

In the opinion of Hawkins Delafield & Wood LLP, Special Counsel to the District, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest evidenced by the Taxable Series B-1 Certificates is included in gross income for Federal income tax purposes pursuant to the Internal Revenue Code of 1986, as amended (the "Code"); (ii) interest evidenced by the Series B-2 Certificates is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code; and (iii) interest evidenced by the Series B-2 Certificates is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code and is not included in the adjusted current earnings of corporations for purposes of calculating the alternative minimum tax. In addition, in the opinion of Special Counsel, under existing statutes, interest evidenced by the Certificates is exempt from personal income taxes imposed by the State of California. See "TAX MATTERS" herein.

\$83,345,000**CERTIFICATES OF PARTICIPATION**

**Evidencing Proportionate and Undivided Interests of the Owners
thereof in Lease Payments to be made by the
LOS ANGELES UNIFIED SCHOOL DISTRICT**

**\$21,615,000**

**Certificates of Participation
2010 Series B-1**

**(Federally Taxable Direct Pay Build America Bonds)
(Capital Projects I)**

\$61,730,000

**Certificates of Participation
2010 Series B-2**

**(Tax-Exempt)
(Capital Projects I)**

Dated: Date of Delivery**Due:** December 1, as shown on the inside cover

The \$21,615,000 Certificates of Participation 2010 Series B-1 (Federally Taxable Direct Pay Build America Bonds) (Capital Projects I) (the "Taxable Series B-1 Certificates") and the \$61,730,000 Certificates of Participation 2010 Series B-2 (Tax-Exempt) (Capital Projects I) (the "Series B-2 Certificates") and together with the Taxable Series B-1 Certificates, the "Certificates") are being executed and delivered pursuant to a Trust Agreement, dated as of December 1, 2010 (the "Trust Agreement"), by and among the Los Angeles Unified School District (the "District"), the LAUSD Financing Corporation (the "Corporation") and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). The Certificates evidence proportionate and undivided interests in the Lease Payments (the "Lease Payments") to be made by the District pursuant to that certain Lease Agreement, dated as of December 1, 2010 (the "Lease Agreement"), by and between the District and the Corporation, pursuant to which the District leases from the Corporation certain real property and all the improvements thereon or to be located thereon, as more particularly described herein (the "Property"). See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES – Lease Payments" herein. The proceeds of the Certificates will be applied to (i) finance certain equipment and capital improvements of the District (collectively, the "Capital Projects I"); (ii) fund a Reserve Account for each Series of Certificates; and (iii) pay Delivery Costs incurred in connection with the Certificates. See "PLAN OF FINANCING, THE PROPERTY AND THE PROJECTS" herein.

Interest evidenced by the Certificates is payable on June 1 and December 1 of each year, commencing on June 1, 2011. The Certificates will be delivered as fully-registered certificates registered in the name of a nominee of The Depository Trust Company ("DTC"), which will act as securities depository for the Certificates. Purchases of the Certificates may be made in book-entry form only. Beneficial owners of the Certificates will not receive physical delivery of such Certificates. Payments of the principal amount of, premium, if any, and interest evidenced by the Certificates will be made to DTC by the Trustee. Disbursement of payments to DTC Participants is the responsibility of DTC and disbursement of payments to the beneficial owners is the responsibility of DTC Participants. See "THE CERTIFICATES" herein and APPENDIX G – "BOOK-ENTRY SYSTEM" attached hereto.

The District's obligations evidenced by the Taxable Series B-1 Certificates will be designated as "Build America Bonds" under the provisions of Section 54AA of the Internal Revenue Code of 1986, as amended, the interest on which is not excluded from gross income for purposes of federal income taxation. See "TAX MATTERS - Taxable Series B-1 Certificates" herein. The District expects to receive a direct cash subsidy payment from the United States Department of the Treasury equal to thirty-five percent (35%) of the interest evidenced by the Taxable Series B-1 Certificates. See "THE CERTIFICATES" herein.

The Certificates are subject to prepayment prior to their respective stated maturities, as described herein. See "THE CERTIFICATES – Prepayment" herein.

THE OBLIGATION OF THE DISTRICT TO MAKE THE LEASE PAYMENTS DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE DISTRICT IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE DISTRICT HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE DISTRICT TO MAKE LEASE PAYMENTS CONSTITUTES A DEBT OF THE DISTRICT, THE CORPORATION OR THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

This cover page contains information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to making an informed investment decision.

The Certificates will be offered when, as and if executed and delivered, and received by the Underwriters, subject to the approval as to their legality by Hawkins Delafield & Wood LLP, Los Angeles, California, Special Counsel to the District, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, and for the District by the General Counsel to the District and by its Disclosure Counsel, Hawkins Delafield & Wood LLP, Los Angeles, California. Fieldman, Rolapp & Associates is serving as Financial Advisor to the District in connection with the execution and delivery of the Certificates. It is expected that the Certificates in definitive form will be available for delivery through the facilities of DTC in New York, New York, on or about December 21, 2010.

De La Rosa & Co.**Barclays Capital**

Dated: December 15, 2010

MATURITY SCHEDULE

\$21,615,000

Certificates of Participation

2010 Series B-1

(Federally Taxable Direct Pay Build America Bonds)

(Capital Projects I)

\$1,995,000 7.663% Term Certificates due December 1, 2022 Priced to Yield: 7.663% CUSIP No.[†]: 544648 TH1

\$3,420,000 8.163% Term Certificates due December 1, 2025 Priced to Yield: 8.163% CUSIP No.[†]: 544648 TJ7

\$7,000,000 8.000% Term Certificates due December 1, 2035 Priced to Yield: 8.525% CUSIP No.[†]: 544648 TM0

\$7,700,000 8.250% Term Certificates due December 1, 2035 Priced to Yield: 8.525% CUSIP No.[†]: 544648 TK4

\$1,500,000 8.525% Term Certificates due December 1, 2035 Priced to Yield: 8.525% CUSIP No.[†]: 544648 TL2

\$61,730,000

Certificates of Participation

2010 Series B-2

(Tax-Exempt)

(Capital Projects I)

Base CUSIP No. [†]: 544648

Maturity (December 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP Suffix[†]
2011	\$4,710,000	3.000%	1.500%	101.400	ST6
2012	1,455,000	3.000	2.070	101.762	SU3
2012	4,000,000	5.000	2.070	105.554	SV1
2013	5,695,000	5.000	2.660	106.583	SW9
2014	150,000	4.000	3.080	103.391	SX7
2014	5,835,000	5.000	3.080	107.078	SY5
2015	6,280,000	5.000	3.410	107.176	SZ2
2016	6,075,000	5.000	3.740	106.658	TA6
2017	2,585,000	4.000	4.190	98.863	TB4
2017	3,800,000	5.000	4.190	104.834	TC2
2018	6,675,000	5.500	4.530	106.408	TD0
2019	7,040,000	5.500	4.830	104.816	TE8
2020	3,830,000	5.000	5.100	99.224	TF5
2020	3,600,000	5.750	5.100	105.017	TG3

[†] CUSIP Copyright 2010, American Bankers Association. CUSIP numbers herein are provided by Standard & Poor's CUSIP Service Bureau, a division of the McGraw-Hill Companies, Inc., and are set forth herein for convenience of reference only. The District, the Corporation, the Trustee, the Financial Advisor and the Underwriters assume no responsibility for the accuracy of such numbers.

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No dealer, broker, salesperson or other person has been authorized by the District or the Underwriters to give any information or to make any representations, other than those contained in this Official Statement, and if given or made, such information or representation must not be relied upon as having been authorized by any of the foregoing.

The information contained herein has been obtained from sources that are believed to be reliable. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, give rise to any implication that there has been no change in the affairs of the District since the date hereof.

The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THE OFFERING OF THE CERTIFICATES, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE CERTIFICATES, AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL CERTIFICATES TO CERTAIN DEALERS AND BANKS AT PRICES LOWER THAN THE INITIAL PUBLIC OFFERING PRICES STATED ON THE INSIDE COVER PAGE HEREOF AND SAID INITIAL PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

THE CERTIFICATES HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR HAS THE TRUST AGREEMENT BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS.

When used in this Official Statement or in any continuing disclosure by the District, in any press release by the District or in any oral statement made with the approval of an authorized officer of the District, the words or phrases “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimate,” “project,” “forecast,” “expect,” “intend” and similar expressions identify “forward-looking statements.” Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

The District maintains a website at www.lausd.net. However, the information presented there is not part of this Official Statement, is not incorporated by reference herein and should not be relied upon in making an investment decision with respect to the Certificates.

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LOS ANGELES UNIFIED SCHOOL DISTRICT

BOARD OF EDUCATION

District	Member	Term Ending
2	Mónica García, President	June 30, 2013
1	Marguerite Poindexter LaMotte	June 30, 2011
3	Tamar Galatzan	June 30, 2011
4	Steve Zimmer	June 30, 2013
5	Yolie Flores	June 30, 2011
6	Nury Martinez	June 30, 2013
7	Richard Vladovic	June 30, 2011

DISTRICT OFFICIALS

Ramon C. Cortines, Superintendent
John Deasy, Deputy Superintendent
David Holmquist, General Counsel
Wendy G. Macy, Chief Operating Officer
Megan K. Reilly, Chief Financial Officer
James Sohn, Chief Facilities Executive
Timothy S. Rosnick, Controller

SPECIAL COUNSEL

Hawkins Delafield & Wood LLP
Los Angeles, California

FINANCIAL ADVISOR

Fieldman, Rolapp & Associates
Irvine, California

TRUSTEE

The Bank of New York Mellon Trust Company, N.A.
Los Angeles, California

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OFFICIAL STATEMENT

\$83,345,000

CERTIFICATES OF PARTICIPATION
Evidencing Proportionate and Undivided Interests of the Owners
thereof in Lease Payments to be made by the
LOS ANGELES UNIFIED SCHOOL DISTRICT

\$21,615,000

Certificates of Participation
2010 Series B-1
(Federally Taxable Direct Pay Build America Bonds)
(Capital Projects I)

\$61,730,000

Certificates of Participation
2010 Series B-2
(Tax-Exempt)
(Capital Projects I)

INTRODUCTION

This introduction contains only a brief summary of certain of the terms of the Certificates being offered, and a brief description of the Official Statement. All statements contained in this Introduction are qualified in their entirety by reference to the entire Official Statement. References to, and summaries of, provisions of the Constitution and laws of the State of California and any documents referred to herein do not purport to be complete and such references are qualified in their entirety by reference to the complete provisions. All capitalized terms used in this Official Statement and not otherwise defined herein have the meanings set forth in the Trust Agreement and the Lease Agreement (herein defined). See APPENDIX D – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Definitions” attached hereto.

General

This Official Statement, including the cover page through the Appendices attached hereto (the “Official Statement”), provides certain information concerning the sale and delivery of the \$21,615,000 Certificates of Participation, 2010 Series B-1 (Federally Taxable Direct Pay Build America Bonds) (Capital Projects I) (the “Taxable Series B-1 Certificates”) and the \$61,730,000 Certificates of Participation, 2010 Series B-2 (Tax-Exempt) (Capital Projects I) (the “Series B-2 Certificates” and together with the Taxable Series B-1 Certificates, the “Certificates”). The Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of December 1, 2010 (the “Trust Agreement”), by and among the Los Angeles Unified School District (the “District”), the LAUSD Financing Corporation (the “Corporation”) and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”) to: (i) finance certain equipment and capital improvements of the District (collectively, the “Capital Projects I”); (ii) fund a Reserve Account for each Series of Certificates; and (iii) pay Delivery Costs incurred in connection with the Certificates. See “PLAN OF FINANCING, THE PROPERTY AND THE PROJECTS” herein.

The District’s obligations evidenced by the Taxable Series B-1 Certificates will be designated as “Build America Bonds” under the provisions of Section 54AA of the Internal Revenue Code of 1986, as amended (the “Code”), the interest evidenced thereby which is not excluded from gross income for purposes of federal income taxation. See “TAX MATTERS - Taxable Series B-1 Certificates” herein. The District expects to receive a direct cash subsidy payment from the United States Department of the Treasury (the “Treasury Department”) equal to thirty-five percent (35%) of the interest evidenced by the Taxable Series B-1 Certificates. Upon the receipt of such direct cash subsidy payment, if any, the District will deposit such amount into the Series B-1 Lease Payment Account. See “THE CERTIFICATES” herein.

The District will lease certain real property and all improvements thereon or to be located thereon, as more particularly described herein (the “Property”), to the Corporation pursuant to a Site Lease, dated as of December 1, 2010 (the “Site Lease”), by and between the District and the Corporation. The District will lease the Property back from the Corporation pursuant to a Lease Agreement, dated as of December 1, 2010 (the “Lease Agreement”), by and between the District and the Corporation. The Certificates evidence proportionate and undivided interests in the Lease Payments (the “Lease Payments”) to be made by the District pursuant to the Lease Agreement. See “SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES” herein.

The District

The District’s boundaries encompass approximately 710 square miles in the western section of the County of Los Angeles (the “County”) in the State of California (the “State”) and include virtually all of the City of Los Angeles (the “City”) and all or significant portions of the cities of Bell, Carson, Commerce, Cudahy, Gardena, Hawthorne, Huntington Park, Lomita, Maywood, Rancho Palos Verdes, San Fernando, South Gate, Vernon and West Hollywood, in addition to considerable unincorporated territory which includes residential and industrial areas. As of June 30, 2009, the total population within the District’s boundaries was estimated to be approximately 4.85 million. See APPENDIX A – “REGIONAL ECONOMIC AND DEMOGRAPHIC INFORMATION” attached hereto for information regarding the County, the City and the region encompassing the District.

The District was formed in 1854 as the Common Schools for the City of Los Angeles and became a unified school district in 1960. The District is the second largest public school district in the United States and is the largest public school district in the State. In the current fiscal year, the District estimates it will serve approximately 748,273 K-12 and adult students. As of June 30, 2010, the District operated 437 elementary schools, 78 middle/junior high schools, 70 senior high schools, 56 options schools, 12 multi-level schools, 16 special education schools, 25 magnet schools and 145 magnet centers, 24 community adult schools, five regional occupational centers, five skills centers, one regional occupational program center, 100 early education centers, four infant centers and 23 primary school centers. In addition, as of June 30, 2010, there were 11 affiliated charter schools operated by the District and 150 fiscally independent charter schools within the District’s boundaries. Currently, there are 171 fiscally independent charter schools within the District’s boundaries, which is more than any other school district in the United States of America.

Additional information on the District is provided in Appendices B and C hereto. See APPENDIX B – “DISTRICT FINANCIAL INFORMATION” and APPENDIX C – “SELECTED INFORMATION FROM AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2010” attached hereto.

The Corporation

The Corporation was organized on July 18, 2000 as a California nonprofit benefit corporation. The Corporation was formed at the request of the District for the specific and primary purpose of providing capital financing assistance to the District by financing the acquisition, construction, remodeling, rehabilitation, equipping, improvement, financing and refinancing of various public facilities, land and equipment of the District and by leasing certain facilities, land and equipment for the use, benefit and enjoyment of the public served by the District, as well as any other purpose incidental thereto. See “THE CORPORATION” herein.

Authorization

Pursuant to and in accordance with resolutions of the Board of Education of the District and the Board of Directors of the Corporation adopted on October 26, 2010, the District and the Corporation have authorized the execution, sale and delivery of the Certificates, approved the execution of the Lease Agreement, the Site Lease, the Trust Agreement and this Official Statement and the Corporation has also approved the form of the Assignment Agreement (hereinafter defined).

Security and Source of Payment for the Certificates

Under the Lease Agreement, in consideration for the use and occupancy of the Property, the District has agreed to make certain payments designated as Lease Payments and certain other payments designated as Additional Payments with respect to the Property (the “Additional Payments”), in the amounts, at the times and in the manner set forth in the Lease Agreement. Lease Payments are scheduled to be sufficient to pay, when due, amounts designated as principal and interest evidenced by the Certificates. The District has covenanted in the Lease Agreement to take such action as may be necessary to include all Lease Payments and Additional Payments due thereunder in each of its annual budgets during the term of the Lease Agreement and to make the necessary appropriations for all such Lease Payments and Additional Payments due under the Lease Agreement in the fiscal year covered by such budget.

Pursuant to an Assignment Agreement, dated as of December 1, 2010 (the “Assignment Agreement”), by and between the Trustee and the Corporation, the Corporation assigned to the Trustee, for the benefit of the Owners of Certificates all of its rights, title and interest in and to the Lease Agreement, including the right to receive Lease Payments under the Lease Agreement; provided, however, that nothing contained in the Assignment Agreement will abrogate the Corporation’s rights to be indemnified as provided in the Lease Agreement. See APPENDIX D – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – The Lease Agreement” and “– Trust Agreement” attached hereto.

THE OBLIGATION OF THE DISTRICT TO MAKE THE LEASE PAYMENTS DOES NOT CONSTITUTE AN OBLIGATION OF THE DISTRICT FOR WHICH THE DISTRICT IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE DISTRICT HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE OBLIGATION OF THE DISTRICT TO MAKE LEASE PAYMENTS DOES NOT CONSTITUTE A DEBT OF THE DISTRICT, THE CORPORATION OR THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

The District’s obligation to make Lease Payments with respect to the Certificates will be abated during any period in which, by reason of damage, destruction, non-completion, any defect in title or other event (other than by eminent domain as provided in the Lease Agreement), there is substantial interference with the use and occupancy by the District of the Property or any portion thereof (other than any portions of the Property described in the provisions of the Lease Agreement relating to the District’s right to, at its own expense, remove portions of the Property or to make additions or modifications to the Property). Failure of the District to make Lease Payments during any such period will not constitute a default under the Lease Agreement, the Trust Agreement or any Certificate. However, during periods of abatement, any moneys in the Lease Payment Fund and the Debt Service Reserve Fund and amounts, if any, received from rental interruption insurance are available to pay Lease Payments. There is no remedy of acceleration of Lease Payments over the term of the Lease Agreement. See “SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES – Lease Payments”, “ - Insurance”, “ - Debt Service Reserve Fund” and “– Abatement” and “RISK FACTORS – Abatement” herein.

The Certificates

The Certificates will be executed and delivered in the form of fully registered certificates in principal amounts of \$5,000 each or any integral multiple thereof. The Certificates will be dated their date of delivery and mature on December 1 in the years set forth on the inside cover page hereof. The interest evidenced by the Certificates will evidence the sum of the portions of the Lease Payments designated as interest components coming due on the Interest Payment Dates in each year. The principal evidenced by the Certificates will evidence the sum of the portions of the Lease Payments designated as principal components coming due on the Principal Payment Date in each year. Interest evidenced by the Certificates is payable on June 1 and December 1 of each year, commencing on June 1, 2011 (each, an “Interest Payment Date”).

The Certificates will be issued in book-entry form only and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Certificates. Individual purchases of the Certificates will be made in book-entry form only. Purchasers of the Certificates will not receive certificates evidencing their ownership interests in the Certificates purchased. Principal and interest payments evidenced by the Certificates are payable directly to DTC by the Trustee. Upon receipt of payments of principal and interest, DTC will in turn distribute such payments to the DTC Participants. Disbursement of payments to DTC Participants is the responsibility of DTC, and disbursement of payments to the beneficial owners of the Certificates is the responsibility of DTC Participants. See “THE CERTIFICATES – General” herein and APPENDIX G – “BOOK-ENTRY SYSTEM” attached hereto.

Tax Matters

In the opinion of Hawkins Delafield & Wood LLP, Special Counsel to the District, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest evidenced by the Taxable Series B-1 Certificates is included in gross income for Federal income tax purposes pursuant to the Code; (ii) interest evidenced by the Series B-2 Certificates is excluded from gross income for Federal income tax purposes pursuant to Section 103 the Code; and (iii) interest evidenced by the Series B-2 Certificates is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code and is not included in the adjusted current earnings of corporations for purposes of calculating the alternative minimum tax. In addition, in the opinion of Special Counsel, under existing statutes, interest evidenced by the Certificates is exempt from personal income taxes imposed by the State of California. See “TAX MATTERS- Taxable Series B-1 Certificates” and “TAX MATTERS - Series B-2 Certificates” herein.

Continuing Disclosure

The District has covenanted for the benefit of the holders and beneficial owners of the Certificates to provide with respect to the Certificates, or to cause to be provided, to the Municipal Securities Rulemaking Board (“MSRB”) through its Electronic Municipal Market Access system (the “EMMA System”), for purposes of Rule 15c2-12(b)(5) (the “Rule”) adopted by the Securities and Exchange Commission (“SEC”), certain annual financial information and operating data relating to the District and notice of the occurrence of certain enumerated events (“Notice Events”) in a timely manner not in excess of ten (10) Business Days after the occurrence of such Notice Event. These covenants have been made in order to assist the Underwriters in complying with the Rule. The District has not failed in the previous five years to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events. See “CONTINUING DISCLOSURE” herein and APPENDIX F – “FORM OF CONTINUING DISCLOSURE CERTIFICATE” attached hereto. Copies of the District’s annual reports and notices of Notice Event filings are also available at the website of Digital Assurance Certification, L.L.C. (“DAC”), www.dacbond.com, although the information presented there is not incorporated by reference in

this Official Statement and should not be relied upon in making an investment decision with respect to the Certificates.

Forward-Looking Statements

Certain statements included or incorporated by reference in the Official Statement constitute “forward-looking statements.” Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “budget” or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Although such expectations reflected in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. The District is not obligated to issue any updates or revisions to the forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur.

Changes from Preliminary Official Statement.

On December 15, 2010, the District released its Comprehensive Annual Financial Report for Fiscal Year 2009-10. Accordingly, this final Official Statement includes, in addition to pricing information relating to the Certificates, certain audited financial information for Fiscal Year 2009-10 and selected excerpts from the District’s audited financial statements for Fiscal Year 2009-10 instead of the selected excerpts from the District’s audited financial statements for Fiscal Year 2008-09 and unaudited financial statements for Fiscal Year 2009-10 that appeared in the Preliminary Official Statement dated February 3, 2010, as supplemented by that certain Supplement Dated December 13, 2010 to Preliminary Official Statement dated December 3, 2010 (collectively, the “Preliminary Official Statement”). See “FINANCIAL STATEMENTS” herein and APPENDIX D – “SELECTED INFORMATION FROM AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2010” attached hereto.

Miscellaneous

The Certificates will be offered when, as and if executed and delivered, and received by the Underwriters (defined herein), subject to the approval as to their legality by Special Counsel and certain other conditions.

The description herein of the Trust Agreement, the Lease Agreement, the Site Lease and the Assignment Agreement and any other agreements relating to the Certificates are qualified in their entirety by reference to such documents, and the descriptions herein of the Certificates are qualified in their entirety by the form thereof and the information with respect thereto included in the aforementioned documents. See APPENDIX D – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS” attached hereto. Copies of the documents are on file and available for inspection at the Corporate Trust Office of the Trustee at The Bank of New York Mellon Trust Company, N.A., 700 S. Flower Street, 5th Floor, Los Angeles, California 90017.

The information and expressions of opinion herein speak only as of their date and are subject to change without notice. Neither the delivery of this Official Statement nor any sale made hereunder nor any future use of this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the District since the date hereof.

The presentation of information, including tables of receipt of revenues, is intended to show recent historical information and is not intended to indicate future or continuing trends in the financial position or

other affairs of the District. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future.

PLAN OF FINANCING, THE PROPERTY AND THE PROJECTS

General

The proceeds of the Certificates will be applied to (i) finance the Capital Projects I; (ii) fund a Reserve Account for each Series of Certificates; and (iii) pay Delivery Costs incurred in connection with the Certificates.

The Property

The Property consists of the Central Region Elementary School #15 and the Central Region Elementary School #17. The Central Region Elementary School #15 is located at 1723 West Cordova Street in the Pico-Union neighborhood of the City of Los Angeles, California. Construction at Central Region Elementary School #15 was completed and occupancy began in 2010. The school sits on a 2.72 acre parcel and includes approximately 47,678 square feet of space. The school site includes classrooms, a library, multi-purpose room, food service and lunch shelter, administrative space, playfields and an underground parking lot. The Central Region Elementary School #17 is located at 900 East 33rd Street in the in the southeast area of the City of Los Angeles, California. Construction at Central Region Elementary School #17 was completed and occupancy began in 2010. The school sits on a 3.04 acre parcel and includes approximately 57,953 square feet of space. The school site includes classrooms, a library, multi-purpose room, food service and lunch shelter, administrative space, playfields and an underground parking lot. The amount of the annual Lease Payments does not exceed the annual fair rental value of the Property.

Pursuant to the Lease Agreement, and subject to the conditions set forth therein, the District may amend the Lease Agreement to substitute additional real property and facilities for the Property, or to remove real property and facilities from the definition of Property, upon compliance with all of the conditions set forth in the Lease Agreement. After a substitution or removal, the part of the Property for which the substitution or removal has been effected will be released from the leasehold thereunder. See “SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES- Substitution” and “ - Release” herein.

The Capital Projects I

Automation of Classified Seniority Calculation Process. The District Board approved significant reductions in its classified staff, and the District’s Personnel Commission is working to process these reductions. The Personnel Commission’s process currently requires a manual calculation of employee seniority that takes approximately twenty weeks to complete. The District expects that an electronic employee seniority calculation system will reduce the processing time by up to four weeks in the first year of operation and sixteen weeks in subsequent years. The District estimates that the total cost of this project is \$2.1 million.

Integrated Financial System Replacement. The District’s Integrated Financial System (“IFS”) continues to be the District’s official book of record notwithstanding the completion and implementation of certain Payroll and Human Resources modules. Nevertheless, the District no longer has a contract for the maintenance of IFS, and the District has greatly reduced the number of IFS programmers on staff as part of its recent budget reductions. The District will use a portion of the proceeds of the Certificates to replace and terminate the IFS, continue its implementation of its Business Tools for Schools program and have one integrated system. The total estimated cost of this project is \$49.1 million.

Utilization of Vacant Space at Roybal Learning Center. The District plans to use vacant space at Roybal Learning Center, in Los Angeles, California, to house District offices that are currently occupying leased property. In order to relocate such offices, the District plans to renovate the vacant space with tenant improvements to the space to make it suitable for office use. Such improvements will include the construction of cubicles and offices. The total cost for this project is estimated to be \$25.4 million. The District expects that the annual cost savings relating to lease terminations and related relocations will equal or exceed the amount required for annual debt service payments evidenced by the portion of the Certificates attributable to this project.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds of the Certificates are expected to be applied approximately as follows:

	Taxable Series B-1 Certificates	Series B-2 Certificates	Total
Sources:			
Principal Amount	\$21,615,000.00	\$61,730,000.00	\$83,345,000.00
Net Original Issue Premium/(Discount)	<u>(596,141.00)</u>	<u>3,033,825.20</u>	<u>2,437,684.20</u>
Total Sources	<u>\$21,018,859.00</u>	<u>\$64,763,825.20</u>	<u>\$85,782,684.20</u>
Uses:			
Project Account	\$18,746,431.33	\$57,853,568.67	\$76,600,000.00
Reserve Fund	2,101,885.90	6,476,382.52	8,578,268.42
Delivery Costs ⁽¹⁾	<u>170,541.77</u>	<u>433,874.01</u>	<u>604,415.78</u>
Total Uses	<u>\$21,018,859.00</u>	<u>\$64,763,825.20</u>	<u>\$85,782,684.20</u>

⁽¹⁾ Includes underwriters' discount, rating agencies fees, financial advisor fees, title insurance fees, legal fees, trustee fees, printing costs and other Delivery Costs.

THE CERTIFICATES

The following is a summary of certain provisions of the Certificates. Reference is made to the Certificates for the complete text thereof and to the Trust Agreement for a more detailed description of such provisions. The discussion herein is qualified by such reference. See APPENDIX D – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" attached hereto.

General

The Certificates will be dated their date of delivery and principal evidenced by the Certificates will be payable on the dates set forth on the inside cover page of this Official Statement. Interest evidenced by the Certificates will be payable semiannually on each Interest Payment Date and will be computed on the basis of a 360-day year consisting of twelve 30-day months.

The District's obligations evidenced by the Taxable Series B-1 Certificates will be designated as "Build America Bonds" under the provisions of Section 54AA of the Code, the interest evidenced thereby is not excluded from gross income for purposes of federal income taxation. See "TAX MATTERS - Taxable Series B-1 Certificates" herein. The District expects to receive a direct cash subsidy payment from the Treasury Department equal to thirty-five percent (35%) of the interest evidenced by the Taxable Series B-1 Certificates. Upon the receipt of such direct cash subsidy payment, if any, the District will deposit such amount into the Series B-1 Lease Payment Account.

The Certificates will be registered in the name of Cede & Co., the nominee of DTC, and held in DTC's book-entry system. So long as the Certificates are held in the book-entry system, DTC or its nominee

will be the registered owner of the Certificates for all purposes of the Trust Agreement and the Certificates. For purposes of this Official Statement, DTC or its nominee, and its successors and assigns, are referred to as the “Securities Depository”. So long as the Certificates are held in book-entry form through DTC, all payments with respect to principal of, premium, if any, and interest evidenced by each Certificate will be made pursuant to DTC’s rules and procedures. See APPENDIX G – “BOOK-ENTRY SYSTEM” attached hereto.

Prepayment

Taxable Series B-1 Certificates

Optional Prepayment. The Taxable Series B-1 Certificates are subject to optional prepayment prior to maturity on or after December 1, 2020, at the option of the District, as a whole or in part on any date, from amounts deposited with the Trustee by the District, at a prepayment price equal to 100%, plus accrued but unpaid interest to the prepayment date.

Mandatory Sinking Fund Prepayment. The Taxable Series B-1 Certificates with a stated principal payment date of December 1, 2022 (the “2022 Taxable Series B-1 Term Certificates”) are subject to prepayment prior to such stated principal payment date, in part, from mandatory sinking account payments, on each December 1 specified below, at a prepayment price equal to the principal evidenced thereby, plus accrued interest evidenced thereby to the date fixed for prepayment, without premium. The principal evidenced by such 2022 Taxable Series B-1 Term Certificates to be so prepaid and the dates therefor will be as follows:

Year (December 1)	Principal Amount
2021	\$ 965,000
2022 [†]	1,030,000

[†]Stated Maturity.

If some but not all of the 2022 Taxable Series B-1 Term Certificates are prepaid pursuant to the extraordinary prepayment provisions as described herein under the caption “- Extraordinary Prepayment”, the principal amount of the 2022 Taxable Series B-1 Term Certificates to be prepaid pursuant to the mandatory sinking fund prepayment provisions will be reduced by the aggregate principal amount of the 2022 Taxable Series B-1 Term Certificates so prepaid pursuant to the extraordinary prepayment provisions, such reduction to be allocated as nearly as practicable on a *pro rata* basis. If some but not all of the 2022 Taxable Series B-1 Term Certificates are prepaid pursuant to the optional prepayment provisions as described herein under the captions “-Optional Prepayment” or “-Extraordinary Optional Prepayment”, the principal amount of the 2022 Taxable Series B-1 Term Certificates to be prepaid pursuant to the mandatory sinking fund prepayment provisions will be reduced by the aggregate principal amount of the 2022 Taxable Series B-1 Term Certificates so prepaid pursuant to such optional prepayment provisions, such reduction to be allocated among sinking fund prepayment dates selected by the District.

The Taxable Series B-1 Certificates with a stated principal payment date of December 1, 2025 (the “2025 Taxable Series B-1 Term Certificates”) are subject to prepayment prior to such stated principal payment date, in part, from mandatory sinking account payments, on each December 1 specified below, at a prepayment price equal to the principal evidenced thereby, plus accrued interest evidenced thereby to the date fixed for prepayment, without premium. The principal evidenced by such 2025 Taxable Series B-1 Term Certificates to be so prepaid and the dates therefor will be as follows:

Year (December 1)	Principal Amount
2023	\$1,080,000
2024	1,140,000
2025 [†]	1,200,000

[†]Stated Maturity.

If some but not all of the 2025 Taxable Series B-1 Term Certificates are prepaid pursuant to the extraordinary prepayment provisions as described herein under the caption “- Extraordinary Prepayment”, the principal amount of the 2025 Taxable Series B-1 Term Certificates to be prepaid pursuant to the mandatory sinking fund prepayment provisions will be reduced by the aggregate principal amount of the 2025 Taxable Series B-1 Term Certificates so prepaid pursuant to the extraordinary prepayment provisions, such reduction to be allocated as nearly as practicable on a *pro rata* basis. If some but not all of the 2025 Taxable Series B-1 Term Certificates are prepaid pursuant to the optional prepayment provisions as described herein under the captions “-Optional Prepayment” or “-Extraordinary Optional Prepayment”, the principal amount of the 2025 Taxable Series B-1 Term Certificates to be prepaid pursuant to the mandatory sinking fund prepayment provisions will be reduced by the aggregate principal amount of the 2025 Taxable Series B-1 Term Certificates so prepaid pursuant to such optional prepayment provisions, such reduction to be allocated among sinking fund prepayment dates selected by the District.

The Taxable Series B-1 Certificates with a coupon rate of 8.000% and stated principal payment date of December 1, 2035 (the “2035-1 Taxable Series B-1 Term Certificates”) are subject to prepayment prior to such stated principal payment date, in part, from mandatory sinking account payments, on each December 1 specified below, at a prepayment price equal to the principal evidenced thereby, plus accrued interest evidenced thereby to the date fixed for prepayment, without premium. The principal evidenced by such 2035-1 Taxable Series B-1 Term Certificates to be so prepaid and the dates therefor will be as follows:

Year (December 1)	Principal Amount
2026	\$540,000
2027	570,000
2028	605,000
2029	640,000
2030	675,000
2031	710,000
2032	750,000
2033	790,000
2034	835,000
2035 [†]	885,000

[†]Stated Maturity.

If some but not all of the 2035-1 Taxable Series B-1 Term Certificates are prepaid pursuant to the extraordinary prepayment provisions as described herein under the caption “- Extraordinary Prepayment”, the principal amount of the 2035-1 Taxable Series B-1 Term Certificates to be prepaid pursuant to the mandatory sinking fund prepayment provisions will be reduced by the aggregate principal amount of the 2035-1 Taxable Series B-1 Term Certificates so prepaid pursuant to the extraordinary prepayment provisions, such reduction to be allocated as nearly as practicable on a *pro rata* basis. If some but not all of the 2035-1 Taxable Series B-1 Term Certificates are prepaid pursuant to the optional prepayment provisions as described herein under the captions “-Optional Prepayment” or “-Extraordinary Optional Prepayment”, the principal amount of the 2035-1 Taxable Series B-1 Term Certificates to be prepaid pursuant to the mandatory sinking fund prepayment provisions will be reduced by the aggregate principal amount of the 2035-1 Taxable Series B-1 Term Certificates so prepaid pursuant to such optional prepayment provisions, such reduction to be allocated among sinking fund prepayment dates selected by the District.

The Taxable Series B-1 Certificates with a coupon rate of 8.250% and stated principal payment date of December 1, 2035 (the “2035-2 Taxable Series B-1 Term Certificates”) are subject to prepayment prior to such stated principal payment date, in part, from mandatory sinking account payments, on each December 1 specified below, at a prepayment price equal to the principal evidenced thereby, plus accrued interest evidenced thereby to the date fixed for prepayment, without premium. The principal evidenced by such 2035-2 Taxable Series B-1 Term Certificates to be so prepaid and the dates therefor will as follows:

Year (December 1)	Principal Amount
2026	\$610,000
2027	640,000
2028	670,000
2029	705,000
2030	740,000
2031	785,000
2032	825,000
2033	865,000
2034	910,000
2035 [†]	950,000

[†]Stated Maturity.

If some but not all of the 2035-2 Taxable Series B-1 Term Certificates are prepaid pursuant to the extraordinary prepayment provisions as described herein under the caption “- Extraordinary Prepayment”, the principal amount of the 2035-2 Taxable Series B-1 Term Certificates to be prepaid pursuant to the mandatory sinking fund prepayment provisions will be reduced by the aggregate principal amount of the 2035-2 Taxable Series B-1 Term Certificates so prepaid pursuant to the extraordinary prepayment provisions, such reduction to be allocated as nearly as practicable on a *pro rata* basis. If some but not all of the 2035-2 Taxable Series B-1 Term Certificates are prepaid pursuant to the optional prepayment provisions as described herein under the captions “-Optional Prepayment” or “-Extraordinary Optional Prepayment”, the principal amount of the 2035-2 Taxable Series B-1 Term Certificates to be prepaid pursuant to the mandatory sinking fund prepayment provisions will be reduced by the aggregate principal amount of the 2035-2 Taxable Series B-1 Term Certificates so prepaid pursuant to such optional prepayment provisions, such reduction to be allocated among sinking fund prepayment dates selected by the District.

The Taxable B-1 Certificates with a coupon rate of 8.525% and stated principal payment date of December 1, 2035 (the “2035-3 Taxable B-1 Term Certificates”) are subject to prepayment prior to such stated principal payment date, in part, from mandatory sinking account payments, on each December 1 specified below, at a prepayment price equal to the principal evidenced thereby, plus accrued interest evidenced thereby to the date fixed for prepayment, without premium. The principal evidenced by such 2035-3 Taxable B-1 Term Certificates to be so prepaid and the dates therefor will be as follows:

Year (December 1)	Principal Amount
2026	\$115,000
2027	125,000
2028	130,000
2029	135,000
2030	145,000
2031	150,000
2032	160,000
2033	170,000
2034	180,000
2035 [†]	190,000

[†]Stated Maturity.

If some but not all of the 2035-3 Taxable B-1 Term Certificates are prepaid pursuant to the extraordinary prepayment provisions as described herein under the caption “- Extraordinary Prepayment”, the principal amount of the 2035-3 Taxable B-1 Term Certificates to be prepaid pursuant to the mandatory sinking fund prepayment provisions will be reduced by the aggregate principal amount of the 2035-3 Taxable B-1 Term Certificates so prepaid pursuant to the extraordinary prepayment provisions, such reduction to be allocated as nearly as practicable on a *pro rata* basis.

If some but not all of the 2035-3 Taxable B-1 Term Certificates are prepaid pursuant to the optional prepayment provisions as described herein under the captions “-Optional Prepayment” or “-Extraordinary Optional Prepayment”, the principal amount of the 2035-3 Taxable B-1 Term Certificates to be prepaid pursuant to the mandatory sinking fund prepayment provisions will be reduced by the aggregate principal amount of the 2035-3 Taxable B-1 Term Certificates so prepaid pursuant to such optional prepayment provisions, such reduction to be allocated among sinking fund prepayment dates selected by the District.

Extraordinary Optional Prepayment. The Taxable Series B-1 Certificates will be subject to prepayment prior to their maturity at the option of the District, as a whole or in part, upon the occurrence of an Extraordinary Event, at a prepayment price (the “Extraordinary Optional Prepayment Price”) equal to the greater of (1) 100% of the principal amount of the Taxable Series B-1 Certificates to be prepaid; or (2) the sum of the present value of the remaining scheduled payments of principal of and interest evidenced by the Taxable Series B-1 Certificates to be prepaid, not including any portion of those payments of interest accrued and unpaid as of the date on which the Taxable Series B-1 Certificates are to be prepaid, discounted to the date on which the Taxable Series B-1 Certificates are to be prepaid on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at a discount rate equal to the Comparable Treasury Yield, plus 100 basis points; plus, in each case, accrued interest on the Taxable Series B-1 Certificates to be prepaid to the prepayment date.

The term “Comparable Treasury Issue” means the United States Treasury security selected by the Independent Banking Institution as having a maturity comparable to the remaining term to maturity of the Taxable Series B-1 Certificate being prepaid that would be utilized, at the time of selection and in accordance

with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term to maturity of the Taxable Series B-1 Certificate being prepaid.

The term “Comparable Treasury Price” means, with respect to any date on which a Taxable Series B-1 Certificate or portion thereof is being prepaid, either (a) the average of five Reference Treasury Dealer quotations for the date fixed for prepayment, after excluding the highest and lowest such quotations, and (b) if the Independent Banking Institution is unable to obtain five such quotations, the average of the quotations that are obtained. The quotations will be the average, as determined by the Independent Banking Institution, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of principal amount) quoted in writing to the Independent Banking Institution, at 5:00 p.m. New York City time on any Business Day that falls not less than three Business Days nor more than 45 calendar days immediately preceding the applicable date fixed for prepayment.

The term “Comparable Treasury Yield” means the yield which represents the weekly average yield to maturity for the preceding week appearing in the most recently published statistical release designated “H.15(519) Selected Interest Rates” under the heading “Treasury Constant Maturities,” or any successor publication selected by the Independent Banking Institution that is published weekly by the Board of Governors of the Federal Reserve System and that establishes yields on actively traded United States Treasury securities adjusted to constant maturity, for the maturity corresponding to the remaining term to maturity of the Taxable Series B-1 Certificate being prepaid. The Comparable Treasury Yield will be determined as of any Business Day that falls not less than three Business Days nor more than 45 calendar days immediately preceding the applicable date fixed for prepayment. If the H.15(519) statistical release sets forth a weekly average yield for United States Treasury securities that have a constant maturity that is the same as the remaining term to maturity of the Taxable Series B-1 Certificate being prepaid, then the Comparable Treasury Yield will be equal to such weekly average yield. In all other cases, the Comparable Treasury Yield will be calculated by interpolation on a straight-line basis, between the weekly average yields on the United States Treasury securities that have a constant maturity (i) closest to and greater than the remaining term to maturity of the Taxable Series B-1 Certificate being prepaid; and (ii) closest to and less than the remaining term to maturity of the Taxable Series B-1 Certificate being prepaid. Any weekly average yields calculated by interpolation will be rounded to the nearest 1/100th of 1%, with any figure of 1/200th of 1% or above being rounded upward. If, and only if, weekly average yields for United States Treasury securities for the preceding week are not available in the H.15(519) statistical release or any successor publication, then the Comparable Treasury Yield will be the rate of interest per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue (expressed as a percentage of its principal amount) at the Comparable Treasury Price as of the date fixed for prepayment.

The term “Extraordinary Event” means a determination by the District that a material adverse change has occurred to Sections 54AA or 6431 of the Code or the publication of any procedures, rules or guidance by the Internal Revenue Service or the Treasury Department with respect to such Sections or any other determination by the Internal Revenue Service or the Treasury Department, which determination is not the result of any act or omission by the District or the Corporation to satisfy the requirements for the District to qualify to receive a direct cash subsidy payment from the Treasury Department equal to thirty-five percent (35%) of the interest payable with respect to the Taxable Series B-1 Certificates on or about each Interest Payment Date, pursuant to which such direct cash subsidy payment is reduced or eliminated.

The term “Independent Banking Institution” means an investment banking institution of national standing which is a primary United States government securities dealer in the United States designated by the District (which may be one of the Original Purchasers, as defined in the Trust Agreement).

Series B-2 Certificates

Optional Prepayment. The Series B-2 Certificates are not subject to optional prepayment prior to the stated date of maturity.

Mandatory Sinking Fund Prepayment. The Series B-2 Certificates are not subject to mandatory sinking fund prepayment prior to their stated date of maturity

Extraordinary Prepayment. The Certificates are subject to prepayment on any Business Day, in whole or in part, from Net Proceeds of condemnation or any insurance award resulting from defect of title, damage or destruction of all or a portion of the Property which the Trustee shall transfer to the Prepayment Fund at least forty-five (45) days prior to such date of prepayment and credited towards the Prepayment made by the District pursuant to the Lease Agreement, at a prepayment price equal to the principal amount of Certificates prepaid together with accrued interest to the date fixed for prepayment, without premium.

Partial Prepayment. All or a portion of any Certificate may be prepaid, but only in a principal amount equal to an Authorized Denomination. Upon surrender by the Owner of a Certificate for partial prepayment at the Principal Office, payment of such partial prepayment of the principal amount evidenced by such Certificate will be made to such Owner by check mailed by first class mail to the Owner at his or her address as it appears on the Certificate Register. Upon surrender of any Certificate prepaid in part only, the Trustee shall execute and deliver to the Owner thereof, at the expense of the District, a new Certificate or Certificates of the same Series that shall be of authorized denominations equal in aggregate principal amount to the unprepaid portion of the Certificate surrendered and of the same interest rate and the same maturity. Such partial prepayment shall be valid upon payment of the amount thereby required to be paid to such Owner, and the District, the Corporation and the Trustee shall be released and discharged from all liability to the extent of such payment.

Selection of Certificates for Prepayment. Whenever provision is made in the Trust Agreement for the prepayment of less than all of the Certificates of a Series pursuant to the prepayment provisions described under the captions “ - Optional Prepayment” or “ - Extraordinary Optional Prepayment”, the Trustee will select the Certificates of a Series to be prepaid from all Outstanding Certificates of such Series not previously called for prepayment pursuant to the Trust Agreement, among maturities selected by the District and designated in a Written Request of the District delivered to the Trustee at least sixty (60) days prior to the prepayment date and, with respect to the prepayment of Series B-2 Certificates, prepayment will be by lot within any maturity. The Trustee will promptly notify the District and the Corporation in writing of the Certificates of such Series so selected for prepayment.

Whenever provision is made in the Trust Agreement for the prepayment of less than all of the Certificates pursuant to the prepayment provisions described under the caption “ - Extraordinary Prepayment”, the Trustee will select the Certificates to be prepaid from all Certificates not previously called for prepayment among maturities of all Series of Certificates on a *pro rata* basis as nearly as practicable.

If the Taxable Series B-1 Certificates are not registered in book-entry only form, the Trustee will select Taxable Series B-1 Certificates of a maturity to be prepaid on a *pro rata* basis as nearly as practicable subject to minimum Authorized Denominations.

If the Taxable Series B-1 Certificates are registered in book-entry only form and so long as DTC or a successor securities depository is the sole registered owner of the Taxable Series B-1 Certificates, the Trustee will select Taxable Series B-1 Certificates of a maturity to be prepaid on a “*Pro Rata Pass-Through Distribution of Principal*” basis in accordance with DTC procedures, provided that, so long as the Taxable Series B-1 Certificates are held in book-entry form, the selection for prepayment of such Taxable Series B-1

Certificates of a maturity will be made in accordance with the operational arrangements of DTC then in effect that currently provide for adjustment of the principal by a factor provided by the Trustee pursuant to DTC operational arrangements. If the Trustee does not provide the necessary information and identify the prepayment as on a *Pro Rata* Pass-Through Distribution of Principal basis, the Taxable Series B-1 Certificates of a maturity will be selected for prepayment in accordance with DTC procedures by lot.

It is the District's intent that prepayment allocations made by DTC, the DTC Participants or such other intermediaries that may exist between the District and the Beneficial Owners with respect to prepayments of Taxable Series B-1 Certificates of a maturity be made on a "*Pro Rata* Pass-Through Distribution of Principal" basis as described above. However, the District can provide no assurance that DTC, the DTC Participants or any other intermediaries will allocate prepayments among Beneficial Owners on such basis. If the DTC operational arrangements do not allow for the prepayment of the Taxable Series B-1 Certificates on a *Pro Rata* Pass-Through Distribution of Principal basis as discussed above, then the Taxable Series B-1 Certificates as applicable, will be selected for prepayment in accordance with DTC procedures by lot.

Notice of Prepayment. Notice of any such prepayment will be given by the Trustee on behalf and at the expense of the District by registered or otherwise secure mail or delivery service, postage prepaid, or by facsimile transmission, confirmed by telephone, to DTC and, by electronic submission to the MSRB through its EMMA System, or any other entity designated or authorized by the MSRB or the SEC, in accordance with then current guidelines, and by first class mail, to the respective Owners of any Certificates of a Series designated for prepayment at their addresses appearing on the Certificate registration books maintained by the Trustee, at least thirty (30) days but not more than sixty (60) days prior to the prepayment date; provided, that neither failure to receive such notice nor any defect in any notice so mailed will affect the sufficiency of the proceedings for the prepayment of such Certificates.

All notices of prepayment will be dated and will specify: (a) that the Certificates or a designated portion thereof are to be prepaid; (b) the numbers of the Certificates (unless all Certificates of a Series or all Certificates of a specific maturity have been selected for prepayment) together with the CUSIP numbers to be prepaid (provided that none of the District, the Corporation or the Trustee will be held liable for the accuracy of such CUSIP numbers); (c) the date of notice and the date of prepayment; (d) the place or places where the prepayment will be made; and (e) the interest rates and stated maturity dates of the Certificates to be prepaid. Such notice will further state that on the specified prepayment date there shall become due and payable upon each Certificate or portion thereof to be prepaid, the portion of the principal amount evidenced by such Certificate to be prepaid, together with interest accrued to said date and prepayment premium, if any, and that from and after such date interest with respect thereto will cease to accrue and be payable.

Effect of Prepayment. Notice of prepayment having been given, and if the money for the prepayment price (including the interest and prepayment premium, if any, to the applicable date of prepayment) is set aside in the applicable account within the Prepayment Fund, the Certificates to be prepaid will become due and payable on said date of prepayment, and, upon presentation and surrender thereof at the Principal Office, said Certificates will be paid at the unpaid prepayment price with respect thereto, plus interest accrued and unpaid to said date of prepayment.

If, on said date of prepayment, moneys for the prepayment of all of the Certificates to be prepaid, together with interest to said date of prepayment, shall be held by the Trustee so as to be available therefor on such date of prepayment, and, if notice of prepayment thereof shall have been given as aforesaid, then, from and after said date of prepayment, interest evidenced by such Certificates shall cease to accrue and become payable. All moneys held by or on behalf of the Trustee for the prepayment of Certificates shall be held in trust for the account of the Owners of the Certificates so to be prepaid without liability for interest thereon.

All Certificates paid at maturity or prepaid prior to maturity pursuant to the provisions of the Trust Agreement will be cancelled upon surrender thereof and destroyed.

Conditional Notice; Rescission. Any notice of prepayment of the Certificates, or any portion thereof, delivered in accordance with the Trust Agreement, may be conditional and if any condition stated in the notice of prepayment will not have been satisfied on or prior to the prepayment date, said notice (i) will be of no force and effect; (ii) the District will not be required to prepay such Certificates; (iii) the prepayment will not be made; and (iv) the Trustee will within a reasonable time thereafter give notice to the persons and in the manner in which the conditional notice of prepayment was given, that such condition or conditions were not met and that the prepayment was cancelled.

The District may rescind any prepayment and notice thereof for any reason on any date prior to the date fixed for prepayment by causing written notice of the rescission to be given to the Owners of the Certificates so called for prepayment. Notice of rescission of prepayment will be given in the same manner in which notice of prepayment was originally given. The actual receipt by the Owner of any Certificate of notice of such rescission will not be a condition precedent to rescission and failure to receive such notice or any defect in such notice will not affect the validity of the rescission.

SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES

Lease Payments

General. The Certificates evidence proportionate undivided interests in the Lease Payments to be made by the District pursuant to the Lease Agreement. The District is required under the Lease Agreement to make Lease Payments subject to the provisions of the Lease Agreement related to abatement. The District has covenanted in the Lease Agreement to take such action as may be necessary to include all Lease Payments and Additional Payments due thereunder in each of its budgets during the term of the Lease Agreement and to make the necessary appropriations for all such Lease Payments and Additional Payments due under the Lease Agreement in the fiscal year covered by such budget. Lease Payments are scheduled to be paid as set forth herein.

