Commercial paper issuers must meet the preceding requirement or must be issued by corporations organized in the United States as special purpose corporations, trust or limited liability companies having program-wide credit enhancements.

CITY OF LOS ANGELES
MOBILE SOURCE AIR POLLUTION REDUCTION PROGRAM
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

2. Cash and Pooled Investments (Continued)

The City's \$1.43 billion investments in U.S. government sponsored enterprises consist of securities issued by the Federal Home Loan Bank - \$472.7 million, Federal National Mortgage Association - \$272.4 million, Federal Home Loan Mortgage Corporation - \$398.9 million, Federal Farm Credit Bank - \$126.0 million, Tennessee Valley Authority - \$37.1 million, Freddie Mac Discount Note - \$69.3 million, and Farmer Mac Federal Agricultural - \$52.6 million. As of June 30, 2009, these securities carried the highest ratings of AAA (S&P) and Aaa (Moody's).

The City's \$1.05 billion investments in medium term notes consist of securities issued by banks and corporations that comply with the requirements discussed above and were rated "A" or better by S&P and "A3" or better by Moody's.

The City's \$1.35 billion investments in commercial paper comply with the requirements discussed above and were rated A-1+/A-1 by S&P and P-1 by Moody's. The issuers of the certificates of deposits are not rated.

Concentration of Credit Risk. The City's investment policy does not allow more than 10% of its investment portfolio, except U.S. Treasury and U.S. sponsored agency issues, to be invested in securities of a single issuer including its related entities. The City's investment policy further provides for a maximum concentration limit of 30% on any individual federal agency or government-sponsored entity. The City's pooled investments comply with these requirements. GAAP requires disclosure of certain investments in any one issuer that represent 5% or more of total investments. Of the City's total pooled investments as of June 30, 2009, \$472.2 million (9%) was invested in securities issued by the Federal Home Loan Bank, \$398.9 million (7%) was invested in securities issued by Federal Home Loan Mortgage Corporation and \$272.4 million (5%) was invested in securities issued by Federal National Mortgage Association.

CITY OF LOS ANGELES
MOBILE SOURCE AIR POLLUTION REDUCTION PROGRAM
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

2. Cash and Pooled Investments (Continued)

Securities Lending Program. Securities lending is permitted and limited under provisions of California Government Code Section 53601. The City Council approved the Securities Lending Program (SLP) on October 22, 1991 under Council File No. 91-1860, which complies with the California Government Code. The objectives of the SLP in priority order are: a) safety of loaned securities; and b) prudent investment of cash collateral to enhance revenue from the investment program. The SLP is governed by a separate policy and guidelines.

The City's custodial bank acts as the securities lending agent. In the event a counterparty defaults by reason of an act of insolvency, the bank shall take all actions which it deems necessary or appropriate to liquidate permitted investment and collateral in connection with such transaction and shall make a reasonable effort for two (2) business days (Replacement Period) to apply the proceeds thereof to the purchase of securities identical to the loaned securities not returned. If during the Replacement Period the collateral liquidation proceeds are insufficient to replace any of the loaned securities not returned, the bank shall, subject to payment by the City of the amount of any losses on any permitted investments, pay such additional amounts as necessary to make such replacement.

Under the provisions of SLP, and in accordance with the California Government Code, no more than 20% of the market value of the General Investment Pool (Pool) is available for lending. The City receives cash as collateral on loaned securities, which is reinvested in securities permitted under the Policy. In accordance with the California Government Code, the securities lending agent marks to market the value of both the collateral and the reinvestments daily. Except for open loans where either party can terminate a lending contract on demand, term loans have a maximum life of 90 days. Earnings from securities lending accrue to the Pool and are allocated on a pro-rata basis to all Pool participants.

Due to the extreme volatility in the financial markets resulting from the global financial crisis, and counterparty risks, the City temporarily suspended its SLP in November 2008. The City, however, continues to monitor the financial markets and will re-enter the SLP market when deemed appropriate.