THE OBLIGATION OF THE DISTRICT TO MAKE THE LEASE PAYMENTS DOES NOT CONSTITUTE AN OBLIGATION OF THE DISTRICT FOR WHICH THE DISTRICT IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE DISTRICT HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE OBLIGATION OF THE DISTRICT TO MAKE LEASE PAYMENTS DOES NOT CONSTITUTE A DEBT OF THE DISTRICT, THE CORPORATION OR THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

Lease Payments evidenced by the Certificates will be abated during any period in which, by reason of damage, destruction, any defect in title or other event (other than by eminent domain as provided in the Lease Agreement), there is substantial interference with the use and occupancy by the District of the Property or any portion thereof (other than any portions of the Property described in the provisions of the Lease Agreement relating to the District's right to, at its own expense, remove portions of the Property or to make additions or modifications to the Property), and the District waives the benefits of subsection (2) of Section 1932 and subsection (4) of Section 1933 of the California Civil Code and any and all other rights to terminate the Lease Agreement by virtue of any such interference, and the Lease Agreement will continue in full force and effect.

The extent of such abatement will be agreed upon by the District and the Corporation such that the resulting Lease Payments represent fair consideration for the use and occupancy of the portions of the Property not damaged, destroyed or otherwise unavailable for use and occupancy by the District. Such abatement will continue for the period commencing with such damage, destruction or other event and, with respect to damage

or destruction of property, ending with the substantial completion of the work of repair or reconstruction or of completion of the Property or of the regained availability of use and occupancy. In the event of any such damage, destruction or non-availability, the Lease Agreement will continue in full force and effect and the District waives any right to terminate the Lease Agreement by virtue of any such damage, destruction or unavailability. See “- Abatement” herein and “RISK FACTORS – Abatement” herein.

Failure of the District to make Lease Payments during any period of such abatement will not constitute a default under the Lease Agreement, the Trust Agreement or the Certificates. See “SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES - Lease Payments”, “- Insurance”, “- Debt Service Reserve Fund”, and “- Abatement” herein.

The Trustee, pursuant to the Trust Agreement, will receive Lease Payments for the benefit of the Owners. Lease Payments are scheduled to be sufficient to pay, when due, amounts designated as principal and interest evidenced by the Certificates. Except as expressly provided in the Trust Agreement, the Trustee will not have any obligation or liability to the Owners with respect to the payment when due of the Lease Payments by the District, or with respect to the performance by the District or the Corporation of the other agreements and covenants required to be performed by them, respectively contained in the Lease Agreement or in the Trust Agreement. Additional Payments payable by the District under the Lease Agreement include, among others, amounts sufficient to pay all costs and expenses incurred by the District and the Corporation in complying with the provisions of the Trust Agreement, including without limitation payment of all Delivery Costs (to the extent not paid from amounts on deposit in the Delivery Costs Fund), compensation, reimbursable expenses and fees due to the Trustee, all costs and expenses of auditors, engineers, counsel and accountants and any amounts required to be rebated to the federal government.

The Lease Payments will be payable from any source of available funds of the District, subject to the provisions of the Lease Agreement and the Trust Agreement. Pursuant to the Lease Agreement, the District has covenanted to take such action as may be necessary to include all Lease Payments and Additional Payments due under the Lease Agreement in each of its budgets during the Term of the Lease Agreement and to make the necessary appropriations for all such Lease Payments and Additional Payments due under the Lease Agreement in the Fiscal Year covered by such budget. The covenants on the part of the District contained in the Lease Agreement will be deemed to be and will be construed to be duties imposed by law and it will be the duty of each and every public official of the District to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the District to carry out and perform the covenants and agreements in the Lease Agreement agreed to be carried out and performed by the District.

No Acceleration of Lease Payments. There will be no right under any circumstances to accelerate the Lease Payments or otherwise declare any Lease Payments not then in default to be immediately due and payable. Each and every covenant of the Lease Agreement to be kept and performed by the District is a condition of the Lease Agreement and upon an Event of Default under the Lease Agreement the Trustee may exercise any and all rights of entry and re-entry upon the Property, and also, at its option, with or without such entry, may terminate the Lease Agreement pursuant to the terms thereof; provided, that no such termination will be effected either by operation of law or acts of the parties thereto, except only in the manner provided in the Lease Agreement. In the event of any Event of Default or Default referred to in the Lease Agreement and notwithstanding any re-entry by the Trustee, the District will, as provided in the Lease Agreement, continue to remain liable for the payment of the Lease Payments and/or damages for breach of the Lease Agreement and the performance of all conditions therein contained and, in any event such Lease Payments and/or damages will be payable to the Trustee at the time and in the manner as provided in the Lease Agreement. See APPENDIX D - “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - Trust Agreement - Events of Default and Remedies of Certificate Owners” attached hereto.

Lease Payments Schedule. Pursuant to the Lease Agreement, Lease Payments will be June 1 and December 1 of each year commencing June 1, 2011 (each, a “Lease Payment Date”). The Lease Agreement requires that each year’s semi-annual Lease Payments thereunder be deposited with the Trustee, as assignee of the Corporation, no later than three business days prior to each Lease Payment Date for the Certificates (each, a “Lease Deposit Date”) which are scheduled to be sufficient to pay, when due, amounts designated as principal and interest evidenced by the Certificates, subject to the provisions of the Lease Agreement regarding abatement in the event of material loss of use of any portion of the Property and prepayment of Lease Payments. See “RISK FACTORS – Abatement” and “THE CERTIFICATES – Prepayment” herein.

The following table sets forth the payments of the principal components and interest components evidenced by the Certificates and the semi-annual Lease Payments due under the Lease Agreement:

Lease Payment Dates	Taxable Series B-1 Certificates Principal	Taxable Series B-1 Certificates Interest ⁽¹⁾	Series B-2 Certificates Principal	Series B-2 Certificates Interest	Total Lease Payments ⁽¹⁾
June 1, 2011	--	\$780,078.42	--	\$1,347,299.99	\$2,127,378.41
December 1, 2011	--	877,588.23	\$4,710,000.00	1,515,712.50	7,103,300.73
June 1, 2012	--	877,588.23	--	1,445,062.50	2,322,650.73
December 1, 2012	--	877,588.23	5,455,000.00	1,445,062.50	7,777,650.73
June 1, 2013	--	877,588.23	--	1,323,237.50	2,200,825.73
December 1, 2013	--	877,588.23	5,695,000.00	1,323,237.50	7,895,825.73
June 1, 2014	--	877,588.23	--	1,180,862.50	2,058,450.73
December 1, 2014	--	877,588.23	5,985,000.00	1,180,862.50	8,043,450.73
June 1, 2015	--	877,588.23	--	1,031,987.50	1,909,575.73
December 1, 2015	--	877,588.23	6,280,000.00	1,031,987.50	8,189,575.73
June 1, 2016	--	877,588.23	--	874,987.50	1,752,575.73
December 1, 2016	--	877,588.23	6,075,000.00	874,987.50	7,827,575.73
June 1, 2017	--	877,588.23	--	723,112.50	1,600,700.73
December 1, 2017	--	877,588.23	6,385,000.00	723,112.50	7,985,700.73
June 1, 2018	--	877,588.23	--	576,412.50	1,454,000.73
December 1, 2018	--	877,588.23	6,675,000.00	576,412.50	8,129,000.73
June 1, 2019	--	877,588.23	--	392,850.00	1,270,438.23
December 1, 2019	--	877,588.23	7,040,000.00	392,850.00	8,310,438.23
June 1, 2020	--	877,588.23	--	199,250.00	1,076,838.23
December 1, 2020	--	877,588.23	7,430,000.00	199,250.00	8,506,838.23
June 1, 2021	--	877,588.23	--	--	877,588.23
December 1, 2021	\$ 965,000.00	877,588.23	--	--	1,842,588.23
June 1, 2022	--	840,614.25	--	--	840,614.25
December 1, 2022	1,030,000.00	840,614.25	--	--	1,870,614.25
June 1, 2023	--	801,149.80	--	--	801,149.80
December 1, 2023	1,080,000.00	801,149.80	--	--	1,881,149.80
June 1, 2024	--	757,069.60	--	--	757,069.60
December 1, 2024	1,140,000.00	757,069.60	--	--	1,897,069.60
June 1, 2025	--	710,540.50	--	--	710,540.50
December 1, 2025	1,200,000.00	710,540.50	--	--	1,910,540.50
June 1, 2026	--	661,562.50	--	--	661,562.50
December 1, 2026	1,265,000.00	661,562.50	--	--	1,926,562.50
June 1, 2027	--	609,898.13	--	--	609,898.13
December 1, 2027	1,335,000.00	609,898.13	--	--	1,944,898.13
June 1, 2028	--	555,370.00	--	--	555,370.00
December 1, 2028	1,405,000.00	555,370.00	--	--	1,960,370.00
June 1, 2029	--	497,991.25	--	--	497,991.25
December 1, 2029	1,480,000.00	497,991.25	--	--	1,977,991.25
June 1, 2030	--	437,555.63	--	--	437,555.63
December 1, 2030	1,560,000.00	437,555.63	--	--	1,997,555.63
June 1, 2031	--	373,850.00	--	--	373,850.00
December 1, 2031	1,645,000.00	373,850.00	--	--	2,018,850.00
June 1, 2032	--	306,675.00	--	--	306,675.00
December 1, 2032	1,735,000.00	306,675.00	--	--	2,041,675.00
June 1, 2033	--	235,823.75	--	--	235,823.75
December 1, 2033	1,825,000.00	235,823.75	--	--	2,060,823.75
June 1, 2034	--	161,296.25	--	--	161,296.25
December 1, 2034	1,925,000.00	161,296.25	--	--	2,086,296.25
June 1, 2035	--	82,686.25	--	--	82,686.25
December 1, 2035	<u>2,025,000.00</u>	<u>82,686.25</u>	<u>--</u>	<u>--</u>	<u>2,127,378.41</u>
Total	<u>\$21,615,000.00</u>	<u>\$33,273,597.07</u>	<u>\$61,730,000.00</u>	<u>\$18,358,537.49</u>	<u>\$134,977,134.56</u>

⁽¹⁾ The columns "Taxable Series B 1 Certificates Interest" and "Total Lease Payments" do not reflect the receipt of the Direct Subsidy of 35% of interest evidenced by the Taxable Series B-1 Certificates, which amounts are deposited into the Series B-1 Lease Payment Account.

Debt Service Reserve Fund

Upon delivery of the Certificates, there will be established a Debt Service Reserve Fund for the Certificates. Further, upon delivery of the Certificates, there will be established within the Debt Service Reserve Fund a Series B-1 Reserve Account and a Series B-2 Reserve Account. The Debt Service Reserve Fund will be held by the Trustee and will be kept separate and apart from all other funds held by the Trustee. The Debt Service Reserve Fund must be funded in the amount of the Debt Service Reserve Requirement and must be used and withdrawn by the Trustee solely for the purposes and at the times specified in the Trust Agreement.

Whether or not Lease Payments are then in abatement, if one day immediately preceding any Interest Payment Date, the moneys available in a subaccount of the Lease Payment Fund are less than the amount of the principal and interest evidenced by the related Series of Certificates then coming due and payable, the Trustee first will apply the moneys on hand in the Series B-1 Reserve Account and the Series B-2 Reserve Account, as applicable, to make delinquent Series B-1 Lease Payments and Series B-2 Lease Payments on behalf of the District by transferring the amount necessary for this purpose to the Series B-1 Lease Payment Account and the Series B-2 Lease Payment Account, as applicable, from any cash on deposit. Such transfer shall be made from the related subaccount of the Debt Service Reserve Fund to the applicable Lease Payment Account. Under no circumstances will moneys in the Debt Service Reserve Fund be applied for any fees due to the Trustee under the applicable provisions of the Trust Agreement or any other costs of the Trustee or their agents, attorneys and counsel incurred with respect to an Event of Default hereunder or otherwise. The Trustee will notify the District of the amount of any deficiency in the Debt Service Reserve Fund.

The "Debt Service Reserve Requirement" is, with respect to a Series of Certificates, as of the date of calculation as provided in Trust Agreement, the least of (1) the maximum aggregate annual Lease Payments related to a Series of Certificates payable under the Lease Agreement with respect to such Series of Certificates during then-current and all remaining Certificate Years the Certificates of such Series are to remain Outstanding, (2) 125% of the average annual aggregate Lease Payments payable under the Lease Agreement with respect to such Series of Certificates for then-current and any remaining Certificate Years the Certificates of such Series are to remain Outstanding, or (3) 10% of the principal amount evidenced by such Series of Certificates; provided, however, that if the related Series of Certificates have original issue discount or premium that exceeds two percent (2%) of the stated principal amount due at maturity including any original issue premium attributable exclusively to underwriters' compensation, the initial offering prices to the public shall be used in lieu of the stated principal amount for purposes of the 10% limitation. The initial Debt Service Reserve Requirement for the Taxable Series B-1 Certificates is \$2,101,885.90, which will be funded with a portion of the proceeds of the Taxable Series B-1 Certificates. The initial Debt Service Reserve Requirement for the Series B-2 Certificates is \$6,476,382.52, which will be funded with a portion of the proceeds of the Series B-2 Certificates.

Insurance

The Lease Agreement provides that the District will maintain or cause to be maintained, throughout the term of the Lease Agreement, insurance policies, including a standard comprehensive general insurance policy or policies in protection of the Corporation, the District and the Trustee and their respective members, officers, agents and employees. The Lease Agreement provides that such liability insurance may be maintained as part of or in conjunction with any other liability insurance coverage carried by the District, and may be maintained through the Corporation or in the form of self-insurance by the District; provided, however, that the District may not maintain rental interruption insurance in the form of self-insurance. Said policy or policies will provide coverage in the minimum liability limits of \$1,000,000 for personal injury or death of each person and \$3,000,000 for personal injury or deaths of two or more persons in each accident or

event, and in a minimum amount of \$1,000,000 (subject to a deductible clause not to exceed \$500,000 per occurrence) for damage to property resulting from each accident or event. Such liability and property damage insurance may, however, be in the form of a single limit policy in the amount of \$3,000,000 covering all such risks.

The Lease Agreement provides that the District will procure and maintain, or cause to be procured and maintained, throughout the Term of the Lease Agreement, insurance against loss or damage to any structures constituting any part of the Property by fire, lightning and flood (if reasonably necessary), with extended coverage and vandalism and malicious mischief insurance, with the Trustee named as additional insured and loss payee, with responsible and reputable insurance companies. The Lease Agreement provides that such insurance may be maintained as part of or in conjunction with any other fire and extended coverage insurance carried by the District and may be maintained in whole or in part through the Corporation.

The Lease Agreement provides that such extended coverage insurance shall, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance. Such insurance will be in an amount equal to the lesser of 100% of the replacement value of the Property or 100% of the remaining Lease Payments evidencing and representing principal evidenced by all outstanding Certificates. The Net Proceeds of such insurance shall be applied as provided in the Lease Agreement.

The Lease Agreement provides that the District will procure and maintain, or cause to be maintained, throughout the Term of the Lease Agreement rental interruption insurance to cover loss, total or partial, of the use of any part of the Property during the Term of the Lease Agreement with respect to the Property in an amount equal to the greatest twenty-four (24) months of Lease Payments for such Property with the Trustee named as additional insured and loss payee. Such insurance may be carried in conjunction with, and may be subject to the same provisions as, the insurance required under the Lease Agreement. The District has assigned to the Corporation all right of the District, if any, to collect and receive Net Proceeds under any of said policies, which right has been assigned by the Corporation to the Trustee pursuant to the Assignment Agreement. The Net Proceeds of such rental interruption insurance will be paid to the Trustee and deposited in the Lease Payment Fund and will be credited towards the payment of the Lease Payments pursuant to the Trust Agreement.

The Lease Agreement provides that the District will also maintain, or cause to be maintained, throughout the term of the Lease Agreement, boiler and machinery coverage against loss or damage by explosion of steam boilers, pressure vessels and similar apparatus installed on any portion of the Property in an amount not less than \$5,000,000 per accident, and worker's compensation insurance issued by a responsible carrier authorized under the laws of the State to insure its employees against liability for compensation under the Worker's Compensation Insurance and Safety Act now in force in State, or any act enacted as an amendment or supplement thereto. As an alternative, such insurance may be maintained as part of or in conjunction with any other insurance carried by the District.

The District will provide, from moneys in the Delivery Costs Fund or at its own expense, on the Closing Date or as soon thereafter as practicable, a CLTA title insurance policy covering, and in the amount of not less than the principal amount of the Certificates, insuring all of the fee title of the District in the Property, the leasehold estate of the Corporation in the Property and the leasehold estate of the District in the Property securing the Certificates, subject only to Permitted Encumbrances, with the Trustee as additional insured and loss payee. The Net Proceeds of such title insurance will be applied as provided in the Lease Agreement.

The District will maintain or cause to be maintained, during the entire term of the Lease Agreement, with insurers of recognized responsibility (or through the District's current program of self-insurance with

respect to certain insurance required by the Lease Agreement) all coverage required under the Lease Agreement. The District may not change its program of self-insurance for any insurance required under the Lease Agreement. Certain policies of insurance required by the Lease Agreement will be obtained from an insurance provider licensed to do business in the State and rated "A" or better by A.M. Best & Company, and will provide that all proceeds thereunder will be payable to the District and the Trustee as insureds and applied as provided in the Lease Agreement. The District will pay or cause to be paid when due the premiums for all insurance policies required by the Lease Agreement.

For additional information regarding the District's risk management programs, See APPENDIX B - "DISTRICT FINANCIAL INFORMATION - Insurance" and APPENDIX D - "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - The Lease Agreement" attached hereto.

Abatement

Under California Law, even though the Lease Agreement becomes effective as of the date of the Certificates, the obligation of the District to make Lease Payments (other than to the extent that funds to make Lease Payments are available in the Lease Payment Fund) must be abated in whole or in part if the District does not have substantial use and occupancy of all or a portion of the Property. See "RISK FACTORS – Abatement" herein.

Lease Payments evidenced by the Certificates will be abated during any period in which, by reason of damage, destruction, any defect in title or other event (other than by eminent domain which is hereinbefore provided for), there is substantial interference with the use and occupancy by the District of the Property or any portion thereof (other than any portions of the Property described in the provisions of the Lease Agreement relating to the District's right to, at its own expense, remove portions of the Property or to make additions or modifications to the Property), and the District waives the benefits of subsection 2 of Section 1932 and subsection 4 of Section 1933 of the California Civil Code and any and all other rights to terminate the Lease Agreement by virtue of any such interference, and the Lease Agreement shall continue in full force and effect. The extent of such abatement will be agreed upon by the District and the Corporation such that the resulting Lease Payments represent fair consideration for the use and occupancy of the portions of the Property not damaged, destroyed or otherwise unavailable for use and occupancy by the District. Such abatement will continue for the period commencing with such damage, destruction or other event and, with respect to damage or destruction of property, ending with the substantial completion of the work of repair or reconstruction or of completion of the Property or of the regained availability of use and occupancy. In the event of any such damage, destruction or non-availability, the Lease Agreement will continue in full force and effect and the District waives any right to terminate the Lease Agreement by virtue of any such damage, destruction or unavailability

Notwithstanding the foregoing, there will be no abatement of Lease Payments under the Lease Agreement by reason of damage, destruction or unavailability of all or a portion of the Property to the extent that: (i) the fair rental value of the portions of the Property not damaged, destroyed, incomplete or otherwise unavailable for use and occupancy by the District (giving due consideration to the obligations of the parties under the Lease Agreement, the uses and purposes which may be served by the Property and the benefits therefrom which will accrue to the District and the general public), based upon the opinion of an MAI appraiser with expertise in valuing such properties or other appropriate method of valuation, is equal to or greater than the unpaid Lease Payments; or (ii) (A) the proceeds of rental interruption insurance or (B) amounts in the Net Proceeds Fund and/or the Lease Payment Fund or Debt Service Reserve Fund are available to pay Lease Payments which would otherwise be abated under the Lease Agreement, it being declared by the Lease Agreement that such proceeds and amounts constitute special funds for the payment of the Lease Payments.

Substitution

The District has the option at any time and from time to time during the Term of the Lease Agreement, to substitute other land or facilities for the Property or a portion thereof, or to add additional land to the Property, provided that the District has satisfied all of the conditions precedent to such substitution or addition under the Lease Agreement. APPENDIX D - "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - The Lease Agreement - Substitution" attached hereto.

Release

The District has the option at any time and from time to time during the Term of the Lease Agreement to release any portion of the Property, provided that the District has satisfied all of the conditions precedent to such release under the Lease Agreement. See APPENDIX D - "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – The Lease Agreement - Release" attached hereto.

No Additional Encumbrances

Under the Lease Agreement, the Corporation agrees not to pledge the Lease Payments or other amounts derived from the Property or its other rights under the Lease Agreement and will not mortgage or encumber the Property, except as provided under the terms of the Lease Agreement, the Site Lease, the Assignment Agreement and the Trust Agreement.

Investment of Funds

The proceeds of the Certificates will be held under the Trust Agreement and invested as provided thereunder. See APPENDIX D - "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Trust Agreement - Moneys In Funds; Investment" attached hereto.

THE DISTRICT

A description of the District, including information concerning its finances and organization, its major revenue sources, funds, liabilities and indebtedness, and certain factors affecting its finances and operations, is set forth in Appendix B hereto. Excerpts from the District's audited financial statements for the fiscal year ended June 30, 2010 are set forth in Appendix C hereto. See "FINANCIAL STATEMENTS" herein.

THE CORPORATION

The Corporation was organized on July 18, 2000 as a California nonprofit benefit corporation. The Corporation was formed at the request of the District for the specific and primary purpose of providing finance assistance to the District by financing the acquisition, construction, remodeling, rehabilitation, equipping, improvement, financing and refinancing of various public facilities, land and equipment of the District and by leasing certain facilities, land and equipment for the use, benefit and enjoyment of the public served by the District, as well as any other purpose incidental thereto.

The Directors of the Corporation receive no compensation. The Corporation has no financial liability to the Owners of the Certificates with respect to the payment of Lease Payments by the District or with respect to the performance by the District of the other agreements and covenants it is required to perform under the legal documents relating to the Certificates.

The members of the Board of Directors of the Corporation are members of the Board of Education of the District. As of the date of this Official Statement, the officers of the Corporation include:

Mónica García, President
Richard Vladovic, Vice President
Megan K. Reilly, Treasurer
Timothy S. Rosnick, Secretary

RISK FACTORS

The following factors, along with all other information in this Official Statement, should be considered by potential investors in evaluating the Certificates. However, they do not purport to be an exhaustive listing of risks and other considerations which may be relevant to an investment in the Certificates. In addition, the order in which the following factors are presented is not intended to reflect the relative importance of such factors.

Not a Pledge of Taxes

The obligation of the District to make the Lease Payments does not constitute an obligation for which the District is obligated to levy or pledge any form of taxation or for which the District has levied or pledged any form of taxation. Neither the Certificates nor the obligation of the District to make Lease Payments constitutes a debt of the District, the Corporation or the State or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.

Although the Lease Agreement does not create a pledge, lien or encumbrance upon the funds of the District, the District is obligated under the Lease Agreement to pay Lease Payments from any source of legally available funds (subject to certain exceptions) and the District has covenanted in the Lease Agreement that, for as long as the Property is available for its use and possession, it will make the necessary annual appropriations within its budgets for all Lease Payments. The District is currently liable on other obligations payable from the District's General Fund. See " – Current and Future Obligations" herein.

Current and Future Obligations

The District is currently liable and may become liable on other obligations payable from general revenues, such as employee salaries and benefits and repayment of tax and revenue anticipation notes, some of which may have a priority over the Lease Payments and Additional Payments. For a discussion of certain other obligations of the District, including its substantial unfunded accrued actuarial liabilities with respect to post-employment benefits, See APPENDIX B – "DISTRICT FINANCIAL INFORMATION" attached hereto. The District has the capacity to enter into other obligations which may constitute additional charges against its revenues. To the extent that additional obligations are incurred by the District, the funds available to make Lease Payments and Additional Payments may be decreased. In the event the District's revenue sources are less than its total obligations, the District could choose to fund other activities before making Lease Payments and Additional Payments and other payments due under the Lease Agreement. See " - Additional Obligations of the District" herein.

Additional Obligations of the District

The District may enter into other obligations payable from revenues in its General Fund. To the extent that additional obligations are incurred by the District, the funds available to make Lease Payments may be decreased. The Lease Payments and other payments due under the Lease Agreement (including payment of

costs of repair and maintenance of the Property, taxes and other governmental charges levied against the Property) are payable from funds lawfully available to the District. In the event that the amounts which the District is obligated to pay in a fiscal year exceed the District's revenues for such year, the District may choose to make some payments rather than making other payments, including Lease Payments, based on the perceived needs of the District. The same result could occur if, because of California Constitutional limits on expenditures, the District is not permitted to appropriate and spend all of its available revenues. See APPENDIX B - "DISTRICT FINANCIAL INFORMATION - CALIFORNIA CONSTITUTIONAL AND STATUTORY PROVISIONS RELATING TO *AD VALOREM* PROPERTY TAXES, DISTRICT REVENUES AND APPROPRIATIONS - Article XIII B of the State Constitution" attached hereto.

Limited Recourse on Default

The enforcement of any remedies provided in the Lease Agreement and Trust Agreement could prove both expensive and time-consuming. Although the Lease Agreement provides that, if the District defaults the Trustee may repossess the Property and relet it, portions of the Property may not be easily recoverable, and even if recovered, could be of little value to others. Additionally, the Trustee may have limited ability to relet the Property to provide a source of rental payments sufficient to pay the principal evidenced by the Certificates. The Trustee is not empowered to sell the Property for the benefit of the Owners. In addition, due to the essential government functions of the Property, it is not certain whether a court would permit the exercise of the remedies of repossession and re-letting with respect thereto. Moreover, there can be no assurance that any reletting would not affect the status of the Taxable Series B-1 Certificates as "Build America Bonds" under the Code or the exclusion of any interest component of the Lease Payments evidenced by the Series B-2 Certificates from federal income taxation.

Default; Remedies Upon Default; No Right of Acceleration

Upon the occurrence of an Event of Default under the Lease Agreement, the Trustee, as assignee of the Corporation, may exercise any and all remedies available pursuant to law or granted pursuant to the Lease Agreement; provided, however, that notwithstanding anything contained in the Lease Agreement or in the Trust Agreement to the contrary, there will be no right under any circumstances to accelerate the Lease Payments or otherwise declare any Lease Payments not then in default to be immediately due and payable. The Trustee, as assignee of the Corporation, may exercise any and all rights of entry and re-entry upon the Property, and also, at its option, with or without such entry, may terminate the Lease Agreement as provided in Lease Agreement; provided, that no such termination would be effected either by operation of law or acts of the parties to the Lease Agreement, except only in the manner expressly provided in the Lease Agreement.

In the event of such Event of Default or Default and notwithstanding any re-entry by the Trustee, as assignee of the Corporation, the District would, as expressly provided in the Lease Agreement, continue to remain liable for the payment of the Lease Payments and/or damages for breach of the Lease Agreement and the performance of all conditions contained in the Lease Agreement and, in any event such Lease Payments and/or damages would be payable to the Corporation at the time and in the manner as provided in the Lease Agreement.

The Trustee would be required to seek a separate judgment each year for that year's defaulted Lease Payments. Any such suit for money damages would be subject to limitations on legal remedies against school districts in the State, including a limitation on enforcement of judgments against funds of a fiscal year other than the fiscal year in which the Lease Payments were due and against funds needed to serve the public welfare and interest.

Limitations on Remedies

The opinions of Special Counsel, the proposed forms of which are attached hereto as APPENDIX E, are qualified by reference to bankruptcy, insolvency and other laws relating to or affecting creditor's rights. Bankruptcy proceedings, if initiated, could subject the owners of the Certificates to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation, or modification of their rights.

Abatement

The Lease Agreement provides that fair rental value of the Property equals or exceeds the unpaid principal and interest components of the Lease Payments at all times; therefore, such payments due under the Lease Agreement will not be subject to abatement, except as provided in the paragraph below.

Lease Payments evidenced by the Certificates will be abated during any period in which, by reason of damage, destruction, any defect in title or other event (other than by eminent domain which is hereinbefore provided for), there is substantial interference with the use and occupancy by the District of the Property or any portion thereof (other than any portions of the Property described in the provisions of the Lease Agreement relating to the District's right to, at its own expense, remove portions of the Property or to make additions or modifications to the Property), and the District has waived the benefits of subsection 2 of Section 1932 and subsection 4 of Section 1933 of the California Civil Code and any and all other rights to terminate the Lease Agreement by virtue of any such interference, and the Lease Agreement will continue in full force and effect. The extent of such abatement will be agreed upon by the District and the Corporation such that the resulting Lease Payments represent fair consideration for the use and occupancy of the portions of the Property not damaged, destroyed or otherwise unavailable for use and occupancy by the District. Such abatement will continue for the period commencing with such damage, defect in title, destruction or other event and, with respect to damage or destruction of property, ending with the substantial completion of the work of repair or reconstruction or of completion of the Property or of the regained availability of use and occupancy. In the event of any such damage, destruction or non-availability, the Lease Agreement will continue in full force and effect and the District has waived any right to terminate the Lease Agreement by virtue of any such damage, destruction or unavailability.

Notwithstanding the foregoing, there will be no abatement of Lease Payments under the Lease Agreement by reason of damage, destruction or unavailability of all or a portion of the Property to the extent that: (i) the fair rental value of the portions of the Property not damaged, destroyed, incomplete or otherwise unavailable for use and occupancy by the District (giving due consideration to certain factors identified in the Lease Agreement), based upon the opinion of an MAI appraiser with expertise in valuing such properties or other appropriate method of valuation, is equal to or greater than the unpaid Lease Payments; or (ii) the proceeds of rental interruption insurance or amounts in the Net Proceeds Fund and/or the Lease Payment Fund or Debt Service Reserve Fund are available to pay Lease Payments which would otherwise be abated under the applicable provisions of the Lease Agreement, it being declared under the Lease Agreement that such proceeds and amounts constitute special funds for the payment of the Lease Payments.

The District will procure and maintain, or cause to be maintained, throughout the Term of the Lease Agreement rental interruption insurance to cover loss, total or partial, of the use of any part of the Property during the Term of the Lease Agreement with respect to the Property in an amount equal to the greatest twenty-four (24) months of Lease Payments for such Property, with the Trustee named as additional insured and loss payee. Such insurance may be carried in conjunction with, and may be subject to the same provisions as, the fire, extended coverage, boiler and machinery and workers' compensation insurance required under the Lease Agreement. The Net Proceeds of such insurance will be paid to the Trustee and

deposited in the Lease Payment Fund and will be credited towards the payment of the Lease Payments pursuant to the Trust Agreement.

Notwithstanding the foregoing, the resulting funds in the Lease Payment Fund may not be sufficient to pay the remaining principal and interest evidenced by the Certificates in the event of an abatement. Any abatement of rental payments will not be considered an Event of Default under the Lease Agreement.

Constitutional School Funding Guarantee

The K-12 school funding guarantee under Proposition 98 may be temporarily suspended by the State Legislature, with the Governor's concurrence, for a one-year period, and any corresponding reduction for that year will not be paid in subsequent years. Also, under the "third test" of Proposition 11, amending Proposition 98, cost of living adjustments may be limited in times of economic downturn. A substantial portion of each annual budget of the District is composed of moneys apportioned to the District by the State. While the California Constitution contains certain minimum funding requirements for public education pursuant to Proposition 98, State funding can be affected by a number of factors, including poor performance of the California economy and State budget shortfalls. In recent years, there have been a number of adverse effects on the budgets of school districts caused by the general economic downturns in State and the State's own budget difficulties. Continued adverse economic conditions and reduced revenues at the State level could have future, unpredictable, negative effects upon the amount of and the manner in which the District receives money from the State. See APPENDIX B – "DISTRICT FINANCIAL INFORMATION" attached hereto.

Receipt of Direct Subsidy

The District's obligations evidenced by the Taxable Series B-1 Certificates are designated as "Build America Bonds" under the provisions of Section 54AA of the Code. The District expects to receive a direct cash subsidy payment from the United States Treasury equal to thirty-five percent (35%) of the interest evidenced by the Taxable Series B-1 Certificates. The Direct Subsidy does not constitute a full faith and credit guarantee of the United States with respect to the Taxable Series B-1 Certificates but the Direct Subsidy is required to be paid by the United States Treasury under the provisions of American Recovery and Reinvestment Act of 2009 and the Code upon proper application by the District or the Trustee as their respective agents. The United States Treasury may offset any Direct Subsidy to which the District is otherwise entitled against any other tax liability of the District payable to the United States Treasury, such as withholding or payroll taxes, or other penalties or interest that may be owed at any time to the United States Treasury.

The American Recovery and Reinvestment Act of 2009 and Section 54AA of the Code contain broad legislative regulatory authority to prescribe such regulations and other guidance as may be necessary or appropriate to carry out the Build America Bond and the Direct Subsidy provisions. The Internal Revenue Service and the United States Treasury will continue to consider the need to develop any special rules to adapt or tailor the procedural framework implementing provisions of the American Recovery and Reinvestment Act of 2009 and the Code, and may promulgate further regulations. No assurance is given that the United States Treasury will make payment of the Direct Subsidy in the amounts to which the District believes it is entitled, nor that such payments will be made in a timely manner to permit payment of the interest component with respect to the Lease Payments evidenced by the Taxable Series B-1 Certificates. No assurance can be given that the United States Congress will not amend or repeal provisions of the program, which amendments could affect the payment of the Direct Subsidy between the date hereof and the time of the final maturity of the Taxable Series B-1 Certificates. The District is obligated to make payments of the interest components evidenced by the Taxable Series B-1 Certificates without regard to the receipt or deposit of the Direct Subsidy.

Seismic Events; Force Majeure

The Property is located within a seismically active area. Although the Property has been designed and constructed pursuant to earthquake-resistant standards in accordance with the Field Act (Section 17280 et seq. of the Education Code), damage from an earthquake could be substantial. Further, the District is not obligated under the Lease Agreement to procure and maintain, or cause to be procured and maintained, earthquake insurance on the Property and no assurance can be made that the District will procure and maintain, or cause to be procured and maintained, such insurance. There can be no assurance that earthquake insurance on the Property, if any, can be renewed or will be maintained by the District in the future, or will be available to pay Lease Payments evidenced by the Certificates. If there is no earthquake insurance on the Property that is damaged in an earthquake, the Lease Payments would be subject to abatement. See “– Abatement” herein.

Operation of the Property may also be at risk from other events of force majeure, such as damaging storms, floods, fires and explosions, strikes, sabotage, riots and spills of hazardous substances, among other events. None of the facilities comprising the Property are located within a 100-year flood plain. The District cannot predict what force majeure events may occur in the future. For additional information regarding the District’s risk management programs and required insurance coverages under the Lease Agreement, See APPENDIX B – “DISTRICT FINANCIAL INFORMATION – Insurance” and APPENDIX D – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – The Lease Agreement” attached hereto.

No Liability of Corporation to the Owners

Except as expressly provided in the Trust Agreement, the Corporation shall not have any obligation or liability to the owners of the Certificates with respect to the payment when due of the Lease Payments by the District, or with respect to the performance by the District of other agreements and covenants required to be performed by them contained in the Lease Agreement or the Trust Agreement, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained in the Trust Agreement.

Hazardous Substances

The public education activities of the District may, from time to time, result in the use of limited amounts of hazardous substances on the facilities owned and operated by the District, including, but not limited to, the Property. Accordingly, it is possible that spills, discharges or other adverse environmental consequences of such use in the future could cause an adverse effect on the fair rental value of the Property and lead, in an extreme case, to abatement, in whole or in part, of Lease Payments. See “– Abatement” above.

State Funding of Education

Historically, a large portion of the District’s annual general fund revenues have consisted of payments from the State. State income tax and other receipts can fluctuate significantly from year to year depending upon economic conditions in the State and the United States of America. For a detailed discussion of the State’s funding of education See APPENDIX B – “DISTRICT FINANCIAL INFORMATION – State Funding of Education” attached hereto.

TAX MATTERS

Taxable Series B-1 Certificates

General. In the opinion of Hawkins Delafield & Wood LLP, Special Counsel to the District, interest evidenced by the Taxable Series B-1 Certificates (i) is included in gross income for Federal income tax purposes pursuant to the Code and (ii) is exempt, under existing statutes, from personal income taxes imposed by the State of California.

The Taxable Series B-1 Certificates are expected to be designated as “Build America Bonds” by the District pursuant to applicable provisions of the Code; the District will elect to receive cash subsidy payments equal to 35% of the interest evidenced by the Taxable Series B-1 Certificates from the United States Treasury. As a result of such election, holders of the Taxable Series B-1 Certificates will not be eligible to receive the tax credit otherwise permitted under Section 54AA(a) of the Code. The Code establishes certain ongoing requirements that must be met subsequent to the execution and delivery of the Taxable Series B-1 Certificates in order for the District to continue to receive said subsidy payments. These requirements include, but are not limited to, requirements relating to use and expenditure of the available project proceeds of the Taxable Series B-1 Certificates, yield and other restrictions on investments of available project proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the federal government. Noncompliance may cause the Taxable Series B-1 Certificates to fail to qualify for the receipt of the interest subsidy payments. The District has covenanted to comply with certain applicable requirements of the Code to assure the receipt of the interest subsidy payments in respect of the Taxable Series B-1 Certificates.

The following discussion is a brief summary of the principal United States Federal income tax consequences of the acquisition, ownership and disposition of Taxable Series B-1 Certificates by original purchasers of the Taxable Series B-1 Certificates who are “U.S. Holders”, as defined herein. This summary (i) is based on certain relevant provisions of the Code under existing law and are subject to change at any time, possibly with retroactive effect; (ii) assumes that the Taxable Series B-1 Certificates will be held as “capital assets”; and (iii) does not discuss all of the United States Federal income tax consequences that may be relevant to a holder in light of its particular circumstances or to holders subject to special rules, such as insurance companies, financial institutions, tax-exempt organizations, dealers in securities or foreign currencies, persons holding the Taxable Series B-1 Certificates as a position in a “hedge” or “straddle”, holders whose functional currency (as defined in Section 985 of the Code) is not the United States dollar, holders who acquire Taxable Series B-1 Certificates in the secondary market, or individuals, estates and trusts subject to the tax on unearned income imposed by Section 1411 of the Code.

Holders of Taxable Series B-1 Certificates should consult with their own tax advisors concerning the United States Federal income tax and other consequences with respect to the acquisition, ownership and disposition of the Taxable Series B-1 Certificates as well as any tax consequences that may arise under the laws of any state, local or foreign tax jurisdiction.

Original Issue Discount. In general, if Original Issue Discount (“OID”) on a Taxable Series B-1 Certificate is greater than a statutorily defined *de minimis* amount, a holder of a Taxable Series B-1 Certificate must include in Federal gross income (for each day of the taxable year, or portion of the taxable year, in which such holder holds such Taxable Series B-1 Certificate) the daily portion of OID, as it accrues (generally on a constant yield method) and regardless of the holder’s method of accounting. “OID” is the excess of (i) the “stated redemption price at maturity” over (ii) the “issue price.” For purposes of the foregoing: “issue price” means the first price at which a substantial amount of the Taxable Series B-1 Certificate is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers); “stated redemption price at maturity” means the sum of all payments, other than “qualified stated interest” provided by such Taxable Series B-1

Certificate; “qualified stated interest” is stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually at a single fixed rate; and “*de minimis* amount” is an amount equal to 0.25 percent of the Taxable Series B-1 Certificate’s stated redemption price at maturity multiplied by the number of complete years to its maturity. A holder may irrevocably elect to include in gross income all interest that accrues on a Taxable Series B-1 Certificate using the constant-yield method, subject to certain modifications.

Original Issue Premium. In general, if a Taxable Series B-1 Certificate is originally issued for an issue price (excluding accrued interest) that reflects a premium over the sum of all amounts evidenced by the Taxable Series B-1 Certificate other than “qualified stated interest” (a “Taxable Premium Bond”), that Taxable Premium Bond will be subject to Section 171 of the Code, relating to bond premium. In general, if the holder of a Taxable Premium Bond elects to amortize the premium as “amortizable bond premium” over the remaining term of the Taxable Premium Bond, determined based on constant yield principles (in certain cases involving a Taxable Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the highest yield on such bond), the amortizable premium is treated as an offset to interest income; the holder will make a corresponding adjustment to the holder’s basis in the Taxable Premium Bond. Any such election is generally irrevocable and applies to all debt instruments of the holder (other than tax-exempt bonds) held at the beginning of the first taxable year to which the election applies and to all such debt instruments thereafter acquired. Under certain circumstances, the holder of a Taxable Premium Bond may realize a taxable gain upon disposition of the Taxable Premium Bond even though it is sold or redeemed for an amount less than or equal to the holder's original acquisition cost.

Disposition and Defeasance. Generally, upon the sale, exchange, redemption, or other disposition (which would include a legal defeasance) of a Taxable Series B-1 Certificate, a holder generally will recognize taxable gain or loss in an amount equal to the difference between the amount realized (other than amounts attributable to accrued interest not previously includable in income) and such holder’s adjusted tax basis in the Taxable Series B-1 Certificate.

The District may cause the deposit of moneys or securities in escrow in such amount and manner as to cause the Taxable Series B-1 Certificates to be deemed to be no longer outstanding. For Federal income tax purposes, such defeasance could result in a deemed exchange under Section 1001 of the Code and a recognition by such owner of taxable income or loss, without any corresponding receipt of moneys. In addition, the character and timing of receipt of payments evidenced by the Taxable Series B-1 Certificates subsequent to any such defeasance could also be affected.

Information Reporting and Backup Withholding. In general, information reporting requirements will apply to non-corporate holders with respect to payments of principal, payments of interest, and the accrual of OID evidenced by Taxable Series B-1 Certificate and the proceeds of the sale of a Taxable Series B-1 Certificate before maturity within the United States. Backup withholding may apply to holders of Taxable Series B-1 Certificates under Section 3406 of the Code. Any amounts withheld under the backup withholding rules from a payment to a beneficial owner, and which constitutes over-withholding, would be allowed as a refund or a credit against such beneficial owner’s United States Federal income tax provided the required information is furnished to the Service.

U.S. Holders. The term “U.S. Holder” means a beneficial owner of a Taxable Series B-1 Certificate that is: (i) a citizen or resident of the United States, (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States or of any political subdivision thereof, (iii) an estate the income of which is subject to United States Federal income taxation regardless of its source or (iv) a trust whose administration is subject to the primary jurisdiction of a United States court and which has one or more United States fiduciaries who have the authority to control all substantial decisions of the trust.

IRS Circular 230 Disclosure. The advice under this caption, concerning certain income tax consequences of the acquisition, ownership and disposition of the Taxable Series B-1 Certificates, was written to support the marketing of the Taxable Series B-1 Certificates. To ensure compliance with requirements imposed by the Internal Revenue Service, Special Counsel to the District informs you that (i) any federal tax advice contained in this official statement (including any attachments) or in writings furnished by Special Counsel to the District is not intended to be used, and cannot be used by any bondholder, for the purpose of avoiding penalties that may be imposed on the bondholder under the Code, and (ii) the bondholder should seek advice based on the bondholder's particular circumstances from an independent tax advisor.

Miscellaneous. Tax legislation, administrative action taken by tax authorities, and court decisions, whether at the federal or state level, may affect the market price or marketability of the Taxable Series B-1 Certificates.

Prospective purchasers of the Taxable Series B-1 Certificates should consult their own tax advisors regarding the foregoing matters.

Series B-2 Certificates

Opinion of Special Counsel. In the opinion of Hawkins Delafield & Wood LLP, Special Counsel to the District, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest evidenced by the Series B-2 Certificates is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest evidenced by the Series B-2 Certificates is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code and is not included in the adjusted current earnings of corporations for purposes of calculating the alternative minimum tax. In rendering its opinion, Special Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the District in connection with the Series B-2 Certificates, and Special Counsel has assumed compliance by the District with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest evidenced by the Series B-2 Certificates from gross income under Section 103 of the Code. The provisions of the American Recovery and Reinvestment Act of 2009 relating to the treatment of interest on certain tax-exempt bonds do apply to the Series B-2 Certificates.

In addition, in the opinion of Special Counsel to the District, under existing statutes, interest evidenced by the Series B-2 Certificates is exempt from personal income taxes imposed by the State of California.

Special Counsel expresses no opinion regarding any other Federal or state tax consequences with respect to the Series B-2 Certificates. Special Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update, revise or supplement its opinion to reflect any action hereafter taken or not taken, or any facts or circumstances that may hereafter come to its attention, or changes in law or in interpretations thereof that may hereafter occur, or for any other reason. Special Counsel expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest evidenced by the Series B-2 Certificates, or under state and local tax law.

Certain Ongoing Federal Tax Requirements and Covenants. The Code establishes certain ongoing requirements that must be met subsequent to the execution and delivery of the Series B-2 Certificates in order that interest evidenced by the Series B-2 Certificates be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Series B-2 Certificates, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest evidenced by the Series B-2 Certificates to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The District has covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest evidenced by the Series B-2 Certificates from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences. The following is a brief discussion of certain collateral Federal income tax matters with respect to the Series B-2 Certificates. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a Series B-2 Certificates. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Series B-2 Certificates.

The Series B-2 Certificates are not taken into account (subject to certain limitations) in determining the portion of a financial institution's interest expense subject to the *pro rata* interest disallowance rule of Section 265(b) of the Code for costs of indebtedness incurred or continued to purchase or carry certain tax-exempt obligations. The Series B-2 Certificates, however, are taken into account in the calculation of the amount of a financial institution's preference items under Section 291 of the Code.

Prospective owners of the Series B-2 Certificates should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest evidenced thereby is excluded from gross income for Federal income tax purposes. Interest evidenced by the Series B-2 Certificates may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Original Issue Discount. "Original issue discount" ("OID") on a tax-exempt bond is the excess of the sum of all amounts payable at the stated maturity of a Series B-2 Certificate (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the "issue price" of a maturity means the first price at which a substantial amount of the Series B-2 Certificates of that maturity was sold (excluding sales to bond houses, brokers, or similar persons acting in the capacity as underwriters, placement agents, or wholesalers). In general, the issue price for each maturity of Series B-2 Certificates is expected to be the initial public offering price set forth on the cover page of the Official Statement. Special Counsel further is of the opinion that, for any Series B-2 Certificates having OID (a "Tax-Exempt Discount Bond"), OID that has accrued and is properly allocable to the owners of the Tax-Exempt Discount Bonds under Section 1288 of the Code is excludable from gross income for Federal income tax purposes to the same extent as other interest evidenced by the Series B-2 Certificates.

In general, under Section 1288 of the Code, OID on a Tax-Exempt Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Tax-Exempt Discount Bond. An owner's adjusted basis in a Tax-Exempt Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Series B-2 Certificate. Accrued OID may be taken into

account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Tax-Exempt Discount Bond even though there will not be a corresponding cash payment.

Owners of Tax-Exempt Discount Bonds should consult their own tax advisors with respect to the treatment of original issue discount for Federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Tax-Exempt Discount Bonds.

Bond Premium. In general, if an owner acquires a Series B-2 Certificate for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts evidenced by the Series B-2 Certificate after the acquisition date (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates), that premium constitutes “bond premium” on that Series B-2 Certificate (a “Tax-Exempt Premium Bond”). In general, under Section 171 of the Code, an owner of a Tax-Exempt Premium Bond must amortize the bond premium over the remaining term of the Tax-Exempt Premium Bond, based on the owner’s yield over the remaining term of the Tax-Exempt Premium Bond determined based on constant yield principles (in certain cases involving a Tax-Exempt Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Tax-Exempt Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner’s regular method of accounting against the bond premium allocable to that period. In the case of a Tax-Exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Tax-Exempt Premium Bond may realize a taxable gain upon disposition of the Tax-Exempt Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner’s original acquisition cost. Owners of any Tax-Exempt Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Tax-Exempt Premium Bonds.

Information Reporting and Backup Withholding. Information reporting requirements apply to interest paid on tax-exempt obligations, including the Series B-2 Certificates. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, “Request for Taxpayer Identification Number and Certification,” or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to “backup withholding,” which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a “payor” generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Series B-2 Certificate through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest evidenced by the Series B-2 Certificates from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner’s Federal income tax once the required information is furnished to the Internal Revenue Service.

Miscellaneous. Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest evidenced by the Series B-2 Certificates under Federal or state law and could affect the market price or marketability of the Series B-2 Certificates.

Prospective purchasers of the Series B-2 Certificates should consult their own tax advisors regarding the foregoing matters.

CERTAIN LEGAL MATTERS

The legality of the Lease Agreement, the Site Lease, the Assignment Agreement and the Trust Agreement and certain other legal matters are subject to the approval of Hawkins Delafield & Wood LLP, Los Angeles, California, Special Counsel, and certain other conditions. Complete copies of the proposed forms of opinions of Special Counsel are contained in Appendix E hereto. Certain legal matters will also be passed upon for the District by the General Counsel to the District and by its Disclosure Counsel, Hawkins Delafield & Wood LLP, Los Angeles, California, and for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP, Los Angeles, California.

FINANCIAL STATEMENTS

The basic financial statements of the District for the Fiscal Year ended June 30, 2010, certain sections of which are included in Appendix C to this Official Statement, have been audited by Simpson & Simpson CPA, independent certified public accountants, as stated in their report appearing in Appendix C. The District has not requested nor has the District obtained the consent of Simpson & Simpson CPA to the inclusion of its report as Appendix C. Simpson & Simpson CPA, as the District's independent auditor, has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements for the Fiscal Year ended June 30, 2010 addressed in that report. Simpson & Simpson CPA also has not performed any procedures relating to this Official Statement.

LITIGATION

No litigation is pending or threatened against the District or the Corporation concerning the validity of the Lease Agreement, the Site Lease, the Trust Agreement, the Assignment Agreement or the Certificates. The District is not aware of any litigation pending or threatened questioning the political existence of the District or the Corporation or contesting the delivery of the Certificates or the District's ability to pay the Lease Payments pursuant to the Lease Agreement. There are a number of lawsuits and claims pending against the District. Other than as described in Appendix B, the District does not believe that any of these proceedings could have a material adverse impact upon the financial condition of the District. See APPENDIX B - DISTRICT FINANCIAL INFORMATION - District Financial Information - Collective Bargaining - Litigation regarding District Layoff Procedures" and " - STATE FUNDING OF EDUCATION - Litigation Regarding State Funding of Education" attached hereto.

RATINGS

Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc. ("S&P") have assigned their underlying ratings of "A1" and "A+", respectively, to the Certificates. Such ratings reflect only the views of such organizations and explanations of the significance of such ratings may be obtained only from the organizations at: Standard and Poor's Ratings Services, 55 Water Street, New York, New York 10041, telephone number (212) 438-2000; Moody's Investors Service, Inc. 7 World Trade Center, 250 Greenwich Street, New York, New York 10007-2796, telephone number (212) 553-0317. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by the respective rating agencies, if in the judgment of such rating agency circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Certificates.

UNDERWRITING

The Taxable Series B-1 Certificates are being purchased by E. J. De La Rosa & Co., Inc., on behalf of itself and Barclays Capital Inc. (collectively, the "Underwriters"), pursuant to a Purchase Contract with the District (the "Purchase Contract"). The Underwriters have agreed, subject to certain conditions, to purchase the Taxable Series B-1 Certificates at an aggregate purchase price of \$20,938,729.61 (representing the aggregate principal amount evidenced by the Taxable Series B-1 Certificates of \$21,615,000.00, less original issue discount of \$596,141.00, and less an Underwriters' discount of \$80,129.39). The Underwriters have agreed, subject to certain conditions, to purchase the Series B-2 Certificates at an aggregate purchase price of \$64,579,983.87 (representing the aggregate principal amount evidenced by the Series B-2 Certificates of \$61,730,000, plus original issue premium of \$3,033,825.20, and less an Underwriters' discount of \$183,841.33).

The Purchase Contract relating to the Certificates provides that the Underwriters will purchase all of the Certificates if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Purchase Contract, the approval of certain legal matters by counsel and certain other conditions. The Underwriters may offer and sell the Certificates to certain dealers and others at prices lower than the offering prices stated on the inside cover page. The offering prices of the Certificates may be changed from time to time by the Underwriters.

De La Rosa & Co., one of the Underwriters of the Certificates, has entered into separate agreements with Credit Suisse Securities USA LLC, UnionBanc Investment Services LLC and City National Securities, Inc. for retail distribution of certain municipal securities offerings, at the original issue prices. Pursuant to said agreements, if applicable to the Certificates, De La Rosa & Co. will share a portion of its underwriting compensation with respect to the Certificates, with Credit Suisse Securities USA LLC, UnionBanc Investment Services LLC or City National Securities, Inc.

FINANCIAL ADVISOR

The District has retained Fieldman, Rolapp & Associates, as Financial Advisor (the “Financial Advisor”) in connection with the execution and delivery of the Certificates and certain other financial matters. The Financial Advisor is an independent financial advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other negotiable instruments.

The Financial Advisor has not audited, authenticated or otherwise verified the information set forth in this Official Statement, or any other related information available to the District, with respect to the accuracy and completeness of disclosure of such information, and no guaranty, warranty or other representation is made by the Financial Advisor respecting the accuracy and completeness of this Official Statement or any other matter related to this Official Statement.

CONTINUING DISCLOSURE

The District has covenanted for the benefit of the holders and beneficial owners of the Certificates to provide with respect to the Certificates, or to cause to be provided, to the MSRB through its EMMA System the website of which is currently located at <http://emma.msrb.org>, for purposes of the Rule adopted by the SEC, to provide certain financial information and operating data relating to the District (the “Annual Report”) by not later than 240 days following the end of the District’s fiscal year (currently ending June 30), commencing with the report for Fiscal Year 2009-10 and notice of the occurrence of Notice Events in a timely manner not in excess of ten (10) Business Days after the occurrence of such Notice Event. These covenants have been made in order to assist the Underwriters in complying with the Rule. The District has not failed in the previous five years to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events. See “APPENDIX F – “FORM OF CONTINUING DISCLOSURE CERTIFICATE” attached hereto. Copies of the District’s annual reports and notices of Notice Event filings are also available at the website of DAC, www.dacbond.com, although the information presented there is not incorporated by reference in this Official Statement and should not be relied upon in making an investment decision with respect to the Certificates.

MISCELLANEOUS

Included herein are brief summaries of certain documents and reports, which summaries do not purport to be complete or definitive, and reference is made to such documents and reports for full and complete statements of the contents thereof. This Official Statement is not to be construed as a contract or agreement between the District and the purchasers or owners of any of the Certificates. Any statements made in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended merely as an opinion and not as representations of fact. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in affairs in the District since the date hereof.

The execution and delivery of this Official Statement have been duly authorized by the District.

LOS ANGELES UNIFIED SCHOOL DISTRICT

By: /s/ Megan K. Reilly
Chief Financial Officer

APPENDIX A

REGIONAL ECONOMIC AND DEMOGRAPHIC INFORMATION

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REGIONAL ECONOMIC AND DEMOGRAPHIC INFORMATION

The Los Angeles Unified School District (the “District”) is located in the City of Los Angeles (the “City”) and portions of the County of Los Angeles (the “County”). This Appendix A provides economic and demographic information pertaining to the City and the County. The District’s Certificates of Participation 2010 Series B-1 (Federally Taxable Build America Bonds)(Capital Projects I) and Certificates of Participation 2010 Series B-2 (Tax-Exempt)(Capital Projects II) are not general obligations of the District, the City or the County.

Income

The following Table A-1 summarizes the median household income for the City, the County, the State and the United States for the years 2004 through 2009.

TABLE A-1

**Median Household Income⁽¹⁾
For Years 2004 through 2009**

Year	City of Los Angeles	County of Los Angeles	State of California	United States
2004	\$40,682	\$45,958	\$51,185	\$44,684
2005	42,667	48,248	53,629	46,242
2006	44,445	51,315	56,645	48,451
2007	47,781	53,573	59,948	50,740
2008	48,882	55,499	61,021	52,029
2009	48,617	54,467	58,931	50,221

⁽¹⁾ Estimated. In inflation-adjusted dollars.

Source: U.S. Census Bureau – Economic Characteristics – American Community Survey.

Set forth in Table A-2 below is the distribution of income by certain income groupings per household for the City, the County, the State and the United States.

TABLE A-2

**Income Groupings 2009⁽¹⁾
(Percent of Households)**

Income Per Household	City of Los Angeles	County of Los Angeles	State of California	United States
\$24,999 & Under	27.00%	23.10%	20.70%	24.70%
25,000-49,999	24.40	23.30	22.40	25.10
50,000 & Over	48.60	53.70	56.90	50.00

⁽¹⁾ Estimated. In inflation-adjusted dollars.

Source: U.S. Census Bureau – Economic Characteristics – American Community Survey.

Employment

The District is within the Los Angeles-Long Beach Primary Metropolitan Statistical Area Labor Market (Los Angeles County) reported on periodically by the State Employment Development Department.

Table A-3 below summarizes the status of wage and salary employment in the County from calendar years 2005 through 2009.

TABLE A-3

Labor Force and Employment in Los Angeles County⁽¹⁾

	2005	2006	2007	2008	2009
Civilian Labor Force ⁽²⁾	4,771,400	4,797,400	4,863,800	4,924,000	4,896,100
Employment	4,516,000	4,568,200	4,617,100	4,557,300	4,328,600
Unemployment	255,400	229,300	246,700	367,200	567,500
Unemployment Rate ⁽³⁾	5.4%	4.8%	5.1%	7.5%	11.6%
Wage and Salary Employment ⁽⁴⁾					
Farm	7,400	7,600	7,500	6,900	6,200
Mining and Logging	3,700	4,000	4,400	4,400	4,100
Construction	148,700	157,500	157,600	145,200	116,500
Manufacturing	471,700	461,700	449,200	434,500	389,200
Trade, Transportation and Utilities	795,400	814,100	818,500	803,300	742,500
Information	207,600	205,600	209,800	210,300	193,700
Financial Activities	244,000	248,800	246,000	235,700	220,200
Professional and Business Services	576,100	598,900	605,400	582,600	528,100
Educational and Health Services	471,300	478,700	490,500	503,400	513,900
Leisure and Hospitality	377,800	388,600	397,900	401,600	383,900
Other Services	144,300	145,200	147,100	146,100	137,900
Government	583,700	589,400	595,700	603,700	599,500
Total	<u>4,031,600</u>	<u>4,100,100</u>	<u>4,129,600</u>	<u>4,077,600</u>	<u>3,835,700</u>

⁽¹⁾ Columns may not add to totals due to independent rounding. All information updated per March 2009 Benchmark.

⁽²⁾ Based on place of residence.

⁽³⁾ The State Employment Development Department has reported a seasonally adjusted unemployment rate within the County of 12.6% for October 2010.

⁽⁴⁾ Based on place of work.

Source: State Employment Development Department, Labor Market Information Division.

Commercial Activity

The following Table A-4 sets forth the history of taxable transactions in the County for the years 2004 through 2008.

TABLE A-4

**County of Los Angeles
Taxable Transactions⁽¹⁾⁽²⁾
(\$ in thousands)**

Type of Business	2004 Annual	2005 Annual	2006 Annual	2007 Annual	2008 Annual
Apparel Stores	\$ 4,806,681	\$ 5,248,349	\$ 5,526,656	\$ 5,829,390	\$ 6,290,994
General Merchandise	12,592,214	13,176,715	13,729,150	13,825,538	12,861,677
Specialty Stores ⁽³⁾	13,026,931	13,840,030	14,332,982	--	--
Food Stores	4,222,270	4,532,723	4,680,320	4,911,939	4,921,329
Eating and Drinking Establishments	12,035,694	12,904,310	13,751,189	14,473,199	14,607,067
Home Furnishings/Appliances	4,030,834	4,263,142	4,307,020	4,287,090	4,482,776
Building Materials	7,310,663	7,701,383	7,871,880	7,494,731	6,388,930
Automotive ⁽⁴⁾	26,518,947	28,525,468	29,161,994	17,156,218	13,282,539
Service Stations ⁽⁴⁾	--	--	--	12,230,800	13,437,380
Other Retail Stores ⁽³⁾	1,952,451	2,079,035	2,193,002	15,886,806	13,537,617
Business and Personal Services	5,275,051	5,414,432	5,390,537	5,408,543	5,196,651
All Other Outlets	<u>30,761,368</u>	<u>33,036,786</u>	<u>35,217,822</u>	<u>36,316,164</u>	<u>36,874,784</u>
TOTAL ALL OUTLETS	<u>\$122,533,104</u>	<u>\$130,722,373</u>	<u>\$136,162,552</u>	<u>\$137,820,418</u>	<u>\$131,881,744</u>

⁽¹⁾ Columns may not add to totals due to independent rounding.

⁽²⁾ In early 2007, the California State Board of Equalization began a process of converting business codes of sales and use tax permit holders to North American Industry Classification System codes. As a result of the coding change process, industry data for 2007 and 2008 are not comparable with data from prior years.

⁽³⁾ In 2007 and 2008, industry data for Specialty Stores were included in Other Retail Stores.

⁽⁴⁾ Prior to 2007, industry data for Service Stations were included in Automotive.

Source: California State Board of Equalization, Taxable Sales in California.

Table A-5 below sets forth taxable transactions in the County for the first, second and third quarters of calendar year 2009. The California State Board of Equalization has completed the process of converting business codes of sales and use tax permit holders to North American Industry Classification System (“NAICS”) codes. The following table reflects implementation of the NAICS codes and new industry categories.

TABLE A-5

**County of Los Angeles
Taxable Transactions⁽¹⁾
2009 First, Second and Third Quarters
(\$ in thousands)**

<u>Type of Business</u>	<u>2009 First, Second and Third Quarter</u>
Motor Vehicle and Parts Dealers	\$ 8,246,570
Furniture and Home Furnishings Stores	1,500,724
Electronics and Appliance Stores	2,441,696
Building Materials and Garden Equipment and Supplies	4,324,911
Food and Beverage Stores	4,021,083
Health and Personal Care Stores	2,018,980
Gasoline Stations	7,033,462
Clothing and Clothing Accessories Stores	5,015,031
Sporting Goods, Hobby, Book & Music Stores	1,758,780
General Merchandise Stores	6,887,729
Miscellaneous Store Retailers	3,166,334
Nonstore Retailers	595,407
Food Services and Drinking Places	<u>10,457,483</u>
Total Retail and Food Services	57,468,188
All Other Outlets	<u>25,791,329</u>
TOTAL ALL OUTLETS	<u>\$83,259,517</u>

Source: California State Board of Equalization, Taxable Sales in California.

⁽¹⁾ Amounts may not total due to independent rounding.

Leading County Employers

The economic base of the County is diverse with no one sector being dominant. Some of the leading activities include government (including education), business/professional management services (including engineering), health services (including training and research), tourism, distribution, and entertainment. The top twenty-five non-governmental employers in the County are set forth below in Table A-6.

TABLE A-6
County of Los Angeles
Major Non-Governmental Employers⁽¹⁾⁽²⁾

Employer	Product/Service	Employees
Kaiser Permanente	Health care provider	34,179
Northrop Grumman Corp.	Aerospace/Defense design and manufacturing	19,137
Boeing Co.	Aerospace high technology	14,400
Kroger Co.	Grocery retailer	14,000
University of Southern California	Private university	13,044
Target Corp.	Retailer	13,000
Home Depot	Home improvement specialty retailer	10,000
Wells Fargo	Banking and financial services	9,800
Providence Health & Services	Acute medical, surgical, transition care	9,715
Vons	Grocery retailer	9,688
Cedars-Sinai Medical Center	Medical center	9,300
ABM Industries Inc.	Facility services, janitorial, parking, security, engineering and lighting	9,000
AT&T Inc.	Telecommunications, data	8,950
California Institute of Technology	Private university and jet propulsion laboratory	8,504
Fedex Corp.	Delivery services	8,500
Catholic Healthcare West	Hospitals	7,275
Amgen Inc.	Biotechnology	6,500
Costco Wholesale	Membership chain of warehouse stores	5,587
Long Beach Memorial Medical Center	Regional hospital	5,400
UPS	Delivery services	5,100
JP Morgan Chase	Banking and financial services	4,700
Childrens Hospital Los Angeles	Hospital	4,211
Toyota Motor Sales U.S.A. Inc.	Automobile sales, distribution and customer service	4,200
Adventist Health	Hospitals	3,804
Time Warner Cable Business Class	Cable provider	3,100

⁽¹⁾ Estimated.

⁽²⁾ Several additional companies may have qualified for this list. However, such companies failed to submit information or do not break out local employment data.

Source: Los Angeles Business Journal.

Construction

The following Table A-7 sets forth the valuation of permits for new residential buildings and the number of new single-family and multi-family dwelling units in the City for the years 2004 through October 2010.

TABLE A-7

**City of Los Angeles
Permit Valuations and Units of Construction
2004 to 2010⁽¹⁾
(\$ in thousands)**

Year	New Residential Valuation	New Single Family Dwelling Units	New Multi-Family Dwelling Units	Total Units⁽²⁾
2004	\$2,560,906	1,878	10,362	12,240
2005	2,629,470	2,001	9,549	11,550
2006	3,194,070	2,427	13,487	15,914
2007	2,673,705	1,774	8,994	10,768
2008	1,782,493	820	6,694	7,514
2009	1,013,073	522	2,628	3,150
2010 ⁽¹⁾	1,052,065	537	2,776	3,313

⁽¹⁾ As of October 2010.

⁽²⁾ Amounts may not total due to independent rounding.

Source: Construction Industry Research Board.

APPENDIX B

DISTRICT FINANCIAL INFORMATION

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DISTRICT FINANCIAL INFORMATION

The information in this Appendix B concerning the operations of the Los Angeles Unified School District (the "District") provides investors with certain information pertaining to the District's finances. Investors must read the entire Official Statement, including this Appendix B, to obtain information essential to making an informed investment decision. The Los Angeles Unified School District's Certificates of Participation 2010 Series B-1 (Federally Taxable Direct Pay Build America Bonds)(Capital Projects I) (the "Taxable Series B-1 Certificates") and the Certificates of Participation 2010 Series B-2 (Tax-Exempt)(Capital Projects I) (the "Series B-2 Certificates" and together with the Taxable Series B-1 Certificates, the "Certificates") are payable from lawfully available funds of the District. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES" in the forepart of this Official Statement. See "GLOSSARY OF CERTAIN TERMS AND ABBREVIATIONS" herein for a description of certain terms and abbreviations used in this Appendix B.

DISTRICT GENERAL INFORMATION

District Boundaries

The District, encompassing approximately 710 square miles, is located in the western section of the County of Los Angeles (the "County") and includes virtually all of the City of Los Angeles (the "City") and all or significant portions of the Cities of Bell, Carson, Commerce, Cudahy, Gardena, Hawthorne, Huntington Park, Lomita, Maywood, Rancho Palos Verdes, San Fernando, South Gate, Vernon and West Hollywood, in addition to considerable unincorporated territory which includes residential and industrial areas. The boundaries for the District are about 80% coterminous with the City, with the remaining 20% included in unincorporated County areas and smaller neighboring cities. The District was formed in 1854 as the Common Schools for the City and became a unified school district in 1960.

District Governance; Senior Management

The District is governed by a seven-member Board of Education (the "District Board") elected by voters within the District to serve alternating four-year terms. The chief executive officer of the District appointed by the District Board to manage the day-to-day operations of the District is the Superintendent of Schools (the "Superintendent"). Ramon C. Cortines currently serves as the Superintendent. Brief biographical information for Superintendent Cortines and other senior management of the District is set forth below.

Ramon C. Cortines, Superintendent of Schools. Mr. Cortines was appointed to serve as the Superintendent on January 1, 2009. Prior to his appointment as Superintendent, Mr. Cortines served as the District's Senior Deputy Superintendent. From 2006 to 2008, Mr. Cortines served as the Deputy Mayor for Education, Youth and Families for the City of Los Angeles. Mr. Cortines has been Executive of the Pew Network for Standards-Based Reform at Stanford University since 1996. From March to August 1997, Mr. Cortines served as the acting Assistant Secretary for the United States Department of Education's Office for Educational Research and Improvement. From February through August of 1993, he served as Assistant Secretary (designate) for Intergovernmental and Interagency Affairs and for Human Resources in the United States Department of Education. He also served on the National Policy Board for Higher Education. From 1993 to 1995, Mr. Cortines served as the Chancellor of the New York City Public School System. In December 1992, Mr. Cortines chaired a Department of Education transition team for then President-Elect Bill Clinton. Since 1956, Mr. Cortines has served as Superintendent for six school districts, including the Pasadena Unified School District for eleven years, the San José Unified School District for two years and the San Francisco Unified School District for six

years. In 2000, Mr. Cortines served as Interim Superintendent for the District for six months. Mr. Cortines is a Trustee Emeritus of the J. Paul Getty Trust and a Trustee Emeritus of Brown University, and he currently serves as a trustee on the Woodrow Wilson Fellowship Fund. Mr. Cortines holds a Bachelor of Arts degree, a Master of Arts degree in school administration and a Master of Arts degree in adult education from Pasadena College (now, Point Loma Nazarene University).

In July 2010, Mr. Cortines announced that he expects to retire effective in the spring of 2011. The District is currently searching for a successor to Mr. Cortines.

John E. Deasy, Deputy Superintendent. Dr. Deasy has served as a Deputy Superintendent for the District since August 2010 and leads the overall programmatic and systems work of the District. Prior to joining the District, Dr. Deasy served as the Deputy Director of Education at the Bill & Melinda Gates Foundation where he oversaw the work of Effective Teaching at the foundation. Dr. Deasy served as Superintendent of the Prince George's County Public Schools in Maryland, where he earned a national reputation for his leadership in significantly narrowing the achievement gap between low-income and minority students and their peers. During his time at the Prince George's County Public Schools, Dr. Deasy also launched a pay-for-performance plan that was approved by the governing board of the Prince George's County Public Schools and developed jointly with such district's labor units, which helped the Prince George's County Public Schools to become a leader nationally in efforts to reward teachers for gains in student achievement. Previously, Dr. Deasy served as Superintendent of the Santa Monica-Malibu Unified School District in California and of the Coventry Public Schools in Rhode Island. In all three districts, he promoted rigorous and ambitious learning opportunities for youth, fair teacher and administrator evaluations, pay-for-performance, staff development and training and data-based decision-making. Dr. Deasy brings nearly three decades of experience in education to the District. He has been a Broad Fellow, an Annenberg Fellow, a State Superintendent of the Year, a presenter at numerous state and national conferences, and a consultant to school districts undertaking high school reform and district-wide improvement strategies. Dr. Deasy has spoken and written extensively on education and serves on numerous boards. Dr. Deasy holds a Bachelor of Arts in Biology and Chemistry Education and a Master of Arts in Education Administration from Providence College and a Doctor of Philosophy in Education from the University of Louisville.

David Holmquist, General Counsel. Mr. Holmquist has served as the District's General Counsel since October 1, 2009. As General Counsel for the District, Mr. Holmquist is responsible for administering the legal activities of the District's legal staff and outside legal firms. In addition, he coordinates the District's legal affairs, conducts litigation for the District and participates in trials related to matters of major importance to the District. Prior to his appointment as General Counsel, Mr. Holmquist served as Chief Operating Officer, Chief Risk Officer and as the Director of Risk Management and Insurance Services. Mr. Holmquist previously held positions with various public sector entities including Risk Manager of the City of Beverly Hills from 1996 to 2003, Risk Manager of the City of Buena Park from 1987 to 1996, and Safety Coordinator for the City of Fullerton from 1986 to 1987. Mr. Holmquist earned a Bachelor of Science degree in Business Administration from Oregon State University in 1983 and his Juris Doctorate degree from Western State University in 1995. A frequent lecturer and speaker, Mr. Holmquist was admitted to practice law before both the California and federal courts in 1995 and serves as an adjunct professor at the University of Southern California.

Wendy G. Macy, Chief Operating Officer. Ms. Macy began serving as the District's Chief Operating Officer in June 2010. As Chief Operating Officer, Ms. Macy is responsible for overseeing various business operations, including food services, transportation, procurement, purchasing, environmental health and safety, risk management and employee benefits. Prior to her current appointment Ms. Macy served as Personnel Director for the independent Personnel Commission for the District and as Associate General Counsel in the Office of General Counsel. As Personnel Director, she was responsible for overseeing the human resources functions for nearly 40,000 classified employees, and

as Associate General Counsel, for creating the risk management department. Before joining the District, Ms. Macy worked in private practice at large law firms. Ms. Macy holds numerous professional designations including Senior Professional in Human Resources, International Personnel Management Association Certified Professional and Certified Employee Benefits Specialist. She holds a Bachelor of Arts degree from Harvard College, *magna cum laude*, in History and Psychology and a Juris Doctorate from Harvard Law School, *cum laude*. She is licensed to practice law in the States of California and Pennsylvania.

Megan K. Reilly, Chief Financial Officer. Ms. Reilly began serving as the District's Chief Financial Officer in December 2007. Ms. Reilly served at the Naval Postgraduate School for 12 years, first as the Deputy Comptroller from 1995 to 1997 and then as Executive Director of Business Services and Comptroller from 1997 to 2007, during which time she directed a \$700 million financial management program for, among other things, education, facilities and capital improvement projects. Ms. Reilly has also served as the Comptroller of the Fleet Numerical Meteorology & Oceanography Center, Budget Analyst for the Naval Postgraduate School and Budget Analyst for the Department of the Navy Centralized Financial Management Trainee Program. Ms. Reilly graduated from Loyola College with a Bachelor of Science degree, Marion Knott Scholar, *cum laude*, from the Naval Postgraduate School with a Master of Science, Financial Management, and from Monterey College of Law with a Juris Doctorate.

James Sohn, Chief Facilities Executive. Mr. Sohn was appointed the District's Chief Facilities Executive in October 2009. Prior to this appointment, Mr. Sohn served as a Deputy Chief Facilities Executive. Mr. Sohn manages the District's bond program, which includes the new school construction program and improvements to existing campuses. Mr. Sohn is also responsible for the maintenance and operations of approximately 850 K-12 campuses. Prior to joining the District, Mr. Sohn managed the Los Angeles Community College District's \$6.1 billion renovation and its new construction program as the Program Director. From 2002 to 2005, Mr. Sohn served in a number of leadership roles in the New Construction Branch of the District's Facilities Services Division. Mr. Sohn has a Bachelor of Arts degree from the University of California at Berkeley, a Master of Business Administration degree from the University of Phoenix and a Master of Arts degree from Kings College in London, England. In addition, Mr. Sohn is a certified Leadership in Energy and Environmental Design Accredited Professional.

Timothy S. Rosnick, Controller. Mr. Rosnick joined the District in October 2006 and has served as the District's Controller since June 2008. He served as the District's Director of Accounting Controls from October 2006 through June 2007 and the Director of Treasury and Accounting Controls from July 2007 through June 2008. Prior to joining the District, Mr. Rosnick served as an Administrator at the Orange County Department of Education and as a Financial Officer with the Los Angeles County Office of Education. Mr. Rosnick graduated from the University of Washington with a Bachelor of Arts degree with Distinction in Economics and received a Master of Business Administration degree from the University of Texas at Austin. Mr. Rosnick is a member of the Government Finance Officers Association.

Facilities and Staff

As of June 30, 2010 the District operated 437 elementary schools, 78 middle/junior high schools, 70 senior high schools, 56 options schools, 12 multi-level schools, 16 special education schools, 25 magnet schools and 145 magnet centers, 24 community adult schools, five regional occupational centers, five skills centers, one regional occupational program center, 100 early education centers, four infant centers and 23 primary school centers. In addition, as of June 30, 2010, there were 11 affiliated charter schools operated by the District and 150 fiscally independent charter schools within the District's boundaries. Currently, there are 171 fiscally independent charter schools within the District's boundaries, which is more than any other school district in the nation. The District has certain fiscal oversight and other responsibilities with respect to both affiliated and fiscally independent charter schools. However, independent charter schools receive their funding directly from the State of California (the "State") and

function as separate local educational agencies, including having control over their staffing and budget. For these reasons, information regarding enrollment, average daily attendance, budgets and other financial information relating to independent charter schools is not included in the District's audit reports or in this Official Statement unless otherwise noted. See "STATE FUNDING OF EDUCATION - Charter School Funding" herein.

As of June 30, 2010, the District employed approximately 44,684 certificated (full-time equivalent ("FTE")) employees, approximately 30,545 classified (FTE) employees and approximately 18,915 non-regular employees. The District also employs part-time and temporary employees.

Public School Choice Program

In August 2009, the District Board authorized the Public School Choice Program under which the District invited operational and instructional plans from school planning teams, local communities, pilot school operators, labor partners, charter schools and others to operate the District's new schools and Program Improvement-3+ schools identified by the Superintendent and authorized under the federal No Child Left Behind Act of 2001. The application process requires approval of a plan by, among others, local review teams, and an advisory panel selected by the Superintendent and the District Board. Schools that participate in Public School Choice Program may be operated as traditional schools, pilot schools, iDesign schools, magnet schools, affiliated charter schools or independent charter schools. On February 23, 2010, the District Board approved the Superintendent's recommendations relating to applications to operate 36 schools. Twenty-eight of such schools were approved to be operated by their existing teachers and administrators. The Partnership of Los Angeles Schools was awarded operational control of three new schools, charter schools were awarded three schools and part of a fourth school, and a nonprofit organization was awarded one school.

In May 2010, the District announced the approval of the Public School Choice Program 2.0. The Public School Choice Program 2.0 will grant selected entities operational control of nine new schools and eight schools designated as low-performing "focus schools". The District received 129 letters of intent for nine new school campuses and 59 letters of intent for the eight "focus schools" by the June 30, 2010 deadline therefor. No applicant is guaranteed that its proposal would be approved by the District. The District expects to select the winning applicants in February 2011.

Academic Performance and Instructional Initiatives

During the last nine years, the District has made substantial progress regarding its students' performance on the California Academic Performance Index ("API"), the State's basic measurement of academic progress. Although the District's mean API scores for elementary schools, middle schools and high schools are lower than statewide mean API scores, the District's mean scores in all three areas have improved significantly since 1999 and have increased during that time at a higher rate than have Statewide mean scores. The District attributes its improved API performance to the implementation of a focused academic curriculum with rigorous standards in the core subjects, including reading and mathematics.

Despite these academic gains, in March 2005, the District was deemed a Program Improvement District based on measures established under the federal No Child Left Behind Act of 2001 (the "NCLB Act"). Under the NCLB Act, a state is required to identify a local educational agency ("LEA") for improvement ("Program Improvement") if the LEA fails to make adequate yearly progress ("AYP"), evaluated by state standards, for two consecutive years. The State evaluates AYP based on, among other things, a LEA's (1) percentage participation rates in English-language arts and mathematics assessments measured LEA-wide, by grade span (grades two through five, grades six through eight and grade ten) and by numerically significant subgroups within grade spans, (2) graduation rate criteria LEA-wide, if a LEA

has high school students and (3) percentage of students performing at or above the proficient level in English-language arts and mathematics (also measured LEA-wide, by grade span and by subgroups), as compared to performance targets established under the NCLB Act. The District believes that the reason for this designation relates mainly to the academic performance of the District's special education students and students for whom English is not their native language ("English Learners").

In addition, the NCLB Act requires that each LEA identified for Program Improvement take a variety of actions, including but not limited to developing or revising an improvement plan, promptly implementing that plan and informing parents of the LEA's Program Improvement status. Failure to achieve AYP in three consecutive years will result in corrective action by the state education agency. As of October 2010, the State had identified 234 school districts, including the District, and county offices of education in California, for Program Improvement Year 3 Corrective Action, Year 4 Corrective Action and Year 5 Corrective Action due to their respective failures to meet or exceed AYP goals for at least four consecutive years. As of October 2010, 292 schools within the District have been identified for Program Improvement Year 3 Corrective Action, Year 4 Corrective Action and Year 5 Corrective Action due to their respective failures to meet or exceed AYP goals for at least four consecutive years. The District has adopted a LEA Program Improvement Plan designed to address these academic performance concerns and has received additional categorical funding from the State for this purpose. The State Board of Education may invoke additional sanctions for Program Improvement LEAs in corrective action at any time. The District continues to work with the State during the State's evaluation process. The District does not expect its Program Improvement status or the Program Improvement status of individual schools to jeopardize the availability of federal or State categorical funding.

In March 2010, the President and the United States Department of Education published a policy framework (the "ESEA Blueprint") in connection with the proposed reauthorization of the Elementary and Secondary Education Act of 1965. The proposals contained in the ESEA Blueprint, if adopted, would overhaul the current NCLB Act and establish new accountability standards, grant programs, and school reform initiatives. The District cannot predict what actions will be taken in the future by Congress or the President in connection with the proposed reauthorization of the Elementary and Secondary Education Act. To the extent that the reauthorization of the Elementary and Secondary Education Act, if approved, results in reduced revenues or increased expenses for the District or requires programmatic changes, the District will be required to make adjustments to its budget.

Petitions with LACOE and CCSDO

Petitions have been occasionally filed with the Los Angeles County Office of Education (the "LACOE") to divide portions of the District into smaller school districts. In addition, the County Committee on School District Organization (the "CCSDO") has been periodically requested to approve petitions to form school districts within the District. Pursuant to Education Code Section 35730.1, the evaluation of such petitions requires extensive review of 10 critical factors, including equitable division of assets and liabilities and compliance with socio-economic diversity requirements and existing legal mandates. Under Education Code Section 35736, an equitable allocation of existing District debt obligations, including the Certificates described in the forepart of this Official Statement, would be required in any division of the District. There are presently no petitions pending with LACOE or CCSDO to divide the District. The District is unable to predict whether any petitions to create school districts within the District will be filed or the impact that any such petitions would have on the District.

Williams Settlement Agreement and Legislation; Funding for the New School Construction Program

In 2000, approximately 100 students in the City and County of San Francisco filed a class action lawsuit, *Eliezer Williams, et al., vs. State of California, et al.* (“*Williams*”), against the State and state education agencies, including the California Department of Education (the “CDE”). The plaintiffs alleged that the agencies failed to provide public school students with equal access to instructional materials, safe and decent school facilities, and qualified teachers. The District intervened in the *Williams* suit as a party and was a party to the settlement agreement described below.

The *Williams* case was settled in 2004. The settlement provided for several legislative proposals to ensure that all students will have books in specified subjects and that their schools be clean and in a safe condition. On September 29, 2004, Governor Schwarzenegger signed laws to establish minimum standards for school facilities, teacher quality and instructional materials and an accountability system, require the elimination of the use of the multi-track, year-round school calendar, known as Concept 6 by July 1, 2012, encourage the placement of qualified teachers in low performing schools, ensure the proper training of teachers of English Learners, streamline the process for highly qualified teachers from out-of-state to teach in California schools and address emergency facility repair projects and assess the condition of schools in the bottom three API deciles.

Pursuant to the terms of the settlement agreement and in accordance with the *Williams* legislation, in December 2004, the District Board adopted a new school construction plan that prioritizes school construction and revised the allocation of its Measure R general obligation funding to ensure all schools are removed from the Concept 6 calendar by July 1, 2012 (the “New School Construction Program”). As of December 1, 2010, the New School Construction Program’s cost is \$11.9 billion and will, among other things, provide facilities for more than 6,500 classrooms by the end of the 2011-12 school year. State and local bond measures and other funding sources provide revenues for this program. The New School Construction Program is presently fully funded.

The District received \$138.0 million in Fiscal Year 2009-10 under Senate Bill 1133, the “Quality Education Investment Act of 2006” (“QEIA”), which was signed into law by Governor Schwarzenegger on September 29, 2006 to implement the terms of the *CTA, et al. v. Schwarzenegger, et al.* settlement and discharge the outstanding balance of the maintenance factor regarding Proposition 98 funding that was due but not provided in Fiscal Years 2004-05 and 2005-06. The Revised 2009-10 State Budget Act (defined herein) delayed for one year the \$450 million settle-up payments from prior year obligations under the QEIA. However, Assembly Bill 56, enacted in October 2009 (“AB 56”), implemented a new funding mechanism for the QEIA program to fully fund that program in Fiscal Year 2009-10.

In Fiscal Year 2010-11, funding for eligible students in the grades K-3 is \$500 per pupil, the funding for eligible students in the grades 4-8 is \$900 per pupil, and the funding for eligible students in the grades 9-12 is \$1,000 per pupil. The District expects total funding from Senate Bill 1133 legislation of \$133.9 million in Fiscal Year 2010-11. See “STATE FUNDING OF EDUCATION – State Budget” herein.

Recent Event Concerning the New School Construction and Modernization Programs

On April 1, 2010, the Los Angeles County District Attorney’s Office indicted an independent contractor retained by the District to serve as a Regional Director in the New Construction Branch of the District’s Facilities Services Division. The indictment set forth nine felony counts, which are all alleged conflict of interest violations of Section 1090 of the State Government Code. The indictment asserted that between 2003 and 2007, the independent contractor was personally involved in decisions by the District to hire nine specifically-identified individuals from a company owned by the independent

contractor. The indictment stated the independent contractor recommended the hiring of his own employees without notifying District supervisors of the alleged conflict of interest. In December 2010, the independent contractor pled guilty to one count of conflict of interest based on the charge that he used his authority with the District to hire employees of the company that he owned.

Based upon a request from the District, the City of Los Angeles Office of the Controller (the “City Controller”) initiated an independent audit to evaluate historical hiring decisions and to ensure the District’s policies and procedures were consistently followed. In October 2010, the City Controller released its audit. The audit stated that the District’s employment policies between 2002 and 2006 were lax and there was limited information to confirm that the District’s policies were followed. Further, the City Controller stated that there were weaknesses in the hiring processes used prior to 2006, including some potential conflicts of interest. However, the City Controller reports that hiring decision documentation and conflict of interest compliance improved significantly from 2006 to present. The City Controller’s audit results do not indicate a need to significantly revamp the District’s current Contract Professional appointment processes or related conflict of interest policies and procedures because District practices since 2008 reflect general compliance and appropriate controls. Nevertheless, the City Controller recommended that the District investigate four potential conflicts of interest that it identified, review filings by Contract Professionals to identify any other potential conflict of interest issues, and review the assessor’s confidential list of individual Contract Professional appointments in which the City Controller identified that a panelist/decision-maker was from the same prime or subcontractor.

The District believes policies and procedures that it adopted in 2008 have significantly minimized the potential for conflicts of interest. In November 2010, the Superintendent announced an internal review of contracts that have been executed in connection with the District’s Facilities Department and construction programs. The District does not believe that the investigations, reviews and audits have had or will have a material adverse impact on the expenditure of general obligation bond proceeds or the ability of the District to pay principal of and interest evidenced by the Certificates when due.

Recent Events Regarding the Cafeteria Fund

In June 2010, the District received a letter from the CDE (the “June 2010 CDE Cafeteria Letter”) which stated that, among other things, certain expenditures relating to administrative support were inappropriately charged to the District’s Cafeteria Fund (the “Cafeteria Fund”) in Fiscal Years 2004-05 and 2007-08 and directed the District to immediately transfer \$54.9 million to the Cafeteria Fund to correct these alleged unallowable expenditures for those fiscal years. Further, the CDE directed the District’s Office of the Inspector General (the “OIG”) to quantify the amount of similar expenditures in Fiscal Years 2005-06, 2006-07, and 2009-10.

The CDE sent an addendum to the District in July 2010 requesting that the District, among other things, provide written verification of the District’s transfer of \$54.9 million from the General Fund to the Cafeteria Fund, direct the OIG to quantify the amount of money that the District is alleged to owe the Cafeteria Fund from Fiscal Years 2005-06 through 2009-10, implement appropriate cost allocation methods for Fiscal Year 2010-11, as outlined in reports of the OIG, and provide verification that the District’s corrective actions to the Cafeteria Fund have been implemented permanently. The July 2010 Addendum set forth an August 1, 2010 deadline for such corrective actions.

In November 2010, the OIG sent a letter to CDE stating that, due to the OIG’s statutory duty to report to the District Board, the CDE could not direct the OIG to undertake additional audits of the Cafeteria Fund. In addition, the OIG believes that the methodology used by the CDE to calculate the amount of \$54.9 million mischaracterized the findings of the OIG’s audit and inappropriately reached conclusions concerning the amount of money owed to the Cafeteria Fund in the subject years.

The District informed the CDE that any required reimbursement to the Cafeteria Fund should take into account the District's prior years' General Fund subsidy to the Cafeteria Fund and prior years' indirect cost allocations to the program. Nevertheless, on December 7, 2010, the District received a letter from CDE (the "December 2010 CDE Cafeteria Letter") indicating that the District had not submitted acceptable corrective action documents to the CDE regarding the CDE's requests. The CDE contends that the amount and timing of the District's prior transfers and the District's proposed cost allocation methodology do not satisfy the CDE's requests. In addition, the December 2010 CDE Cafeteria Letter stated that the CDE disagreed with the OIG's contention that additional involvement by the OIG with respect to verification of the District's corrective actions for the Fiscal Year 2004-05 and 2007-08 OIG audit financings is beyond its authority. The December 2010 CDE Cafeteria Letter requests that the District submit acceptable corrective action documents to it by January 6, 2011 and states that the CDE will withhold the District's meal reimbursement payments if the District fails to satisfy such request.

The District continues to contest the CDE's contention that the Cafeteria Fund was overcharged \$54.9 million as stated in the June 2010 CDE Letter and the December 2010 CDE Cafeteria Letter. Further, the District does not believe the CDE has taken into account the full amount of the General Fund subsidy. The District is currently in discussions with CDE about this matter. The District expects to submit additional documents to provide additional responses and clarification as requested in the December 2010 CDE Cafeteria Letter. The District is presently unable to determine the financial impact on the District which may occur as a result of the CDE's actions, particularly as a result of the duration of any withholding of reimbursements due to the District.

DISTRICT FINANCIAL INFORMATION

District Budget

General. State law requires that each school district maintain a balanced budget in each fiscal year, and that each district project beginning balances, revenues, expenditures, and ending balances for two subsequent years in order to provide, based upon the available information, that the district can project a positive, qualified or negative certification. See " – State Financial Accountability and Oversight Provisions – *Interim Reporting Requirements*" herein.

The CDE imposes a uniform budgeting and accounting format for school districts. Under current law, a school district governing board for school districts using a single adoption process must file with the county superintendent of schools a budget by June 30 immediately prior to each Fiscal Year (referred to herein as the "Final Adopted Budget"). A school district using a dual adoption process must file a provisional budget with the county superintendent of schools by June 30 immediately prior to each Fiscal Year and revise and re-adopt its budget by September 8 of each fiscal year. After approval of the Final Adopted Budget, the school district's administration may submit budget revisions for governing board approval during the fiscal year. The District used a single adoption process for its budget since its Fiscal Year 2009-10 Final Adopted Budget and each budget thereafter.

School districts in the State must also conduct a review of their budgets according to certain standards and criteria established by the CDE. A written explanation must be provided for any element in the budget that does not meet the established standards and criteria. The school district superintendent or designee must certify that such a review has been conducted and the certification, together with the budget review checklist and a written narrative, must accompany the budget when it is submitted to the school district's county office of education. The balanced budget requirement makes appropriations reductions necessary to offset any revenue shortfalls, unless sufficient balances exist to cover the shortfall.

Furthermore, county offices of education are required to review school district budgets, complete the budget review checklist, and conduct an analysis of any budget item that does not meet the established standards and criteria. In addition, county offices of education are required to determine whether the adopted budget will allow the school district to meet its financial obligations during the fiscal year and is consistent with a financial plan that will enable the school district to satisfy its multiyear financial commitments. Pursuant to the Education Code, on or before August 15 of each year, the county superintendent of schools must approve, conditionally approve, or disapprove the adopted budget for each school district. A copy of the completed checklist, together with any comments or recommendations, must be provided to the school district and its governing board by November 1 of such year.

If the county office of education disapproves the school district's budget, the county superintendent will submit to the governing board of the school district on or before August 15 of such year, recommendations regarding revisions of the budget and the reasons for the recommendations, including, but not limited to, the amounts of any budget adjustments needed before the county superintendent can conditionally approve that budget. On or before September 8 of each year, the governing board of the school district will revise the adopted budget to reflect changes in its projected income or expenditures subsequent to July 1, and to include any response to the recommendations of the county superintendent of schools, will adopt the revised budget, and will file a revised budget with the county superintendent of schools. If the county superintendent of schools disapproves the revised budget, he or she will call for the formation of a budget review committee. By November 30 of each year, every school district must have an adopted and approved budget, or the county superintendent of schools will impose one and report such school district to the State Legislature and the State Department of Public Finance.

Budget and Finance Policy. The District has adopted a Budget and Finance Policy that provides for the District to fund reserves for various purposes, including anticipated balances, general financial flexibility and accumulation of funding for replacement of depreciated capital items. The budgeting of the Reserve for Anticipated Balances reflects the District's best estimate of the year-end District General Fund balance. By establishing in the budget an anticipated ending balance level, this reserve allows the District to manage its budget with the intent of ending the fiscal year in a specific financial position, while also enabling the budget to more accurately reflect the actual level of anticipated District General Fund expenditures. The District's Chief Financial Officer has recommended that, with the exceptions of the mandated full funding of the Reserve for Economic Uncertainties and the Reserve for Anticipated Balances, the District postpone contributions to other reserves until they can be funded without significant impact on the instructional program and other essential District activities.

Fiscal Year 2009-10 Final Adopted Budget. The District's Fiscal Year 2009-10 Final Adopted Budget projected a District General Fund beginning balance of \$322.9 million, revenues of \$6.51 billion, total estimated expenditures of \$6.54 billion and an ending balance of \$294.0 million. The District General Fund beginning balance of \$322.9 million included \$72.4 million for the mandatory 1% Reserve for Economic Uncertainties, \$179.6 million of legally restricted funds, \$14.5 million reserved for inventories and revolving cash funds and \$56.4 million from the designated balance from Fiscal Year 2008-09. See "DISTRICT FINANCIAL INFORMATION – District Fiscal Policies" herein. The District's Fiscal Year 2009-10 Final Adopted Budget reflected the revenue assumptions contained in the Governor's proposed State budget for Fiscal Year 2009-10 as set forth in the updates to the May Revision to the Original 2009-10 State Budget Act.

In the Fiscal Year 2009-10 Final Adopted Budget, the District's K-12 school enrollment excluding fiscally-independent charter schools was projected to decrease an estimated 15,632 in Fiscal Year 2009-10 to approximately 621,689. The projected decrease was expected to be partially offset by growth of 776 in fiscally-affiliated charter schools. Declining enrollment statutes enabled the District to claim Fiscal Year 2009-10 revenue limit funding based on the ADA for Fiscal Year 2008-09. The full

extent of revenue losses attributable to enrollment declines were expected to occur in special education, lottery, and other funding sources, as those funding sources are not afforded the same benefit that is provided for revenue limit funding by the Education Code's declining enrollment statutes.

In the Fiscal Year 2009-10 Final Adopted Budget, the Base Revenue Limit, the largest unrestricted District General Fund revenue source, was projected to generate \$3.15 billion in Fiscal Year 2009-10. The May Revision to the Original 2009-10 State Budget Act included a 4.25% statutory COLA, which was offset by a 17.967% deficit factor, which effectively resulted in a COLA of a negative 3.44% for Fiscal Year 2009-10 as reflected in the Fiscal Year 2009-10 Final Adopted Budget. Based on these factors, the District's Fiscal Year 2009-10 funded Base Revenue Limit per unit of ADA was projected in the District's Fiscal Year 2009-10 Final Adopted Budget to be \$5,239.09, which represented a decline from the Fiscal Year 2008-09 level of \$5,645.07. Subsequent to the adoption of the District's Fiscal Year 2009-10 Final Adopted Budget, the State adopted the Revised 2009-10 State Budget Act, pursuant to which the District's funded Base Revenue Limit was projected to be \$4,962.13. The information set forth in Tables B-28 and B-29 herein reflects reductions to the funded Base Revenue Limit due to State legislation.

For Fiscal Year 2008-09, the District estimated that the special education program would require \$1.45 billion in District General Fund support, and that K-3 class-size reduction programs required approximately \$195.3 million. For Fiscal Year 2009-10, the District estimated that the special education program would require \$1.42 billion in District General Fund support and that K-3 class-size reduction programs would require approximately \$141.3 million.

The District's Fiscal Year 2009-10 Final Adopted Budget included reductions and redirections of funds totaling approximately \$536.5 million for Fiscal Year 2009-10 and more than \$1.5 billion in reductions and redirections of funds over subsequent fiscal years to maintain balance in the District's budget. The Superintendent recommended and the District Board unanimously approved the elimination of approximately 680 administrative positions, a proposal to reduce the District's workforce by approximately 2,000 teachers and 2,200 staff, net spending reductions in other areas and small increases in fee revenues in order to eliminate the budget deficit. In addition, the District Board agreed to consider budget balancing proposals, which included a proposal to shorten the work year with 27 days of furlough for classified non-school staff. The District's Fiscal Year 2009-10 Final Adopted Budget projected a balanced budget for Fiscal Year 2009-10.

District Revenues from the American Recovery and Reinvestment Act. In April 2009, the United States Department of Education announced the allocation to the State of \$3.1 billion from the State Fiscal Stabilization Fund of the American Recovery and Reinvestment Act of 2009 (the "ARRA"). In May 2009, the State Superintendent of Schools announced the preliminary entitlements for education entities through the State Fiscal Stabilization Fund's allocation of funds from ARRA. The District's State Fiscal Stabilization Funds ("SFSF") entitlement for Fiscal Year 2009-10 was originally estimated to be approximately \$408.3 million. However, approximately \$359 million of such amount was received in Fiscal Year 2008-09. In addition, the Revised 2009-10 State Budget Act includes \$61 million for special education pursuant to the Individuals with Disabilities Act ("IDEA") for the District, and \$156 million of Title I funds for the District for socio-economically disadvantaged students. The District designated approximately \$49.6 million of such amounts to help balance the budget for Fiscal Year 2010-11.

Fiscal Year 2010-11 District Budget. The District Board adopted its budget for Fiscal Year 2010-11 on June 17, 2010 (the "Fiscal Year 2010-11 District Budget") and submitted the Fiscal Year 2010-11 District Budget to LACOE in a timely manner for review. The Fiscal Year 2010-11 District Budget reflected the information provided by the State to the District through the May Revision to the 2010-11 Proposed State Budget and the updates thereto.

LACOE reviewed the District's Fiscal Year 2010-11 Final Adopted Budget and, in August 2010, LACOE informed the District that it had disapproved the Fiscal Year 2010-11 District Budget based upon the information known to LACOE as of the date of its review. LACOE stated that the Fiscal Year 2010-11 District Budget was not consistent with a financial plan that could enable the District to satisfy the District's multi-year commitments for Fiscal Years 2011-12 and 2012-13. LACOE requested that the District submit a revised budget for Fiscal Year 2010-11, which would incorporate the District's unaudited financial results for Fiscal Year 2009-10 and all revisions and modifications to its financial results. In addition, LACOE requested the District's revised budget for Fiscal Year 2010-11 reduce or eliminate deficit spending projected for Fiscal Years 2011-12 and 2012-13 and establish General Fund reserves in Fiscal Year 2011-12 and 2012-13.

On October 5, 2010, the District Board adopted a revised budget for Fiscal Year 2010-11 (the "Fiscal Year 2010-11 Revised District Budget") with a Fiscal Stabilization Plan (the "2010 Fiscal Stabilization Plan") to address budgetary imbalances for Fiscal Years 2010-11 through 2012-13. The Fiscal Year 2010-11 Revised District Budget and 2010 Fiscal Stabilization plan require that the District Board take action with greater specificity to address budgetary issues in Fiscal Year 2012-13. The Fiscal Year 2010-11 Revised District Budget assumes the provisions relating to K-12 finance set forth in the Governor's 2010-11 Proposed State Budget (defined herein), the May Revision to the 2010-11 Proposed State Budget (defined herein), and the 2010 Fiscal Stabilization Plan that was adopted by the District Board concurrently therewith. See Appendix B - "STATE FUNDING OF EDUCATION - State Budget - *State Budget for Fiscal Year 2010-11*" and "DISTRICT FINANCIAL INFORMATION - Fiscal Stabilization Plan" herein.

The Fiscal Year 2010-11 Revised District Budget projects a District General Fund beginning balance of \$646.9 million, revenues of \$6.42 billion, total estimated expenditures of \$6.59 billion and an ending balance of \$475.8 million. The District General Fund beginning balance of \$646.9 million includes \$65.4 million for the mandatory 1% Reserve for Economic Uncertainties, \$340.8 million of legally restricted funds, \$10.8 million reserved for inventories and revolving cash funds, \$119.5 million from the undesignated balance from Fiscal Year 2009-10 and \$110.4 million from the designated balance from Fiscal Year 2009-10. See "DISTRICT FINANCIAL INFORMATION – District Fiscal Policies" herein.

The District's projected funded revenue limit ADA is 572,885 for Fiscal Year 2010-11, 555,885 for Fiscal Year 2011-12 and 540,521 for Fiscal Year 2012-13. Declining enrollment statutes enable the District to claim Fiscal Year 2010-11 revenue limit funding based on the ADA for Fiscal Year 2009-10. The full extent of revenue losses attributable to enrollment declines are expected to occur in special education, lottery, and other funding sources, as those funding sources are not afforded the same benefit that is provided for revenue limit funding by the Education Code's declining enrollment statutes.

In the Fiscal Year 2010-11 Revised District Budget, the Base Revenue Limit, the largest unrestricted District General Fund revenue source, is projected to be \$3.65 billion in Fiscal Year 2010-11. The Fiscal Year 2010-11 Revised District Budget includes a statutory cost of living allowance of negative 0.39% with a deficit factor of 18.355%. After the deficit factor for Fiscal Year 2010-11 and other adjustments by the State are applied, the District's funded revenue limit is expected to generate approximately \$2.87 billion in Fiscal Year 2010-11.