**CITY OF LOS ANGELES
MOBILE SOURCE AIR POLLUTION REDUCTION PROGRAM
NOTES TO FINANCIAL STATEMENTS**

**June 30, 2009
(Continued)**

3. Due from the City

The "Due from the City" in the amount of \$89,027 consists of \$44,095 due from the General Fund, \$18,608 due from Bureau of Sanitation, \$27,536 due from Department of Transportation for advances made in the current year, and \$1,212 due to Reserve Fund.

4. Due from Other Governmental Entities

The intergovernmental receivable amount represents the AB 2766 fourth quarter funds to be allocated for distribution by the SCAQMD to the City. This amount represents fees collected pursuant to AB 2766 by the DMV for the period April 2009 through June 2009.

5. Reconciliation of Operations on the Budgetary Basis to the GAAP Basis

As described in Note 1, the accompanying Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance include all financial activities of the City's Program. Program operations include direct project activities of the Fund and project expenditures of AB 2766 monies incurred in the General Fund. However, in accordance with the City's budgetary accounting policies and procedures, the City adopts an annual operating budget for the Fund, which identifies expenditures, to be made from the Fund and other City funds. For purposes of budgetary reporting, Fund expenditures are reported when monies are transferred to other City funds rather than when the project expenditure is incurred in the receiving fund.

CITY OF LOS ANGELES
MOBILE SOURCE AIR POLLUTION REDUCTION PROGRAM
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

5. Reconciliation of Operations on the Budgetary Basis to the GAAP Basis (Continued)

Because accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in accordance with GAAP, a reconciliation of the resultant perspectives, basis and timing differences for the fiscal year ended June 30, 2009 is presented as follows:

| | |
|--|-----------------------|
| Budgetary Operating Results (Non-GAAP Budgetary Basis) | \$ 1,497,443 |
| Adjustments for Net Changes to Accrued Assets and Liabilities: | |
| Cash and Pooled Investment | 16,645 |
| Due from Other Governmental Entities | 10,793 |
| Due to or from the City | (163,242) |
| Investment Income Receivable | 3,717 |
| Accounts Payable | (1,096,590) |
| Deferred Revenue | (1,295) |
| Prior Year Encumbrances Expended in Current Year | (205,110) |
| Encumbrances Reported as Budgetary Expenditures | <u>257,400</u> |
| Net Change in Fund Balance (GAAP Basis) | <u>\$ 319,761</u> |

6. Reserves and Designations of Fund Balance

Reservations of fund balance represent those amounts that are not available for appropriation in future periods or which are legally segregated for specific future uses. The Program's reserved fund balance of \$241,865 represents the amount of outstanding encumbrances as of June 30, 2009. Fund designations indicate tentative plans for future utilization of financial resources. The Program's designated fund balance of \$4,113,138 consists of amounts appropriated but not encumbered or expended as of June 30, 2009.



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**REPORT ON COMPLIANCE AND OTHER MATTERS
AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL
STATEMENTS OF MOBILE SOURCE AIR POLLUTION REDUCTION
PROGRAM PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Honorable Members of the City Council
City of Los Angeles, California

We have audited the financial statements of the Mobile Source Air Pollution Reduction Program (Program) of the City of Los Angeles, California (City) as of and for the year ended June 30, 2009 and have issued our report thereon dated January 29, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Additionally, our audit was performed to determine compliance with the California Air Pollution Control Laws, Health and Safety Code Sections containing provisions of Assembly Bill 2766.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Program's financial statements are free of material misstatement, we performed tests of its compliance with applicable provisions of Assembly Bill 2766, Chapter 1705 (Health and Safety Code Sections 44220 through 44247), 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 that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

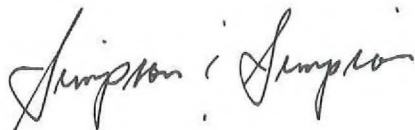
In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Program's financial statements, but not for the purpose of expressing an opinion on the effectiveness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

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

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

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

This report is intended solely for the information and use of the City Council, City management and the South Coast Air Quality Management District and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read "Simpson".

Los Angeles, California
January 29, 2010