Based on these factors, the District's Fiscal Year 2010-11 funded Base Revenue Limit per unit of ADA is projected in the Fiscal Year 2010-11 District Budget to be \$4,949.75, which represents a decline from the Fiscal Year 2009-10 funded Base Revenue Limit of \$4,962.13. Subsequent to the adoption of the District's Fiscal Year 2010-11 Revised District Budget, the State adopted the Fiscal Year 2010-11 State Budget Act, pursuant to which the District's funded Base Revenue Limit is projected to be \$5,219.65.

The information set forth in Tables B-28 and B-29 herein reflect reductions to the funded Base Revenue Limit due to State legislation.

The District's Fiscal Year 2010-11 Revised District Budget projects reserve levels of for the District General Fund Regular Program of 8.35% in Fiscal Year 2010-11, 6.41% for Fiscal Year 2011-12 and negative 3.39% for Fiscal Year 2012-13. LACOE noted that the projected Reserve for Economic Uncertainties for Fiscal Years 2010-11 and 2011-12 meet the minimum State requirements, the projection for Fiscal Year 2012-13 does not. LACOE has noted that the District Board has resolved to address this projected shortfall.

The Fiscal Year 2010-11 Revised District Budget includes certain assumptions and policies, including among other things, an additional 3.85% reduction to the undeficit revenue limit (equaling approximately \$244.96 per ADA), an enrollment decline of 17,458 from Fiscal Year 2009-10 for non-charter school enrollment and an enrollment increase of approximately 5,819 for charter school enrollment, implementation of balancing solutions adopted by the District Board in connection with the Fiscal Year 2009-10 Second Interim Financial Report; restoration of positions specified in bargaining unit agreements with members of UTLA (defined herein), AALA (defined herein), and Unit B, Unit C, and Unit S; seven furlough days for AALA and UTLA members; eight furlough days for District-represented employees, Service Employees International Union Local 99 members (Unit B and Unit C); twelve furlough days for Unit S employees; funding for employee health and medical benefits at the level currently agreed to in collective bargaining negotiations; ongoing and major maintenance resources totaling \$122.6 million, which reflects 2% of budgeted District General Fund expenditures; inclusion of amounts in the bond measure funds reflecting projected Fiscal Year 2010-11; inclusion of amounts reflecting debt service and proceeds for the execution of new COPs (defined herein), including the Certificates, identified after the Fiscal Year 2010-11 District Budget was adopted; inclusion of total Workers' Compensation contribution liability of \$459.6 million; inclusion of amounts reflecting new interfund transfers into the District General fund from other funds identified after the adoption of the Fiscal Year 2010-11 District Budget; the authority to transfer amounts, as necessary, to implement technical adjustments related to development of the 2010-11 budget; authority to implement new 2010-11 grants and increase budgeted appropriations from them. In addition, the District Board has approved the proposed use of Tier III categorical funds in the Fiscal Year 2010-11 District Budget.

District Revenues from the Education Jobs and Medicare Act of 2010. In October 2010, the CDE announced the allocation to the District through the State of \$114.8 million from the Education Jobs and Medicare Act of 2010. The District may use the funds for compensation and benefits and other expenses, such as support services, necessary to retain existing employees, to recall or rehire former employees and to hire new employees in order to provide early childhood, elementary, or secondary educational and related services. In addition, the District may be able to use such funds to restore reductions in salaries and benefits or to implement increases, and it may use the funds to eliminate furlough days.

The following Table B-1 sets forth the District's Final Adopted Budgets for the District General Fund, inclusive of Regular and Special Fund programs for Fiscal Year 2007-08 through Fiscal Year 2010-11.

TABLE B-1
Los Angeles Unified School District
Final Adopted Budgets for Fiscal Year 2007-08 through Fiscal Year 2010-11
for the District General Fund⁽¹⁾
(\$ in millions)

	Final Adopted Budget 2007-08	Final Adopted Budget 2008-09	Final Adopted Budget 2009-10 ⁽²⁾	Final Revised Budget 2010-11 ⁽³⁾
Beginning Balance⁽⁴⁾	\$ 518.3	\$ 574.3	\$ 300.1	\$ 646.9
Revenue:				
State Apportionment	\$2,912.0	\$2,762.7	\$2,368.7	\$2,026.9
Property Taxes	741.2	780.4	785.3	846.0
Total Revenue Limit Revenues ⁽⁵⁾	\$3,653.2	\$3,543.1	\$3,154.0	\$2,872.9
Federal	\$ 905.7	\$ 830.8	\$1,355.1	\$1,251.9
Other State	2,336.4	2,169.0	1,872.4	2,108.4
Other Local	139.8	148.0	106.6	147.3
Other Sources	124.4	102.8	43.8	40.2
Total Revenue⁽⁵⁾	\$7,159.5	\$6,792.0	\$6,532.0	\$6,420.7
Total Beginning Balance and Revenue⁽⁵⁾	\$7,677.9	\$7,366.3	\$6,832.1	\$7,067.7
Expenditures:				
Certificated Salaries	\$3,376.7	\$3,203.7	\$2,939.2	\$2,779.9
Classified Salaries	977.7	998.1	888.2	839.4
Employee Benefits	1,346.9	1,301.5	1,411.7	1,397.7
Books and Supplies	589.7	467.7	514.7	598.1
Other Operating Expenses	763.7	817.2	709.8	792.1
Capital Outlay	60.9	41.1	37.4	39.7
Other Outgo/Other Uses	91.9	72.5	39.1	145.0
Total Expenditures⁽⁵⁾	\$7,207.6	\$6,901.7	\$6,540.1	\$6,591.9
Ending Balance⁽⁵⁾	\$ 470.2	\$ 464.6	\$ 292.0	\$ 475.8

⁽¹⁾ Includes Regular and Special Fund Programs.

⁽²⁾ The District's Fiscal Year 2009-10 Final Adopted Budget was based upon information from the State through the May Revision to the Original 2009-10 State Budget Act. Accordingly, the information set forth above does not reflect the information set forth in the Revised 2009-10 State Budget Act. See "STATE FUNDING OF EDUCATION – State Budget –*State Budget for Fiscal Year 2009-10*" herein. See "DISTRICT FINANCIAL INFORMATION – State Financial Accountability and Oversight Provisions - *District Second Interim Report for Fiscal Year 2009-10*".

⁽³⁾ The District's Fiscal Year 2010-11 Revised District Budget is based upon information from the State through September 2010, and the assumptions described above. The information set forth above does not reflect the information set forth in the Fiscal Year 2010-11 State Budget Act. See "DISTRICT FINANCIAL INFORMATION - District Revenues from the Fiscal Year 2010-11 State Budget Act" herein.

⁽⁴⁾ Actual beginning balance for each Fiscal Year, except for (a) Fiscal Year 2008-09 which is an unaudited estimate that has been revised to reflect refinements of Fiscal Year 2007-08 expenditures in selected programs and (b) Fiscal Year 2009-10, which is estimated and reflects a downward adjustment to the estimate in the Fiscal Year 2009-10 Adopted Budget to account for certificates of participation that were not issued in Fiscal Year 2008-09.

⁽⁵⁾ Totals may not equal sum of components due to independent rounding.

Sources: Los Angeles Unified School District Final Adopted Budgets for Fiscal Years 2007-08 through 2009-10 and the Los Angeles Unified School District Revised Budget for Fiscal Year 2010-11.

Fiscal Stabilization Plan. In October 2010, the District Board agreed to consider several options provided for in the “General Fund Fiscal Stabilization Plan for Fiscal Year 2010-11 through 2012-13” (the “2010 Fiscal Stabilization Plan”), to reduce a then-projected cumulative deficit of \$891.1 million by the end of Fiscal Year 2012-13. The Superintendent proposes to use the District’s projected non-cumulative balance of \$93.7 million from Fiscal Year 2010-11 in Fiscal Year 2011-12.

The District projects that it can save approximately 1,700 jobs by using funds from the federal Education Jobs and Medicaid Assistance Act of 2010, which, based on the allocation at the time of the 2010 Fiscal Stabilization Plan, was estimated to be \$103.3 million. The District’s current allocation from the Education Jobs and Medicaid Assistance Act of 2010 is approximately \$114.8 million. See “DISTRICT FINANCIAL INFORMATION - District Budget - District Revenues from the Education Jobs and Medicare Act of 2010” herein. In addition, the District has identified approximately \$42.9 million from adult education that it can redirect to the operating budget of the District General Fund without curtailing any of the current programs by using Tier III flexibility. Such action is projected to save an additional 700 jobs. In order for the District to generate the remaining balance, the 2010 Fiscal Stabilization Plan includes the following four options, which the District will explore concurrently.

The first option (“Option #1”), if approved, would implement salary reductions for all employees for Fiscal Year 2011-12. The District projects that such option would generate savings of approximately \$142.4 million in Fiscal Year 2011-12. In connection with Option #1, the District plans to review tiering the percentage of salary reduction to reduce the impact on employees with lower salaries. If approved, Option #1 would maintain the current number of days in the school calendar. In addition, the District projects that it would save more than 3,300 jobs and preserve the instructional program for students. Option #1 is subject to negotiations and approval by the affected collective bargaining units.

The second option (“Option #2”), if approved, would implement salary reductions and seven furlough days for all employees, which the District projects would save approximately \$142.4 million in Fiscal Year 2011-12. Option #2 would reduce the number of days in the school calendar by seven, which includes two pupil-free days. If approved, Option #2 would offset some of the reduction in pay with a reduction of work for District employees. The District projects that Option #2 would save more than 3,300 jobs. The reduction in the instructional calendar would take advantage of State flexibility provisions. Option #2 is subject to negotiations and approval by the affected collective bargaining units.

The third option (“Option #3”), if approved, would approve a budgetary formula pursuant to which the current level of furlough days for each of the bargaining units is maintained and salary reduction becomes a variable with a placeholder for all other alternatives explored (e.g. rightsizing: central office, local district, and basis changes, “freezing” step advances, pursuing increased revenues) in order to generate budgetary savings of \$142.4 million. Option #3 is subject to negotiations and approval by the affected collective bargaining units.

The fourth option (“Option #4”), if approved, would implement the personnel reductions that the District avoided in connection with the certificated and classified collective bargaining agreements in Fiscal Year 2010-11, which provided savings of approximately \$145.6 million in Fiscal Year 2011-12 and \$638.0 million in Fiscal Year 2012-13. The 2010 Fiscal Stabilization Plan sets forth Option #4 as the default option in the event no other alternatives are negotiated and approved. If implemented, Option #4 would result in the loss of more than 3,300 jobs. Unlike the options described above, Option #4 is not subject to negotiation and approval by the affected collective bargaining units and may be implemented unilaterally by the District Board. See “DISTRICT FINANCIAL INFORMATION - Collective Bargaining” herein.

District Budget and Interim Financial Estimates. The following Table B-2 summarizes the originally budgeted revenues and expenditures and the projected year-end amounts, including the projected year-end District General Fund Balance as reported in the Fiscal Year 2010-11 First Interim Financial Report.

TABLE B-2

**Los Angeles Unified School District
Fiscal Year 2010-11
District General Fund
Summary of Balances, Revenues and Expenditures
(\$ in millions)⁽¹⁾**

	Fiscal Year 2010-11 Revised District Budget	First Interim Report (December 2010)
Beginning Balance	\$ 646.9	\$ 646.9
Revenues/Other Sources	\$ 6,420.7	\$ 6,202.1
Expenditures/Other Uses	\$ 6,591.9	\$ 6,368.7
Operating Surplus (Deficit)	\$ (171.2)	\$ (166.6)
Ending Balance	\$ 475.8	\$ 480.4

⁽¹⁾ Totals may not equal sum of components due to rounding.

Source: Controller, Los Angeles Unified School District.

State Financial Accountability and Oversight Provisions

Interim Reporting Requirements. State Assembly Bill 1200 (“A.B. 1200”), effective January 1, 1992, tightened the budget development process and interim financial reporting for public school districts, enhancing the authority of the offices of the county superintendents of schools and establishing guidelines for emergency State aid apportionments. State Assembly Bill 2756 (“A.B. 2756”), effective June 21, 2004, revised the existing provisions of A.B. 1200 and imposed additional financial accountability and oversight requirements on public school districts. Under the provisions of A.B. 1200, each school district is required to file interim certifications with the county office of education as to its ability to meet its financial obligations for the remainder of the then-current fiscal year and, based on current forecasts, for the two subsequent fiscal years. A positive certification is assigned to any school district that, based on then-current projections, will meet its financial obligations for the current fiscal year and subsequent two fiscal years. A negative certification is assigned to any school district that, based on then-current projections, will be unable to meet its financial obligations for the remainder of the fiscal year or subsequent fiscal year. A qualified certification is assigned to any school district, based on then-current projections, which may not meet its financial obligations for the current fiscal year or two subsequent fiscal years. Under the provisions of A.B. 2756, for school districts that are certified as qualified or negative, the county superintendent of schools is required to report to the State Superintendent of Public Instruction on the financial condition of the school district and his or her proposed remedial actions and to take all actions that are necessary to ensure that the school district meets its financial obligations. The county office of education reviews the interim reports and certifications made by school districts and may change certification to qualified or negative if necessary. If a school district has a qualified or negative certification report in any year, the district may not issue non-voter-approved debt instruments in that fiscal year or in the next succeeding fiscal year, unless the county office of education, using criteria from

the State Superintendent of Public Instruction, determines repayment is probable. LACOE has determined, provided that the District continues to exercise its fiduciary responsibility to maintain fiscal solvency for Fiscal Year 2010-11, 2011-12 and 2012-13, and based on the District's Fiscal Year 2010-11 and multiyear projections and assurances, which reflect the principal and interest evidenced by the Certificates, that the District's repayment of the Certificates described in the forepart of this Official Statement is probable. Accordingly, LACOE, in accordance with the provisions of the Education Code, has given permission to the District to cause the Certificates to be executed and delivered.

District First Interim Report for Fiscal Year 2009-10. The District's Fiscal Year 2009-10 First Interim Report, dated December 4, 2009 (the "Fiscal Year 2009-10 First Interim Report") was approved on December 8, 2009 and filed with LACOE by December 15, 2009, the deadline therefor. The Fiscal Year 2009-10 First Interim Report reflected the funding under the Revised 2009-10 State Budget Act, AB 56 and other legislation adopted prior to the submission of the Fiscal Year 2009-10 First Interim Report. The District filed the Fiscal Year 2009-10 First Interim Report with a qualified certification of financial condition. The Fiscal Year 2009-10 beginning balance in the District General Fund as reported in the Fiscal Year 2009-10 First Interim Report did not reflect the downward adjustment to the Fiscal Year 2008-09 ending balance in the District General Fund recommended by the District's auditor subsequent to the filing of the Fiscal Year 2009-10 First Interim Report. See Table B-2 – "District General Fund – Summary of Balances, Revenues and Expenditures" herein. The District's Fiscal Year 2009-10 First Interim Report reflected the funding made available by the Revised 2009-10 State Budget Act, including all funding reductions, shifts and reallocations. The Fiscal Year 2009-10 First Interim Report indicated that the District, based on then-current projections, would have a positive ending balance of \$337.9 million in the General Fund at the end of Fiscal Year 2009-10. The Fiscal Year 2009-10 First Interim Report also indicated that, absent corrective action, the District would face a budgetary shortfall of \$469.79 million in Fiscal Year 2010-11, which would grow to \$700.62 million in Fiscal Year 2011-12. In connection with the Fiscal Year 2009-10 First Interim Report, the District adopted a Fiscal Stabilization Plan (the "2009 Fiscal Stabilization Plan") for consideration, which included four options. Three of these options would require cooperative agreements with the District's stakeholders, including voters and employee bargaining units. Pursuant to the 2009 Fiscal Stabilization Plan, the District could implement the fourth option, which included labor and other expenditure reductions, unilaterally. The District expected that certain proposals contained in the 2009 Fiscal Stabilization Plan would, if adopted, reduce or eliminate the deficits projected in the Fiscal Year 2009-10 First Interim Report.

District Second Interim Report for Fiscal Year 2009-10. The District's Fiscal Year 2009-10 Second Interim Report, dated March 10, 2010 (the "Fiscal Year 2009-10 Second Interim Report") was approved by the District Board on March 10, 2010 and filed with LACOE by March 15, 2010, the deadline therefor. The Fiscal Year 2009-10 Second Interim Report reflected the funding under the Proposed 2010-11 State Budget and legislation adopted prior to the submission of the Fiscal Year 2010-11 Second Interim Report. The District filed the Fiscal Year 2009-10 Second Interim Report with a qualified certification of financial condition. The Fiscal Year 2009-10 Second Interim Report indicated that the District, based on then-current projections, would have a positive ending balance of \$376.9 million in the District General Fund at the end of Fiscal Year 2009-10. The Fiscal Year 2009-10 Second Interim Report also indicated that the District would have a budgetary deficit of \$640 million in Fiscal Years 2010-11 and 2011-12. The District's Fiscal Year 2009-10 Second Interim Report included budget balancing proposals in the aggregate amount of \$640 million to address a projected shortfall in Fiscal Year 2010-11. These proposals updated and revised the prior proposals included in the 2009 Fiscal Stabilization Plan. Under the Fiscal Year 2009-10 Second Interim Report, in the event that labor concessions were not obtained or in the event that the savings relating to the labor concessions were insufficient to balance the District's budget, the District expected that its budget would be balanced with other recommendations set forth in the 2009 Fiscal Stabilization Plan including, among other things, workforce reductions of approximately 6,310 employees, a salary reduction and the adoption of up to

twelve furlough days. The District issued a significant number of layoff notices by the March 15, 2010 deadline therefor in order to unilaterally dismiss employees for Fiscal Year 2010-11, if necessary. See “ – Collective Bargaining” herein. The District’s revenue projections, among other things, assumed passage of the final State Budget for Fiscal Year 2010-11 in the form set forth in the Proposed 2010-11 State Budget.

District June Report for Fiscal Year 2009-10. In connection with the District’s submission of a qualified certification for its Fiscal Year 2009-10 Second Interim Financial Report, LACOE requested that the District provide a third interim financial report in June 2010 (the “June Report for Fiscal Year 2009-10”). The June Report for Fiscal Year 2009-10 was timely delivered to LACOE and the District Board for review. The June Report for Fiscal Year 2009-10 stated that the District, based on then-current projections, would have a positive ending balance of \$463.4 million in the District General Fund at the end of Fiscal Year 2009-10. The District’s General Fund ending balance for Fiscal Year 2009-10 was \$662.9 million based upon its audited financial statements for Fiscal Year 2009-10.

District First Interim Report for Fiscal Year 2010-11. The District’s Fiscal Year 2010-11 First Interim Report (the “Fiscal Year 2010-11 First Interim Report”) will be filed with LACOE by December 15, 2010, the deadline therefor. The Superintendent has recommended that the District submit its Fiscal Year 2010-11 First Interim Report with a self-certified qualified certification of its financial condition. The Fiscal Year 2010-11 First Interim Report will not project increased revenues as set forth in the Fiscal Year 2010-11 State Budget Act. Due to, among other things, the State’s projected budget deficit, the District does not expect to receive certain revenues or revenue increases previously projected in the Fiscal Year 2010-11 State Budget Act.

The District’s Fiscal Year 2010-11 Revised Budget projected that the District would end Fiscal Year 2010-11 with a General Fund balance of approximately \$136.2 million and, subject to budgetary adjustments, the District would end Fiscal Year 2011-12 with a deficit of approximately \$142.4 million. However, if collective bargaining units accept seven furlough days and the District is able to reduce central office expenditures by \$5 million, the deficit for Fiscal Year 2011-12 would be approximately \$37.2 million. The Fiscal Year 2010-11 First Interim Report projects that the District’s projected ending balance for Fiscal Year 2010-11 of \$136.2 million set forth in the District’s Fiscal Year 2010-11 Revised Budget should be reduced by \$41.3 million. In addition, the Fiscal Year 2010-11 First Interim Report projects that, subject to budgetary adjustments, the District’s ending balance for Fiscal Year 2011-12 should be reduced by an additional \$42.4 million for a cumulative negative change of \$83.7 million.

The Fiscal Year 2010-11 First Interim Report will state that the District will be able to meet its financial obligations in Fiscal Year 2010-11, and staff recommends that the District continue to seek budget-balancing solutions and shared commitments from its collective bargaining units for Fiscal Years 2011-12 and 2012-13. In accordance with LACOE’s request that the District adopt and submit a fiscal stabilization plan that includes any changes to the 2010 Fiscal Stabilization Plan for Fiscal Years 2011-12 and addresses the projected shortfall in District reserves in Fiscal Year 2012-13 when it submits its First Interim Financial Report for Fiscal Year 2010-11, the District Board expects to adopt a resolution with respect to the District’s fiscal plans that will reaffirm the District’s commitment to meet its financial obligations. The District’s administration has continued to confer with LACOE regarding its financial projections. The District does not expect to receive a formal response to its Fiscal Year 2010-11 First Interim Report from LACOE until January 2011.

Significant Accounting Policies, System of Accounts and Audited Financial Statements

The CDE imposes by law uniform financial reporting and budgeting requirements for K-12 school districts. Financial transactions are accounted for in accordance with the California School Accounting Manual. The District uses fund accounting and maintains governmental funds, proprietary funds and fiduciary funds. The District's General Fund is the chief operating fund of the District. For a description of the other major funds of the District, see the description thereof contained in APPENDIX C – "SELECTED INFORMATION FROM AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2010". Note 1 to such audited financial statements for Fiscal Year 2008-09 sets forth significant accounting policies that the District follows.

The District is required to file its audit report for the preceding fiscal year with the State Controller's Office, the CDE and the County Superintendent of Schools by December 15. The District filed its audit report for the Fiscal Year 2005-06 in compliance with such requirement. However, in 2005 the District commenced the implementation of an enterprise resource planning system called the Business Tools for Schools to begin implementation of various components of certain information technology projects. Implementation problems relating to the human resources and payroll components of Business Tools for Schools led to delayed reconciliation of the District's audited financial statements for Fiscal Year 2006-07, which, in turn, affected the timely delivery of the District's comprehensive annual financial reports for Fiscal Years 2007-08 and 2008-09 to LACOE by the respective December 15, 2008 and December 15, 2009 deadlines therefor set forth in Section 41020 of the Education Code. The District expects to file its audited financial statements for Fiscal Year 2009-10 by the December 15, 2010 deadline therefor. The human resources and payroll components are currently operating within industry standards. The District is currently reconciling data with respect to its STRS, PERS and PARS contributions, particularly in relation to the Business Tools for Schools' implementation problems. The District cannot predict whether such reconciliation will result in an upward or downward estimate of the District's required STRS, PERS and PARS contributions or the amounts of such revised estimate.

Notwithstanding the delays relating to the reconciliation of the District's audited financial information for Fiscal Years 2006-07 through 2008-09, the District complied with the continuing disclosure undertakings for each such fiscal year with respect to its outstanding debt obligations by filing with the appropriate repositories unaudited financial statements by the respective deadlines therefor set forth in the District's continuing disclosure undertakings. Further, the District filed the audited financial statements for Fiscal Year 2006-07 and 2007-08 when they were available and filed its audited financial statements for Fiscal Year 2008-09 on February 26, 2010. See "CONTINUING DISCLOSURE" in the forepart of this Official Statement.

Simpson & Simpson Certified Public Accountants, Los Angeles, California, served as independent auditor to the District for its audited financial statements for Fiscal Year 2009-10. See Appendix C – "SELECTED INFORMATION FROM AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2010" attached to this Official Statement.

The following Table B-3 sets forth the District's audited General Fund revenues, expenditures and fund balances for the Fiscal Years ended June 30, 2006 through June 30, 2010.

TABLE B-3

Los Angeles Unified School District
Statement of Revenues, Expenditures and District General Fund Balance⁽¹⁾
Fiscal Years Ended June 30, 2006 through June 30, 2010
(\$ in millions)

	Fiscal Year 2005-06	Fiscal Year 2006-07	Fiscal Year 2007-08	Fiscal Year 2008-09	Fiscal Year 2009-10
Beginning Balance	\$ 349.6	\$ 434.5	\$ 695.2	\$ 657.2	\$ 750.0
Revenues:					
State Apportionment	\$2,791.7	\$2,912.3	\$2,817.7	\$2,517.5	\$2,120.9
Property Taxes ⁽²⁾	777.6	811.3	806.4	927.4	856.4
Total Revenue Limit Revenues	\$3,569.3	\$3,723.6	\$3,624.1	\$3,444.9	\$2,977.2
Federal	889.5	775.6	756.4	1,077.1	964.0
Other State	1,915.1	2,302.1	2,304.5	1,964.3	2,159.4
Other Local	98.1	120.3	123.7	163.4	108.1
Other Sources ⁽³⁾	100.7	72.4	145.6	114.8	93.5
Total Revenue	\$6,572.7	\$6,994.0	\$6,954.3	\$6,764.5	\$6,302.1
Total Beginning Balance and Revenues	\$6,922.3	\$7,428.5	\$7,649.5	\$7,421.7	\$ 7,052.1
Expenditures					
Certificated Salaries	\$3,051.0	\$3,214.5	\$3,314.6	\$3,231.9	\$2,807.9
Classified Salaries	897.9	981.1	1,054.2	997.7	908.1
Employee Benefits	1,292.2	1,314.0	1,318.0	1,284.5	1,407.4
Books and Supplies	435.9	373.9	435.3	296.6	260.1
Other Operating Expenses	616.8	708.0	764.9	744.4	760.7
Capital Outlay	63.1	34.8	37.0	27.5	18.2
Other Outgo/Other Uses ⁽⁴⁾	130.9	107.0	68.2	89.0	226.7
Total Expenditures	\$6,487.8	\$6,733.3	\$6,992.2	\$6,671.8	\$6,389.1
Ending Balance	\$ 434.5	\$ 695.2	\$ 657.2	\$ 750.0	\$ 662.9

⁽¹⁾ Includes Regular and Special Fund Programs. Totals may not equal sum of components due to rounding.

⁽²⁾ Beginning in Fiscal Year 2003-04, the State required counties, cities and special districts to shift property tax revenues to school districts by contributing to the Education Revenue Augmentation Fund in lieu of direct payments to school districts from the State's General Fund. The State reduced property tax allocations to school districts to replace the shift of vehicle license fee revenues from local governments to the State. The State General Fund offset both transfers to hold school districts and community colleges harmless. As a result of these property tax shifts, the share of District revenues that came from the State fluctuated during the affected fiscal years. See "STATE FUNDING OF EDUCATION – General" herein and "CALIFORNIA CONSTITUTIONAL AND STATUTORY PROVISIONS RELATING TO *AD VALOREM* PROPERTY TAXES, DISTRICT REVENUES AND APPROPRIATIONS - Proposition 22" herein.

⁽³⁾ Includes Operating Transfers In, Support Costs transferred to the District General Fund, Insurance Proceeds and Capital Leases.

⁽⁴⁾ Includes Operating Transfers Out, Support Costs transferred from the District General Fund and Debt Service.

Sources: District's audited financial statements for Fiscal Years 2005-06 through 2009-10.

Collective Bargaining

General. The District has eleven bargaining units. The following Table B-4 sets forth the expiration dates of the labor agreements with each of the District's employee bargaining units as of December 1, 2010.

TABLE B-4

**Los Angeles Unified School District
Employee Bargaining Units**

Employee Bargaining Unit	Contract Expiration Date⁽¹⁾
Associated Administrators of Los Angeles	6/30/2011
Unit A (School Police)	6/30/2011
Unit B (Instructional Aides)	6/30/2011
Unit C (Operations – Support Services)	6/30/2011
Unit D (Office – Technical and Business Services)	6/30/2008
Unit E (Skilled Crafts)	6/30/2011
Unit F (Teacher Assistants)	6/30/2011
Unit G (Playground Aides)	6/30/2011
Unit H (Sergeants and Lieutenants)	6/30/2008
Unit S (Classified Supervisors)	6/30/2008
United Teachers of Los Angeles	6/30/2011

⁽¹⁾ (1) The District and each of the employee bargaining units set forth in the table above for which the applicable contract has expired are operating under the terms of the applicable expired contract. As of the date hereof, the District and such bargaining units are negotiating terms to be contained in new contracts.

Source: Los Angeles Unified School District.

The District is currently in negotiations with United Teachers Los Angeles ("UTLA"), the District's largest union, and the Associated Administrators of Los Angeles ("AALA") regarding the recommendations made by the Teacher Effectiveness Task Force during spring 2010. These negotiations focus on the creation of an improved multiple-measure evaluation system, the distribution and utilization of National Board Certified Teachers, the use of joint models of study to identify and reward career performance and development, and efforts to effect changes to different personnel decisions.

The District expects to open negotiations with respect to a successor agreement with UTLA in January 2011. Until that date, however, the District or the UTLA may reopen the current agreement with respect to an article thereof, which pertains to salaries, other compensation matters, and related provisions of the labor agreement in the event the District or the UTLA believes that a material change in the District's financial condition has occurred.

AALA may open negotiations with respect to two articles thereof for the AALA 2010-2011 reopener. The District has submitted initial proposals on two articles relating to negotiations on evaluations. AALA and the District may open an additional article of the labor agreement between January 1, 2011 and February 1, 2011. In addition, AALA and the District may reopen the current agreement over an article thereof, which pertains to salaries, and other compensation matters. The District expects to open negotiations with respect to successor agreements with AALA in January 2011.

The District is currently negotiating a successor agreement with Unit H and Unit S. The District is currently at “impasse” with Unit D concerning their successor agreement. In February 2009, the District reached a three-year agreement with all bargaining units regarding health and welfare benefits. The multi-year agreement defines the District’s contribution towards health and welfare benefits for active and retired employees. The agreement sets new benchmarks for when newly-hired District employees become eligible for lifetime benefits. The labor agreement caps the amount that health care benefit costs can increase at 3.5% annually. However, in the event that insurance companies increase prices at rates higher than 3.5%, the Health Benefits Committee, which is comprised of representatives of the respective bargaining units and one District member, would be required to modify health plans in accordance with the budget or employees will face salary deductions. See also “DISTRICT FINANCIAL INFORMATION – Other Post-Employment Benefits” herein.

Furlough Days. In March 2010, the District Board approved a proposal to eliminate four instructional days and one non-instructional day from the Fiscal Year 2009-10 school year. See “STATE FUNDING OF EDUCATION – State Budget – State Budget for Fiscal Year 2009-10” and – “State Budget for Fiscal Year 2010 11” herein. In April 2010, the membership of UTLA and AALA approved the proposal to eliminate four instructional days and one non-instructional day from the Fiscal Year 2009-10 school year and seven instructional days during the Fiscal Year 2010-11 school year. UTLA and AALA members will take five furlough days during the Fiscal Year 2009-10 school year and seven furlough days during the Fiscal Year 2010 11 school year. In April 2010, the District Board approved the agreements with UTLA and AALA to modify the instructional calendar for Fiscal Years 2009-10 and 2010-11 as provided in its original proposal. As of October 2010, the District has reached agreements with each classified bargaining unit with respect to furlough days or other cost saving measures in Fiscal Year 2010-11 in exchange for restoration of bargaining unit positions.

Litigation regarding District Layoff Procedures. A complaint for injunctive and declaratory relief was filed on February 24, 2010 against the District and the State entitled *Reed, et al. v. State of California and the Los Angeles Unified School District, et al.* in the Los Angeles County Superior Court. The plaintiffs, who are students at three middle schools within the District, allege in this complaint that the State’s and the District’s budgetary measures have resulted in increased layoffs and use of substitute teachers at the schools named therein that were disproportionate to other schools within the District. As a result, the complaint alleges, the plaintiffs have been deprived of educational equality. Among other relief, the plaintiffs are seeking declaratory relief that the State and the District have violated their rights under the State Constitution and Government Code and injunctive relief prohibiting the defendants from implementing future layoffs of teachers at the schools named therein that are disproportionate to other schools within the District or hindering the ability of the schools to maintain an effective corps of teachers. On May 13, 2010, the presiding judge issued a preliminary injunction restraining the District from implementing any budget based layoffs at the subject middle schools during the pendency of the action but no later than the end of the 2010-11 school year and to skip teachers currently assigned at the three middle schools during the current layoff proceedings. In October 2010, the District Board approved a tentative settlement agreement pursuant to which the District would no longer layoff teachers based solely on seniority. Pursuant to the tentative settlement agreement, layoffs based, in part, on seniority would be distributed evenly among schools within the District. UTLA has stated that it opposes the tentative settlement agreement. In December 2010, the Los Angeles County Superior Court tentatively approved the proposed settlement agreement and has scheduled additional hearings in December 2010 and January 2011 to discuss UTLA’s concerns.

Retirement Systems

The District participates in the California State Teachers' Retirement System ("STRS"). This defined benefit plan covers all full-time certificated District employees and some classified District employees, which are District employees employed in a position that does not require a teaching credential from the State. Employees and the District contribute 8% and 8.25%, respectively, of gross salary expenditures to STRS. The chief executive for STRS has recommended raising employer contributions by the State and, indirectly, by school districts within the State. Subject to the implementation of any layoff proposal with respect to the District's workforce, the District's regular employer contribution to STRS, CalPERS and PARs for Fiscal Year 2010-11 is projected to be at least equal to its contribution for Fiscal Year 2009-10, after adjusting for specially funded categorized programs. Benefit provisions are established by State legislation in accordance with the State Teachers' Retirement Law.

The following Table B-5 sets forth the District's regular annual contributions to STRS for Fiscal Years 2005-06 through 2009-10. The District has always paid all required STRS annual contributions.

TABLE B-5

**Los Angeles Unified School District
Annual Regular STRS Contributions
Fiscal Years 2005-06 through 2009-10
(\$ in millions)**

<u>Fiscal Year</u>	<u>District Contributions</u>
2005-06	\$251.5
2006-07	263.0
2007-08	264.4
2008-09	270.1
2009-10	233.1

Sources: Los Angeles Unified School District Comprehensive Annual Financial Reports for Fiscal Years 2006-07 through 2009-10.

The District also participates in the State Public Employees' Retirement System ("CalPERS"). This defined benefit plan covers classified personnel who work four or more hours per day. Benefit provisions are established by State legislation in accordance with the Public Employees' Retirement Law. The District's contribution to CalPERS is capped at 13.02% of gross salary expenditures. If the District's contribution rate to CalPERS is less than 13.02% of gross salary expenditures for a given year, the State will reduce the District's revenue limit for that year by the amount of the difference between the District's contribution calculated based on a contribution rate of 13.02% of gross salary expenditures and the District's actual contribution. Moreover, if the required contribution rate is greater than 13.02% for a given year, then the State will provide additional revenue limit allocations to the District for that year by the amount of the difference between the District's actual contribution to CalPERS and the District's contribution calculated based on a contribution rate of 13.02% of gross salary expenditures.

Active plan members are required to contribute 7% (miscellaneous) or 9% (safety) of their monthly salary and the District is required to contribute based on an actuarially determined rate. The required employer contribution rates for the Fiscal Year ended June 30, 2010 were 9.709% for miscellaneous and 30.262% for safety members. The District paid the employee's contribution of 9% for

most of the safety members and certain percentages for employees covered under other collective bargaining units. The following Table B-6 sets forth the District's regular annual contributions, inclusive of employee contributions paid by the District, to CalPERS for Fiscal Years 2005-06 through 2009-10. The District has always paid all required CalPERS annual contributions.

TABLE B-6
Los Angeles Unified School District
Annual CalPERS Regular Contributions
Fiscal Years 2005-06 through 2009-10
(\$ in millions)

Fiscal Year	District Contributions ⁽¹⁾
2005-06	\$137.1
2006-07	149.7
2007-08	160.6
2008-09	163.6
2009-10	156.0

⁽¹⁾ Includes Regular Contributions and employee contributions paid by the District and "PERS Recapture." Pursuant to State law, the State is allowed to recapture the savings corresponding to a lower CalPERS rate by reducing a school district's revenue limit apportionment by the amount of the school district's CalPERS savings in that year. Such recapture has occurred with respect to the District in each fiscal year since Fiscal Year 1982-83.

Sources: Los Angeles Unified School District Comprehensive Annual Financial Reports for the Fiscal Years 2006-07 through 2009-10.

Both CalPERS and STRS are operated on a statewide basis and, based on publicly available information, both STRS and CalPERS have unfunded liabilities. Additional funding of STRS by the State and the inclusion of adjustments to such State contributions based on consumer price changes were provided for in 1979 Statutes, Chapter 282. The amounts of the pension/award benefit obligation (CalPERS) or unfunded actuarially accrued liability (CalPERS and STRS) will vary from time to time depending upon actuarial assumptions, rates of return on investments, salary scales, and levels of contribution.

Unlike typical defined benefit programs such as those administered by CalPERS, neither the STRS employer nor the State contribution rate varies annually to make up funding shortfalls or assess credits for actuarial surpluses. The State does pay a surcharge when the teacher and school district contributions are not sufficient to fully fund the basic defined benefit pension (generally consisting of 2% of salary for each year of service at age 60 referred to as "pre-enhancement benefits") within a 30-year period. However, this surcharge does not apply to the system-wide unfunded liability resulting from recent benefit enhancements. As indicated above, there is presently no required contribution from teachers, school districts or the State to fund this unfunded liability. Historically, the school district employer contribution rate has remained at 8.25%. The District is unable to predict what the amount of liabilities will be in the future or the amount of the contributions which the District may be required to make.

The respective unfunded actuarial accrued liabilities of CalPERS and STRS as of their most recent actuarial valuation are set forth in the following Table B-7. The individual funding progress for the District itself is not provided in a separate actuarial report from CalPERS or STRS.

TABLE B-7
Actuarial Value of CalPERS and STRS Retirement Systems
(as of June 30, 2009)

Name of Plan	Excess (Deficiency) of Actuarial Value of Assets Over Actuarial Accrued Liabilities (Unfunded Actuarial Accrued Liability)
CalPERS State and Schools Pool ⁽¹⁾	\$(52.493) billion
State Teachers' Retirement Fund Defined Benefit Program (STRS) ⁽²⁾	(22.519) billion

⁽¹⁾ Based on actuarial valuations as of June 30, 2009, using individual entry age normal cost method and 20-year remaining amortization period. Actuarial assumptions included an assumed 7.75% investment rate of return, projected salary increases of 3.45% to 11.05%, projected 3.00% inflation and projected 2.00% or 3.00% post-retirement benefit increases. Reflects a funded ratio of 65.0%.

⁽³⁾ Based on actuarial valuations as of June 30, 2008, using entry age normal cost method. Actuarial assumptions included an assumed 8.00% investment rate of return and 6.00% interest on accounts, projected salary increases of 4.25%, projected 3.25% inflation and projected 2.00% post-retirement benefit increases. Reflects a funded ratio of 87%.

Sources: CalPERS State & Schools Actuarial Valuation as of June 30, 2009 and STRS Independent Auditor's Report, Financial Statements, Required Supplementary Information, and Other Supplemental Information for the Fiscal Year ended June 30, 2009.

The following Table B-8 sets forth the funded status of STRS and CalPERS for Fiscal Years 2004-05 through 2008-09.

TABLE B-8
Funded Status of STRS and CalPERS
Fiscal Years 2004-05 through 2008-09

Fiscal Year	STRS ⁽¹⁾	CalPERS ⁽²⁾
2004-05	86.0	96.2%
2005-06	87.0	98.7
2006-07	89.0	107.8
2007-08	87.0	93.8
2008-09	77.0 ⁽³⁾	65.0

⁽¹⁾ Defined Benefit Program.

⁽²⁾ CalPERS' State and Schools plan.

⁽³⁾ Unaudited.

Sources: STRS Independent Auditor's Report, Financial Statements, Required Supplementary Information, and Other Supplemental Information for the Fiscal Year ended June 30, 2009; CalSTRS for Fiscal Year ended June 30, 2009; CalPERS State & Schools Actuarial Valuation as of June 30, 2009.

In October 2008, following declines associated with its investments, CalPERS announced that employer rates for Fiscal Year 2008-09 would be unaffected by its stock market losses experienced as of that date. CalPERS stated that employer rates are determined using investment returns from earlier periods and the effect of the market downturn in October 2008 would be unknown until investment returns are evaluated for the Fiscal Year 2008-09. Further, CalPERS stated that its employer rate stabilization policy reduces the volatility of employer rates by spreading market gains and losses over fifteen years in order to reduce the impact of short term market volatility on employer rates. In December 2008, due to continued declines in the value of its investments, CalPERS stated that State and local governments, including the District, may be subject to employer rate increases of between 2 percent and 5 percent of payroll beginning as early as 2010 and a change in the method used for smoothing portfolio losses. Any rate increase depends upon the final CalPERS portfolio performance through June 30, 2009.

In June 2009, the CalPERS Board of Administration adopted a new employer rate smoothing methodology for local governments and school employer rates. Under the new methodology, which is not mandatory for employers, investment losses will be amortized and paid off over a fixed and declining 30-year period instead of the current, rolling 30-year amortization period. The District is currently evaluating the impact upon its employer rates if it chooses to use the new methodology.

The CalPERS Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2009 states that the value of CalPERS' pension fund as of June 30, 2009 declined by approximately, \$59.0 billion, or 24.8%, to \$181.1 billion compared to the Fiscal Year 2007-08. The STRS Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2009, states that the value of STRS' pension fund as of June 30, 2009 declined by approximately \$42.6 billion, or 25.03%, to \$118.9 billion compared to Fiscal Year 2007-08. In the event the value of such pension funds continues to decline, CalPERS and STRS may ask their respective agencies to accept reductions in benefits or provide increased contributions to retirement accounts for their members.

In April 2010, a report authored by the Stanford Institute for Economic Policy Research entitled "Going For Broke: Reforming California's Public Employee Pension Systems" estimated that the UAAL for CalPERS as of June 30, 2010 would be approximately \$239.7 billion and the UAAL for STRS would be approximately \$156.7 billion as of June 30, 2010. According to the report, the UAAL for CalPERS and STRS have been understated due to compliance with GASB Statement No. 25, pursuant to which public pension funds discount future pension liabilities at the same rate they expect to earn every year on invested assets and the limited application of stress tests. Subsequent to the issuance of the report, CalPERS issued a press release detailing information that it believes the report failed to consider and stated that it evaluates its assumed rate of return every three years and will update the actuarial assumed rate of return/discount rate in February 2011.

STRS and CalPERS each issue separate comprehensive annual financial reports that include financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from STRS, P.O. Box 15275, Sacramento, California 95851-0275 and copies of the CalPERS annual financial report and actuarial valuations may be obtained from the CalPERS Financial Services Division, P.O. Box 942703, Sacramento, California 94229-2703. The information presented in these reports is not incorporated by reference in this Official Statement.

On July 1, 1992, the District joined the Public Agency Retirement System ("PARS"), a multiple-employer retirement trust. This defined contribution plan covers the District's part-time, seasonal, temporary and other employees not otherwise covered by CalPERS or STRS, but whose salaries would otherwise be subject to Social Security tax. Benefit provisions and other requirements are established by District management based on agreements with various bargaining units. The District's contribution to PARS for Fiscal Year 2008-09 totaled approximately \$6.9 million. The District's contribution to PARS

for Fiscal Year 2009-10 totaled approximately \$5.7 million. The District has always paid all required PARS annual contributions.

The following Table B-9 sets forth the District's annual contributions to PARS for Fiscal Years 2005-06 through 2009-10.

TABLE B-9

**Los Angeles Unified School District
Annual PARS Contribution
Fiscal Years 2005-06 through 2009-10
(\$ in millions)**

<u>Fiscal Year</u>	<u>District Contribution⁽¹⁾</u>
2005-06	\$ 6.8
2006-07	3.5
2007-08	8.8
2008-09	6.9
2009-10	5.7 ⁽²⁾

⁽¹⁾ Reflects payments to PARS for pension costs associated with the District's regular and specially funded programs, except specially funded programs are not included in Fiscal Year 2007-08 and Fiscal Year 2008-09.

⁽²⁾ Estimated.

Sources: Los Angeles Unified School District Comprehensive Annual Financial Report for Fiscal Years 2006-07 through 2008-09 and the Los Angeles Unified School District for Fiscal Year 2009-10.

For additional information regarding the District's pension and retiree health care programs and costs, see the District's financial statements for Fiscal Year 2009-10 contained in APPENDIX C – "SELECTED INFORMATION FROM AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2010" attached to this Official Statement.

Other Post-Employment Benefits

In addition to employee health care costs, the District provides post-employment health care benefits in accordance with collective bargaining agreements. As of December 1, 2010, there are approximately 36,000 retirees who meet the eligibility requirements for these benefits. The District currently funds these benefits on a pay-as-you-go basis, paying an amount in each Fiscal Year equal to the benefits distributed or disbursed in that Fiscal Year. The following Table B-10 sets forth the District's funding of other post-employment benefits from Fiscal Year 2005-06 through 2009-10.

TABLE B-10

**Expenditures for Other Post-Employment Benefits
Fiscal Years 2005-06 through 2009-10
(\$ in millions)**

<u>Fiscal Year</u>	<u>Amount</u>
2005-06	\$222.3
2006-07	233.5
2007-08	255.9
2008-09	267.3
2009-10	237.3

Sources: Los Angeles Unified School District Comprehensive Annual Financial Reports for Fiscal Years 2006-07 through 2009-10.

On June 21, 2004, the GASB released its Statement No. 45 "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" ("Statement No. 45"). Statement No. 45 establishes standards for the measurement, recognition and display of post-employment healthcare as well as other forms of post-employment benefits, such as life insurance, when provided separately from a pension plan expense or expenditures and related liabilities in the financial reports of state and local governments. Under Statement No. 45, governments are required to: (i) measure the cost of benefits, and recognize other post-employment benefits expense, on the accrual basis of accounting in periods that approximate employees' years of service; (ii) provide information about the actuarial liabilities for promised benefits associated with past services and whether, or to what extent, those benefits have been funded; and (iii) provide information useful in assessing potential demands on the employer's future cash flows. The District's post-employment health benefits fall under Statement No. 45. The Statement No. 45 reporting requirements for the District became effective during Fiscal Year 2007-08.

The District's OPEB consists of postemployment benefits of health, prescription drug, dental, vision and life insurance coverage for retirees; long-term care coverage, life insurance and death benefits that are not offered as part of a pension plan; and long-term disability insurance for employees. As of the date hereof, the most recent actuarial report prepared for the District is its "GASB 43 and 45 Valuation Report as of June 30, 2009 and Annual Required Contribution for the Fiscal Year Ending June 30, 2010," dated February 25, 2010 (the "Postemployment Valuation").

The following are the principal actuarial assumptions used in the Postemployment Valuation:

1. Measurement Date: June 30, 2009
2. Census Date: June 30, 2009
3. Economic Assumptions:
 - a. Discount Rate: 5.00%;
 - b. Investment Rate of Return: 5.00% for pay-as-you-go funding;
 - c. Valuation Date: June 30, 2009;
 - d. Annual Inflation Rate: 3.25%;
 - e. Annual Payroll Growth: 4.25%;
 - f. Administrative Expenses: No administrative expenses were valued separately from the premiums; and
 - g. Actuarial Cost Method: Entry Age Normal; level dollar, open. Entry age is based on current age minus years of service.
4. Demographic Assumptions
 - a. Retirement: Age-based ranges;
 - b. Termination: Service-related ranges;
 - c. Disability Retirement: Age-based rates for all participants;
 - d. Mortality: (i) Active Employees: 1994 Group Annuity Mortality table, 5-year setback for males, 4-year setback for females; (ii) Retirees: 1994 Group Annuity Mortality table, 3-year setback for males, 2-year setback for females; and (iii) Disabled Lives – Select Rates used during the first three years of disability and Ultimate Rates used after three years of disability;
 - e. Plan Participation: 100% of current active employees with medical coverage are assumed to continue coverage upon retirement;
 - f. Marital Characteristics: (i) Retirees: actual data and (ii) Active Employees: 75% of male participants are assumed to elect spousal coverage, with female spouses five years younger than male participants and 50% of female participants are assumed to elect spousal coverage, with male spouses two years older than female participants; and
 - g. Plan Participation: 100% of the current active employees with medical coverage are assumed to continue medical coverage at retirement.
5. Benefit Assumptions
 - a. Premium Rates: Used for Retiree Medical Coverage, including prescription drugs, Retiree Dental Coverage and Retiree Vision Coverage;
 - b. Health Care Cost Subsidy Trend Rates: 9.25% (graded down over 10 years to ultimate rate of 5.00%) for the health maintenance organizations and 9% (graded down over 10 years to ultimate rate of 5.00%) for the preferred provider organizations; and
 - c. Dental and Vision Care Inflation: 5.00%.

The Postemployment Valuation sets forth the District's actuarial valuation of post-employment medical benefits as of June 30, 2009 for its employees and retirees. The Postemployment Valuation sets forth the liabilities of the post-employment benefit plan based upon GASB Statement Nos. 43 and 45. The market value of plan net assets as of June 30, 2009 is estimated to be \$0. The Postemployment Valuation reports that, as of June 30, 2009, the unfunded actuarial accrued liability ("UAAL") of the District's post-retirement health and welfare benefits program is approximately \$9.925 billion. Pursuant to Statement No. 45, OPEB expense in an amount equal to annual OPEB cost is recognized in government-wide financial statements on an accrual basis. Net OPEB obligations, if any, including amounts associated with under- or over-contributions from governmental funds, are to be displayed as liabilities (or assets) in government-wide financial statements.

The Postemployment Valuation recommended an annual required contribution (“ARC”) of \$1.01 billion, or 21.7% of the District’s payroll at the June 30, 2009 valuation date, for Fiscal Year 2009-10. As of June 30, 2010, the “pay-as-you-go” cost of providing post-employment benefits is projected to be \$257.963 million. Accordingly, the District’s Net Pension Obligation (“NPO”) as of June 30, 2010 is expected to be greater than the NPO as of June 30, 2009. NPO is the cumulative difference between the annual pension cost (the “Annual OPEB Cost”) to the District of the post-employment benefit plan and the actual contribution in a particular year. Annual OPEB Cost is equal to (i) the ARC, (ii) one year’s interest on the NPO, and (iii) an adjustment to the ARC to offset, approximately, the amount included in item (i) for amortization of the past contribution deficiencies.

Table B-11 below reflects the District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for Fiscal Years ended June 30, 2008 through June 30, 2010.

TABLE B-11

OTHER POSTEMPLOYMENT BENEFIT COSTS AND NET OBLIGATION
Fiscal Years 2007-08 through 2009-10
(\$ in thousands)

Fiscal Year ended June 30	Annual OPEB Cost	Annual OPEB Cost Contributed	Net OPEB Obligation
2008	\$1,088,523	24%	\$ 832,665
2009	1,088,523	25	1,653,926
2010	977,150	24	2,393,811

Source: Los Angeles Unified School District Comprehensive Annual Financial Report for Fiscal Year 2009-10.

The District has reviewed and is expected to continue to review the Postemployment Valuation, in conjunction with the District’s obligations under its post-employment benefit plan, to determine, among other things, its course of action with respect to post-employment benefit contributions and what other post-employment benefit liability must be reported. In the opinion of District management, any further increase in the District’s UAAL as described in the Postemployment Valuation will not adversely affect the District’s ability to pay debt service on its general fund obligations, including tax and revenue anticipation notes, COPs, such as the Certificates, or general obligation bonds, the last of which are payable from *ad valorem* property taxes.

For additional information regarding the District’s OPEB see APPENDIX C – “SELECTED INFORMATION FROM AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2010” attached to this Official Statement. Information regarding the District’s OPEB in Appendix C reflects information as of the District’s postemployment valuation dated June 30, 2007.

Insurance

The District maintains various excess property, casualty and fidelity insurance programs, which are self-insured, with varying self-insured retentions. The District’s excess property coverage is provided currently through its membership in the Public Entity Property Insurance Program (“PEPIP”), an insurance pool comprised of certain cities, counties and school districts. The District maintains excess property insurance on all District facilities under a combination of self-insurance retentions and varying sublimits through the excess insurance policies of PEPIP. The current self-insured retention for fire loss

damage for excess property coverage is \$500,000 per occurrence and the policy limit is \$1 billion. The District maintains what it considers to be adequate reserves to cover losses within the self-insurance retention. District General Fund resources are used to pay for property loss insurance and uninsured repairs for property damage. In addition to the above excess property policies, the District purchases a separate Boiler and Machinery policy with \$100 million in occurrence limits and a Fidelity Crime policy with \$1,000,000 in occurrence limits.

Excess liability insurance is maintained through a combination of excess policies totaling \$45 million in aggregate above a \$3 million self-insured retention per occurrence. The District maintains reserves that it believes are adequate to cover losses within the self-insured retention.

The District is self-insured for its Workers' Compensation Program. The lower amount of claims is the result of workers' compensation reforms implemented by the State as well as District activities to improve investment earnings on the workers' compensation fund balances, improve third party management of claims and reduce workers' compensation fraud. Separate funds are used to account for amounts set aside to pay claims incurred and related expenditures under the respective insurance programs. The following Table B-12 sets for the workers' compensation claims paid from Fiscal Year 2005-06 through 2009-10.

TABLE B-12
WORKERS' COMPENSATION CLAIMS PAID
Fiscal Years 2005-06 through 2009-10
(\$ in millions)

Fiscal Year	Amount
2005-06	\$96.8
2006-07	88.4
2007-08	87.9
2008-09	80.6
2009-10	78.5

Source: Los Angeles Unified School District Comprehensive Annual Financial Report for Fiscal Year 2009-10.

The District has also purchased through the AIG companies a Pollution Legal Liability ("PLL") policy with coverage of \$50 million for each incident with an aggregate of \$100 million (coverage period of August 11, 1999 through August 11, 2019) and a Contractor's Pollution Liability ("CPL") insurance policy with \$50 million of coverage provided per covered site (and \$50 million of coverage in aggregate losses through August 11, 2008). The District filed a lawsuit in Los Angeles County Superior Court in March 2006 against AIG alleging the insurance carrier committed acts of bad faith for failure to honor claims incurred during the PLL policy period. The litigation is currently in the discovery phase. The AIG CPL policy expired on August 11, 2006. The District purchased a new CPL policy providing \$50 million of coverage from a combination of non-AIG carriers through August 11, 2009.

The District implemented an Owner Controlled Insurance Program ("OCIP") on May 1, 2006 ("OCIP II") after the expiration of its initial Owner Controlled Insurance Program. OCIP II covers new construction and renovation projects funded by school bonds. Under an OCIP, the District provides general liability and workers' compensation insurance coverage to enrolled construction contractors. Builder's risk and CPL coverage are also provided. The benefits derived from the large buying power of an OCIP, along with centralized risk management and safety creates savings that accrue for the District. Under the District's OCIP II, workers' compensation coverage with statutory limits, and primary and

excess liability coverage with limits of \$100 million have been underwritten by six major insurance carriers. In addition, buildings under construction and renovation with project values under \$50 million, a portion of the costs of which are financed with the proceeds of District general obligation bond issues, are covered under PEP. Builder's risk coverage for projects with construction values under \$50 million are currently covered by PEP. Builders risk coverage for projects, with construction values above \$50 million, is currently covered under individual policies underwritten by various carriers. Savings to the District from May 1, 2006 through May 1, 2013 are estimated in the range of approximately \$68 million to \$117 million.

Liabilities for loss and loss adjustment expenses under each of the District's insurance programs include the accumulation of estimates for losses reported prior to the balance sheet date, estimates of losses incurred but not reported and estimates of expenses for investigating and adjusting reported and unreported losses. Such liabilities are estimates of the future expected settlements and are based upon analysis of historical patterns of the number of incurred claims and their values. The District believes that, given the inherent variability in any such estimates, the aggregate liabilities are within a reasonable range of adequacy. Individual reserves are continually monitored and reviewed, and, as settlements are made or reserves adjusted, differences are reflected in current operations. For additional information regarding the District's insurance programs, see the District's financial statements for Fiscal Year 2009-10 contained in Appendix C – "SELECTED INFORMATION FROM AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2010" to this Official Statement.

District Fiscal Policies

Debt Management Policy. In October 2003, the District Board adopted a Debt Management Policy that established formal guidelines for the issuance and management of various types of debt instruments and other financial obligations. The Debt Management Policy establishes targets and ceilings for certificates of participation ("COPs"), unhedged variable rate exposure and sets forth benchmark debt ratios that include both COPs and the District's general obligation bonds.

The Debt Management Policy is required to be reviewed annually. The current Debt Management Policy was approved by the District Board on April 13, 2010. The Debt Management Policy sets forth an annual gross debt service cap of \$105 million attributable to COPs and establishes a target of 2.0% and a ceiling of 2.5% for the ratio of gross COPs debt service divided by District General Fund appropriations. A target may be increased only through Board authorization each time a new debt is proposed, but is not intended to exceed the ceiling established in the Debt Management Policy.

The District's current maximum fiscal year COPs debt service is \$49.9 million, which is below the \$105 million cap, and was 0.7% of budgeted District General Fund appropriations for Fiscal Year 2008-09, which is below the 2.0% to 2.5% policy range.

The Debt Management Policy limits unhedged variable rate debt to 20% of outstanding COPs or \$100 million, whichever is less, and requires reporting of the debt ratios and benchmarks set forth in Tables B-13 and B-14 below in the annual Debt Report.

As of December 1, 2010, the District had \$368.5 million of outstanding COPs (net of economically defeased COPs), of which \$103.6 million are variable rate COPs. The District's average daily District General Fund cash balance is projected to be \$637.5 million for Fiscal Year 2010-11. Accordingly, the District believes that interest rate exposure on its variable rate COPs is naturally hedged by this cash position.

The following Table B-13 sets forth the debt factors for COPs which are to be repaid from the District General Fund or other internal District resources as reported in the Fiscal Year 2008-09 Debt Report.

TABLE B-13

**Los Angeles Unified School District
Debt Management Policy – Debt Factors
(as of June 30, 2009)⁽¹⁾⁽²⁾**

Debt Factor	Target ⁽³⁾	Ceiling ⁽³⁾	Actual	Over (Under) Policy Ceiling
Maximum COPs Gross Debt Service Limit (percentage)	2.0% of District General Fund Expenditures	2.5% of District General Fund Expenditures	0.7%	(1.8%)
Maximum COPs Gross Debt Service Limit ⁽⁴⁾	Not applicable	\$105.0 million	\$49.9 million	(\$55.1 million)
Unhedged Variable Rate Debt as % of total COPs Debt	Not applicable	20.0%	0.0%	(20.0%)

⁽¹⁾ Information in Table B-13 is as set forth in the District's Debt Report submitted in April 2010 for Fiscal Year 2008-09.

⁽²⁾ Includes the \$40,728,200 Certificates of Participation, 2009 Series A (Food Services Project) executed and delivered in September 2009 and the \$69,685,000 Certificates of Participation 2010 Series A that refunded the Variable Rate Certificates of Participation (Belmont Learning Center Complex) 1997 Series A and the Refunding Certificates of Participation (Multiple Properties Project) Series 1998A executed and delivered in January 2010.

⁽³⁾ "District General Fund Expenditures" includes said amounts based upon the District's Fiscal Year 2008-09 Final Adopted Budget.

⁽⁴⁾ May increase with each approved issuance of COPs.

Source: Los Angeles Unified School District.

Table B-14 below sets forth the benchmark debt burden ratios that recognize the combined direct debt and overall debt of the District. Table B-14 also provides a summary of the District's performance against policy benchmarks for the District's General Obligation Bond and COPs debt and debt issued by overlapping agencies. These benchmarks pertain to large school districts nationwide whose ratings are in the double-A or higher rating category.

Due to the statistical dispersion of the underlying data for the benchmarks in the following Table B-14 and the large size of the District's bonding program relative to other large school districts, the District's debt burden ratios are not unexpectedly higher than most of the benchmarks values. Even though some of the other large school districts have school funding mechanisms different than the District's and may have budgets that are considerably smaller than the District's, the District believes that the "large, highly-rated" school district cohort to be the most appropriate cohort group against which it should be compared.

TABLE B-14

Los Angeles Unified School District
Debt Management Policy Benchmarks for District's Direct and Overall Debt
(As of June 30, 2009)⁽¹⁾

Debt Burden Ratio	Benchmark	Benchmark's Value	LAUSD Actual ⁽²⁾
Direct Debt to Assessed Value	Moody's Median for Aa Rated School Districts With Student Population Above 200,000	1.10%	1.77%
	Standard & Poor's Mean for AA Rated School Districts With Student Population Above 150,000	1.50%	
Overall Debt to Assessed Valuation	Moody's Median for Aa Rated School Districts With Student Population Above 200,000	2.60%	3.18%
	Standard & Poor's Mean for AA Rated School Districts With Student Population Above 150,000	3.20%	
Direct Debt Per Capita ⁽³⁾	Standard & Poor's Median for AA Rated School Districts With Student Population Above 150,000	\$ 736	\$1,742
	Standard & Poor's Mean for AA Rated School Districts With Student Population Above 150,000	\$ 847	
Overall Debt Per Capita ⁽³⁾	Standard & Poor's Median for AA Rated School Districts With Student Population Above 150,000	\$1,665	\$3,133
	Standard & Poor's Mean for AA Rated School Districts With Student Population Above 150,000	\$2,639	

⁽¹⁾ Benchmark Value information in Table B-14 is as set forth in the District's Debt Report submitted in April 2010 for Fiscal Year 2008-09.

⁽²⁾ The District's Comprehensive Annual Financial Reports report these calculations differently by adjusting for outstanding bond and COP unamortized premiums and discounts.

⁽³⁾ Per capita debt calculations are based upon the estimated District population of 4.825 million as of June 30, 2009.

Source: Los Angeles Unified School District.

Budget and Finance Policy. On June 22, 2004, the District Board adopted a Budget and Finance Policy that took effect on July 1, 2005. The purposes of the Budget and Finance Policy are to establish best practices for the District's budget process and to establish a reserves policy for District operations, liabilities and asset/equipment replacement. The purpose of the operating reserves is to set aside monies for current year obligations. These reserves include the Reserve for Anticipated Balances, the Reserve for Revolving Cash, Stores, and Prepaid Expenses, the Emergency Reserve, and the Reserve for Economic Uncertainties. The purpose of the liability reserves is to set aside monies for future obligations of the District. Liability reserves include the Liability Self Insurance Account Reserve, the Workers' Compensation Fund Unfunded Liability Reserve, and the Health & Welfare Fund Retirement Benefits for Employees Reserve. The Budget and Finance Policy also created the Special Reserve for Equipment Replacement.

Under State law, the District is required to maintain only one of the operating reserves, the Reserve for Economic Uncertainties. In the District's Fiscal Year 2010-11 Revised Budget, the Reserve for Economic Uncertainties is funded at the current legally mandated minimum of 1.0%, or approximately \$65.4 million. The other reserves may be funded and phased in annually based on the District Board's

actions, although the Chief Financial Officer of the District has not recommended any such funding at present.

District Debt

General Obligation Bonds. Pursuant to Sections 15106 and 17422 of the Education Code, the District's bonding capacity for general obligation bonds is 2.5% of taxable property value in the District. The taxable property value in the District for Fiscal Year 2010-11 is \$463.845 billion, which results in a total current bonding capacity of approximately \$11.6 billion. The District has used its entire bonding capacity.

The District may not issue general obligation debt without voter approval. From July 1997 through March 2003, the District issued the entire amount of general obligation bonds pursuant to a \$2.4 billion authorization approved by voters in the April 8, 1997 election (the "Proposition BB Authorization"). A \$3.35 billion general obligation bond authorization was approved by voters on November 5, 2002 (the "Measure K Authorization"). The District has issued \$3.350 billion aggregate principal amount of Measure K general obligation bonds. A \$3.87 billion general obligation bond authorization was approved by the voters on March 2, 2004 (the "Measure R Authorization"). The District has issued approximately \$3.635 billion aggregate principal amount of Measure R general obligation bonds. A \$3.985 billion general obligation bond authorization was approved by the voters on November 8, 2005 (the "Measure Y Authorization"). The District has issued approximately \$3.542 billion of aggregate principal amount of Measure Y general obligation bonds. A \$7.0 billion general obligation bond authorization was approved by voters on November 7, 2008 (the "Measure Q Authorization"). No general obligation bonds have been issued pursuant to the Measure Q Authorization.

In June 2010, the District received updated estimates of projected assessed valuation from a private econometrics firm. The econometrics model estimated projected declines in the District's assessed valuation base of 2.6% to 11.4% over the next three years and that the District's assessed valuation base is not expected to return to its Fiscal Year 2009-10 level for approximately six years. See " – Assessed Valuation of Property within the District" herein. There remains approximately \$235 million of the Measure R Authorization, approximately \$443 million of the Measure Y Authorization and the entire \$7.0 billion of the Measure Q Authorization. The issuances of additional series of bonds will depend upon, among other things, when the anticipated decline in the District's assessed valuation ends, which is projected to occur in approximately three years. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – Article XIII A of the State Constitution" herein.

Pursuant to Section 1(b)(3) of Article XIII A of the State Constitution, Chapters 1 and 1.5 of Part 10 of Division 1 of Title 1 of the California Education Code, as amended, and other applicable law (collectively, the "Act"), the District Board has appointed a Citizens' Bond Oversight Committee. The Citizen's Bond Oversight Committee is composed of 16 members representing numerous community groups and operates to inform the public concerning the spending of Measure K, Measure R, Measure Y and Measure Q Authorization bond funds authorized by the Act. The Citizen's Bond Oversight Committee regularly reviews the potential bond projects and budgets and provides non-binding advice to the District Board on how to allocate and reallocate scarce bond proceeds in order to ensure the completion of viable projects and to avoid non-completion of projects once commenced. The Citizens' Bond Oversight Committee also informs the public concerning the spending of funds attributable to the Proposition BB Authorization, although Proposition BB was approved under statutes other than the Act. See "DISTRICT FINANCIAL INFORMATION—District Debt" herein. The Citizens' Bond Oversight Committee meets monthly in order to review all matters including, among other things, changes in budget, scope and schedules that relate to the District's general obligation bonds and the projects

proposed to be funded therefrom. In addition, the Citizens' Bond Oversight Committee makes recommendations to the District Board regarding such matters. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS— Proposition 39" herein. The District's Office of the Inspector General conducts yearly audits on all construction management firms to ensure that funds from the New School Construction Program are spent in compliance with the Act and the District's policies relating thereto. The District's outside auditor, Simpson & Simpson, currently prepares the require bond audits regarding the expenditures of general obligation bond proceeds.

The members of the District's Bond Citizens' Oversight Committee and the community groups represented by such members are set forth below:

**Los Angeles Unified School District
Bond Citizens' Oversight Committee
(As of December 1, 2010)**

Member	Community Group Represented
David Crippins, Chairperson	L.A. Area Chamber of Commerce
Elizabeth Bar-El, Vice -Chair	LAUSD Parent Representative
John Naimo, Secretary	Office of the Auditor-Controller, County of Los Angeles
Maria Cabildo	LAUSD Parent Representative
Sylvia Cunningham	American Association of Retired Persons
Scott Folsom	Tenth District Parent Teacher Student Association
Adrian Garcia	Mayor's Office, City of Los Angeles
John Hakel	Associated General Contractors of California
David Jenkins	Associated General Contractors of California
Lynda Levitan	Thirty-First District Parent Teacher Student Association
Anastacio Medina	Breathe LA
Constance Rice	Advancement Project
Richard Slawson	Los Angeles Co. Federation of Labor, AFL-CIO
Barry Waite	LAUSD Parent Representative
Wendy Watanabe	County of Los Angeles Auditor-Controller
Chester A. Widom	American Institute of Architects

The following Tables B-15, B-16, B-17 and B-18 set forth the outstanding bonds issued under the Proposition BB, Measure K, Measure R and Measure Y Authorizations, respectively.

TABLE B-15
Proposition BB (Election of 1997) Bonds

Bonds Issued	Aggregate Principal Amount (\$ in thousands)	Outstanding Amount as of December 1, 2010 (\$ in thousands)	Date of Issue
Series A Bonds	\$ 356,000 ⁽¹⁾⁽²⁾	\$ 77,885	July 22, 1997
Series B Bonds	350,000 ⁽²⁾⁽³⁾⁽⁴⁾	--	August 25, 1998
Series C Bonds	300,000 ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾	--	August 10, 1999
Series D Bonds	386,655 ⁽¹⁾⁽²⁾⁽³⁾	--	August 3, 2000
Series E Bonds	500,000 ⁽¹⁾⁽⁵⁾⁽⁷⁾⁽⁸⁾	30,605	April 11, 2002
2002 Refunding Bonds ⁽⁹⁾	258,375	244,115	April 17, 2002
Series F Bonds	507,345 ⁽⁴⁾⁽⁶⁾	267,465	March 13, 2003
2004 Refunding Bonds ⁽⁹⁾	219,125	217,585	December 21, 2004
2005 Refunding Bonds ⁽⁹⁾	467,675	467,675	July 20, 2005
2006 Refunding Bonds, Series B ⁽⁹⁾	254,544	248,349	November 15, 2006
2007 Refunding Bonds, Series A-2 ⁽⁹⁾	136,055	136,055	January 31, 2007
2007 Refunding Bonds, Series B ⁽⁹⁾	24,845	24,650	February 22, 2007
2009 Refunding Bonds, Series A ⁽⁹⁾	51,090	39,000	October 15, 2009
2010 Refunding Bonds, Series A ⁽⁹⁾	<u>20,810</u>	<u>20,510</u>	March 4, 2010
TOTAL	<u>\$3,832,519</u>	<u>\$ 1,773,894</u>	

⁽¹⁾ \$215.68 million principal amount of the Series A, C, D and E Bonds were refunded with the proceeds of the 2004 Refunding Bonds.

⁽²⁾ \$485.95 million principal amount of the Series A, B, C and D Bonds were refunded with the proceeds of the 2005 Refunding Bonds.

⁽³⁾ \$262.73 million principal amount of the Series B, C and D Bonds were refunded with the proceeds of the 2002 Refunding Bonds.

⁽⁴⁾ \$50.835 million of the Series B, C, E and F Bonds were refunded with proceeds of the 2009 Refunding Bonds, Series A.

⁽⁵⁾ \$231.23 million principal amount of the Series E Bonds were refunded with proceeds of the 2006 Refunding Bonds, Series B.

⁽⁶⁾ \$129.51 million principal amount of the Series F Bonds were refunded with proceeds of the 2007 Refunding Bonds, Series A.

⁽⁷⁾ \$25.79 million principal amount of the Series E Bonds were refunded with proceeds of the 2007 Refunding Bonds, Series B.

⁽⁸⁾ \$19.785 million principal amount of the Series E Bonds were refunded with proceeds of the 2010 Refunding Bonds, Series A.

⁽⁹⁾ Refunding bonds are not counted against the bond authorization limit.

Source: Los Angeles Unified School District.

TABLE B-16

Measure K (Election of 2002) Bonds

Bonds Issued	Aggregate Principal Amount (\$ in thousands)	Outstanding Amount as of December 1, 2010 (\$ in thousands)	Date of Issue
Series A Bonds	\$2,100,000 ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾	\$ 388,440	March 5, 2003
2006 Refunding Bonds, Series A ⁽⁵⁾	132,325	132,325	February 22, 2006
2006 Refunding Bonds, Series B ⁽⁵⁾	320,361	311,235	November 15, 2006
2007 Refunding Bonds, Series A-1 ⁽⁵⁾	1,153,195	1,136,865	January 31, 2007
Series B Bonds	500,000	462,605	February 22, 2007
Series C Bonds	150,000	138,535	August 16, 2007
Series D Bonds	250,000	240,885	February 19, 2009
Series KRY Bonds (2009) (Federally Taxable Build America Bonds) ⁽⁵⁾	200,000	200,000	October 15, 2009
2010 Refunding Bonds, Series A ⁽⁶⁾	54,185	53,570	March 4, 2010
Series KRY Bonds (2010) (Tax-Exempt) ⁽⁷⁾	149,140	145,250	March 4, 2010
Series KY (2010) (Tax Exempt) ⁽⁸⁾	860	860	May 6, 2010
TOTAL	<u>\$5,010,066</u>	<u>\$ 3,210,570</u>	

⁽¹⁾ \$131.94 million principal amount of the Series A Bonds were refunded with proceeds of the 2006 Refunding Bonds, Series A.

⁽²⁾ \$330.15 million principal amount of the Series A Bonds were refunded with proceeds of the 2006 Refunding Bonds, Series B.

⁽³⁾ \$1,120.81 million principal amount of the Series A Bonds were refunded with proceeds of the 2007 Refunding Bonds, Series A-1.

⁽⁴⁾ \$53.06 million principal amount of the Series A Bonds were refunded with proceeds of the 2010 Refunding Bonds, Series A.

⁽⁵⁾ Refunding bonds are not counted against the bond authorization limit.

⁽⁶⁾ \$200.0 million principal amount of the District's \$1.37 billion Series KRY (2009) (Federally Taxable Build America Bonds) are allocable to the Measure K Authorization.

⁽⁷⁾ \$149.14 million principal amount of the District's \$478.6 million Series KRY (2010)(Tax-Exempt) are allocable to the Measure K Authorization.

⁽⁸⁾ \$860,000 principal amount of the District's \$159.495 million Series KY (2010)(Tax-Exempt) are allocable to the Measure K Authorization.

Source: Los Angeles Unified School District.

TABLE B-17

Measure R (Election of 2004) Bonds

Bonds Issued	Aggregate Principal Amount (\$ in thousands)	Outstanding Amount as of December 1, 2010 (\$ in thousands)	Date of Issue
Series C Bonds	\$ 50,000	\$ 41,835	September 23, 2004
Series E Bonds	400,000	329,680	August 10, 2005
Series F Bonds	500,000	449,880	February 16, 2006
Series G Bonds ⁽¹⁾	400,000	344,175	August 17, 2006
Series H Bonds ⁽¹⁾	550,000	490,030	August 16, 2007
Series I Bonds	550,000	531,245	February 19, 2009
2009 Refunding Bonds, Series A ⁽¹⁾⁽²⁾	23,675	20,930	October 15, 2009
Series KRY Bonds (2009)			
(Federally Taxable Build America Bonds) ⁽³⁾	363,005	363,005	October 15, 2009
Series KRY Bonds (2009) (Tax-Exempt) ⁽⁴⁾	36,995	36,995	October 15, 2009
Series RY Bonds (2010)			
(Federally Taxable Build America Bonds) ⁽⁵⁾	477,630	477,630	March 4, 2010
Series KRY Bonds (2010) (Tax-Exempt) ⁽⁶⁾	<u>157,165</u>	<u>157,165</u>	March 4, 2010
TOTAL	<u>\$3,508,470</u>	<u>\$ 3,242,570</u>	

⁽¹⁾ \$21.435 million of the proceeds of the District's \$74.765 million aggregate principal amount of 2009 General Obligation Refunding Bonds, Series A were used to refund a portion of the District's Series G Bonds and Series H Bonds.

⁽²⁾ Refunding bonds are not counted against the bond authorization limit.

⁽³⁾ \$363.005 million principal amount of the District's \$1.37 billion Series KRY (2009) (Federally Taxable Build America Bonds) are allocable to the Measure R Authorization.

⁽⁴⁾ \$36.995 million principal amount of the District's \$205.8 million Series KRY (2009) (Tax-Exempt) are allocable to the Measure R Authorization.

⁽⁵⁾ \$477.63 million of the District's \$1.25 billion Series RY (2010) (Federally Taxable Build America Bonds) are allocable to the Measure R Authorization.

⁽⁶⁾ \$157.165 million of the District's \$478.6 million Series KRY (2010) (Tax-Exempt) are allocable to the Measure R Authorization.

Source: Los Angeles Unified School District.

TABLE B-18

Measure Y (Election of 2005) Bonds

Bonds Issued	Aggregate Principal Amount (\$ in thousands)	Outstanding Amount as of December 1, 2010 (\$ in thousands)	Date of Issue
Series A Bonds	\$ 56,785	\$ 31,150	February 22, 2006
Series B Bonds	80,200	43,810	February 22, 2006
Series C Bonds	210,000	186,225	February 22, 2006
Series D Bonds	47,400	28,905	February 22, 2006
Series E Bonds	300,000	278,340	August 16, 2007
Series F Bonds	150,000	144,755	February 19, 2009
Series G Bonds	5,615	5,615	October 15, 2009
Series KRY Bonds (2009) (Federally Taxable Build America Bonds) ⁽¹⁾	806,795	806,795	October 15, 2009
Series KRY Bonds (2009) (Tax-Exempt) ⁽²⁾	168,790	168,790	October 15, 2009
Series H Bonds (2009) (Qualified School Construction Bonds)	318,800	318,800	October 15, 2009
Series KRY Bonds (2010) (Tax-Exempt)	172,270	130,450	March 4, 2010
Series I Bonds (2010)(Federally Taxable)	3,795	3,795	March 4, 2010
Series RY Bonds (2010) (Federally Taxable Build America Bonds)	772,955	772,955	March 4, 2010
Series KY Bond (2010) (Tax-Exempt) ⁽⁵⁾	158,635	158,635	May 6, 2010
Series J (Qualified School Construction Bonds)	<u>290,195</u>	<u>290,195</u>	May 6, 2010
TOTAL	<u>\$3,542,235</u>	<u>\$ 3,369,215</u>	

⁽¹⁾ \$806.795 million principal amount of the District's \$1.37 billion Series KRY (2009) (Federally Taxable Build America Bonds) are allocable to the Measure Y Authorization.

⁽²⁾ \$168.79 million principal amount of the District's \$205.8 million Series KRY (2009) (Tax-Exempt) are allocable to the Measure Y Authorization.

⁽³⁾ \$172.27 million principal amount of the District's \$478.6 million Series KRY (2010) (Tax-Exempt) are allocable to the Measure Y Authorization.

⁽⁴⁾ \$772.955 million principal amount of the District's \$1.25 billion Series RY (2010) (Federally Taxable Build America Bonds) are allocable to the Measure Y Authorization.

⁽⁵⁾ \$158.635 million principal amount of the District's \$159.495 million Series KY (2010) (Tax-Exempt) are allocable to the Measure Y Authorization.

Source: Los Angeles Unified School District.

Certificates of Participation. As of December 1, 2010, the District had outstanding lease obligations issued in the form of certificates of participation in the aggregate principal amount of \$368.5 million, excluding certificates of participation that are economically defeased. Outstanding lease obligations represent approximately \$509.3 million in total debt service, based upon certain assumed interest rates for the District's variable rate lease obligations. The following Table B-19 sets forth the District's lease obligations paid from its General Fund, developer fees, and cafeteria funds with respect to its outstanding COPs.

In September 2010, the District set aside a portion of the proceeds from a general obligation bond issuance to defease a portion of the debt service payments on its Certificates of Participation 2007 Series A (Informational Technology Projects) and Certificates of Participation, 2009 Series A (Food Services Project). The District expects the aforementioned defeasance to reduce debt service costs paid by the District General Fund and Cafeteria Fund by an aggregate amount of \$32.93 million from Fiscal Year 2010-11 through Fiscal Year 2013-14. Table B-19 incorporates the impact of the defeasance of such debt service payments.

TABLE B-19

**Los Angeles Unified School District
Certificates of Participation Lease Obligations Debt Service Schedule⁽¹⁾⁽²⁾
As of December 1, 2010
(\$ in thousands)**

Fiscal Year Ending (June 30)	Paid from General Fund	Paid From Developer Fees⁽³⁾	Paid From Cafeteria Fund⁽³⁾	Fiscal Year Total Debt Service
2011	\$ 5,879	\$ 1,319	\$ 393	\$ 7,591
2012	29,032	9,577	786	39,395
2013	26,465	9,576	786	36,827
2014	26,458	9,577	786	36,821
2015	30,491	9,574	4,963	45,028
2016	28,072	9,574	4,963	42,610
2017	28,061	9,575	4,963	42,599
2018	28,047	16,886	4,963	49,896
2019	15,590	--	4,963	20,553
2020	15,594	--	2,482	18,076
2021	15,587	--	--	15,587
2022	15,048	--	--	15,048
2023	15,039	--	--	15,039
2024	14,401	--	--	14,401
2025	14,331	--	--	14,331
2026	14,581	--	--	14,581
2027	14,570	--	--	14,570
2028	14,559	--	--	14,559
2029	14,540	--	--	14,540
2030	12,416	--	--	12,416
2031	12,400	--	--	12,400
2032	<u>12,392</u>	<u>--</u>	<u>--</u>	<u>12,392</u>
	<u>\$403,551</u>	<u>\$75,659</u>	<u>\$30,051</u>	<u>\$509,261</u>

⁽¹⁾ The District has assumed an interest rate of 2.75% per annum, remarketing fees of 0.08% and letter of credit fees of 1.20% for its Variable Rate Refunding Certificates of Participation 2008 Series A (Administration Building Project) and Variable Refunding Certificates of Participation 2008 Series B (Administration Building Project III).

⁽²⁾ Although the District has economically defeased certain lease obligations, the lease payments stated above reflect the gross (not net) obligations of the District.

⁽³⁾ In the event that insufficient developer fees or cafeteria funds are available to pay these respective lease obligations, the District General Fund is obligated to pay these obligations, subject to the terms of the applicable leases. Debt service payments for the Fiscal Year ended June 30, 2018 will be paid in part from funds in a debt service reserve fund.

Source: Los Angeles Unified School District.

Other Long Term Obligations. The following Table B-20 summarizes the District's other long-term obligations, which exclude outstanding general obligation bonds and COPs, as of June 30, 2010.

TABLE B-20

**Los Angeles Unified School District
Other Outstanding Long-Term Obligations
(\$ in thousands)**

	Balance as of June 30, 2010
Self-Insurance Claims ⁽¹⁾	\$ 528,345
Net Pension Obligation – OPEB ⁽²⁾⁽³⁾	2,393,811
Liability for Employee Benefits	224,884
Revolving loan and other loan ⁽⁴⁾	1,231
Capital lease/obligation	2,628
Arbitrage payable	12,445
Legal Settlements	<u>15,200</u>
TOTAL	<u>\$ 3,178,544</u>

⁽¹⁾ Includes the total claims liabilities recorded for medical, dental, liability and workers' compensation. Beginning with Fiscal Year 2003-04, the District, in conformity with generally accepted accounting principles, implemented a change that recognizes estimated claims liabilities at the full present value of claims in its fund financials. In the past, the District recorded estimated claims liabilities only to the extent funded in its fund financial statements, which was substantially less than the present value for the Workers' Compensation Self-Insurance Fund.

⁽²⁾ Pursuant to Statement No. 45, OPEB expense in an amount equal to annual OPEB cost is recognized in government-wide financial statements on an accrual basis. Net OPEB obligations, if any, including amounts associated with under- or over-contributions from governmental funds, are to be displayed as liabilities (or assets) in government-wide financial statements. The Statement No. 45 reporting requirements for the District became effective during Fiscal Year 2007-08.

⁽³⁾ The District's current funding policy on OPEB Benefits is pay-as-you-go. There are no dedicated assets at this time to offset the Actuarial Accrued Liability. A Net OPEB Obligation is created under GASB 45 reporting requirements to the extent that the calculated Annual Required Contribution exceeds the annual pay-as-you-go cost of providing postretirement benefits.

⁽⁴⁾ Includes the Children's Care Facilities Revolving Loan and California Energy Commission Loan.

Source: Los Angeles Unified School District Comprehensive Annual Financial Report for Fiscal Year 2009-10.

Tax and Revenue Anticipation Notes. The District has issued tax and revenue anticipation notes annually since Fiscal Year 1990-91 to fund shortfalls due to timing differences between receipts and disbursements. In July 2010, the District issued its 2010-2011 Tax and Revenue Anticipation Notes, Series A (the "2010-2011 Tax and Revenue Anticipation Notes") in a principal amount of \$540,000,000. The 2010-2011 Tax and Revenue Anticipation Notes are scheduled to mature and be paid on June 30, 2011.

Future Financings

General Obligation Bonds. The District has approximately \$235.2 million authorized and unissued general obligation bond authorization remaining under the Measure R Authorization, \$442.8 million authorized and unissued general obligation bond authorization remaining under the Measure Y Authorization and \$7 billion authorized and unissued general obligation bond authorization remaining under the Measure Q Authorization. The issuances of additional series of general obligation bonds will depend upon, among other things, when the anticipated decline in the District's assessed

valuation ends. See “DISTRICT FINANCIAL INFORMATION – District Debt – *General Obligation Bonds*” herein.

The District may issue refunding bonds to refund outstanding general obligation bonds from time to time, depending on market conditions. In addition, as described in the text of each of the ballots of Proposition BB, Measure K, Measure R, Measure Y and Measure Q, the District Board does not guarantee that the respective bonds authorized and issued under the Proposition BB, Measure K, Measure R, Measure Y and Measure Q Authorizations will provide sufficient funds to allow completion of all potential projects listed in connection with said measures.

Certificates of Participation. In addition to the Certificates described in the forepart of this Official Statement, the District expects that, from time to time, additional capital projects may be approved by the District Board for funding through the execution and delivery of certificates of participation. The District expects to execute and deliver the Certificates of Participation, 2011 Series A (Capital Projects II) in the estimated aggregate principal amount of \$23.5 million in the spring of 2011 to finance certain capital projects of the District.

Tax and Revenue Anticipation Notes. The District may issue tax and revenue anticipation notes to fund the General Fund in the event it projects shortfalls due to timing differences between receipts and disbursements.

Overlapping Debt Obligations

Set forth on Table B-21 on the following page is the Debt Report prepared by California Municipal Statistics Inc. dated as of November 2, 2010, which provides information with respect to direct and overlapping debt within the District as of December 1, 2010 (the “Debt Report”). The Debt Report is included for general information purposes only. The District has not reviewed the Debt Report for completeness or accuracy and makes no representations in connection therewith. The Debt Report generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the District. Such long-term obligations generally are not payable from revenues of the District (except as indicated) nor are they necessarily obligations secured by land within the District. In many cases, long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

The first column in Table B-21 names each public agency which has outstanding debt as of the date of the report and whose territory overlaps the District in whole or in part. Column 2 shows the percentage of each overlapping agency’s assessed value located within the boundaries of the District. This percentage, multiplied by the total outstanding debt of each overlapping agency (which is not shown in Table B-21) produces the amount shown in column 3, which is the apportionment of each overlapping agency’s outstanding debt to taxable property in the District.

TABLE B-21

Los Angeles Unified School District
Schedule of Direct and Overlapping Bonded Debt
As of December 1, 2010⁽¹⁾

2010-11 Assessed Valuation: \$463,845,550,643
 Redevelopment Incremental Valuation: 42,437,639,608
 Adjusted Assessed Valuation: \$421,407,911,035

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable⁽²⁾</u>	<u>Debt 12/1/10</u>
Los Angeles County Flood Control District	47.828%	\$ 33,293,071
Metropolitan Water District	23.776	60,646,632
Los Angeles Community College District	81.765	2,891,819,549
Pasadena Area Community College District	0.001	1,161
Los Angeles Unified School District	100.000	11,596,250,000
City of Los Angeles	99.924	1,254,875,569
Other Cities	Various	45,555,995
Palos Verdes Library District	4.923	320,980
City Community Facilities Districts	100.000	132,270,000
City of Los Angeles Landscaping and Special Tax Assessment Districts	99.924	83,856,220
City of Los Angeles Assessment District No. 1	100.000	4,533,791
Other City and Special District 1915 Act Bonds	100.000	24,755,000
Los Angeles County Regional Park & Open Space Assessment District	46.430	<u>91,599,426</u>
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$16,219,777,394

<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>		
Los Angeles County General Fund Obligations	46.430%	\$ 335,293,790
Los Angeles County Pension Obligations	46.430	55,013,139
Los Angeles County Superintendent of Schools Certificates of Participation	46.430	5,666,730
Pasadena Area Community College District Certificates of Participation	0.001	18
Los Angeles Unified School District Certificates of Participation	100.000	408,974,782
City of Los Angeles General Fund and Judgment Obligations	99.924	1,888,488,657
Other City General Fund and Pension Obligations	Various	201,111,506
Los Angeles County Sanitation District Nos. 1,2,3,4,5,8,9,16 & 23 Authorities	Various	<u>47,641,580</u>
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$2,942,190,202
Less: Los Angeles County General Fund Obligations supported by landfill revenues		8,746,608
Los Angeles Unified School District Qualified Zone Academy Bonds:		
Amount set-aside in Building Fund to make payments on 2000 Series A QZAB		3,708,421
Amount accumulated in Sinking Fund for repayment of 2000 Series A QZAB		25,372,260
Amount accumulated in Sinking Fund for repayment of 2005 QZAB		2,665,787
City self-supporting bonds		<u>10,846,069</u>
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$2,890,851,057

GROSS COMBINED TOTAL DEBT \$19,161,967,596⁽³⁾
 NET COMBINED TOTAL DEBT \$19,110,628,451

- (1) Information set forth herein excludes any and all direct and overlapping debt issued subsequent to November 12, 2010.
 (2) Based on Fiscal Year 2009-10 ratios.
 (3) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2010-11 Assessed Valuation:

Direct Debt (\$11,596,250,000)2.50%
 Total Overlapping Tax and Assessment Debt.....3.50%

Ratios to Adjusted Assessed Valuation:

Gross Combined Direct Debt (\$12,005,224,782).....2.85%
Net Combined Direct Debt (\$11,973,478,314).....2.84%
 Gross Combined Total Debt4.55%
 Net Combined Total Debt.....4.53%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/10: \$0

Source: California Municipal Statistics, Inc.

Assessed Valuation of Property within the District

As required by State law, the District uses the services of the County for the assessment and collection of taxes for District purposes. District taxes are collected at the same time and on the same tax rolls as are County, City and other local agency and special district taxes.

State law exempts \$7,000 of the full cash value of an owner-occupied dwelling from property tax, but this exemption does not result in any loss of revenue to local entities because an amount equivalent to the taxes which would have been payable on such exempt values is paid by the State to the County for distribution to local agencies.

The County levies property taxes on behalf of taxing agencies in the County for each fiscal year on taxable real and personal property which is situated in the County as of the preceding January 1. However, upon a change in ownership of property or completion of new construction, State law permits an accelerated recognition and taxation of increases in real property assessed valuation (the "Supplemental Assessment"). In such instances, the property is reassessed and a supplemental tax bill is sent to the new owner based on the new value prorated for the balance of the tax year. Accordingly, each school district is to receive allocations of revenue from such Supplemental Assessments (such allocations to be from amounts remaining after allocations to each redevelopment agency in the County in connection with the 1% levy) and, in accordance with various apportionment factors, to the County, the County superintendent of schools, each community college district, each city and each special district within the County.

Under State law, a property owner can file a claim for a temporary reduction in assessed value when a property suffers a decline-in-value, which is deemed to have occurred when the current market value of the property is less than the assessed value as of January 1. The property is subject to annual review of a temporary decline-in-value reassessment granted for the prior assessment year. The Los Angeles County Assessor reported that in 2010 the Office of the Assessor conducted proactive decline-in-value reviews of 583,000 single-family residences and condominiums in the County that resulted in lower assessments on 426,000 properties, for which the full cash value of the property shown on the Fiscal Year 2010-11 tax bill was more than the fair market value as of January 1, 2010. Decline-in-value changes and other adjustments reduced the County's total assessed valuation by approximately \$24.3 billion for Fiscal Year 2010-11. The decline-in-value changes and other adjustments for 2010 were partially offset by increases of \$7.4 billion attributable to properties sold and transferred and \$5.2 billion attributable to new construction.

Foreclosures in the County declined by approximately 4,800 in calendar year 2009 relative to 2008, to 36,500. This amount represents 1.4% of total properties in the County and 23% of the total reappraisable changes of ownership in 2009.

In Fiscal Year 2010-11, the District's total secured and unsecured assessed valuation was approximately \$463.8 billion, which is a decrease of approximately 2.34% from the prior fiscal year. The assessed valuation of property in the District from Fiscal Years 2001-02 through 2010-11 is set forth in the following Table B-22.

TABLE B-22

**Los Angeles Unified School District
Historical Gross Assessed Valuation of Taxable Property
Fiscal Years ended June 30, 2002 through June 30, 2011
(full cash value, \$ in thousands)**

Fiscal Year Ended June 30	Secured⁽¹⁾	Unsecured	Total⁽¹⁾	Change From Prior Year	Percent Change
2002	\$249,496,423	\$22,018,503	\$271,514,926	\$17,574,352	6.92%
2003	266,383,265	21,142,670	287,525,935	16,011,009	5.90
2004	287,673,344	20,855,436	308,528,780	21,002,845	7.30
2005	311,419,822	20,505,315	331,925,137	23,396,357	7.58
2006	343,302,944	20,566,535	363,869,479	31,944,342	9.62
2007	382,212,502	20,396,335	402,608,837	38,739,358	10.65
2008	419,052,509	21,861,881	440,914,390	38,305,553	9.51
2009	451,191,875	23,597,923	474,789,798	33,875,408	7.68
2010	451,127,882	23,849,408	474,977,290	187,493	0.04
2011	442,092,473	21,753,078	463,845,551	(11,131,739)	(2.34)

⁽¹⁾ Includes utility valuations.

Sources: Los Angeles Unified School District Comprehensive Annual Financial Report for Fiscal Years ended June 30, 2002 through June 30, 2010. Los Angeles County Auditor-Controller for Fiscal Years ended June 30, 2011.

The following Table B-23 sets forth the assessed valuation by land use of property within the District in Fiscal Year 2010-11.

TABLE B-23

**Los Angeles Unified School District
Assessed Valuation and Parcels by Land Use**

	Fiscal Year 2010-11 Assessed Valuation⁽¹⁾	% of Total	No. of Parcels	% of Total
Non-Residential:				
Commercial/Office Building	\$ 78,853,480,034	17.84%	49,152	5.28%
Industrial	45,955,202,845	10.40	23,541	2.53
Recreational	1,865,855,439	0.42	925	0.10
Government/Social/Institutional	3,675,823,890	0.83	5,436	0.58
Miscellaneous	<u>335,469,587</u>	<u>0.08</u>	<u>780</u>	<u>0.08</u>
Subtotal Non-Residential	\$130,685,831,795	29.57%	79,834	8.57%
Residential:				
Single Family Residence	\$185,429,763,686	41.96%	553,681	59.46%
Condominium/Townhouse	39,612,239,223	8.96	128,634	13.81
Mobile Home Related	361,927,552	0.08	315	0.03
2-4 Residential Units	29,037,592,330	6.57	96,144	10.32
5+ Residential Units/Apartments	49,169,048,970	11.13	39,941	4.29
Miscellaneous Residential	<u>35,304,871</u>	<u>0.01</u>	<u>111</u>	<u>0.01</u>
Subtotal Residential	\$303,645,876,632	68.70%	818,826	87.93%
Vacant Parcels	\$7,635,961,043	1.73%	32,590	3.50%
Total	\$441,967,669,470	100.005	931,250	100.00%

⁽¹⁾ Local Secured Assessed Valuation for Fiscal Year 2010-11; excluding tax-exempt property, local utility and non-unitary valuations.

Source: California Municipal Statistics, Inc.

The following Table B-24 sets forth the distribution of single-family homes within the District within various assessed valuation ranges in Fiscal Year 2010-11.

TABLE B-24

**Los Angeles Unified School District
Per Parcel 2010-11 Assessed Valuations of Single Family Homes**

	No. of Parcels	2010-11 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single Family Residential	553,681	\$185,429,763,686	\$334,904	\$234,150

2010-11 Assessed Valuation	No. of Parcels⁽¹⁾	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
\$0 - \$24,999	6,915	1.249%	1.249%	\$97,888,740	0.053%	0.053%
\$25,000 - \$49,999	29,125	5.260	6.509	1,093,527,250	0.590	0.643
\$50,000 - \$74,999	37,114	6.703	13.212	2,306,635,100	1.244	1.886
\$75,000 - \$99,999	28,450	5.138	18.351	2,434,039,750	1.313	3.199
\$100,000 - \$124,999	26,425	4.773	23.123	3,010,705,950	1.624	4.823
\$125,000 - \$149,999	28,203	5.094	28.217	3,846,014,907	2.074	6.897
\$150,000 - \$174,999	34,985	6.319	34.536	5,720,747,200	3.085	9.982
\$175,000 - \$199,999	36,787	6.644	41.180	6,857,464,670	3.698	13.680
\$200,000 - \$224,999	38,120	6.885	48.064	8,137,476,400	4.388	18.069
\$225,000 - \$249,999	36,471	6.587	54.652	8,569,153,218	4.621	22.690
\$250,000 - \$274,999	33,874	6.118	60.769	8,928,983,156	4.815	27.505
\$275,000 - \$299,999	23,208	4.192	64.961	6,642,129,600	3.582	31.087
\$300,000 - \$324,999	21,820	3.941	68.902	6,836,904,240	3.687	34.774
\$325,000 - \$349,999	18,999	3.431	72.333	6,355,526,481	3.427	38.202
\$350,000 - \$374,999	16,666	3.010	75.343	6,015,626,032	3.244	41.446
\$375,000 - \$399,999	13,001	2.348	77.691	5,046,442,158	2.721	44.167
\$400,000 - \$424,999	10,655	1.924	79.616	4,371,245,715	2.357	46.525
\$425,000 - \$449,999	8,410	1.519	81.135	3,696,388,430	1.993	48.518
\$450,000 - \$474,999	7,577	1.368	82.503	3,525,085,595	1.901	50.419
\$475,000 - \$499,999	6,113	1.104	83.607	2,943,568,438	1.587	52.007
\$500,000 and greater	<u>90,763</u>	<u>16.393</u>	100.000	<u>88,994,210,656</u>	<u>47.993</u>	100.000
Total	553,681	100.000%		\$185,429,763,686	100.000%	

⁽¹⁾ Improved single family residential parcels. Excludes condominiums and parcels with multiple family units such as apartment buildings.

Source: California Municipal Statistics, Inc.

Tax Rates, Levies and Collections

Taxes are levied for each Fiscal Year on taxable real and personal property as of the preceding January 1. Real property that changes ownership or is newly constructed is revalued at the time the change occurs or the construction is completed. The current year property tax rate is applied to the reassessed value, and the taxes are then adjusted by a proration factor that reflects the portion of the remaining tax year for which taxes are due. The annual tax rate is based on the amount necessary to pay all obligations payable from *ad valorem* property taxes and the assessed value of taxable property in a given year. Economic and other factors beyond the District's control, such as a general market decline in land values, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable or religious purposes), or the complete or partial destruction of taxable property caused by natural or manmade disaster such as earthquake, flood, toxic dumping, etc., could cause a reduction in the assessed value of taxable property within the District and necessitate a corresponding increase in the annual tax rate to be levied to pay the principal of and interest on the District's outstanding general obligation bonds.

For assessment and collection purposes, property is classified as either “secured” or “unsecured” and is listed accordingly on separate parts of the assessment roll. The “secured roll” is that part of the assessment roll containing property (real or personal) the taxes on which are a lien sufficient, in the opinion of the County Assessor, to secure payment of the taxes. Other property is listed on the “unsecured roll.”

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of each fiscal year, and become delinquent on December 10 and April 10, respectively. A penalty of 10% attaches immediately to all delinquent payments. Properties on the secured roll with respect to which taxes are delinquent become tax defaulted on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of a penalty of 1.5% per month to the time of redemption, plus costs and a redemption fee. If taxes are unpaid for a period of five years or more, the property is deeded to the State and then may be sold at public auction by the County Treasurer and Tax Collector.

Property taxes on the unsecured roll are due in one payment on the January 1 lien date and become delinquent after August 31. A 10% penalty attaches to delinquent unsecured taxes. If unsecured taxes are unpaid at 5 p.m. on October 31, an additional penalty of 1.5% attaches to them on the first day of each month until paid. The County has four ways of collecting delinquent unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a judgment in the office of the County Clerk specifying certain facts in order to obtain a lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the County Recorder’s office in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee.

Proposition 13 and its implementing legislation impose the function of property tax allocation on counties in the State and prescribe how levies on countywide property values are to be shared with local taxing entities within each county. The limitations in Proposition 13, however, do not apply to *ad valorem* property taxes or special assessments to pay the interest and redemption charges on indebtedness, like its general obligation bonds, approved by the voters.

The County levies a 1% property tax on behalf of all taxing agencies in the County. The taxes collected are allocated on the basis of a formula established by State law enacted in 1979. Under this formula, the County and all other taxing entities receive a base year allocation plus an allocation on the basis of “situs” growth in assessed value (new construction, change of ownership, inflation) prorated among the jurisdictions that serve the tax rate areas within which the growth occurs. Tax rate areas are specifically defined geographic areas, which were developed to permit the levying of taxes for less than county-wide or less than city-wide special and school districts. In addition, the County levies and collects additional approved property taxes and assessments on behalf of any taxing agency within the County.

California Government Code Sections 29100 through 29107 provide the procedures that all counties must follow for calculating tax rates. The secured tax levy within the District consists of the District’s share of the 1% general *ad valorem* property and unitary taxes assessed on a County-wide basis and amounts levied that are in excess of the 1% general *ad valorem* property taxes. These tax receipts are part of the District’s operations. In addition, the secured tax levy also includes the amount for the District’s share of special voter-approved *ad valorem* property taxes assessed on a District-wide basis, such as the *ad valorem* property taxes assessed for the District’s general obligation bonds issued pursuant to a \$2.4 billion Proposition BB Authorization, a \$3.35 billion Measure K Authorization, a \$3.87 billion Measure R Authorization and a \$3.985 billion Measure Y Authorization. *Ad valorem* property taxes levied for general obligation bonds are deposited with the County and applied only to pay the principal of, redemption premium, if any, and interest on the District’s general obligation bonds. The District does not receive such funds nor are they available to pay any of the District’s operating expenses. In addition, the total secured tax levy includes special assessments, improvement bonds, supplemental taxes or other charges which have been assessed on property within the District. Since State law allows homeowners’

exemptions (described above) and certain business exemptions from *ad valorem* property taxation, such exemptions are not included in the total secured tax levy. See “CALIFORNIA CONSTITUTIONAL AND STATUTORY PROVISIONS RELATING TO AD VALOREM PROPERTY TAXES, DISTRICT REVENUES AND APPROPRIATIONS” herein.

Further, California Education Code Section 15251 provides that all taxes levied with respect to general obligation bonds when collected will be paid into the county treasury of the county whose superintendent of schools has jurisdiction over the school district on behalf of which the tax was levied, to the credit of the debt service fund (or interest and sinking fund) of the school district, and will be used for the payment of the principal of and interest on the general obligations bonds of the school district and for no other purpose. Accordingly, the County may not borrow or spend such amounts nor can the District receive such funds and use them for operating purposes.

The following Table B-25 sets forth the tax rates for the general percentage of the levy applied to all property owners for all of the District’s outstanding general obligation bonds and general obligation refunding bonds and State school loan repayment and the total overlapping tax rate levied on real property owners within the District from the Fiscal Year ended June 30, 2001 through June 30, 2010.

TABLE B-25

**Los Angeles Unified School District
Property Tax Rates
(Per \$100 of assessed value)
Fiscal Years ended June 30, 2001 through June 30, 2010**

Fiscal Year ended June 30	District Tax Rate for District’s State School Loan Repayment	Tax Rate for District’s General Obligation Bonds⁽¹⁾	General <i>Ad Valorem</i> Tax Rate Levied on District Property Owners⁽²⁾	Total Overlapping Tax Rate Levied on District Property Owners	Total Tax Rate Levied on District Property Owners
2001	0.000363%	0.040402%	1.000000%	0.038057%	1.078822%
2002	--	0.048129	1.000000	0.049952	1.098081
2003	0.000107	0.036866	1.000000	0.050926	1.087899
2004	0.000160	0.076985	1.000000	0.058128	1.135273
2005	0.000143	0.088696	1.000000	0.062701	1.151540
2006	0.000107	0.084239	1.000000	0.057333	1.141679
2007	0.000079	0.106735	1.000000	0.050769	1.157583
2008	0.000040	0.123302	1.000000	0.042551	1.165893
2009	0.000058	0.124724	1.000000	0.042841	1.167623
2010	--	0.151809	1.000000	0.045520	1.197329

⁽¹⁾ Reflects tax rate for general obligation bonds.

⁽²⁾ The District receives a portion of this District-wide tax with other overlapping agencies receiving their respective portion.

Source: Los Angeles Unified School District Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2010.

The following Table B-26 sets forth real property taxes in the District from Fiscal Years ended June 30, 2001 through 2010.

TABLE B-26

**Los Angeles Unified School District
Property Tax Levies and Collections
Fiscal Year 2000-01 through Fiscal Year 2008-2009
(\$ in thousands)**

Fiscal Year Ended June 30	Total Tax Levy	ERAF Funds⁽¹⁾	Current Tax Collections
2001	\$583,508	\$465,002	\$1,037,958
2002	652,455	493,649	1,125,788
2003	656,436	536,530	1,190,192
2004	821,820	576,038	1,386,560
2005	929,248	171,052	1,091,325
2006	991,275	76,068	1,026,351
2007	1,173,752	--	1,134,757
2008	1,345,503	(42,753)	1,241,733
2009	1,481,739	(2,660)	1,372,078
2010	1,597,579	41,685	1,505,933

⁽¹⁾ Educational Revenue Augmentation Funds ("ERAF") have been added or deducted, as applicable, to tax levies received by the District. See "CALIFORNIA CONSTITUTIONAL AND STATUTORY PROVISIONS RELATING TO *AD VALOREM* PROPERTY TAXES, DISTRICT REVENUES AND APPROPRIATIONS - Proposition 22" herein.

Sources: Los Angeles Unified School District Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2010.

Largest Taxpayers in the District

The following Table B-27 sets forth the twenty (20) largest secured taxpayers in the District for Fiscal Year 2010-11.

TABLE B-27

**Los Angeles Unified School District
Largest Local Secured Taxpayers
Fiscal Year 2010-11**

	Property Owner⁽¹⁾	Primary Land Use	Assessed Valuation	Total ⁽²⁾
1.	Douglas Emmett Realty Funds	Office Building	\$ 2,455,201,652	0.56%
2.	Universal Studios LLC	Motion Picture Studio	1,304,544,660	0.30
3.	Anheuser Busch Inc.	Industrial	815,694,562	0.18
4.	One Hundred Towers LLC	Office Building	579,803,019	0.13
5.	Donald T. Sterling	Apartments	571,150,103	0.13
6.	Tishman Speyer Archstone Smith	Apartments	517,308,119	0.12
7.	Casden Park La Brea	Apartments	460,551,833	0.10
8.	Paramount Pictures Corp.	Motion Picture Studio	460,510,322	0.10
9.	Century City Mall LLC	Shopping Center/Mall	456,150,450	0.10
10.	Taubman Beverly Center	Shopping Center/Mall	455,334,577	0.10
11.	Duesenberg Investment Company	Office Building	442,176,145	0.10
12.	Rreef America REIT II Corp.	Office Building	433,476,515	0.10
13.	Trizec 333 LA LLC	Office Building	383,700,000	0.09
14.	Next Century Associates LLC	Hotel	381,769,114	0.09
15.	Twentieth Century Fox Film Corp.	Motion Picture Studio	376,034,726	0.09
16.	BP West Coast Products LLC	Industrial	351,145,410	0.08
17.	1999 Stars LLC	Office Building	347,687,111	0.08
18.	Deutsche Bank National Trust Company	Residential Properties	334,969,710	0.08
19.	AP Properties Ltd.	Office Building	331,003,375	0.07
20.	Olympic and Georgia Partners LLC	Residential Development	<u>327,966,568</u>	<u>0.07</u>
			<u>\$11,786,177,971</u>	<u>2.67%</u>

⁽¹⁾ Excludes taxpayers with values derived from mineral rights or a possessory interest. Historically, among the top 10 taxpayers within the District are landowners with primary land use of oil and gas production, including Atlantic Richfield Company, Tosco Corporation and Ultramar Inc., which are not reflected in the table above.

⁽²⁾ Percentages reflect total 2010-11 Local Secured Assessed Valuation of \$441,967,669,470, based upon a calculation of the total secured assessed valuation less local utility and non-unitary valuations, as reported by California Municipal Statistics, Inc.

Source: California Municipal Statistics, Inc.

STATE FUNDING OF EDUCATION

General

Public school district revenues consist primarily of guaranteed State moneys, *ad valorem* property taxes and funds received from the State and federal government in the form of categorical aid, which are amounts restricted to specific categories of use, under various ongoing programs. All State apportionment of revenue limit aid ("State Aid") is subject to the appropriation of funds in the State's annual budget. Decreases in State revenues may affect appropriations made by the State Legislature to the District. See "DISTRICT FINANCIAL INFORMATION" herein.

Historically, approximately 85% of the District's annual General Fund (the "District General Fund") revenues have consisted of payments from or under the control of the State. Payments made to K-12 public schools and public colleges and universities are priority payments for State funds and are expected to be made prior to other State payment obligations. Although the State Constitution protects the priority of payments to K-12 schools, college and universities, it does not protect the timing of such payments and other obligations may be scheduled and have been scheduled to be paid in advance of those dates on which payments to school districts are scheduled to be made.

School districts in the State have historically received most of their revenues under a formula known as the "revenue limit." Each school district's revenue limit, which is funded by State moneys and local *ad valorem* property taxes from the general 1% *ad valorem* property tax levy, is allocated based on the average daily attendance ("ADA") of each school district for either the current or preceding school year. Each school district receives a portion of the local *ad valorem* property taxes that are collected from the general 1% *ad valorem* property tax levy within its district boundaries. Generally, State Aid to a school district will amount to the difference between the school district's revenue limit and the school district's local property tax allocation from the general 1% *ad valorem* property tax levy. In the District's 2009-10 Fiscal Year, approximately 44.7% of the District's operating revenues were derived from the revenue limit. See "CALIFORNIA CONSTITUTIONAL AND STATUTORY PROVISIONS RELATING TO *AD VALOREM* PROPERTY TAXES, DISTRICT REVENUES AND APPROPRIATIONS" herein.

Since 2002, the State has deferred certain State Aid payments to school districts from one fiscal year to the next fiscal year in order to manage the State's cash flow. The Revised 2009-10 State Budget Act extended deferrals and provided for new deferrals of State Aid. Under this legislation, State Aid payments are deferred from October to December of such calendar year, November to February of the following calendar year, April and May to August of such calendar year, from June to July of each calendar year and from July to August of each calendar year. On March 22, 2010, the Governor approved Assembly Bill No. 14 ("ABx8 14") to address current fiscal year State deficits. ABx8 14 establishes a cash management program intended to assure rating agencies and investors that the State can control its cash resources with more certainty and avoid issuance of IOUs, as occurred in July 2009. ABx8 14 will provide the State with authority to impose cash payment deferrals on, among others, K-12 school districts, community college districts, county offices of education, the California State University system, the University of California, cities and counties. In accordance with ABx8 14, the State Department of Finance deferred the apportionments for July 2010 and October 2010 to September 2010. Pursuant to ABx8 14, the State Department of Finance may defer the apportionment for March 2011 by up to 30 days. The aggregate amount of each such deferrals may not exceed \$2.5 billion at any given time. The State Department of Finance has advised local education agencies that it does not expect to shift the March 2011 deferral later than April 2011. The State has the authority to move a planned deferral to the prior month or to a subsequent month upon 30 days written notice by the State Department of Finance to the Legislative Budget Committee. Accordingly, the deferrals planned for March 2011 could occur in February 2011. ABx8 14 will not change the ongoing cross-fiscal year cash deferrals to school districts in the State as described above.

The State adopted AB 1610 which directed warrants for the principal apportionments for the month of February 2011 in the amount of \$2 billion be drawn in July 2011, warrants for the principal apportionments for the month of April 2011 in the amount of \$679 million and for the month of May 2011 in the amount of \$1 billion be drawn in August 2011, warrants for the principal apportionments for the month of April 2011 in the amount of \$420 million and for the month of May 2011 in the amount of \$800 million be drawn in July 2011. AB 1610 also approved a waiver provisions relation to an amount up to \$100 million for June of each year to July of such year subject to a demonstration of financial hardship by the requesting school district.

A large percentage of a school district's budgeted revenues comes from categorical funds provided exclusively by the State and federal government. These funds are to be used for specific programs and typically cannot be used for any other purpose. The State lottery is another source of funding for school districts, providing approximately 1.7% of a school district's general fund budget. Every school district receives the same amount of lottery funds per pupil from the State. The initiative authorizing the State lottery mandates the funds be used for instructional purposes and prohibits their use for land acquisition, construction or research and development. A small part of a school district's budget is from local sources other than property taxes, such as interest income, donations and sales of property. Some school districts derive a significant portion of their operating funds from voter-approved parcel taxes.

The revenue limit calculation formula was first instituted in Fiscal Year 1973-74 to provide a mechanism to calculate the amount of general purpose revenue a school district is entitled to receive from the State and local allocations of the general 1% *ad valorem* property tax levy. Prior to Fiscal Year 1973-74, taxpayers in school districts with low property values per pupil paid higher tax rates than taxpayers in school districts with high property values per pupil. However, despite higher tax rates, less was spent per pupil in school districts with low property values per pupil than school districts with high property values per pupil. Thus, the State revenue limit funding helps to alleviate the inequities between the two types of school districts.

ADA is reported by school districts each year in April, July and December. Revenue limit calculations are adjusted annually in accordance with a number of factors designed primarily to provide cost of living increases and to equalize revenues among school districts in the State of similar type (i.e., unified school districts, high school districts or elementary school districts) and size (e.g., large or small).

The calculation of the amount of State Aid a school district is entitled to receive each year is basically a five-step process. First, the prior year school district revenue limit per ADA is established, with recalculations as are necessary for adjustments for equalization or other factors. Second, the adjusted prior year revenue limit per ADA is inflated according to formulas based on the implicit price deflator for government goods and services and the statewide average revenue limit per ADA for school districts. During this phase, a deficit factor may be applied to the base revenue limit if so provided in the State Budget Act for a given fiscal year (when appropriation of funds in the State's annual budget for revenue limits or for any categorical program is not sufficient to pay all claims for State Aid, a deficit factor is applied to reduce the allocation of State Aid to the amount appropriated). Third, the current year's revenue limit per ADA for each school district is multiplied by such school district's ADA for the current or prior year. For a school district with declining enrollment, the current year's revenue limit per ADA is multiplied by the school district's ADA for the prior year. This has been the case for the District in recent years, thereby providing a cushion until the District's cost structure adjusts to lower ADA. Fourth, revenue limit add-ons are calculated for each school district if such school district qualified for the add-ons. Add-ons include the necessary small school district adjustments, meals for needy pupils and small school district transportation, and are added to the revenue limit for each qualifying school district. Finally, local *ad valorem* property taxes allocated from the general 1% *ad valorem* property tax levy are deducted from the revenue limit to arrive at the amount of State Aid to which each school district is entitled for the current year.

The following Table B-28 sets forth the District's revenue limit per unit of ADA from Fiscal Year 2001-02 through Fiscal Year 2008-09 and the projected revenue limit per unit of ADA for Fiscal Year 2009-10 based upon the District's Final Adopted Budget for Fiscal Year 2009-10 and the projected revenue limit per unit of ADA for Fiscal Year 2010-11 based upon the Fiscal Year 2010-11 State Budget Act.

TABLE B-28

**Los Angeles Unified School District
K-12 Revenue Limit Per Unit of Average Daily Attendance
Fiscal Years 2001-02 to 2010-11**

Fiscal Year	K-12 Base Limit ⁽¹⁾
2001-02	\$4,654.13
2002-03	4,747.13
2003-04	4,835.13
2004-05	4,968.66
2005-06	5,179.66
2006-07	5,544.56
2007-08	5,796.56
2008-09	5,645.07
2009-10	4,962.13
2010-11	5,219.65 ⁽²⁾

⁽¹⁾ The K-12 Base Limit figures represent the funded revenue limits.

⁽²⁾ Projected.

Sources: Los Angeles Unified School District Comprehensive Annual Financial Report for the Fiscal Year 2008-09 for Fiscal Years 2000-01 through 2009-10 and the District's Fiscal Year 2010-11 Revised Budget for Fiscal Year 2010-11.

The Revised 2009-10 State Budget Act established a new deficit factor for the cost of living adjustment ("COLA"), which created a statutory commitment to use Proposition 98 funds at some point in the future to raise revenue limits to the level they would have been absent the reduction in Fiscal Year 2008-09. See " – Proposition 98" below. The 18.355% deficit factor for Fiscal Year 2009-10 is the equivalent of funding the base revenue limit at 81.645%. Accordingly, the deficit factor and a one-time revenue limit reduction of \$252.83 per unit of ADA reduced the District's revenue limit funding for Fiscal Year 2009-10 from \$6,387.56 per unit of ADA to \$4,962.13 per unit of ADA.

The Fiscal Year 2010-11 State Budget Act approved a deficit factor of 17.963% for Fiscal Year 2010-11. Accordingly, the deficit factor reduced the District's revenue limit funding for Fiscal Year 2010-11 from \$6,362.56 per unit of ADA to \$5,219.65 per unit of ADA.

The following Table B-29 sets forth the deficit factor and COLA from Fiscal Years 2001-02 through 2010-11 as reflected in the State Budget Acts with respect to Fiscal Years 2001-02 through 2010-11. In connection with the Revised 2009-10 State Budget Act, the State Legislature approved legislation stating that most programs, including universities, the courts and various social service programs would no longer receive a COLA or inflationary adjustments. Pursuant to the Fiscal Year 2010-11 State Budget Act, the COLA for school districts is a negative 0.39%.

TABLE B-29

**Los Angeles Unified School District
Deficit Factor and Cost of Living Adjustment
Fiscal Years 2001-02 to 2010-11**

<u>Fiscal Year</u>	<u>Deficit Factor</u>	<u>Cost of Living Adjustment</u>
2001-02	0.000%	3.87%
2002-03	0.000	2.00
2003-04	3.002	1.86
2004-05	2.143	2.41
2005-06	0.892	4.23
2006-07	0.000	5.92
2007-08	0.000	4.53
2008-09	7.844	5.66
2009-10	18.355	4.25 ⁽¹⁾
2010-11 ⁽²⁾	17.963	(0.39) ⁽²⁾

⁽¹⁾ The 4.25% increase of the statutory COLA for Fiscal Year 2009-10 is offset is by a deficit factor of 18.355% on the base revenue limit, which results in a net funded COLA of a negative 7.64%.

⁽²⁾ Budgeted. The 0.39% decrease of the statutory COLA for Fiscal Year 2010-11 is eliminated by the adoption of a deficit factor less than the deficit factor in Fiscal Year 2009-10.

Source: Los Angeles Unified School District.

The following Table B-30 sets forth the District's Annual ADA record for each of the Fiscal Years 2001-02 through 2010-11:

TABLE B-30

**Los Angeles Unified School District
Annual Average Daily Attendance
Fiscal Years 2001-02 to 2010-11**

Fiscal Year	Average Daily Attendance		
	K-12 ⁽¹⁾⁽²⁾	Affiliated Charter Schools ⁽³⁾⁽⁴⁾	Total
2001-02	656,306	20,010	676,316
2002-03	661,615	17,681	679,296
2003-04	666,169	5,143	671,312
2004-05	654,308	5,990	660,298
2005-06	633,013	5,958	638,971
2006-07	614,487	5,936	620,423
2007-08	599,799	6,482	606,281
2008-09	588,372	6,655	595,027
2009-10	570,057	6,906	576,963
2010-11 ⁽⁵⁾	551,200	5,085	556,286

⁽¹⁾ Includes non-public school special education students.

⁽²⁾ With declining enrollment, the District's K-12 revenue limit funds in each of Fiscal Years 2004-05 through 2009-10 are based upon the respective prior fiscal year's ADA.

⁽³⁾ Decreases in ADA are primarily attributable to affiliated charter schools converting to regular District schools or to independent charter schools.

⁽⁴⁾ Includes charter schools that are fiscally affiliated with the District that are funded with block grants.

⁽⁵⁾ Budgeted.

Sources: Los Angeles Unified School District Comprehensive Annual Financial Report for Fiscal Years 2000-01 through 2009-10, the District for Fiscal Year 2010-11.

As part of the Fiscal Year 1992-93 State budget resolution, the State required counties, cities and special districts to shift *ad valorem* property tax revenues to school districts by contributing to the Education Revenue Augmentation Fund ("ERAF") in lieu of direct payments to school districts from the State's General Fund (the "State General Fund"). This transfer is commonly referred to as the "ERAF" shift. The Fiscal Year 1993-94 State Budget Act required a similar shift of *ad valorem* property taxes to school districts from local government entities, which shift of *ad valorem* property taxes has continued. The manner in which the shift of *ad valorem* property taxes has occurred has varied year by year. The Fiscal Year 2004-05 State Budget Act included a \$1.3 billion ERAF shift in local *ad valorem* property taxes from cities, counties, special districts and redevelopment agencies to school districts. However, the Fiscal Year 2004-05 State Budget Act also included a \$1.136 billion diversion of ERAF funds from school districts and community colleges to local governments to offset the reduction in sales tax revenues to local governments used by the State to pay debt service on the State's economic recovery bonds. In addition, \$2.8 billion was reduced from *ad valorem* property tax allocations to school districts to replace the shift of vehicle license fee revenues from local governments to the State. As a result of the various shifts of *ad valorem taxes*, school districts no longer receive ERAF funds. See the table entitled "Los Angeles Unified School District Property Tax Levies and Collections Last Ten Fiscal Years" in the section "DISTRICT FINANCIAL INFORMATION – Tax Rates, Levies, Collections and Delinquencies" herein.

Proposition 1A (SCA 4) (“Proposition 1A”) approved by the voters in November 2004, provided that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. Proposition 1A generally prohibited the State from shifting to schools or community colleges any share of *ad valorem* property tax revenues allocated from the 1% levy to local governments for any fiscal year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of *ad valorem* property tax revenues among local governments within a county must be approved by two-thirds of both houses of the State Legislature. Proposition 1A provided, however, that beginning in Fiscal Year 2008-09, the State may shift to schools and community colleges up to 8% of local government property tax revenues from the general 1% *ad valorem* property tax levy, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe State financial hardship, the shift is approved by two-thirds of both houses and certain other conditions are met.

Notwithstanding the aforementioned shifts in property tax revenues in prior years, certain levels of funding are guaranteed as described in “ – Proposition 98” below. *Ad valorem* property taxes levied to pay debt service on the District’s general obligation bonds, are not subject to the shifts described above for *ad valorem* property taxes provided from the 1% levy. Further, the State’s ability to initiate future exchanges and shifts of funds will be limited by Proposition 22. See CALIFORNIA CONSTITUTIONAL AND STATUTORY PROVISIONS RELATING TO *AD VALOREM* PROPERTY TAXES, DISTRICT REVENUES AND APPROPRIATIONS – Proposition 22” herein.

Charter School Funding

A charter school is a public school authorized by a school district, county office of education or the Board of Education of the State. A proposed charter school submits a petition to one of these entities for approval and that petition details the operations of the charter school. State law requires that charter petitions be approved if they comply with the statutory criteria. The District has certain fiscal oversight and other responsibilities with respect to both affiliated and independent charter schools. However, independent charter schools that receive their funding directly from the State are not included in the District’s audit report and function like independent agencies, including having control over their staffing and budgets, which are received directly from the State. Affiliated charter schools receive their funding from the District and are included in the District’s budgets and audit reports. In addition, as of June 30, 2010, there were 11 affiliated charter schools operated by the District and 150 fiscally independent charter schools within the District’s boundaries. In Fiscal Year 2009-10, the revenue limit ADA for the District’s affiliated charter schools was estimated to be 6,906.

Charter schools generally receive funding in three broad categories. Charter schools receive a block grant that is similar to school district revenue limit funding and is based on statewide average revenue limits for school districts within specified ranges of grades. These charter school revenues are deducted from the amount of State Aid a school district is entitled to receive each year. Charter schools also receive a block grant in lieu of many categorical programs. Charter schools may spend these block grants for any educational purpose. The third broad category of funding for charter schools is categorical funds not included in the block grant. A charter school must apply for these funds, program by program, and if received, must spend the funds in accordance with the same program requirements as traditional schools. An increase in the number of independent charter schools within a school district, or of independent charter school students in a school district who had previously been students at a traditional school in that same school district, results in a reduction of the revenue limit and, possibly, program funding for that school district.

In November 2010, the District Board approved the “Quality Schools Compact”, which commits the District and leaders of charter schools to improve the way that they work together over the next five years in order to increase the numbers of students attending traditional schools and charter schools. Pursuant to the Quality Schools Compact, the District has agreed to, among other things, work with

charter schools to increase funding for all students attending public schools. The Quality Schools Compact approves a policy whereby traditional schools and charter schools will collaborate to procure products and services. In addition, the District and interested charter schools will consider options that allow traditional schools and charter schools to meet short-term working capital needs through, among other things, the issuance of tax and revenue anticipation notes with due consideration given to the cost to the District.

Proposition 98

On November 8, 1988, voters of the State approved Proposition 98, a combined initiative constitutional amendment and statute called the “Classroom Instructional Improvement and Accountability Act.” Proposition 98 changed State funding of public education below the university level and the operation of the State’s appropriation limit as described in Article XIII B of the State Constitution, primarily by guaranteeing K-14 schools a minimum share of State General Fund revenues. Under Proposition 98 (as modified by Proposition 111, which was enacted on June 5, 1990), there are currently three tests which determine the minimum level of K-14 funding. See “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS” herein. Proposition 98 also contains provisions transferring certain State tax revenues in excess of the revenue limit to K-14 schools under Article XIII B of the State Constitution.

Proposition 98 permits the State Legislature by two-thirds vote of both houses, with the Governor’s concurrence, to suspend the K-14 schools’ minimum funding formula for a one-year period. The amount of suspension is eventually repaid according to a specified State Constitutional formula, thereby restoring Proposition 98 funding to the level that would have been required in the absence of such suspension. The Fiscal Year 2004-05 State Budget Act suspended the Proposition 98 minimum guarantee for Fiscal Year 2004-05; however, the suspended amount was fully paid in Fiscal Year 2005-06. The Proposition 98 minimum guarantee was fully funded for Fiscal Years 2005-06 through Fiscal Year 2009-10. The State’s Fiscal Year 2010-11 State Budget Act suspends the Proposition 98 minimum guarantee in Fiscal Year 2010-11.

ABx8 6, which was adopted in March 2010, authorized the State to eliminate the sales tax on gasoline and replace it with an excise tax. The elimination of the sale tax on gasoline would reduce the State General Fund. Under current law, any reduction in the State General Fund could reduce the minimum guarantee under Proposition 98. Pursuant to ABx8 6, the State’s Director of Finance is directed to adjust the percentage of State General Fund revenues appropriated for school districts and community college districts such that the provisions of ABx8 6 will have no net fiscal impact upon the amounts that are otherwise required to be applied by the State for the support of school districts and community college districts pursuant to Proposition 98. However, there can be no assurances that any action taken by the State’s Director of Finance will not adversely affect Proposition 98 revenues. Further, in connection with the approval by the voters of Proposition 26 in November 2010, because the State Legislature approved this tax change with a simple majority vote, this law would be repealed in November 2011 unless the State Legislature approves the tax again with a two-thirds vote in each house. See “STATE FUNDING OF EDUCATION – State Budget – Proposed Fiscal Year 2010-11 State Budget” herein. See “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS — Proposition 98”, “- Proposition 22” and “- Proposition 26” herein.

Litigation Regarding State Budgetary and Fiscal Actions

On May 20, 2010, more than 60 individual students and their respective families, nine school districts within the State, the California Congress of Parents Teachers & Students, the Association of California School Administrators, and the California School Boards Association filed a complaint for declaratory and injunctive relief, entitled *Maya Robles-Wong, et al. v. State of California, et al.*, (the “Robles Complaint”) in the Alameda County Superior Court. The Robles Complaint alleges, among other

things, that the State's current system of funding public education is not designed to support the core education program required by the State and that the State has failed to meet its duties under the State Constitution to keep up and support a "system of common schools." The *Robles* Complaint further alleges that the State does not provide and sufficiently fund an educational finance system that is intentionally, rationally, and demonstrably aligned with the goals and objectives of the State's prescribed educational program and the costs of ensuring that all children of all needs have the opportunity to become proficient in accordance with the State's academic standards. The *Robles* Complaint requests that the court enter a permanent injunction to, among other things, require the State to align its school finance system with its prescribed educational program and direct the defendants to cease operating the existing public school finance system or any other system of public finance that does not meet the requirements of the State Constitution. Neither the District nor the Corporation are listed as defendants in the *Robles* Complaint.

On July 13, 2010, 18 individual students and their respective families, three taxpayer citizens, the Campaign for Quality Education, the Alliance of Californians for Community Empowerment, Californians for Justice and the San Francisco Organizing Project filed a complaint for declaratory and injunctive relief, entitled *Campaign for Quality Education, et al., v. State of California and Arnold Schwarzenegger, Governor of the State of California*, (the "CQE Complaint") in the Alameda County Superior Court. The CQE Complaint alleges, among other things, that the State has violated its constitutional duties by failing to provide the individual plaintiffs' school districts with sufficient funds and that the State has failed to adopt policies to enable the districts to ensure that the individual plaintiffs and students of the districts have access to a meaningful education. The CQE Complaint further alleges that the State has violated the constitutional guarantees of equal protection under the State Constitution by failing to fulfill its constitutionally mandated duties to maintain a school finance system that allocates funds sufficient to provide students in the individual plaintiffs' school districts with a meaningful education and to first set apart and provide those funds to the public school system. The CQE Complaint requests that the court issue a declaratory judgment that the State has failed to adhere to its constitutional duties relating to the system of education, and provide injunctive relief as necessary to achieve compliance with the State Constitution. Neither the District nor the Corporation are listed as defendants in the CQE Complaint.

In October 2010, four students on behalf of themselves and a class similar situated filed a complaint of declaratory and injunctive relief, entitled *A.C. by and on behalf of his guardian ad litem Gail Campos, et al., v. Arnold Schwarzenegger, in his capacity as Governor of the State of California* (the "AB 3632 Complaint") in the United States District Court for the Central District of California. The AB 3632 Complaint alleges that the Governor's line-item veto of State funding for educationally-related mental health services and the suspension of a mandate directing county mental health departments to provide such educationally-related mental health services have caused violations of the federal Individuals with Disabilities Education Improvement Act, the Americans with Disabilities Act and Section 504 of the Rehabilitation Act of 1973. In connection with the veto, the complaint alleges that the California Department of Education informed local education agencies that federal law requires them to provide or pay for educationally-related mental health services when other agencies fail to do so. The AB 3632 Complaint alleges that the District and other named defendants have discriminated against students with mental disabilities in violation of federal law and have denied such students meaningful access to and an opportunity to participate in the educational programs and activities offered to other students in the State. In November 2010, the court entered a temporary restraining order based upon a stipulation that the California Department of Education and State Superintendent of Public Instruction release to county offices of education \$76 million in IDEA funds currently in the State's budget. Approximately \$13.8 million of such moneys will be passed through LACOE and designated for educationally-related mental health services. LACOE will disburse those funds to Los Angeles County Department of Mental Health in accordance with the practices and procedures for distribution of funds existing before October 8, 2010 and a separate memorandum of understanding.

Neither the District nor the Corporation can predict whether the plaintiffs listed in the *Robles* Complaint, the CQE Complaint or the AB 3632 Complaint will be successful, and if so, how any final court decision with respect to either lawsuit would affect the financial status of the District or the Corporation, as the nature of any court's remedy and the responses of the State Legislature and the Governor are unknown.

State Budget

General. The District's operating income consists primarily of three components, which include the State Aid portion funded from the State General Fund and a locally generated portion derived from the District's share of the general 1% *ad valorem* property tax levy authorized by the State Constitution. In addition, school districts, such as the District, may be eligible for other special categorical funding, including for State and federal programs. Currently, the District receives approximately 79% of its District General Fund revenues from funds of or controlled by the State. As a result, decreases in State revenues, or in State legislative appropriations made to fund education, may significantly affect District operations.

The following discussion of the State's budget has been obtained from publicly available information which the District believes to be reliable; however, the District, the Corporation, the Financial Advisors and the Underwriters do not guarantee the accuracy or completeness of this information and have not independently verified such information. Additional information regarding State budgets is available at various State-maintained websites, including www.dof.ca.gov. These websites are not incorporated herein by reference and the District, the Corporation, the Financial Advisor and the Underwriters do not make any representation as to the accuracy of the information provided therein.

The State Budget Process. The State's fiscal year begins on July 1 and ends on June 30. According to the State Constitution, the Governor of the State (the "Governor") is required to propose a budget for the next fiscal year (the "Governor's Budget") to the State Legislature no later than January 10 of each year. Proposition 25, which was adopted by voters in the State at an election held on November 2, 2010, amended the State Constitution such that a final budget must be adopted by a simple majority vote of each house of the State Legislature by no later than June 15 and the Governor must sign the adopted budget by no later than June 30. The budget becomes law upon the signature of the Governor. In recent years, the State's final budget has not been timely adopted. The Governor signed the Fiscal Year 2010-11 State Budget Act, which sets forth the State's adopted budget for Fiscal Year 2010-11, into law on October 8, 2010, subsequent to the deadline therefor.

Under State law, the annual proposed Governor's Budget cannot provide for projected expenditures in excess of projected revenues and balances available from prior fiscal years. Following the submission of the Governor's Budget, the State Legislature takes up the proposal. Under the State Constitution, money may be drawn from the State Treasury only through an appropriation made by law. The primary source of the annual expenditure authorizations is the Budget Act as approved by the State Legislature and signed by the Governor. The Governor may reduce or eliminate specific line items in the Budget Act or any other appropriations bill without vetoing the entire bill. Such individual line-item vetoes are subject to override by a two-thirds majority vote of each House of the State Legislature. Appropriations also may be included in legislation other than the Budget Act. Bills containing appropriations (except for K-14 education) must be approved by a two-thirds majority vote in each House of the State Legislature and be signed by the Governor. Bills containing K-14 education appropriations require only a simple majority vote. Continuing appropriations, available without regard to fiscal year, may also be provided by statute or the State Constitution. Funds necessary to meet an appropriation need not be in the State Treasury at the time such appropriation is enacted; revenues may be appropriated in anticipation of their receipt. However, delays in the adoption of a final State budget in any fiscal year may affect payments of State funds during such budget impasse. See " - State Funding of Schools Without a State Budget" below for a description of payments of appropriations during a budget impasse.

State Budget for Fiscal Year 2009-10. On February 20, 2009, the Governor signed the 2009 State Budget Act (the “Original 2009-10 State Budget Act”) to address a then-projected \$42 billion shortfall in revenues. The Original 2009-10 State Budget Act projected Fiscal Year 2009-10 revenues and transfers of \$97.73 billion, actual expenditures of \$92.21 billion and a year-end surplus of \$3.18 billion (net of the \$2.34 billion deficit from Fiscal Year 2008-09), of which \$1.08 billion would be reserved for the liquidation of encumbrances and \$2.10 billion would be deposited in a reserve for economic uncertainties.

On May 14, 2009, the Governor released the May Revision to the Original 2009-10 State Budget Act, which contained proposals to be considered at a special election and contingency proposals in event the aforementioned proposals were not approved at the special election. The May Revision to the Original 2009-10 State Budget Act projected a budget gap of \$21.3 billion through the remainder of Fiscal Year 2008-09 and Fiscal Year 2009-10 due to continued shortfalls in revenue collections and increased costs and the failure of five of the six budget-related propositions included in a special election, which the May Revision to the Original 2009-10 State Budget Act proposed to address through program reductions and additional borrowings. On May 26, 2009 and on May 29, 2009, the Governor released updates to the May Revision to the Original 2009-10 State Budget Act. The May Revision to the Original 2009-10 State Budget Act and the updates thereto, collectively, included proposals to reduce General Fund spending in the amount of \$3.12 billion during Fiscal Year 2008-09 and \$20.85 billion during Fiscal Year 2009-10 in order to eliminate the State’s then projected \$24.0 billion deficit through such period.

On July 28, 2009, the Governor signed certain amendments to the Original 2009-10 State Budget Act (as amended, the “Revised 2009-10 State Budget Act”) to address a then-projected \$24.16 billion shortfall in revenues. The Revised 2009-10 State Budget Act estimated Fiscal Year 2008-09 revenues and transfers of \$84.1 billion, total expenditures of \$91.5 billion and a year-end deficit of \$3.38 billion, which included a \$4.07 billion prior-year State General Fund balance, a \$4.46 billion withdrawal from the reserve for economic uncertainties and an allocation of \$1.08 billion to the reserve for the liquidation of encumbrances. The Revised 2009-10 State Budget Act projected Fiscal Year 2009-10 revenues and transfers of \$89.54 billion, actual expenditures of \$84.58 billion and a year-end surplus of \$1.58 billion (net of the \$3.38 billion deficit from Fiscal Year 2008-09), of which \$1.08 billion was expected to be reserved for the liquidation of encumbrances and \$500 million was expected to be deposited in a reserve for economic uncertainties.

Certain of the features of the Original 2009-10 State Budget Act and the Revised 2009-10 State Budget Act that affect school districts included the following:

1. The Original 2009-10 State Budget Act set forth Proposition 98 spending for school districts and community college districts to \$50.7 billion for Fiscal Year 2008-09. The Revised 2009-10 State Budget Act set forth a reduction in Fiscal Year 2008-09 Proposition 98 spending for school districts and community college districts to \$34.05 billion due, in part, to reduced State General Fund revenues. The outstanding maintenance factor or future funding obligation for Fiscal Year 2008-09 pursuant to Proposition 98 was estimated to be \$11.2 billion at the time of the budget’s adoption. The Revised 2009-10 State Budget Act established a statutory obligation to begin paying the maintenance factor, commencing with a payment of \$1.7 billion toward such amount in Fiscal Year 2009-10.

2. The Revised 2009-10 State Budget Act set forth Proposition 98 spending for school districts and community college districts to \$35.03 billion for Fiscal Year 2009-10. In addition, the Revised 2009-10 State Budget Act included a shift of property tax revenues from redevelopment agencies to schools in the amount of \$850 million to replace a portion of the reduction in Proposition 98 State General Fund spending in Fiscal Year 2009-10. Such amount was shifted to K-12 schools that serve the redevelopment areas and the housing built by the redevelopment agencies. However, due to the shift of property tax revenues, no net change in funding for schools was expected to occur. In October 2009, in response to the shift of property taxes, the California Redevelopment Association filed a lawsuit against

the State seeking to invalidate the shift on the basis that the shift does not qualify as a constitutionally permitted use of redevelopment funds. Such lawsuit, if successful, may impact State spending for school districts and community college districts.

3. The Original 2009-10 State Budget Act included reductions in Fiscal Year 2008-09 of \$2.4 billion from K-14 programs, which amount included \$943.8 million from K-12 revenue limits, \$943.8 million from approximately fifty K-12 categorical programs, \$286.9 million from the elimination of the K-14 COLA and \$210 million from other various K-12 programs as compared to amounts set forth in the Fiscal Year 2008-09 Budget Act. The Original 2009-10 State Budget Act included additional reductions in Fiscal Year 2009-10 of \$267.5 million from revenue limits and \$267.5 million from categorical programs.

4. In order to reduce the Proposition 98 minimum guarantee for Fiscal Year 2009-10 and in consideration of a funding formula under Proposition 98, which calculates a level of funding for the current fiscal year in part based upon funding allocated during the prior fiscal year, the Revised 2009-10 State Budget Act retroactively reverted approximately \$1.6 billion in Fiscal Year 2008-09 unallocated funds for categorical programs to the State General Fund. The Proposition 98 revenue limit funding is reduced in Fiscal Year 2009-10 to backfill the reduction in categorical funding.

5. The Original 2009-10 State Budget Act deferred until July 2009 approximately \$3.2 billion in K-14 principal apportionments of which approximately \$2.3 billion was to be allocated to K-12 programs, \$570 million to K-3 class size reduction and \$340 million to community colleges. In addition, the Original 2009-10 State Budget Act deferred until October 2009 principal apportionments established for the months of July 2009 and August 2009 in the approximate amount of \$2.5 billion.

6. The Revised 2009-10 State Budget Act defers \$1.8 billion in payments from Fiscal Year 2009-10 to August 2010 from school district revenue limits and community college apportionments.

7. The Original 2009-10 State Budget Act eliminated the High Priority Schools Program, which provides additional funding to low-performing schools in the State to improve academic performance. The elimination of the High Priority Schools Program reduced amounts received by such schools in the aggregate amount of \$114.2 million.

9. The State will defer approximately \$2 billion in K-12 payments from their previously scheduled dates in Fiscal Year 2009-10 to December 2009 and January 2010. The payment schedule for K-12 apportionment funding and categorical funding will be revised to distribute five percent of total payments in each of July and August and nine percent in each of the remaining months.

10. The Revised 2009-10 State Budget Act includes \$6 billion in funds from ARRA in Fiscal Years 2008-09 and 2009-10 to maintain the minimum spending level required for receipt of State Fiscal Stabilization Fund allocations for K-12 programs.

11. The Original 2009-10 State Budget Act implemented provisions to grant school districts increased flexibility with respect to the use of certain funds received from the State to shift funds to meet their highest priority needs in Fiscal Years 2008-09 through 2012-13 and reduces penalties associated with the K-3 Class Size Reduction program through Fiscal Year 2011-12. These flexibility provisions will not apply to programs protected under federal law or programs that were approved pursuant to voter initiatives.

12. The Revised 2009-10 State Budget Act provides to schools the flexibility to reduce instruction by up to five days to accommodate a reduction of approximately \$2.1 billion of revenue limit apportionments to school districts and county offices of education, although these types of reductions are generally subject to labor negotiations. In addition, the Revised 2009-10 State Budget Act will permit

schools to reduce the amount of money that they are required to set aside for facility maintenance and to use funds from the sale of surplus property for non-facility related purposes.

State Budget for Fiscal Year 2010-11. On October 8, 2010, the Governor signed the 2010 Budget Act (the “Fiscal Year 2010-11 State Budget Act”) to address a then-projected \$19.3 billion shortfall in revenues. The Fiscal Year 2010-11 State Budget Act estimates Fiscal Year 2009-10 revenues and transfers of \$86.92 billion, total expenditures of \$86.35 billion and a year-end deficit of \$4.80 billion, which included a negative \$5.38 billion prior-year State General Fund balance, \$6.34 billion withdrawal from the reserve for economic uncertainties and an allocation of \$1.54 billion to the reserve for the liquidation of encumbrances. The Fiscal Year 2010-11 State Budget Act projects Fiscal Year 2010-11 revenues and transfers of \$94.23 billion, total expenditures of \$86.55 billion and a year-end surplus of \$2.87 billion (net of the \$4.80 billion deficit from Fiscal Year 2009-10), of which \$1.54 billion is budgeted to be reserved for the liquidation of encumbrances and \$1.34 billion is budgeted to be deposited in a reserve for economic uncertainties.

The Fiscal Year 2010-11 State Budget approves placement of a constitutional amendment on the State’s reserve funds on the February 2012 ballot. If approved, the State would increase the maximum size of its Budget Stabilization Account from five percent to ten percent of annual State General Fund revenues and provide new requirements for depositing State funds into the Budget Stabilization Account. If the ballot measure were approved, the law would further restrict the State’s ability to withdraw funds from its reserves.

Certain of the features of the Fiscal Year 2010-11 State Budget Act affecting school districts included the following:

1. The Fiscal Year 2010-11 State Budget Act suspends the Proposition 98 minimum guarantee. The Fiscal Year 2010-11 State Budget Act proposes to fund Proposition 98 for Fiscal Year 2010-11 at approximately \$49.7 million, which reflects an increase of \$200 million from the estimated Fiscal Year 2009-10 funding level. Prior to the suspension of the minimum guarantee, the State’s Proposition 98 funding obligation was estimated to be \$53.8 billion for Fiscal Year 2010-11.

2. The Fiscal Year 2010-11 State Budget includes approximately \$300 million as a payment to meet the State’s outstanding settle-up obligation for Fiscal Year 2009-10 with respect to Proposition 98 funding. The State expects to allocate \$90 million of such amount for annual education costs and to allocate \$210 million to school districts and community college districts based on the district’s average daily attendance for its respective unpaid prior-year mandate claims.

3. Budget bills related to the Fiscal Year 2010-11 State Budget provide K-12 education with \$1.5 billion in special one-time federal funding. Such funding includes grants in the amount of \$1.2 billion earmarked to help retain K-12 jobs and \$272 million from the most recent disbursement of federal stabilization funding.

4. The Fiscal Year 2010-11 State Budget continues the State’s practice of deferring certain apportionments to school districts within a fiscal year and across fiscal years. The Fiscal Year 2010-11 State Budget defers approximately \$1.9 billion in additional K-14 payments from the spring of 2011 to July 2011. Of such amount, approximately \$1.7 billion is allocable to K-12 education and \$189 million is allocable to community colleges.

5. Trailer bills that have been adopted by the State Legislature in connection with the Fiscal Year 2010-11 State Budget suspend certain mandated activities including, among other things, behavioral intervention plans and a science course required for graduation, and suspend the State’s obligation to pay for such activities.

LAO Overview of the Fiscal Year 2010-11 State Budget. On October 8, 2010, the LAO released a report entitled “Major Features of the Legislature’s 2010-11 Budget” (the “2010-11 LAO Budget Overview”), which provides an analysis by the LAO of the Fiscal Year 2010-11 State Budget. The 2010-11 LAO Budget Overview is available on the LAO website at www.lao.ca.gov. Information on the website is not incorporated herein by reference. The 2010-11 LAO Budget Overview states that more than two-third’s of the budget solutions contained State Legislature’s budget for Fiscal Year 2010-11 are one-time or temporary in nature. Accordingly, the LAO cautions that the State will continue to face sizable annual budget problems in Fiscal Year 2011-12 and thereafter.

LAO 2010-11 California Spending Plan. On November 4, 2010, the LAO released a report entitled “The Budget Package: 2010-11 California Spending Plan” (the “2010-11 California Spending Plan”), which provides further analysis by the LAO of the Fiscal Year 2010-11 State Budget. The 2010-11 California Spending Plan is available on the LAO website at www.lao.ca.gov. The website is not incorporated herein by reference. The 2010-11 California Spending Plan notes that Fiscal Year 2009-10 is the second consecutive fiscal year in which the State has ended the fiscal year with a large deficit. The 2010-11 California Spending Plan finds that the Fiscal Year 2010-11 State Budget projects State General Fund revenues and transfers of \$94.2 billion and expenditures of \$86.6 billion in Fiscal Year 2010-11. The resulting operating surplus of \$7.7 billion is budgeted to address the prior fiscal year’s deficit and to help the State rebuild a reserve balance of \$1.3 billion at the end of the fiscal year. However, the LAO cautions that \$5.4 billion of budgeted revenues relies on assumed funding from the federal government, a portion of which has yet to be approved. The LAO reports that the budget package contains two major components to address the State’s longer-term finances in addition to issues relating to Fiscal Year 2010-11. The first of such of components is a proposed constitutional amendment on budget reserves and the second would, if approved, address the pensions of future State employees.

LAO Fiscal Outlook for 2011-12 Budget. On November 10, 2010, the LAO released a report entitled “The 2011-12 Budget: California’s Fiscal Outlook” (the “2011-12 LAO Fiscal Outlook”), which updates the LAO’s forecast of the State’s General Fund revenues and expenditures. The 2011-12 LAO Fiscal Outlook is available on the LAO website at www.lao.ca.gov. The website is not incorporated herein by reference. The LAO projects in its 2011-12 LAO Fiscal Outlook that, absent corrective action, the State will face a budget deficit of approximately \$25.4 billion at the end of Fiscal Year 2011-12, inclusive of a budget deficit of \$6 billion at the end of Fiscal Year 2010-11. The LAO projects that, absent corrective action, the State will have budget deficits of approximately \$20 billion per fiscal year through Fiscal Year 2015-16.

The LAO notes that the Fiscal Year 2010-11 State Budget included an assumed \$4 billion of federal funding that had not been approved at the time of its adoption. The LAO currently projects that the State will not receive \$3.5 billion of such amount or flexibility related thereto from the federal government. The LAO cautions that a net \$3 billion of additional budget solutions will not be achieved and that Proposition 22, which was approved in November 2010, will reduce State General Fund solutions by approximately \$800 million. In order to address the State’s structural budget deficit, the LAO recommends the State take a multi-year approach and minimize the use of risky budgetary measures that it believes contribute to fiscal year-end deficits. The LAO further recommends that the State Legislature consider revenue policies including, among other things, tax expenditure programs such special credits, deductions and exemptions, increasing charges for program beneficiaries, extending certain temporary tax increases, and reconsidering the optional single sales factor for multistate companies. According to the LAO, the approval of permanent actions, certain temporary budget solutions could eliminate the State’s structural deficit and allow the State to build reserves to address the next economic downturn and any long-term fiscal liabilities.

Additional Information; Future State Budgets. Information about the State budget and State spending for education is regularly available at various State-maintained websites. Text of the State budget may be found at the website of the Department of Finance, www.dof.ca.gov, under the heading

“2010-11 Budget”. Various analyses of the budget may be found at the website of the LAO at www.lao.ca.gov. In addition, various State official statements, many of which contain a summary of the current and past State budgets and the impact of those budgets on school districts in the State, may be found via the website of the State Treasurer, www.treasurer.ca.gov. The information presented in these websites is not incorporated by reference in this Official Statement.

The District cannot predict what actions will be taken in the future by the State Legislature and the Governor to address the State’s current or future budget deficits. Future State budgets will be affected by national and State economic conditions, including the current economic downturn, over which the District has no control, and other factors over which the District will have no control. To the extent that the State budget process results in reduced revenues or increased expenses for the District, the District will be required to make adjustments to its budget. In the event future State Budgets decrease the District’s revenues or increase required expenditures by the District from the levels assumed by the District, the District will be required to generate additional revenues, curtail programs or services, or use its reserve funds to ensure a balanced budget.

State Funding of Schools Without a State Budget

Although the State Constitution requires that the State Legislature adopt a State Budget by June 15 of the prior fiscal year and that the Governor sign a State Budget by June 30, this deadline has been missed from time to time. Delays in the adoption of a final State budget in any fiscal year could impact the receipt of State funding by the District. On May 29, 2002, the California Court of Appeal for the Second District decided the case of *Howard Jarvis Taxpayers Association, et al. v. Kathleen Connell* (as Controller of the State of California), et al. (also referred to as *White v. Davis*) (“*Connell*”). The Court of Appeal concluded that, absent an emergency appropriation, the State Controller may authorize the payment of State funds during a budget impasse only when payment is either (i) authorized by a “continuing appropriation” enacted by the State Legislature, (ii) authorized by a self-executing provision of the State Constitution, or (iii) mandated by federal law. The Court of Appeal specifically concluded that the provisions of Article XVI, Section 8 of the State Constitution – the provision establishing minimum funding of K-14 education enacted as part of Proposition 98 – did not constitute a self-executing authorization to disburse funds, stating that such provisions merely provide formulas for determining the minimum funding to be appropriated every budget year but do not appropriate funds. Nevertheless, the State Controller has concluded that the provisions of the Education Code of the State (the “Education Code”) establishing K-12 and county office of education revenue limit funding do constitute continuing appropriations enacted by the State Legislature and, therefore, has indicated that State payments of such amounts would continue during a budget impasse. The State Controller, however, has concluded that K-12 categorical programs are not authorized pursuant to a continuing appropriation enacted by the State Legislature and, therefore, cannot be paid during a budget impasse. To the extent the *Connell* decision applies to State payments reflected in the District’s budget, the requirement that there be either a final budget bill or an emergency appropriation may result in the delay of some payments to the District while such required legislative action is delayed, unless the payments are self-executing authorizations, continuing appropriations or are subject to a federal mandate.

The State Supreme Court granted the State Controller’s petition for review of the *Connell* case on a procedural issue unrelated to continuous appropriations and on the substantive question as to whether the State Controller is authorized to pay State employees their full and regular salaries during a budget impasse. No other aspect of the Court of Appeal’s decision was addressed by the State Supreme Court. On May 1, 2003, with respect to the substantive question, the State Supreme Court concluded that the State Controller is required, notwithstanding a budget impasse and the limitations imposed by State law, to timely pay those State employees who are subject to the minimum wage and overtime compensation provisions of the federal Fair Labor Standards Act.

CALIFORNIA CONSTITUTIONAL AND STATUTORY PROVISIONS RELATING TO AD VALOREM PROPERTY TAXES, DISTRICT REVENUES AND APPROPRIATIONS

Article XIII A of the State Constitution

On June 6, 1978, California voters approved Proposition 13 ("Proposition 13"), which added Article XIII A to the State Constitution ("Article XIII A"). The provisions of Article XIII A were subsequently modified pursuant to Proposition 39, which was approved by California voters on November 7, 2000. Article XIII A limits the amount of any *ad valorem* tax on real property to 1% of the full cash value thereof, except that additional *ad valorem* property taxes may be levied to pay debt service on (i) bonded indebtedness approved by the voters prior to July 1, 1978, (ii) bonded indebtedness approved by a two-thirds vote on or after July 1, 1978, for the acquisition or improvement of real property, and (iii) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the school district or community college district, but only if certain accountability measures are included in the proposition. Article XIII A defines full cash value to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under "full cash value," or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment." The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or a reduction in the consumer price index or comparable local data at a rate not to exceed 2% per year, or reduced in the event of declining property value caused by substantial damage, destruction or other factors including a general economic downturn. Subsequent amendments further limit the amount of any *ad valorem* tax on real property to 1% of the full cash value except that additional taxes may be levied to pay debt service on bonded indebtedness approved by the requisite percentage of voters voting on the proposition.

Legislation Implementing Article XIII A

Legislation has been enacted and amended a number of times since 1978 to implement Article XIII A. Under current law, local agencies are no longer permitted to levy directly any property tax. The 1% property tax is automatically levied by the County and distributed according to a formula among taxing agencies. Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the up to 2% annual inflationary adjustment of the 1% tax base are allocated among the various jurisdictions in the "taxing area" based upon their respective "situation." Any such allocation made to a local agency continues as part of its allocation in future years. Separate *ad valorem* property taxes to pay voter approved indebtedness such as general obligation bonds are levied by the County on behalf of the local agencies. Article XIII A effectively prohibits the levying of any other *ad valorem* property tax above the Proposition 13 limit except for taxes to support such indebtedness.

The full cash value of taxable property under Article XIII A represents the maximum taxable value for property. Accordingly, the fair market value for a given property may not be the equivalent of the full cash value under Article XIII A. During periods in which the real estate market within the District evidences an upward trend, the fair market value for a given property, which has not been reappraised due to a change in ownership, may exceed the full cash value of such property. During periods in which the real estate market demonstrates a downward trend, the fair market value of a given property may be less than the full cash value of such property and the property owner may apply for a "decline in value" reassessment pursuant to Proposition 8. Reassessments pursuant to Proposition 8, if approved by the Office of the County Assessor, lower valuations of properties (where no change in ownership has occurred) if the current value of such property is lower than the full cash value of record of the property. See "DISTRICT FINANCIAL INFORMATION - Assessed Valuation of Property within the District" herein. The value of a property reassessed as a result of a decline in value may change, but in no case may its full cash value exceed its fair market value. When and if the fair market value of a property which has received a downward reassessment pursuant to Proposition 8 increases above its Proposition 13 factored

base year value, the Office of the County Assessor will enroll such property at its Proposition 13 factored base year value.

Constitutionally Required Funding of Education

The State Constitution requires that from all State revenues there shall first be set apart the moneys to be applied by the State for the support of the public school system and public institutions of higher education. California school districts receive a significant portion of their funding from State appropriations. As a result, decreases as well as increases in State revenues can significantly affect appropriations made by the State Legislature to school districts.

Article XIII B of the State Constitution

An initiative to amend the State Constitution entitled “Limitation of Government Appropriations” was approved on September 6, 1979 thereby adding Article XIII B to the State Constitution (“Article XIII B”). In June 1990, Article XIII B was amended by the voters through their approval of Proposition 111. Under Article XIII B, the State and each local governmental entity have an annual “appropriations limit” and are not permitted to spend certain moneys that are called “appropriations subject to limitation” (consisting of tax revenues, state subventions and certain other funds) in an amount higher than the appropriations limit. Article XIII B does not affect the appropriations of moneys that are excluded from the definition of “appropriations subject to limitation,” including debt service on indebtedness existing or authorized as of January 1, 1979, or bonded indebtedness subsequently approved by the voters. In general terms, the appropriations limit is to be based on certain 1978-79 expenditures, and is to be adjusted annually to reflect changes in costs of living and changes in population, and adjusted where applicable for transfer of financial responsibility of providing services to or from another unit of government. Among other provisions of Article XIII B, if these entities’ revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years. However, in the event that a school district’s revenues exceed its spending limit, the district may, in any fiscal year, increase its appropriations limit to equal its spending by borrowing appropriations limit from the State, provided the State has sufficient excess appropriations limit in such year. See “STATE FUNDING OF EDUCATION – State Budget” herein.

The District Board adopted the annual appropriation limit for Fiscal Year 2009-10 of approximately \$4.1 billion. The limitation applies only to proceeds of taxes and therefore does not apply to service fees and charges, investment earnings on non-proceeds of taxes, fines, and revenue from the sale of property and taxes received from the State and federal governments that are tied to special programs. For Fiscal Year 2009-10, the funds subject to limitation total approximately \$3.6 billion and are approximately \$500 million below the Article XIII B limit.

Article XIII C and Article XIII D of the State Constitution

On November 5, 1996, the voters of the State approved Proposition 218, the so called “Right to Vote on Taxes Act.” Proposition 218 added Articles XIII C and XIII D to the State Constitution, which contain a number of provisions affecting the ability of local agencies, including school districts, to levy and collect both existing and future taxes, assessments, fees and charges.

Article XIII D deals with assessments and property related fees and charges. Article XIII D explicitly provides that nothing in Article XIII C or XIII D shall be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development; however, it is not clear whether the initiative power is therefore unavailable to repeal or reduce developer and mitigation fees imposed by the District.

Proposition 98

On November 8, 1988, California voters approved Proposition 98, a combined initiative, constitutional amendment and statute called the “Classroom Instructional Improvement and Accountability Act” (the “Accountability Act”). The Accountability Act changed State funding of public education below the university level, and the operation of the State’s Appropriations Limit, primarily by guaranteeing State funding for K-12 school districts and community college districts (collectively, “K-14 districts”).

Under Proposition 98 (as modified by Proposition 111, which was enacted on June 5, 1990), K-14 districts are guaranteed the greater of (a) in general, a fixed percent of the State General Fund’s revenues (“Test 1”), (b) the amount appropriated to K-14 districts in the prior year, adjusted for changes in the cost of living (measured as in Article XIII B by reference to State per capita personal income) and enrollment (“Test 2”), or (c) a third test, which would replace Test 2 in any year when the percentage growth in per capita State General Fund revenues from the prior year plus one half of 1% is less than the percentage growth in State per capita personal income (“Test 3”). Under Test 3, schools would receive the amount appropriated in the prior year adjusted for changes in enrollment and per capita State General Fund revenues, plus an additional small adjustment factor. If Test 3 is used in any year, the difference between Test 3 and Test 2 would become a “credit” to schools which would be the basis of payments in future years when per capita State General Fund revenue growth exceeds per capita personal income growth. Legislation adopted prior to the end of Fiscal Year 1988-89, implementing Proposition 98, determined the K-14 districts’ funding guarantee under Test 1 to be 40.3% of the State General Fund tax revenues, based on 1986-87 appropriations. However, that percentage has been adjusted to 34.559% to account for a subsequent redirection of local property taxes whereby a greater proportion of education funding now comes from local property taxes.

Proposition 98 permits the State Legislature by a two-thirds vote of both houses of the State Legislature, with the Governor’s concurrence, to suspend the K-14 districts’ minimum funding formula for a one-year period. In the fall of 1989, the State Legislature and the Governor utilized this provision to avoid having 40.3% of revenues generated by a special supplemental sales tax enacted for earthquake relief go to K-14 districts. In the fall of 2004, the State Legislature and the Governor agreed to suspend the K-14 districts’ minimum funding formula set forth pursuant to Proposition 98 in order to address a projected shortfall during Fiscal Year 2004-05. Proposition 98 also contains provisions transferring certain State tax revenues in excess of the Article XIII B limit to K-14 districts.

Proposition 39

Proposition 39, which was approved by California voters in November 2000, provides an alternative method for passage of school facilities bond measures which lowers the constitutional voting requirement from two-thirds to 55% of voters and allows property taxes to exceed the current 1% limit in order to repay such bonds. The lower 55% vote requirement would apply only to bond issues to be used for construction, rehabilitation, or equipping of school facilities or the acquisition of real property for school facilities. The State Legislature enacted additional legislation which placed certain limitations on this lowered threshold, requiring that (i) two-thirds of the governing board of a school district approve placing a bond issue on the ballot, (ii) the bond proposal be included on the ballot of a statewide or primary election, a regularly scheduled local election, or a statewide special election (rather than a school district election held at any time during the year), (iii) the tax rate levied as a result of any single election not exceed \$25 for a community college district, \$60 for a unified school district, or \$30 for an elementary school or high school district per \$100,000 of taxable property value, and (iv) the governing board of the school district appoint a citizen’s oversight committee to inform the public concerning the spending of the bond proceeds. In addition, the school board of the applicable district is required to perform an annual, independent financial and performance audit until all bond funds have been spent to ensure that the funds have been used only for the projects listed in the measure. The District’s

Measure K, Measure R, Measure Y and Measure Q bond programs were authorized pursuant to Proposition 39. The District is in full compliance with all Proposition 39 requirements.

Proposition 1A

Proposition 1A (SCA 4) (“Proposition 1A”), proposed by the State Legislature in connection with the 2004-05 State Budget and approved by the voters in November 2004, provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. Proposition 1A generally prohibits the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any fiscal year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of both houses of the State Legislature. Proposition 1A provides, however, that beginning in Fiscal Year 2008-09, the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe State financial hardship, the shift is approved by two-thirds of both houses and certain other conditions are met. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also provides that if the State reduces the vehicle license fee rate below 0.65% of a vehicle’s market value, the State must provide local governments with equal replacement revenues. Further, Proposition 1A requires the State, beginning July 1, 2005, to suspend State mandates affecting cities, counties and special districts, excepting mandates relating to employee rights, schools or community colleges, in any year that the State does not fully reimburse local governments for their costs to comply with such mandates. The Revised 2009-10 State Budget Act enacted a shift of approximately \$1.9 billion of city, county, and special district property taxes and used such funds to offset State General Fund spending for education and other programs.

Proposition 22

Proposition 22 (“Proposition 22”) which was approved by California voters in November 2010, prohibits the State, even during a period of severe fiscal hardship, from delaying the distribution of tax revenues for transportation, redevelopment, or local government projects and services and prohibits fuel tax revenues from being loaned for cash-flow or budget balancing purposes to the State General Fund or any other State fund. In addition, Proposition 22 generally eliminates the State’s authority to temporarily shift property taxes from cities, counties, and special districts to schools, temporarily increase school and community college district’s share of property tax revenues, prohibits the State from borrowing or redirecting redevelopment property tax revenues or requiring increased pass-through payments thereof, and prohibits the State from reallocating vehicle license fee revenues to pay for State-imposed mandates. In addition, Proposition 22 requires a two-thirds vote of each house of the State Legislature and a public hearing process to be conducted in order to change the amount of fuel excise tax revenues shared with cities and counties. The LAO states that Proposition 22 will prohibit the State from enacting new laws that require redevelopment agencies to shift funds to schools or other agencies. The LAO estimates that Proposition 22 will not change overall State and local government costs or revenues by the express terms thereof, but it will cause the State to adopt alternative actions to address its fiscal and policy objectives.

Due to the prohibition with respect to State’s ability to take, reallocate, and borrow money raised by local governments for local purposes, Proposition 22 supersedes certain provisions of Proposition 1A(2004). However, according to the State, borrowings and reallocations from local governments during 2009 are not subject to Proposition 22 prohibitions. In addition, Proposition 22 supersedes Proposition 1A of 2006. Accordingly, the State is prohibited from borrowing sales taxes or excise taxes on motor vehicle fuels or changing the allocations of those taxes among local government except pursuant to specified procedures involving public notices and hearings.

Proposition 26

On November 2, 2010, the voters approved Proposition 26 (“Proposition 26”) and approved revisions to provisions of Articles XIII A and XIII C of the California Constitution to expand the definition of “taxes.” Proposition 26 re-categorizes many State and local fees as taxes and specifies a requirement of two-thirds voter approval for taxes levied by local governments. Proposition 26 requires the State obtain the approval of two-thirds of both houses of the State Legislature, which eliminates the previous practice whereby a tax increase coupled with a tax reduction was subject to a majority vote. Furthermore, pursuant to Proposition 26 any increase in a fee beyond the amount needed to provide the specific service or benefit is deemed to be a tax and the approval thereof will require a two-thirds vote. In addition, for State imposed charges, any tax or fee adopted after January 1, 2010 with a majority vote which would have required a two-thirds vote if Proposition 26 were effective at the time of such adoption is repealed as of November 2011 absent the re-adoption by the requisite two-thirds vote.

In the findings and declaration of purpose section of Proposition 26, the authors of the initiative note that “[F]ees couched as “regulatory” but which exceed the reasonable costs of actual regulation are simply imposed to raise revenue for a new program and are not part of any licensing or permitting programs are actually taxes and should be subject to the limitations applicable to the imposition of taxes.” Proposition 26 re-categorizes as taxes many regulatory fees that benefit the public broadly rather than providing a direct and distinct benefit to the business owner or other fee payor. Among these are regulatory fees and assessments that place rules upon the activities of businesses or people to achieve a public goal and fees that pay to offset public or environmental impacts of certain activities.

Effective July 1, 2010, the State’s gas tax swap authorized a combination of lowering the sales tax rate applicable to sales of motor vehicle fuel and simultaneously raising the state excise motor vehicle fuel tax. Additionally, the gas tax swap raised the sales tax rate applicable to sales of diesel fuel and, simultaneously, lowered the State’s excise diesel fuel tax effective July 1, 2011. Nevertheless, pursuant to the provisions of Proposition 26, the gas tax swap must be re-enacted by a two-thirds vote of approval of the State Legislature or it would be subject to repeal in November 2011.

State School Facilities Bonds

Proposition 47 and Proposition 1A. The Class Size Reduction Kindergarten – University Public Education Facilities Bond Act of 2002 (“Proposition 47”) appeared on the November 5, 2002 ballot as Proposition 47 and was approved by the California voters. This measure authorizes the sale and issuance of \$13.05 billion in general obligation bonds by the State for funding construction and renovation of K-12 school facilities (\$11.4 billion) and higher education facilities (\$1.65 billion). Proposition 47 includes \$6.35 billion for acquisition of land and new construction of K-12 school facilities. Of this amount, \$2.9 billion will be set aside to fund backlog projects for which school districts submitted applications to the State on or prior to February 1, 2002. The balance of \$3.45 billion would be used to fund projects for which school districts submitted applications to the State after February 1, 2002. K-12 school districts will be required to pay 50% of the costs for acquisition of land and new construction with local revenues. In addition, Proposition 47 provided that up to \$100 million of the \$3.45 billion would be allocated for charter school facilities. Proposition 47 provides up to \$3.3 billion for reconstruction or modernization of existing K-12 school facilities. Of this amount, \$1.9 billion will be set aside to fund backlog projects for which school districts submitted applications to the State on or prior to February 1, 2002 and the balance of \$1.4 billion would be used to fund projects for which school districts submitted applications to the State after February 1, 2002. K-12 school districts will be required to pay 40% of the costs for reconstruction or modernization with local revenues. Proposition 47 provides a total of \$1.7 billion to K-12 school districts which are considered critically overcrowded, specifically to schools that have a large number of pupils relative to the size of the school site. In addition, \$50 million will be available to fund joint-use projects. Proposition 47 also includes \$1.65 billion to construct new buildings and related

infrastructure, alter existing buildings and purchase equipment for use in the State's public higher education systems.

Proposition 1A was previously approved in November 1998 and provided \$6.7 billion of capital funding for K-12 public schools.

Proposition 55. The Kindergarten-University Public Education Facilities Bond Act of 2004 ("Proposition 55") appeared on the March 2, 2004 ballot as Proposition 55 and was approved by the California voters. This measure authorizes the sale and issuance of \$12.3 billion in general obligation bonds by the State for funding the construction and renovation of public K-12 school facilities (\$10 billion) and public higher education facilities (\$2.3 billion). Proposition 55 includes \$5.26 billion for the acquisition of land and construction of new school buildings. A school district would be required to pay for 50% of costs with local resources unless it qualifies for state hardship funding. The measure also provides that up to \$300 million of these new construction funds is available for charter school facilities.

Proposition 55 makes \$2.25 billion available for the reconstruction or modernization of existing public school facilities. Districts would be required to pay 40% of project costs from local resources. Proposition 55 directs a total of \$2.44 billion to school districts with schools which are considered critically overcrowded. These funds would go to schools that have a large number of pupils relative to the size of the school site. Proposition 55 also makes a total of \$50 million available to fund joint-use projects. Proposition 55 includes \$2.3 billion to construct new buildings and related infrastructure, alter existing buildings and purchase equipment for use in these buildings for California's public higher education systems. The measure allocates \$690 million to the University of California and California State University and \$920 million to community colleges in the State. The Governor and the State Legislature will select specific projects to be funded by the bond proceeds.

Proposition 1D. The Kindergarten-University Public Education Facilities Bond Act of 2006 ("Proposition 1D") appeared on the November 7, 2006 ballot as Proposition 1D and was approved by the California voters. This measure authorizes the sale and issuance of \$10.4 billion in general obligation bonds by the State for funding the construction and renovation of public K-12 school facilities (\$7.3 billion) and public higher education facilities (\$3.1 billion). Proposition 1D includes \$1.9 billion for the acquisition of land and construction of new school buildings. A school district would be required to pay for 50% of costs with local resources unless it qualifies for state hardship funding. Proposition 1D also provides that up to \$500 million of these construction funds is available for charter school facilities.

Proposition 1D makes \$3.3 billion available for the reconstruction or modernization of existing public school facilities. Districts would be required to pay 40% of project costs from local resources. Proposition 1D directs a total of \$1.0 billion to school districts with schools that are considered critically overcrowded. These funds would go to schools that have a large number of pupils relative to the size of the school site. Proposition 1D also makes a total of \$29 million available to fund joint-use projects. Proposition 1D includes \$3.1 billion to construct new buildings and related infrastructure, alter existing buildings and purchase equipment for use in these buildings for California's public higher education systems. The measure allocates \$890 million to the University of California campuses and \$690 million to the California State University campuses and \$1.5 billion to California community colleges. The Governor and the State Legislature will select specific projects to be funded by the bond proceeds. In December 2008, the Investment Board announced plans to stop lending money for projects throughout the State. See "DISTRICT GENERAL INFORMATION - *Williams* Settlement Agreement and the New School Construction Program" herein.

The District applies for apportionments from State bond initiatives and historically has received funding from such State bond initiatives. No assurances can be given that the District will continue to

apply for apportionments from current or future State bond initiatives or that the District will continue to receive funding from State bond initiatives for which it applies.

Future Initiatives

The foregoing described amendments to the State Constitution and propositions were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time, other initiative measures could be adopted that further affect District revenues or the District's ability to expend revenues.

GLOSSARY OF CERTAIN TERMS AND ABBREVIATIONS

The following are definitions and abbreviations of certain terms used in this Appendix B.

“AALA” means the Associated Administrators of Los Angeles, which represents the middle managers in the District.

“Accountability Act” means the Classroom Instructional Improvement and Accountability Act, approved by California voters on November 8, 1988, which guarantees State funding for K-12 school districts and community college districts.

“ADA” means average daily attendance, a measure of pupil attendance used as the basis for providing revenue to school districts and as a measure of unit costs. ADA includes only in-seat attendance.

“API” means Academic Performance Index. Schools’ scores on the API scale, and their improvement as reflected by API scores, form the basis for funding in several Governors’ Initiatives programs. The API scale measures student achievement on certain standardized tests.

“ARC” means annual required contribution.

“ARRA” means the American Recovery and Reinvestment Act of 2009.

“AYP” means adequate yearly progress as defined under the NCLB Act.

“CalPERS” means the State Public Employees’ Retirement System, a defined benefit plan which covers classified personnel who work four or more hours per day.

“CCSDO” means the County Committee on School District Organization.

“CDE” means the California Department of Education.

“COLA” means cost-of-living adjustments, which is used in determining the District’s revenue limit.

“ERAF” means the State’s Education Revenue Augmentation Fund used to collect property taxes in each county that are shifted from cities, the county, and special districts prior to their reallocation to school local education agencies.

“FTE” means full-time equivalent.

“GASB” means the Governmental Accounting Standards Board, an operating entity of the Financial Accounting Foundation established to set standards of financial accounting and reporting for state and local governmental entities.

“IDEA” means the Individuals with Disabilities Act of 1990, as amended.

“LACOE” means the Los Angeles County Office of Education.

“LAO” means the Legislative Analyst’s Office of the State of California.

“LEA” means local education agency as defined under the NCLB Act.

“NCLB Act” means the federal No Child Left Behind Act of 2001.

“NPO” means net pension obligation.

“PARS” means the Public Agency Retirement System, a defined contribution plan which covers the District’s part-time, seasonal, temporary and other employees not otherwise covered by CalPERS or STRS, but whose salaries would otherwise be subject to Social Security tax.

“PEPIP” means the Public Entity Property Insurance Program, an insurance pool comprised of certain cities, counties and school districts.

“QEIA” means the Quality Education Investment Act of 2006.

“STRS” means the California State Teachers’ Retirement System, a defined benefit plan which covers all full-time certificated and some classified District employees.

“UAAL” means unfunded actuarial accrued liability.

“UTLA” means the United Teachers of Los Angeles, which is the collective bargaining unit representing teachers and support service personnel throughout the District.

APPENDIX C

**SELECTED INFORMATION FROM AUDITED FINANCIAL STATEMENTS OF THE
DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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COMPREHENSIVE ANNUAL FINANCIAL REPORT



For Fiscal Year Ended June 30, 2010



LOS ANGELES UNIFIED SCHOOL DISTRICT
Los Angeles, CA



**LOS ANGELES UNIFIED SCHOOL DISTRICT
LOS ANGELES, CALIFORNIA**

**COMPREHENSIVE
ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2010**

**MR. RAMON C. CORTINES
SUPERINTENDENT OF SCHOOLS**

**MS. MEGAN K. REILLY
CHIEF FINANCIAL OFFICER**

**MR. TIMOTHY S. ROSNICK
CONTROLLER**



**PREPARED BY
ACCOUNTING AND DISBURSEMENTS DIVISION**

**333 S. BEAUDRY AVENUE
LOS ANGELES, CALIFORNIA 90017**

LOS ANGELES UNIFIED SCHOOL DISTRICT
Comprehensive Annual Financial Report
Year Ended June 30, 2010

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INTRODUCTORY SECTION

LOS ANGELES UNIFIED SCHOOL DISTRICT

Accounting and Disbursements Division

RAMON C. CORTINES
Superintendent of Schools

MEGAN K. REILLY
Chief Financial Officer



TIMOTHY S. ROSNICK
Controller

V. LUIS BUENDIA
Deputy Controller

TERESA SANTAMARIA
Deputy Controller

December 15, 2010

The Honorable Board of Education
Los Angeles Unified School District
333 South Beaudry Avenue
Los Angeles, California 90017

Dear Board Members:

The Comprehensive Annual Financial Report of the Los Angeles Unified School District (District), for the fiscal year ended June 30, 2010, is hereby submitted. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the District. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the District. All disclosures necessary to enable the reader to gain an understanding of the District's financial activities have been included. The report also includes a "State and Federal Compliance Information" section, which is designed to meet the reporting requirements of the Office of the California State Controller, the U.S. General Accounting Office, the U.S. Office of Management and Budget, and the Single Audit Act Amendments of 1996.

Independent Audit

EC §41020 provides that each school district shall arrange for an audit by certified public accountants of its books and accounts, including the District's income by source of funds and expenditures by object and program. The District's contract auditor for 2009-10 is Simpson & Simpson, CPAs. The independent auditor's report on the basic financial statements is presented in the Financial Section of this report on page 1.

Audit Results

The District received an Unqualified financial audit, which means that there were no significant findings during the audit of the financial statements. For the federal compliance audit, 20 programs received an Unqualified audit and 4 programs were Qualified. The District received an Unqualified state compliance audit. The Qualified federal compliance audit indicates that there were material weaknesses discovered during the audit.

The District is pleased that the number of findings during 2009-10 declined from 29 to 18. In addition, the amount of the questioned costs declined 64%, from \$5.6 million in 2008-09 to \$2.0 million in 2009-10. Even with these improvements, the District will continue to work with schools and offices to focus on resolving the remaining areas of internal control and compliance issues.

Comprehensive Annual Financial Report

This report is presented in four sections:

I. Introductory

This section includes this transmittal letter, a list of members of the Board of Education and principal school district officials, and a chart of the District's current organizational structure.

II. Financial

This section includes the government-wide financial statements and individual fund financial statements and schedules, as well as the Independent Auditor's Report from Simpson & Simpson, CPAs. It also includes a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). The MD&A provides an objective and easily readable analysis of the District's financial activities on both a short- and long-term basis. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The District's MD&A can be found immediately following the report of the independent auditors.

Supplementary Information

This sub-section includes combining financial statements for nonmajor funds, schedules for capital assets and long-term obligations.

III. Statistical

This section includes selected statistical tables and schedules, generally presented on a multi-year basis, which reflect social and economic data, financial trends, and the fiscal capacity of the District.

IV. State and Federal Compliance Information

This section includes: informational schedules for General Fund, Adult Education Fund, and Child Development Fund; schedules of average daily attendance; a schedule of financial trends and analysis; schedules of State and Federal financial grants and entitlements; the auditor's reports on issues of compliance with reporting requirements of the Office of the California State Controller, U.S. General Accounting Office, U.S. Office of Management and Budget, and the Single Audit Act Amendments of 1996; and the auditor's reports on internal controls and their management improvement recommendations.

Profile of the Los Angeles Unified School District

The District encompasses approximately 710 square miles in the western section of Los Angeles County. The District is located in and includes virtually all of the City of Los Angeles and all or significant portions of the cities of Bell, Carson, Commerce, Cudahy, Gardena, Hawthorne, Huntington Park, Lomita, Maywood, Rancho Palos Verdes, San Fernando, South Gate, Vernon, and West Hollywood, in addition to considerable unincorporated territories devoted to homes and industry. The District was formed in 1854 as the Common Schools for the City of Los Angeles and became a unified school district in 1960.

As of June 30, 2010, the District is operating 437 elementary schools, 78 middle/junior high schools, 70 senior high schools, 56 options schools, 12 multi level schools, 16 special education schools, 25 magnet schools and 145 magnet centers, 24 community adult schools, 5 regional occupational centers, 5 skills centers, 1 regional occupational program center, 100 early education centers, 4 infant centers, and

23 primary school centers. The District is governed by a seven-member Board of Education elected by district to serve alternating four-year terms. As of June 30, 2010, the District employed 44,684 certificated, 30,545 classified, and 18,915 unclassified employees. Enrollment as of October 2009 was 617,798 students in K-12 schools, 130,475 students in adult schools and centers, and 11,432 children in early education centers.

As a reporting entity, the District is accountable for all activities related to public education in most of the western section of Los Angeles County. This report includes all funds of the District with the exception of the fiscally independent charter schools, which are required to submit their own individual audited financial statements, and the Auxiliary Services Trust Fund, which is not significant in relation to District operations. The Auxiliary Services Trust Fund was established in 1935 to receive and disburse funds for insurance premiums on student body activities and property, “all city” athletic and musical events, grants restricted for student activities, and other miscellaneous activities.

Economic Condition and Outlook

The United States economy is still in the recession that began in December 2007. According to the latest information from the Bureau of Labor and Statistics, the unemployment rates for both the nation and California has generally been stable from January 2010 to August 2010. Although as indicated in the table below, California’s unemployment rates have been higher than the nation’s.

Month (2010)	U.S.	California
January	9.7%	12.5%
February	9.7%	12.5%
March	9.7%	12.6%
April	9.9%	12.5%
May	9.7%	12.4%
June	9.5%	12.3%
July	9.5%	12.3%
August	9.6%	12.4%
September	9.6%	12.4% (P)

P – Preliminary estimate

Source: Bureau of Labor Statistics – Labor Force Statistics from the Current Population Survey; Local Area Unemployment Statistics

UCLA economists are forecasting very sluggish growth for the State and national economies for the next several years but discounts the possibility of a double-dip recession. It was mentioned that the Federal stimulus spending failed to bring down the unemployment rate and the uncertain effects of broad new federal policies such as taxation, health care, and financial regulation, were impairing the economic recovery by making employers reluctant to hire new employees on a permanent basis. The forecast for California is still higher unemployment rate than the nation and income growth below the national average. By 2012, the UCLA economists see some improvement on personal income.

Federal Funding

In 2009-10, Federal government funds from the American Recovery and Reinvestment Act (ARRA) provided additional funds for Title 1 (\$108.8 million), State Fiscal Stabilization Funds (\$49.7 million), and Individuals with Disabilities Education Act (\$83.2 million). These funds were one-time in nature which boosted 2009-10 funds and will expire at the end of 2010-11. The District will also receive Federal funding for Education Jobs in the amount of \$114.8 million. Funds from both State Fiscal Stabilization Funds and the Education Jobs Fund have been set aside for salaries, benefits, and other expenses associated with retaining existing employees.

School District Budget

The following are some major highlights and guidelines used by LAUSD in the *revised* 2010-11 final budget adopted on October 5, 2010:

- COLA for revenue limit purposes for 2010-11, 2011-12, and 2012-13 are estimated at <0.39>%, 2.10%, and 2.40%, respectively, with deficit rates of 18.355% for 2010-11, 20.0330% for 2011-12, and 21.9116% for 2012-13. Effective COLA of 0% is assumed for fiscal years 2011-12 and 2012-13.
- Funded ADA for 2010-11, 2011-12, and 2012-13 are 572,885, 555,885, and 540,521, respectively.
- Flexibilities allowed in the budget includes transfers of categorical program balances for any educational purpose, which includes transfer to the unrestricted portion of the General Fund, with some exceptions; this flexibility is in effect from 2008-09 through 2012-13.
- Change in K-3 Class Size Reduction funding for fiscal years 2010-11 to 2011-12 to reflect the new funding structure and funding cap which is limited to the number of classes indicated in the 2008-09 application; entitlement for 2012-13 is estimated based on the old funding formula.
- Reduction of the required contribution into Ongoing and Major Maintenance Account from three percent to two percent of the General Fund expenditures through 2012-13.
- Elimination of the district's matching requirements of one-half of one percent for the Deferred Maintenance Program; the State share continues to be funded as part of the Tier III Categorical Programs and is included in the General Fund.
- Reduction of instructional days by five days without losing any incentive funding to maintain a 180-day school year.
- Suspension of the purchase of newly adopted instructional materials through 2012-13.
- For 2010-11, seven furlough days for AALA and UTLA members; eight furlough days for District-represented employees and Local 99 (Units B&C); and twelve furlough days for Unit S employees.
- A Reserve for Economic Uncertainty reflecting the statutory 1% requirement for districts over 400,000 ADA.
- Funding for employee health and medical benefits at the current negotiated collective bargaining agreements.

The District's ongoing financial challenges remain, at the core of which are declining enrollment's impact, revenue reduction, and employee health benefits' rising costs. The District will continue to work to address these challenges and respond to the continuing uncertain economic situation.

Superintendent's Strategic Plan

The Los Angeles Unified School District has four interconnected strategies that will help us meet our goals and ensure all students are college-prepared and career-ready.

1. Using data to drive standards based instruction – Use data to drive standards-based, effective instruction for all students, coupled with support and intervention, when students need extra assistance or accelerated learning.
2. Supporting All Employees – We are accountable for our students' success. We will use data to personalize the supports that all of our employees need to serve our students, from professional development and training, to creating measurable performance goals.
3. Budgeting for Student Achievement – We will make the District budget more transparent, align resources for greater impact and equity, and give schools the ability to target resources to meet their school specific needs, bringing funding and decision-making closer to schools and classrooms.

4. Creating and Supporting Quality Schools – We will analyze multiple data points to differentiate the service and support we deliver to schools. In addition, we will capture and share best practices across all of our schools regardless of school models.

Local Bonds:

a) Proposition BB Bonds

Proposition BB authorized the District to issue general obligation bonds in an amount not to exceed \$2.4 billion. The purpose of the issuance of the Bonds is to provide needed health and safety improvements to more than 800 deteriorating school buildings and 15,000 classrooms, including upgrading electrical wiring and plumbing; repairing decaying roofs and walls; earthquake retrofitting and asbestos removal; providing infrastructure for computer technology and science laboratories; providing air conditioning for classrooms; enhancing student safety with lighting, fences, and security systems; funding and/or providing matching funds for construction and additions at several schools and the building of 100 new schools to reduce class size and decrease busing.

The Bonds represent a general obligation of the District. The Board of Supervisors of the County of Los Angeles is empowered and obligated to levy ad valorem taxes, for the payment of the interest and principal of the Bonds, upon property subject to taxation by the District. Such taxes, when collected, will be placed by the County in the District's Debt Service Fund, which is required to be maintained by the County and used solely for the payment of the Bonds and interest thereon when due.

b) General Obligation Bonds – Proposition 39

Proposition 39, which was approved by California voters in November 2000, provides an alternative method for passage of school facilities bond measures by lowering the constitutional voting requirement from two-thirds to 55% of voters and allowing property taxes to exceed the current 1% limit in order to repay such bonds. This 55% lower threshold of voters approved applies only for bond issues to be used for construction, rehabilitation, and equipping of school facilities. Additional legislation also placed certain limitations on this lowered threshold, requiring that 1) two-thirds of the governing board of a school district approve placing a bond issue on the ballot, 2) the bond proposal is to be included on the ballot of a statewide or primary election, a regularly scheduled local election, or a statewide special election (rather than a school board election held at any time during the year), 3) the tax rate levied as a result of any single election cannot exceed \$25 for a community college district, \$60 for a unified school district, or \$30 for an elementary school or high school district per \$100,000 of taxable property value, 4) the governing board of the school district appoint a citizens' oversight committee to inform the public concerning the spending of the bond proceeds (the Blue Ribbon Citizens' Oversight Committee serves this role), and 5) an annual, independent financial and performance audit be required until all bond funds have been spent to ensure that the funds have been used only for the projects listed in the measure. The District is in full compliance with all Proposition 39 requirements. The District's Measure K, Measure R, Measure Y and Measure Q bond programs were authorized pursuant to Proposition 39.

- On the November 5, 2002 ballot, Measure K was approved and authorized the District to issue up to \$3.35 billion of General Obligation Bonds (Bonds). These funds would be used to: build new neighborhood schools, repair aging and deteriorating classrooms, improve early childhood programs, upgrade safety and technology, expand public charter schools, develop joint use projects in collaboration with city, state, federal, and private agencies, and provide for library books at new schools and improve library technology.

- Measure R or the Safe and Healthy Neighborhood Schools Improvement Act of 2004 was passed on March 2, 2004. The District was authorized to issue and sell up to \$3.87 billion in General Obligation Bonds to provide financing for specific school facilities projects subject to all of the accountability safeguards such as annual performance audits. All Bond expenditures are subject to review and oversight of the Citizens' Bond Oversight Committee.
- Measure Y or the Safe and Healthy Neighborhood Schools Repair and Construction Act of 2005 was passed on November 8, 2005. It authorized the District to issue and sell up to \$3.985 billion in General Obligation Bonds to provide funds for the renovation, modernization, construction, and expansion of school facilities. The District has established a separate Measure Y Building Fund to account for the income and expenditures of the bond proceeds.
- Measure Q or the Safe Healthy Neighborhood Schools Measure was passed on November 7, 2008. It authorized the District to issue and sell up to \$7.0 billion in General Obligation Bonds to continue to repair/upgrade aging/deteriorating classrooms, restrooms, upgrade fire and earthquake safety, reduce asbestos, lead paint, air pollution, water quality hazards, build/upgrade specialized classrooms students need to meet job and college requirements and improve classroom internet access. As of December 14, 2010, the District has not issued any Measure Q bonds.

Financial Information

The District maintains internal accounting controls designed to provide reasonable assurance that assets are safeguarded against loss from unauthorized use and disposition and to provide reliable records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes the importance of a close evaluation of costs and benefits, which requires estimates and judgments by management. The objective is to establish effective internal controls, the cost of which should not exceed the benefits derived therefrom. We believe that the District's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

School districts in California are required by Education Code Section 41010 to follow the California School Accounting Manual in preparing reports to the State. The District, in accordance with Board election on October 28, 2008, utilizes a single-adoption budget schedule that requires Final Budget adoption by the State-mandated July 1 deadline. The District is allowed to modify its adopted budget within 45 days of the passage of the State budget.

Education Code Section (EC§) 42600 mandates that a school district's expenditures may not legally exceed budgeted appropriations by major object classification, namely certificated salaries, classified salaries, employee benefits, books and supplies, services and other operating expenditures, capital outlay, other outgo, and other financing uses. EC §42600 further specifies that districts may not spend more than the amounts authorized in the Final Budget as adjusted during the fiscal year.

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

Financial Results

In 2009-10, the Statement of Changes in Net Assets shows that the District's Net Assets decreased \$497.8 million during the year. The Unrestricted Net Assets, which are negative, declined from (\$1,492.5 million) to (\$1,959.6 million). The negative Unrestricted Net Assets are largely the result of the liability due to the

District's lifetime medical benefits for certain retirees. This liability increased from \$1,653.9 million to \$2,393.8 million during the year.

In 2009-10, the fund balance of the General Fund decreased \$87.1 million from \$750.0 million to \$662.9 million. This decrease was due to higher deficit factor, combined with a one-time per ADA revenue limit reduction.

Cash Management

Cash temporarily idle during the year and not needed immediately for operations is invested. Substantially all of the District's cash is deposited in the Los Angeles County treasury. The District is limited by EC §41015 and Government Code §53601 to investing in: U.S., state, or local government securities or U.S. government guaranteed securities; banker's acceptances or negotiable certificates of deposits issued by a nationally or state-chartered bank or savings and loan association; and commercial paper of "prime quality." These guidelines are followed by the County Treasurer's Office in making pool and specific investments for the District. At June 30, 2010, the District's cash in the county pool was \$6,170.1 million.

The District also maintains some cash deposits with various banking institutions. At June 30, 2010, cash deposits, including imprest funds in schools and offices, were \$30.7 million. These deposits are either covered by federal depository insurance or collateralized at the rate of 110% of the deposits.

The District also had \$71.7 million in cash deposit accounts held by various trustees for the acquisition or construction of fixed assets, and for the repayment of long-term debt.

Income earned from all cash deposits in 2009-10 was \$82.6 million.

Risk Management

The District maintains various insurance programs, the majority of which are partially or entirely self-insured, while the smaller and/or specialized types of coverage are placed with commercial insurance carriers including excess property coverage (\$1 billion above a \$500,000 self-insurance retention for 2009-10) for loss due to i.e. fire, wind, water, and vandalism.

The District is self-insured for its Workers' Compensation Program and partially self-insured for the Liability Insurance (excess coverage of \$45 million above a \$5 million self-insurance retention for 2009-10) and Health and Welfare Insurance Programs. Separate Funds are used to account for amounts set aside to pay claims incurred and related expenditures under the respective insurance programs.

Liabilities for loss and loss adjustment expenses under each workers' compensation and general liability program include the accumulation of estimates for losses reported prior to the balance sheet date, estimates of losses incurred but not reported, and estimates of expenses for investigating and adjusting reported and unreported losses.

Such liabilities are estimates of the future expected settlements and are based upon analysis of historical patterns of the number of incurred claims and their values. Individual reserves are continually monitored and reviewed, and as settlements are made or reserves adjusted, the differences are reflected in current operations. (See Note 9 on pages 50 and 51 for a further discussion of Risk Management).

The District has implemented an Owner Controlled Insurance Program (OCIP) covering new construction and renovation projects funded by school bonds. Under an OCIP, the District provides general liability and workers' compensation insurance coverage for construction contractors. Because contractors remove insurance costs from their bids, savings accrue to the District. Under the District's OCIP program, workers' compensation coverage with statutory limits, and primary general liability and excess liability

coverage with limits of \$100 million have been underwritten by three major insurance carriers. Savings to the District over the life of the construction program are estimated to be approximately \$72 million under OCIP I (05/01/1999 – 05/01/2006) and \$117 million under OCIP II (05/01/2006 – 05/01/2013).

The District also has purchased pollution liability insurance coverage for the construction program. Two policies protect contractors and the District from losses resulting from pollution-related incidents occurring during construction. One policy provides coverage to ensure that site clean-up cost overruns are not borne by the District. The limits of coverage on the clean-up cost-cap policy are variable by specific project. The total limit available on the other policies is \$50 million.

Other Post Employment Benefits

The District offers lifetime medical benefits to retirees who meet certain conditions. The latest actuarial report estimates the present value of this liability for the benefits to be \$10 billion. Generally Accepted Accounting Principles require the District to recognize this liability on the District's financial statements over a 30 year period. As mentioned above, the District recognized an additional liability of \$740 million in the current year.

The recognition of this liability has caused the District's Unrestricted Net Assets to become negative. This trend is expected to continue. Unless the District begins to fund its OPEB liability, the District's Total Liabilities will eventually exceed its Total Assets.

Office of the Inspector General

In addition to the independent audit, the District has an Office of the Inspector General (OIG). The OIG reports directly to the Board of Education and is comprised of both auditors and investigators who are authorized to examine any and all functions within the District as well as those entities that do business with the District. The OIG is responsible for detecting and preventing waste, fraud, and abuse, performing contract audits, and for conducting performance audits of District operations in accordance with Government Auditing Standards.


Acknowledgments

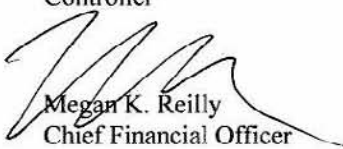
We wish to express our appreciation to the Division of Accounting and Disbursements team, the various District divisions who assisted in the preparation of this report, and acknowledge the effort of our independent auditors.

Respectfully submitted,

Ramon C. Cortines
Superintendent of Schools

Prepared by:


Timothy S. Rosnick
Controller


Megan K. Reilly
Chief Financial Officer

BOARD OF EDUCATION

Mónica García
PRESIDENT

Marguerite Poindexter LaMotte

Yolie Flores

Tamar Galatzan

Nury Martinez

Steve Zimmer

Richard Vladovic

PRINCIPAL SCHOOL DISTRICT OFFICIALS

Ramon C. Cortines
Superintendent of Schools

John Deasy
Deputy Superintendent of Schools
(Effective August 1, 2010)

Megan K. Reilly
Chief Financial Officer

Timothy S. Rosnick
Controller

LOCAL DISTRICT (LD) SUPERINTENDENTS

Linda Del Cueto – LD 1
(Effective July 1, 2010)

Robert A. Martinez – LD 5

Jean Brown – LD 1
(Retired effective June 30, 2010)

Rowena Lagrosa – LD 6
(Interim – Effective July 26, 2010)

Alma Pena-Sanchez – LD 2

Martin Galindo – LD 6
(July 1, 2006 – July 25, 2010)

Gay Havard – LD3
(Interim – Effective July 1, 2010)

George McKenna – LD 7
(Effective September 1, 2009)

Michelle King – LD 3
(February 19, 2008 – June 30, 2010)

Liza Scruggs – LD 7
(Interim – July 1, 2009 – August 31, 2009)

Dale Vigil – LD 4
(Interim – Effective July 1, 2010)

Michael Romero – LD 8
(Interim – Effective July 1, 2010)

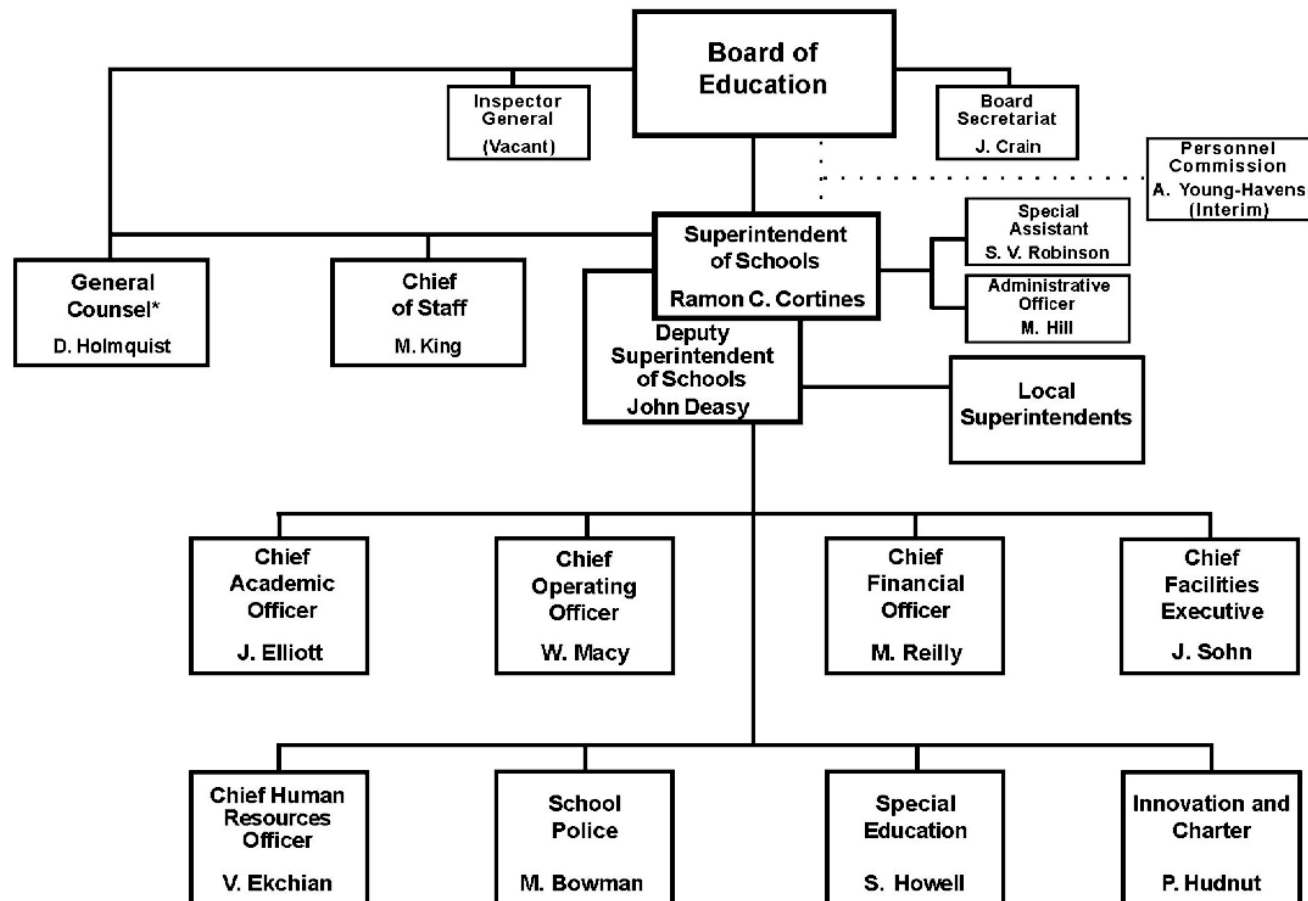
Byron Maltez – LD 4
(Interim – July 1, 2009 – June 30, 2010)

Linda Del Cueto – LD 8
(July 1, 2007 – June 30, 2010)

Los Angeles Unified School District

Organization of Central Support System

*Los Angeles Unified School District
2010-2011 Organization Chart
7-1-2010*



* General Counsel reports directly to the Board of Education and Superintendent

FINANCIAL SECTION



SIMPSON & SIMPSON
CERTIFIED PUBLIC ACCOUNTANTS

FOUNDING PARTNERS
BRINARD C. SIMPSON, CPA
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Independent Auditor's Report

The Honorable Board of Education
Los Angeles Unified School District

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Los Angeles Unified School District** (the District), as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions 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 and the Education Audit Appeals Panel's *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2009-10*. 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 District's internal control over financial reporting. Accordingly, we express no such opinion. 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 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities each major fund, and the aggregate remaining fund information of the Los Angeles Unified School District as of June 30, 2010, and the respective changes in financial position, and where applicable, cash flows, , thereof and respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, the Los Angeles Unified School District adopted the provisions of GASB Statement No. 51, *Accounting and Financial Reporting of Intangible Assets*, for the year ended June 30, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2010 on our consideration of the District'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 the 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.



The CPA. Never Underestimate The Value.™



Management's discussion and analysis on pages 3 to 13, and the required supplementary information on page 66 are not required parts of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, the supplementary information section, the statistical section, and the state and federal compliance information section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The supplementary information section on pages 67 to 122, the schedule of expenditures of federal awards and the information on pages 208 to 213, pages 189 to 203 and page 207 in the state and federal compliance information section have been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion, are fairly stated in all material respects in relation to the basic financial statements as a whole. The information in the introductory and statistical sections, the information on pages 171 to 188, and pages 204 to 206 in the state and federal compliance information section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

A handwritten signature in dark ink, appearing to read 'Simpson & Simpson'. The signature is written in a cursive, flowing style with a large, stylized 'S' at the beginning.

Los Angeles, California
December 14, 2010

LOS ANGELES UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis

June 30, 2010

As management of the Los Angeles Unified School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2010. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i-viii of this report.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$4.2 billion (net assets). This amount is net of a \$2.0 billion deficit in unrestricted net assets resulting from the recognition of unfunded liabilities for other postemployment benefits (OPEB).
- The District's total net assets decreased by \$497.8 million from prior year total, primarily due to the recognition of OPEB expense as stated above.
- As of the close of the 2010 fiscal year, the District's governmental funds reported combined ending fund balances of \$5.7 billion, an increase of \$2.6 billion from June 30, 2009.
- At the end of the current fiscal year, unreserved fund balance for the General Fund, including designated for economic uncertainties, was \$358.1 million, or 5.8% of total General Fund expenditures.
- The District's total long-term obligations increased by \$4.6 billion (41.3%) during the current fiscal year. The increase resulted primarily from new issues of general obligation bonds.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. 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, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Each of the government-wide financial statements relates to functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities of the District are all related to public education.

The government-wide financial statements can be found on pages 14-15 of this report.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis

June 30, 2010

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains 23 individual governmental funds. In the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances, separate columns are presented for General fund, District bonds fund, and all others. Individual account data for each of the District bonds and all other nonmajor governmental funds are provided in the form of *combining statements* elsewhere in this report.

The District adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with the budget.

The governmental fund financial statements can be found on pages 16 and 18 of this report.

Proprietary funds. The District maintains Internal Service Funds as the only type of proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District uses internal service funds to account for Health and Welfare Benefits, Workers' Compensation Self-Insurance, and Liability Self-Insurance. Because all of these services benefit governmental functions, they have been included within governmental activities in the government-wide financial statements.

It is the District's practice to record estimated claim liabilities at the present value of the claims, in conformity with the accrual basis of accounting, for all its internal service funds.

The proprietary fund financial statements can be found on pages 21-23 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The fiduciary fund financial statements can be found on pages 24-25 of this report.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis

June 30, 2010

Notes to basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 26-65 of this report.

Combining and individual fund schedules and statements. The combining schedules and statements showing the individual accounts within the District bonds and nonmajor governmental funds are presented immediately following the required supplementary information. Combining and individual fund schedules and statements can be found on pages 67-111 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets over time may serve as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$4.2 billion at the close of the most recent year.

By far the largest portion of the District's net assets (\$4.9 billion) reflects its investments in capital assets (e.g., land, buildings, and equipment), less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investments in its capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's restricted net assets (\$1.3 billion) represent resources that are subject to external restrictions on how they may be used. The remaining negative balance in unrestricted net assets (\$2.0 billion) resulted from the recognition of \$2.4 billion of net OPEB obligation.

At the end of the 2010 fiscal year, the District is able to report positive balances in all categories of net assets except for unrestricted net assets.

The \$1.4 billion increase in capital assets primarily relates to the continuing school construction and modernization projects throughout the District.

Long-term liabilities increased by \$4.6 billion primarily due to issuance of general obligation bonds.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis

June 30, 2010

Summary Statement of Net Assets (in thousands)

As of June 30, 2010 and 2009:

	Governmental Activities	
	2010	2009 (restated)
Current Assets	\$ 8,148,995	\$ 5,419,997
Capital Assets, net	13,735,339	12,330,406
Total Assets	21,884,334	17,750,403
Current Liabilities	1,898,322	1,698,459
Long-term Liabilities	15,752,067	11,320,187
Total Liabilities	17,650,389	13,018,646
Net Assets:		
Invested in capital assets, net of related debt	4,910,954	4,584,300
Restricted for:		
Debt service	354,884	319,085
Program activities	927,669	1,320,877
Unrestricted	(1,959,562)	(1,492,505)
Total Net Assets	\$ 4,233,945	\$ 4,731,757

LOS ANGELES UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis

June 30, 2010

Summary Statement of Changes in Net Assets (in thousands)

As of June 30, 2010 and 2009:

	Governmental Activities	
	2010	2009 (restated)
Revenues:		
Program Revenues:		
Charges for services	\$ 69,125	\$ 62,409
Operating grants and contributions	3,177,683	3,278,482
Capital grants and contributions	300,172	924,952
Total Program Revenues	<u>3,546,980</u>	<u>4,265,843</u>
General Revenues:		
Property taxes levied for general purposes	938,189	927,441
Property taxes levied for debt service	740,719	598,980
Property taxes levied for community redevelopment	6,054	1,295
State aid – formula grants	2,039,028	2,517,499
Grants, entitlements, and contributions not restricted to specific programs	393,192	453,643
Unrestricted investment earnings	58,323	74,859
Miscellaneous	27,470	87,949
Total General Revenues	<u>4,202,975</u>	<u>4,661,666</u>
Total Revenues	<u>7,749,955</u>	<u>8,927,509</u>
Expenses:		
Instruction	3,900,813	4,291,864
Support services:		
Support services – students	317,859	359,087
Support services – instructional staff	428,734	623,621
Support services – general administration	43,561	60,395
Support services – school administration	466,481	518,838
Support services – business	204,002	134,008
Operation and maintenance of plant services	660,647	758,813
Student transportation services	155,813	168,837
Data processing services	68,949	98,013
Operation of noninstructional services	403,956	370,016
Facilities acquisition and construction services	115,474	119,137
Other uses	615	240
Interest expense	495,266	551,163
Depreciation – unallocated	245,712	302,298
Unfunded OPEB Expense – unallocated	739,885	821,261
Total Expenses	<u>8,247,767</u>	<u>9,177,591</u>
Changes in Net Assets	<u>(497,812)</u>	<u>(250,082)</u>
Net assets – beginning, restated	<u>4,731,757</u>	<u>4,981,839</u>
Net assets – ending	<u>\$ 4,233,945</u>	<u>\$ 4,731,757</u>

LOS ANGELES UNIFIED SCHOOL DISTRICT

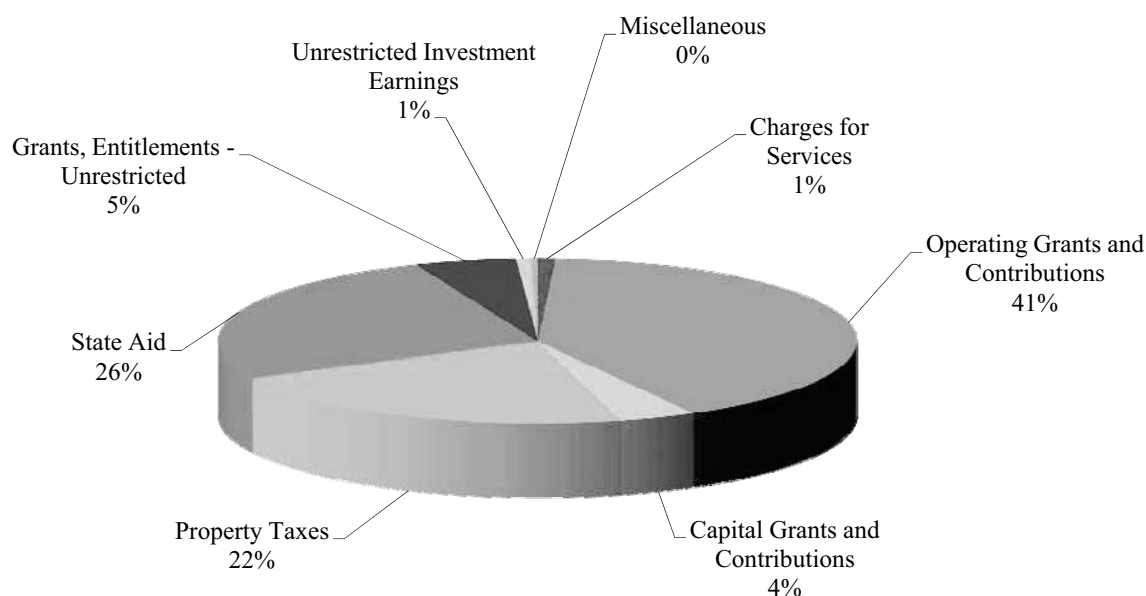
Management's Discussion and Analysis

June 30, 2010

The District's net assets decreased by \$497.8 million in the current fiscal year. The major components of this decrease are in capital grants and contributions (\$624.8 million) due to decreased funding from the State bond funds, and in total general revenues (\$458.7 million) due to higher deficit factor on revenue limit sources.

The following graph shows that operating grants and contributions and state aid are the main revenue sources of the District.

Revenues by Source
Year ended June 30, 2010



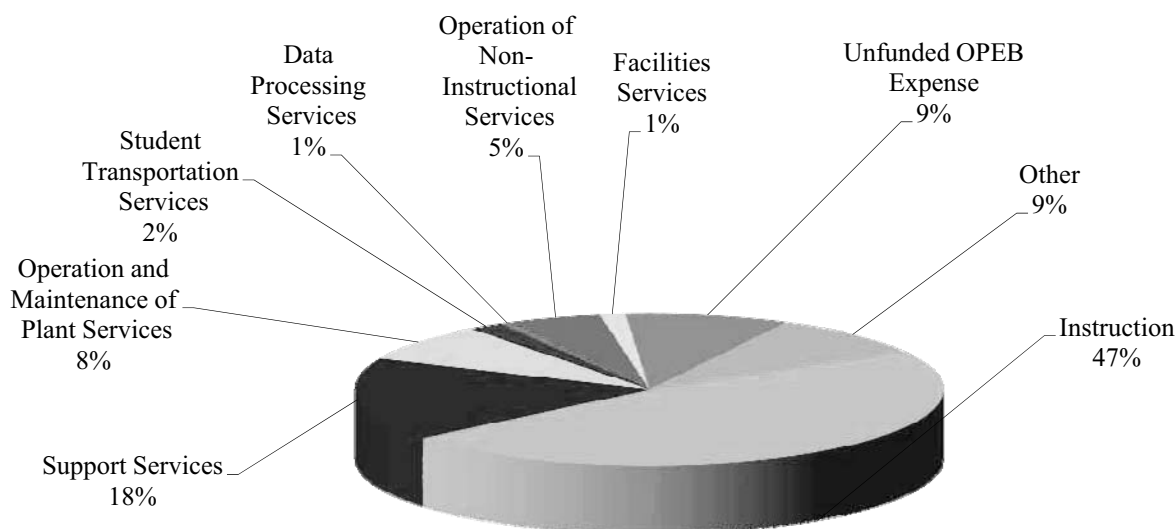
LOS ANGELES UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis

June 30, 2010

The following graph shows that instruction and support services are the main expenditures of the District.

Expenses
Year ended June 30, 2010



Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to facilitate compliance with finance-related requirements.

Governmental funds. The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the District's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$5.7 billion, an increase of \$2.6 billion in comparison with the prior year. Approximately 94.5% (\$5.3 billion) of this total combined ending fund balance constitutes unreserved fund balance, which is available for spending at the District's discretion. The remaining 5.5% is reserved to indicate that it is not available for new spending because it has already been committed for: legally restricted balances (\$294.0 million), inventories and prepaid expenses (\$13.2 million), and revolving cash (\$6.7 million).

The General Fund is the primary operating fund of the District. At the end of the 2010 fiscal year, the unreserved fund balance of the General Fund was \$358.1 million, while the total fund balance is \$662.9 million. As a measure of the General Fund's liquidity, it may be useful to compare both the unreserved fund balance and the total fund balance to the total fund expenditures. The unreserved fund balance represents 5.8% of the total General Fund expenditures, while the total fund balance represents 10.8% of that same amount.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis

June 30, 2010

The fund balance of the District's General Fund decreased by \$87.1 million during the current fiscal year as a result of lower revenues. Revenues are \$441.1 million lower compared to last fiscal year, and although expenditures are also lower, the savings was not enough to offset the decline in revenue.

Other changes in fund balances in the governmental funds are detailed as follows (in thousands):

	Other Governmental Funds					Total
	District Bonds	Special Revenue	Debt Service	Other Capital Projects	County School Facilities Bond	
Fund balance, June 30, 2010:						
Reserved for:						
Revolving cash and imprest funds	\$ 3,800	\$ 114	\$ –	\$ –	\$ –	\$ 114
Inventories	–	5,195	–	–	–	5,195
Unreserved	3,488,803	122,508	703,453	166,949	501,615	1,494,525
Total	3,492,603	127,817	703,453	166,949	501,615	1,499,834
Fund balance, July 1, 2009	733,084	166,000	554,753	268,577	534,745	1,524,075
Increase (decrease) in fund balance	\$ 2,759,519	\$ (38,183)	\$ 148,700	\$ (101,628)	\$ (33,130)	\$ (24,241)

The fund balance increased during the current year: for the District Bonds, due to the issuance of over \$4 billion of general obligation bonds; and for the Debt Service, due to increased debt service requirements in the Bond Interest and Redemption Fund as a result of higher outstanding debt. The fund balance decreased for the Special Revenue, primarily due to redirection of deferred maintenance apportionments to the General Fund in accordance with the State flexibility provision while program spending continues from available fund balance; for Other Capital Projects, due to spending down of project funds obtained from Certificate of Participation financing; and for County School Facilities Bonds, as a result of lower apportionments from the State bond proceeds.

Proprietary funds. The District's proprietary funds provide the same type of information found in the government-wide financial statements.

At the end of the year, the District's proprietary funds have unrestricted net assets of \$164.8 million. The net increase of \$123.9 million in the current year can be attributed to lower premiums and claims expense due to changes in health and medical plans and continuing loss control measures in the workers' compensation program.

General Fund Budgetary Highlights

The District closely reviews its revenue and expenditure data to ensure that a sufficient ending balance is maintained. This review occurs throughout the fiscal year, utilizing the State-mandated first and second interim financial reports, and at year end, utilizing the actual revenue and expenditure data.

Differences between the 2009-10 General Fund original budget (the 2009-10 Final Budget adopted by the Board of Education in June 2009) and the amended final budget resulted in an overall decrease in the ending balance by \$620.7 million. Technical adjustments to the adopted budget were necessary to reflect additional revenues in the General Fund and a corresponding increase in related expenditures, in conformity with categorical flexibility

LOS ANGELES UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis

June 30, 2010

provisions and recommended accounting treatment. After eliminating the effects of these adjustments, the decrease in ending balance is primarily due to decreased budgeted revenue based on additional State budget information and changes known subsequent to adoption of the June 30 budget. These include increase in the Revenue Limit deficit rate from 17.967% to 18.355%, additional revenue limit reduction of \$252.83 per ADA, and retraction of \$359 million of Federal ARRA State Fiscal Stabilization Funds originally estimated to be received in 2009-10 but actually received in late 2008-09.

The General Fund ending balance increased by \$378.8 million compared to the Final Budget due to lower expenditures, offset by lower revenues. The \$220.4 million unfavorable variance in revenues and other financing sources between the final budget and actual occurred primarily because multi-year categorical program revenues were budgeted in their entirety but earned only to the extent that expenditures occurred.

The \$599.2 million favorable variance in expenditures and other financing uses between the final budget and actual occurred primarily due to under-expenditure in all objects of expenditure in both unrestricted and restricted programs, but mainly in salaries (\$325.9 million) and books and supplies (\$135.6 million). The under-expenditure is due to budget reductions, furlough, and expenditure freeze implemented during the year and also because expenditures in categorical (specially-funded) programs were less than the budget. A significant portion of the categorical variances resulted from the factor described in the revenue variance – the full budgeting of expenditures in the first year of multi-year grants.

Capital Assets and Debt Administration

Capital assets. The District's investment in capital assets for its governmental activities as of June 30, 2010 amounts to \$13.7 billion (net of accumulated depreciation), a 11.4% increase from the prior year. The investment in capital assets includes sites, improvement of sites, buildings and improvements, equipment and construction in progress, net of any related accumulated depreciation.

Major capital asset events during the current fiscal year included the following:

- Continuing construction of additional school buildings as well as school modernization projects throughout the District. Construction in progress as of the close of the fiscal year was \$3.6 billion.
- Various building additions and modernizations were completed at a cost of \$0.8 billion.
- A total of 11 new schools were completed and opened in the 2009-10 school year.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis

June 30, 2010

Capital Assets (net of accumulated depreciation)

As of June 30, 2010 and 2009 (in thousands):

	Governmental Activities	
	2010	2009
Sites	\$ 3,069,920	\$ 2,969,404
Improvement of sites	215,635	215,420
Buildings and improvements	6,724,488	6,196,847
Equipment	145,397	133,217
Construction in progress	3,579,899	2,815,518
Total	<u>\$ 13,735,339</u>	<u>\$ 12,330,406</u>

Additional information on the District's capital assets can be found in Note 7 on pages 41-42 of this report.

Long-term obligations. At the end of the current fiscal year, the District had total long-term obligations of \$15.8 billion. Of this amount, \$12.1 billion comprises debt to be repaid by voter-approved property taxes and not by the General Fund of the District.

Outstanding Obligations

Summary of long-term obligations is as follows (in thousands):

	Governmental Activities	
	2010	2009
General Obligation Bonds	\$ 12,114,504	\$ 8,223,575
Certificates of Participation (COPs)	459,019	442,655
Capital Lease Obligations	2,628	3,008
Children's Center Facilities Revolving Loan	792	792
California Energy Commission Loan	439	663
Liability for Employee Benefits	224,884	234,586
Self-insurance Claims	528,345	551,769
Other Postemployment Benefits (OPEB)	2,393,811	1,653,926
Arbitrage Payable	12,445	11,967
Legal Settlements	15,200	25,378
Total	<u>\$ 15,752,067</u>	<u>\$ 11,148,319</u>

The District's total long-term obligations increased by \$4.6 billion (41.3%) during the current fiscal year. The key factors in this increase were the issuance of general obligation bonds during the year and the recognition of additional net OPEB obligation.

Long-Term Credit Ratings

Moody's Investor Service ("Moody's") and Standard and Poor's ("S&P") currently rate the District's General Obligation Bonds and Certificates of Participation (COPs). The District requested withdrawal of all Fitch ratings in September 2009. The District's current underlying ratings on its general obligation bonds are "Aa2" and "AA-" from Moody's and S&P, respectively. The District's current underlying ratings on its nonabatable leases (COPs) are "Aa3" and "A+" from Moody's and S&P, respectively; for abatable leases (COPs), the underlying ratings are "A1" and "A+" from Moody's and S&P, respectively. The District purchased municipal bond insurance and/or reserve surety bond policies at the time of issuance for some of its COPs and bonds. Moody's, S&P and Fitch assigned insured ratings of "Aaa", "AAA" and "AAA", respectively, on said COPs and bonds at the time of issuance. Subsequent to February 1, 2008, the rating agencies downgraded the ratings of certain bond insurers, including all of those who had issued bond insurance policies and/or surety bonds on District issues.

State statutes limit the issuance of general obligation bond debt by a unified school district if the outstanding general obligation bonds are more than 2.5% of its total taxable property. The debt limitation for the District as of June 30, 2010 is \$11.9 billion, which is in excess of the District's outstanding general obligation bond debt after reflecting assets available in the Bond Interest and Redemption Fund for payment of principal.

Additional information on the District's long-term obligations can be found in Notes 10 and 11 on pages 51-59 of this report.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. This report is available on the District's website (www.lausd.net). Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Chief Financial Officer, Los Angeles Unified School District, P.O. Box 513307-1307, Los Angeles, California 90051-1307.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Statement of Net Assets
June 30, 2010
(in thousands)

	<u>Governmental Activities</u>
Assets:	
Cash and cash equivalents	\$ 6,231,489
Investments	785,256
Property taxes receivable	86,802
Accounts receivable, net	928,327
Accrued interest receivable	24,247
Prepaid expense	12,866
Deferred charges	66,845
Inventories	13,163
Capital assets:	
Sites	3,069,920
Improvement of sites	523,083
Buildings and improvements	8,992,789
Equipment	1,169,506
Construction in progress	3,579,899
Less accumulated depreciation	<u>(3,599,858)</u>
Total Capital Assets, Net of Depreciation	<u>13,735,339</u>
Total Assets	<u>21,884,334</u>
Liabilities:	
Vouchers and accounts payable	439,134
Contracts payable	92,473
Accrued payroll	207,437
Accrued interest	254,828
Other payables	74,677
Unearned revenue	65,418
Tax and revenue anticipation notes and related interest payable	764,355
Long-term liabilities:	
Portion due within one year	485,669
Portion due after one year	<u>15,266,398</u>
Total Liabilities	<u>17,650,389</u>
Net Assets:	
Invested in capital assets, net of related debt	4,910,954
Restricted for:	
Debt service	354,884
Program activities	927,669
Unrestricted	<u>(1,959,562)</u>
Total Net Assets	<u><u>\$ 4,233,945</u></u>

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Statement of Activities
Year Ended June 30, 2010
(in thousands)

Functions/programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Instruction	\$ 3,900,813	\$ 6,440	\$ 1,705,758	\$ —	\$ (2,188,615)
Support Services – students	317,859	—	240,346	—	(77,513)
Support Services – instructional staff	428,734	211	348,196	—	(80,327)
Support Services – general administration	43,561	—	852	—	(42,709)
Support Services – school administration	466,481	—	143,125	—	(323,356)
Support Services – business	204,002	18,002	70,894	—	(115,106)
Operation and maintenance of plant services	660,647	13,496	168,318	4,293	(474,540)
Student transportation services	155,813	—	154,069	—	(1,744)
Data processing services	68,949	—	3,369	—	(65,580)
Operation of non-instructional services	403,956	12,229	342,381	—	(49,346)
Facilities acquisition and construction services*	115,474	18,747	375	295,879	199,527
Other Uses	615	—	—	—	(615)
Interest expense	495,266	—	—	—	(495,266)
Depreciation – unallocated**	245,712	—	—	—	(245,712)
Unfunded OPEB Expense – unallocated	739,885	—	—	—	(739,885)
Total Governmental Activities	<u>\$ 8,247,767</u>	<u>\$ 69,125</u>	<u>\$ 3,177,683</u>	<u>\$ 300,172</u>	<u>(4,700,787)</u>
General revenues:					
Taxes:					
Property taxes, levied for general purposes					938,189
Property taxes, levied for debt service					740,719
Property taxes, levied for community redevelopment					6,054
State aid – formula grants					2,039,028
Grants, entitlements, and contributions not restricted to specific programs					393,192
Unrestricted investment earnings					58,323
Miscellaneous					27,470
Total General Revenues					<u>4,202,975</u>
Change in Net Assets					(497,812)
Net Assets – Beginning of Year, restated					<u>4,731,757</u>
Net Assets – End of Year					<u>\$ 4,233,945</u>

* This amount represents expenses incurred in connection with activities related to capital projects that are not otherwise capitalized and included as part of capital assets (for example, project manager fees).

** This amount excludes the depreciation that is included in the direct expenses of the various programs.

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Balance Sheet
Governmental Funds
June 30, 2010
(in thousands)

	General	District Bonds	Other Governmental Funds	Total Governmental Funds
Assets:				
Cash in county treasury, in banks, and on hand	\$ 299,711	\$ 3,648,357	\$ 1,483,709	\$ 5,431,777
Cash held by trustee	23,964	300	47,444	71,708
Investments	764,958	—	20,298	785,256
Taxes receivable	—	—	86,802	86,802
Accounts receivable – net	878,838	6,405	40,934	926,177
Accrued interest receivable	6,724	12,030	2,790	21,544
Due from other funds	25,300	—	—	25,300
Inventories	7,968	—	5,195	13,163
Total Assets	\$ 2,007,463	\$ 3,667,092	\$ 1,687,172	\$ 7,361,727
Liabilities and Fund Balances:				
Vouchers and accounts payable	\$ 256,293	\$ 104,252	\$ 27,553	\$ 388,098
Contracts payable	3,785	70,224	18,464	92,473
Accrued payroll	210,310	13	—	210,323
Other payables	53,983	—	19,631	73,614
Due to other funds	—	—	25,300	25,300
Deferred revenue	55,830	—	96,390	152,220
Tax and revenue anticipation notes and related interest payable	764,355	—	—	764,355
Total Liabilities	1,344,556	174,489	187,338	1,706,383
Fund Balances:				
Reserved	304,762	3,800	5,309	313,871
Unreserved:				
Designated	238,603	3,488,803	—	3,727,406
Designated, reported in:				
Special revenue funds	—	—	122,508	122,508
Capital projects funds	—	—	666,273	666,273
Undesignated	119,542	—	—	119,542
Undesignated, reported in:				
Debt Service	—	—	703,453	703,453
Capital projects funds	—	—	2,291	2,291
Total Fund Balances	662,907	3,492,603	1,499,834	5,655,344
Total Liabilities and Fund Balances	\$ 2,007,463	\$ 3,667,092	\$ 1,687,172	\$ 7,361,727

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
June 30, 2010
(in thousands)

Total Fund Balances – Governmental Funds	\$ 5,655,344
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$17,335,197 and the accumulated depreciation is \$3,599,858.	13,735,339
Property taxes receivable will be collected this year, but are not available soon enough to pay the current period's expenditures and therefore are deferred in the funds.	86,802
An internal service fund is used by the District's management to charge the costs of health and welfare, workers' compensation and liability self-insurance premiums and claims to the individual funds. The assets and liabilities of the internal service funds are included in the governmental activities.	164,774
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.	(15,475,159)
Other assets – deferred charges are not reflected in the fund financials.	66,845
Total Net Assets – Governmental Activities	<u><u>\$ 4,233,945</u></u>

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2010
(in thousands)

	<u>General</u>	<u>District Bonds</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Revenue limit sources	\$ 2,977,215	\$ —	\$ —	\$ 2,977,215
Federal revenues	963,978	—	325,565	1,289,543
Other state revenues	2,159,371	—	407,163	2,566,534
Other local revenues	108,061	31,779	778,598	918,438
Total Revenues	<u>6,208,625</u>	<u>31,779</u>	<u>1,511,326</u>	<u>7,751,730</u>
Expenditures:				
Current:				
Certificated salaries	2,807,932	—	121,938	2,929,870
Classified salaries	908,079	51,563	166,835	1,126,477
Employee benefits	1,407,416	24,794	149,029	1,581,239
Books and supplies	260,122	3,259	132,505	395,886
Services and other operating expenditures	760,731	29,302	77,449	867,482
Capital outlay	18,206	1,267,005	392,647	1,677,858
Debt service – principal	1,520	—	288,160	289,680
Debt service – bond, COPs, and capital leases interest	188	—	437,394	437,582
Other outgo	615	—	—	615
Total Expenditures	<u>6,164,809</u>	<u>1,375,923</u>	<u>1,765,957</u>	<u>9,306,689</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>43,816</u>	<u>(1,344,144)</u>	<u>(254,631)</u>	<u>(1,554,959)</u>
Other Financing Sources (Uses):				
Transfers in	78,873	106,166	354,602	539,641
Transfers – support costs	11,630	—	(11,630)	—
Transfers out	(224,362)	(85,148)	(242,760)	(552,270)
Issuance of bonds	—	4,082,645	—	4,082,645
Premium on bonds issued	—	—	92,908	92,908
Issuance of refunding bonds	—	—	149,760	149,760
Payment to refunded bond escrow agent	—	—	(163,199)	(163,199)
Issuance of COPs	—	—	40,728	40,728
Issuance of refunding COPs	—	—	69,685	69,685
Payment to refunded COPs escrow agent	—	—	(65,328)	(65,328)
Premium on COPs issued	—	—	3,771	3,771
Insurance proceeds – fire damage	2,057	—	—	2,057
Capital leases	931	—	—	931
Land and building sale/lease	—	—	2,371	2,371
Facilities revolving funds	—	—	(518)	(518)
Total Other Financing Sources (Uses)	<u>(130,871)</u>	<u>4,103,663</u>	<u>230,390</u>	<u>4,203,182</u>
Net Changes in Fund Balances	<u>(87,055)</u>	<u>2,759,519</u>	<u>(24,241)</u>	<u>2,648,223</u>
Fund Balances, July 1, 2009	<u>749,962</u>	<u>733,084</u>	<u>1,524,075</u>	<u>3,007,121</u>
Fund balances, June 30, 2010	<u>\$ 662,907</u>	<u>\$ 3,492,603</u>	<u>\$ 1,499,834</u>	<u>\$ 5,655,344</u>

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures,
and Changes in Fund Balances to the Statement of Activities
June 30, 2010
(in thousands)

Total Net Changes in Fund Balances – Governmental Funds \$ 2,648,223

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay (\$1,677,858) and gain on exchange of capital assets (\$79) exceed depreciation (\$264,176) in the period. 1,413,761

Some of the capital assets acquired this year were financed with capital leases. The amount financed is reported in the governmental funds as a source of financing. On the other hand, the proceeds are not revenues in the statement of activities, but rather, constitute long-term liabilities in the statement of net assets. (931)

Proceeds of new debt and repayment of debt principal are reported as other financing sources and uses in the governmental funds, but constitute additions and reductions to liabilities in the statement of net assets. (3,842,600)

Premiums, discounts, refunding charges and issuance costs are reported as other financing sources and uses in the governmental funds, but presented as liabilities or deferred charges, net of amortization in the statement of net assets. (52,229)

Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered "available" revenues for this year. 6,349

In the statement of activities, compensated absences and other retirement benefits are measured by the amounts the employees earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). 11,701

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental fund because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of financial resources. In the statement of activities, however, interest expense is recognized as interest accrues, regardless of when it is due. (67,005)

Some expenses, including legal settlements and rebatable arbitrage, are recognized in the government wide statements as soon as the underlying event has occurred but not until due and payable in the governmental funds. 872

OPEB expenditures are recorded in the governmental funds to the extent of amounts actually funded. In the statement of activities, however, the expense is recorded for the full amount of the accrual-basis annual OPEB cost. (739,885)

An internal service fund is used by the District's management to charge the costs of health and welfare, workers' compensation and liability self-insurance premiums and claims to the individual funds. The net revenue of the internal service fund is reported with governmental activities. 123,932

Changes in Net Assets of Governmental Activities \$ (497,812)

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
General Fund
Year Ended June 30, 2010
(in thousands)

	Budget			Variance with Final Budget – Favorable (Unfavorable)
	Original	Final	Actual	
Revenues:				
Revenue limit sources	\$ 3,154,009	\$ 2,973,733	\$2,977,215	\$ 3,482
Federal revenues	1,355,080	1,099,697	963,978	(135,719)
Other state revenues	1,872,334	2,189,195	2,159,371	(29,824)
Other local revenues	106,676	113,449	108,061	(5,388)
Total Revenues	6,488,099	6,376,074	6,208,625	(167,449)
Expenditures:				
Current:				
Certificated salaries	2,939,220	3,083,045	2,807,932	275,113
Classified salaries	888,032	958,879	908,079	50,800
Employee benefits	1,411,769	1,432,870	1,407,416	25,454
Books and supplies	334,585	395,742	260,122	135,620
Services and other operating expenditures	716,748	816,827	760,731	56,096
Capital outlay	44,423	78,125	18,206	59,919
Debt service – principal	1,946	2,213	1,520	693
Debt service – bond, COPs, and capital leases interest	1,969	1,969	188	1,781
Other outgo	650	650	615	35
Total Expenditures	6,339,342	6,770,320	6,164,809	605,511
Excess (Deficiency) of Revenues Over (Under) Expenditures	148,757	(394,246)	43,816	438,062
Other Financing Sources (Uses):				
Transfers in	16,722	107,717	78,873	(28,844)
Transfers – support costs	6,199	18,299	11,630	(6,669)
Transfers out	(43,934)	(224,718)	(224,362)	356
Issuance of COPs	20,114	20,114	—	(20,114)
Insurance proceeds – fire damage	5,000	5,000	2,057	(2,943)
Capital leases	1,999	1,999	931	(1,068)
Total Other Financing Sources (Uses)	6,100	(71,589)	(130,871)	(59,282)
Net Changes in Fund Balances	\$ 154,857	\$ (465,835)	(87,055)	\$ 378,780
Fund Balances, July 1, 2009			749,962	
Fund Balances, June 30, 2010			\$ 662,907	

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Statement of Net Assets
Proprietary Funds
Governmental Activities – Internal Service Funds
June 30, 2010
(in thousands)

Assets:

Cash in county treasury, in banks, and on hand	\$ 728,004
Accounts receivable – net	2,150
Accrued interest and dividends receivable	2,703
Prepaid expenses	<u>12,866</u>
Total Assets	<u>745,723</u>

Liabilities:

Current:

Vouchers and accounts payable	51,036
Accrued payroll	505
Other payables	1,063
Estimated liability for self-insurance claims	<u>159,720</u>
Total Current Liabilities	212,324

Noncurrent:

Estimated liability for self-insurance claims	<u>368,625</u>
Total Liabilities	<u>580,949</u>
Total Net Assets – Unrestricted	<u><u>\$ 164,774</u></u>

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
Governmental Activities – Internal Service Funds
Year Ended June 30, 2010
(in thousands)

Operating Revenues:	
In-district premiums	\$ 1,086,733
Total Operating Revenues	<u>1,086,733</u>
Operating Expenses:	
Certificated salaries	154
Classified salaries	6,446
Employee benefits	3,370
Supplies	226
Premiums and claims expenses	960,256
Claims administration	14,414
Other contracted services	<u>1,235</u>
Total Operating Expenses	<u>986,101</u>
Operating Income	<u>100,632</u>
Nonoperating Revenues (Expenses):	
Interest income	10,689
Transfers in	12,629
Miscellaneous expense	<u>(18)</u>
Total Nonoperating Revenues	<u>23,300</u>
Change in Net Assets	123,932
Total Net Assets, July 1, 2009	<u>40,842</u>
Total Net Assets June 30, 2010	<u><u>\$ 164,774</u></u>

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Statement of Cash Flows
Proprietary Funds
Governmental Activities – Internal Service Funds
Year Ended June 30, 2010
(in thousands)

Cash Flows From Operating Activities:	
Cash payments to employees for services	\$ (10,040)
Cash payments for goods and services	(972,386)
Receipts from assessment to other funds	<u>1,086,603</u>
Net Cash Provided By Operating Activities	<u>104,177</u>
Cash Flows From Investing Activities:	
Earnings on investments	12,030
Purchase of investments	59,981
Transfers in	<u>12,629</u>
Net Cash Provided By Investing Activities	<u>84,640</u>
Net Increase in Cash and Cash Equivalents	188,817
Cash and cash equivalents, July 1	<u>539,187</u>
Cash and cash equivalents, June 30	<u><u>\$ 728,004</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating income	<u>\$ 100,632</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in operating assets and liabilities:	
Increase in accounts receivable	(145)
Decrease in prepaid expense	488
Increase in vouchers and accounts payable	30,424
Decrease in accrued payroll	(60)
Decrease in other payables	(3,736)
Decrease in estimated liability for self-insurance claims – current	(14,799)
Decrease in estimated liability for self-insurance claims – noncurrent	<u>(8,627)</u>
Total Adjustments	<u>3,545</u>
Net Cash Provided By Operating Activities	<u><u>\$ 104,177</u></u>

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2010
(in thousands)

	Pension Trust Funds	Agency Fund
Assets:		
Cash in county treasury, in banks, and on hand	\$ 20,558	\$ 20,532
Accrued interest receivable	70	—
Total Assets	<u>20,628</u>	<u>20,532</u>
Liabilities:		
Other payables	20,229	20,532
Total Liabilities	<u>20,229</u>	<u>20,532</u>
Total Net Assets – Held in Trust	<u>\$ 399</u>	<u>\$ —</u>

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds – Pension Trust Funds
Year Ended June 30, 2010
(in thousands)

Additions:		
Investment income	\$	400
Total Additions		<u>400</u>
Deductions:		
Other transfers		<u>1</u>
Total Deductions		<u>1</u>
Change in Net Assets		399
Total Net Assets, July 1, 2009		<u>—</u>
Total Net Assets, June 30, 2010	\$	<u><u>399</u></u>

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2010

(1) Summary of Significant Accounting Policies

The Los Angeles Unified School District accounts for its financial transactions in accordance with the policies and procedures of the California Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB).

The following summary of the more significant accounting policies of the District is provided to assist the reader in interpreting the basic financial statements presented in this section. These policies, as presented, should be viewed as an integral part of the accompanying basic financial statements.

(a) Reporting Entity

The District is primarily responsible for all activities related to K-12 public education in most of the western section of Los Angeles County, State of California. The governing authority, as designated by the State Legislature, consists of seven elected officials who together constitute the Board of Education (Board). Those organizations, functions, and activities (component units) for which the Board has accountability comprise the District's reporting entity.

The District's Comprehensive Annual Financial Report includes all Funds of the District and its component units with the exception of the fiscally independent charter schools, which are required to submit audited financial statements individually to the State, and the Auxiliary Services Trust Fund, which is not significant in relation to District operations. This fund was established in 1935 to receive and disburse funds for insurance premiums on student body activities and property, "all city" athletic and musical events, and grants restricted for student-related activities. The District has certain oversight responsibilities for these operations but there is no financial interdependency between the financial activities of the District and the fiscally independent charter schools or the Auxiliary Services Trust Fund.

Blended Component Units

The District Finance Corporation and the District Administration Building Finance Corporation (the Corporations) were formed in 2000 and 2001, respectively, to finance properties leased by the District. The Corporations have a financial and operational relationship which meets the reporting entity definition criteria of GASB for inclusion of the Corporations as blended component units of the District. These Corporations are nonprofit public benefit corporations, and they were formed to provide financing assistance to the District for construction and acquisition of major capital facilities. The District currently occupies all completed Corporation facilities and, upon completion, intends to occupy all Corporation facilities under construction under lease purchase agreements. At the end of the lease terms, or pursuant to relevant transaction documents with the District, or upon dissolution of the Corporations, title to all Corporations property passes to the District.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2010

(b) *Government-Wide and Fund Financial Statements*

The District's basic financial statements consist of fund financial statements and government-wide statements which are intended to provide an overall viewpoint of the District's finances. The government-wide financial statements, which are the statement of net assets and the statement of activities, report information on all nonfiduciary District funds excluding the effect of interfund activities. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which are primarily supported by fees and service charges. The District does not conduct any business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements on pages 16 and 18. Nonmajor funds are aggregated in a single column.

(c) *Measurement Focus and Basis of Accounting*

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows. The same measurement focus and basis of accounting also apply to trust funds. The agency fund, however, reports only assets and liabilities and therefore has no measurement focus.

Government fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when susceptible to accrual, i.e., both measurable and available to finance expenditures of the fiscal period. "Available" means collectible within the current period or soon enough thereafter to pay current liabilities. Application of the "susceptibility to accrual" criteria requires consideration of the materiality of the item in question and due regard for the practicality of accrual, as well as consistency in application.

Federal revenues and State apportionments and allowances are determined to be available and measurable when entitlement occurs or related eligible expenditures are incurred. Secured and unsecured property taxes related to debt service and community redevelopment purposes that are estimated to be collectible and receivable within 60 days of the current period are recorded as revenue. Investment income is accrued when earned. All other revenues are not considered susceptible to accrual.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2010

Expenditures for the governmental funds are generally recognized when the related fund liability is incurred, except debt service expenditures and expenditures related to compensated absences which are recognized when payment is due.

(d) Financial Statement Presentation

The District's comprehensive annual financial report includes the following:

- Management's Discussion and Analysis is a narrative introduction and analytical overview of the District's financial activities as required by GASB Statement No. 34. This narrative overview is in a format similar to that in the private sector's corporate annual reports.
- Government-wide financial statements are prepared using full accrual accounting for all of the District's activities. Therefore, current assets and liabilities, capital and other long-term assets, and long-term liabilities are included in the financial statements.
- Statement of net assets displays the financial position of the District including all capital assets and related accumulated depreciation and long-term liabilities.
- Statement of activities focuses on the cost of functions and programs and the effect of these on the District's net assets. This financial report is also prepared using the full accrual basis and shows depreciation expense and unfunded OPEB expense.

(e) Fund Accounting

The District's accounting system is organized and operated on the basis of funds. A fund is a separate accounting entity with a self-balancing set of accounts. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. A description of the activities of the various funds is provided below:

Major Governmental Funds

The District has the following major governmental funds for the fiscal year 2009-10:

General Fund – The General Fund is used to account for all financial resources relating to educational activities and the general business operations of the District, including educational programs funded by other governmental agencies. The General Fund consists of unrestricted and restricted funds.

District Bonds Fund – This category represents the total of the following building accounts: Building Account – Bond Proceeds (BB Bonds), established to account for bond proceeds received as a result of the passage of Proposition BB; Building Account – Measure K, established to account for bond proceeds received as a result of the issuance of General Obligation Bonds (G.O. Bonds) authorized pursuant to ballot measure "Measure K"; Building Account – Measure R, established to account for bond proceeds received by the passage of Measure R; and Building Account – Measure Y, established to account for bond proceeds received by the passage of Measure Y.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2010

Other Governmental Funds

The District has the following nonmajor governmental funds:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than for Capital Projects) that are legally restricted to expenditures for specified purposes. The District maintains the following Special Revenue Funds: Adult Education, Cafeteria, Child Development, and Deferred Maintenance.

Debt Service Funds – Debt Service Funds are used to account for all financial resources intended for the repayment of general long-term debt principal and interest. The District maintains the following Debt Service Funds: Bond Interest and Redemption, Tax Override, and Capital Services.

Capital Projects Funds – Capital Projects Funds are used to account for all financial resources related to the acquisition or construction of major capital facilities and equipment other than those financed by the General and Special Revenue Funds. The District maintains the following nonmajor Capital Projects Funds: Building, State School Building Lease-Purchase, Special Reserve, Special Reserve – FEMA-Earthquake, Special Reserve – FEMA-Hazard Mitigation, Special Reserve – Community Redevelopment Agency, Capital Facilities Account, County School Facilities – Prop 1A, County School Facilities – Prop 47, County School Facilities – Prop 55, and County School Facilities – Prop 1D. The District Bonds Fund (BB Bonds, Measure K, Measure R, and Measure Y) is reported separately as a major fund in fiscal year 2009-10.

Proprietary Funds

The District has the following Proprietary Funds:

Internal Service Funds – Internal Service Funds are used to account for all financial resources intended to provide self-insurance services to other operating funds of the District on a cost-reimbursement basis. The District maintains the following Internal Service Funds: Health and Welfare Benefits, Workers' Compensation Self-Insurance, and Liability Self-Insurance. The Health and Welfare Benefits Fund was established to pay for claims, administrative costs, insurance premiums, and related expenditures; the Workers' Compensation Self-Insurance Fund and the Liability Self-Insurance Fund were established to pay for claims, excess insurance coverage, administrative costs, and related expenditures.

Under the full accrual basis of accounting that is generally accepted for Internal Service Funds, total estimated liabilities for self-insurance are recorded based on estimated claims liabilities, including the estimated liability for incurred but not reported claims. For the Workers' Compensation and Liability Self-Insurance Funds, the estimates are determined by applying an appropriate discount rate to estimated future claim payments. No discount is applied to estimated Health and Welfare Benefits Fund claims because they are generally paid within a short period of time after the claims are filed.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2010

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's internal service funds are charges to other operating funds for self-insurance services. Operating expenses include the cost of services including insurance premiums, claims, and administrative costs. All revenues and expenses not meeting this definition are nonoperating revenues and expenses.

Fiduciary Funds

The District has the following Fiduciary Funds:

Pension Trust Funds – Pension Trust Funds are used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, postemployment benefit plans or other employee benefit plans. The District maintains two types of pension trust funds:

Annuity Reserve Fund – The Annuity Reserve Fund accounts for all financial resources used to provide additional retirement benefits to employees who were members of the District Retirement System on June 30, 1972. On November 18, 2003, participant members voted to dissolve the fund and distribute its net assets to the members. As of June 30, 2009, the fund's remaining equity of \$489,509 has been transferred to the General Fund. Transactions during the year relate to the receipt and transfer of additional interest earnings.

Attendance Incentive Reserve Fund – The Attendance Incentive Reserve Fund is used to account for 50% of funds from salary savings as a result of reduced costs of absenteeism of the United Teachers of Los Angeles (UTLA) represented employees.

Agency Fund - The Student Body Fund accounts for cash held by the District on behalf of student bodies at various school sites.

(f) Budgetary Control and Encumbrances

School districts in California are required by Education Code Section 41010 to follow the California School Accounting Manual in preparing reports to the State. The District, in accordance with Board election on October 28, 2008, utilizes a single-adoption budget schedule that requires Final Budget adoption by the State-mandated July 1 deadline. The District is allowed to modify its adopted budget within 45 days of the passage of the State budget. In addition, the District revises the budget during the year to give consideration to unanticipated revenues and expenditures (see Note 4 – Budgetary Appropriation Amendments).

In accordance with the District's Board policy, management has the authority to make routine transfers of budget appropriations among major categories within a fund. Routine budget transfers are summarized and periodically reported to the Board for ratification. Nonroutine transfers may not be processed without prior Board approval.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2010

During the year, several supplementary appropriations were necessary. The original and final revised budgets are presented in the financial statements. Budgets for all governmental fund types are adopted on a basis consistent with generally accepted accounting principles. Budgets are adopted for the General, Special Revenue, Debt Service, Capital Projects, Internal Service, and Pension Trust Funds.

Formal budgetary integration is employed as a management control device during the year for all budgeted funds. The District employs budgetary control by minor (sub) object and by individual program accounts. Expenditures may not legally exceed budgeted appropriations by major object level as follows: Certificated Salaries, Classified Salaries, Employee Benefits, Books and Supplies, Services and Other Operating Expenditures, Capital Outlay, Other Outgo, and Other Financing Uses.

The District utilizes an encumbrance system for all budgeted funds, except Proprietary and Fiduciary Funds, to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid or liabilities are incurred. All encumbrances expire at June 30; however, a reserve representing incomplete contracts is provided for at year end. Appropriation authority lapses at the end of the fiscal year.

(g) *Cash and Investments*

Cash includes amounts in demand deposits with the Los Angeles County Treasury and various financial institutions, imprest funds in schools and offices, and cafeteria change funds. The District maintains some cash deposits with various banking institutions for collection clearing, check clearing, or revolving fund purposes. The District also maintains deposit accounts held by various trustees for the acquisition or construction of capital assets, for the repayment of long-term debt, and for the repayment of tax and revenue anticipation notes.

In accordance with State Education Code Section 41001, the District deposits virtually all of its cash with the Treasurer of the County of Los Angeles. The District's deposits, along with funds from other local agencies such as the county government, other school districts, and special districts, make up a pool, which the County Treasurer manages for investment purposes. Earnings from the pooled investments are allocated to participating funds based on average investment in the pool during the allocation period.

All District-directed investments are governed by Government Code Section 53601 and Treasury investment guidelines. The guidelines limit specific investments to government securities, domestic chartered financial securities, domestic corporate issues, and California municipal securities. The District's securities portfolio is held by the County Treasurer. Interest earned on investments is recorded as revenue of the fund from which the investment was made. All District's investments are stated at fair value based on quoted market prices.

(h) *Short-term Interfund Receivables/Payables*

Occasionally, a fund will not have sufficient cash to meet its financial obligations, and a cash transfer will be required to enable that fund to pay its outstanding invoices and other obligations.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2010

These temporary borrowings between funds are classified as “due from other funds” or “due to other funds” on the governmental funds balance sheet. Interfund balances within governmental activities are eliminated on the government-wide statement of net assets.

(i) Inventories

Inventories consist of expendable materials and supplies held for consumption, which are valued at cost, using the average-cost method. Except for food and cafeteria supplies, which are expended when received, inventories are recorded as expenditures when shipped to schools and offices. Balances of inventory accounts are offset by corresponding reservations of fund balance, which indicate that these amounts are not available for appropriation and expenditure.

(j) Capital Assets

Capital assets, which include sites, improvement of sites, buildings and improvements, equipment, and construction in progress, are reported in the government-wide financial statements. Such assets are valued at historical cost or estimated historical cost unless obtained by annexation or donation, in which case they are recorded at estimated market value at the date of receipt. The District utilizes a capitalization threshold of \$25,000.

Projects under construction are recorded at cost as construction in progress and transferred to the appropriate asset account when substantially complete. Costs of major improvements and rehabilitation of buildings are capitalized. Repair and maintenance costs are charged to expense when incurred. Equipment disposed of, or no longer required for its existing use, is removed from the records at actual or estimated historical cost, net of accumulated depreciation.

All capital assets, except land and construction in progress, are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Improvement of sites	20
Buildings	50
Portable buildings	20
Building improvements	20
Furniture and fixtures	20
Playground equipment	20
Food services equipment	15
Transportation equipment	15
Telephone system	10
Reprographics equipment	10
Broadcasting equipment	10
Vehicles	8
Computer system and equipment	5
Office equipment	5

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2010

(k) *Contracts Payable*

Contracts payable includes only the portion applicable to work completed and unpaid as of June 30, 2010. All significant incomplete portions of contracts are reported as reserved fund balance.

(l) *Compensated Absences*

All vacation leaves are accrued in the government-wide statements when they are incurred. A liability is reported in the governmental funds only for vested or accumulated vacation leave of employees who have separated from the District as of June 30 and whose vacation benefits are payable within 60 days from the end of the fiscal year. The District, as a practice, does not accrue a liability for unused sick leave since accumulated sick leave is not a vested benefit. Employees who retire after January 1, 1999 who are members of the Public Employees' Retirement System (PERS) may use accumulated sick leave to increase their service years in the calculation of retirement benefits.

In 1995, pursuant to the District/UTLA Agreement (Article XIV, Section 1.2), the District agreed to compensate eligible employees for furlough days taken during the 1992-93 fiscal year to be paid in a lump-sum bonus upon retirement. The amount of bonus corresponds to the percentage that the employee's compensation was reduced in the 1992-93 school year based on the employee's salary band for that year.

An attendance incentive plan was developed and adopted as part of the collective bargaining agreement between the District and UTLA in fiscal year 1992-93. The objective of the plan is to reduce the cost of absenteeism by rewarding deserving teachers with cash bonuses based on their unused sick leave at the end of the fiscal year. Funding for the plan comes from the undisbursed balance of certain day-to-day substitute teacher accounts.

Annually, 50% of the savings in the account is disbursed as cash payments to eligible teachers and the remaining 50% is deposited in the Attendance Incentive Reserve Fund, to be disbursed in a lump-sum distribution as employees retire or terminate their employment with the District.

(m) *Long-term Obligations*

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective-interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt using straight-line method. Gains and losses on refunding related to bonds redeemed by proceeds from the issuance of new bonds are amortized to debt expense using the effective-interest method over the shorter of the life of the new bonds or the remaining term of the bonds refunded.

In the fund financial statements, debt issuances including any related premiums or discounts as well as bond issuance costs are recognized during the current period. The face amount of debt issued is reported as other financing sources. Premiums on debt issuances are reported as other financing

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2010

sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

(n) Revenue Limit Sources/Property Taxes

The revenue limit is the basic financial support for District activities. The District's revenue limit is received from a combination of local property taxes and state apportionments. For the fiscal year 2009-10, the District received local property taxes amounting to \$938.2 million and State aid amounting to \$2,039.0 million.

The county is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding March 1, which is also the lien date. Property taxes on the secured roll are due on November 1 and February 1, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (March 1), and become delinquent if unpaid by August 31.

Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The county apportions secured property tax revenue in accordance with the alternate method of distributions prescribed by Section 4705 of the California Revenue and Taxation Code. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll, approximately on October 1 of each year. The County Auditor reports the amount of the District's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local revenue limit sources by the District.

The California Department of Education reduces the District's entitlement by the District's local property tax revenue. The balance is paid from the State General Fund, and is known as the State Apportionment. As a result, a receivable has not been recorded for the related property taxes in the general fund as any receivable is offset by a payable on the state apportionment.

The District's base revenue limit is the amount of general purpose revenue, per average daily attendance (ADA), that the District is entitled to by law. This amount is multiplied by the second period ADA to derive the District's total entitlement.

(o) New Accounting Pronouncement

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, became effective for the year ended June 30, 2010. However, the District has already adopted its provisions with the implementation of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, effective July 1, 2001. Accordingly, computer software is capitalized in the government wide statements, as of June 30, 2010. The District does not have any other intangible assets.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2010

(p) *Restatement*

In the past, the District did not record accrued interest on General Obligation Bonds. This practice had very minimal effect on net assets as the amount did not vary much from year to year. In fiscal year 2009-10, an acceleration in bond issuance resulted in a substantial increase in accrued interest. An adjustment was made to recognize the liability in the government-wide financial statements, in conformity with generally accepted accounting principles. As a result of the adjustment, the net assets as of June 30, 2009 have been restated as follows (in thousands):

Net Assets at June 30, 2009, as previously reported	\$ 4,903,625
Accrued Interest on General Obligation Bonds	<u>171,868</u>
Net Assets at June 30, 2009, as restated	<u>\$ 4,731,757</u>

(q) *Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses in the accompanying basic financial statements. Actual results may differ from those estimates.

(2) **Tax and Revenue Anticipation Notes**

Tax and Revenue Anticipation Notes (TRANs) are short-term debt instruments used to finance temporary cash flow deficits in anticipation of receiving taxes and other revenues. On July 31, 2008, the District issued \$500.0 million of 2008-09 Tax and Revenue Anticipation Notes (TRANs) with an overall weighted true interest cost of 1.5% and total premium of \$7.1 million. These notes were retired on their due date of July 30, 2009.

On August 13, 2009, the District issued a total of \$750.0 million of 2009-10 TRANs with an overall weighted true interest cost of 0.62% and total premium of \$9.8 million. The principal and interest on the notes were retired on their due date of August 12, 2010.

TRANs – Short-Term Notes Payable

(in thousands)

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Beginning balance, July 1, 2009	\$ 500,000	\$ 14,343	\$ 514,343
Additions	750,000	23,010	773,010
Deductions	<u>(500,000)</u>	<u>(22,998)</u>	<u>(522,998)</u>
Ending balance, June 30, 2010	<u>\$ 750,000</u>	<u>\$ 14,355</u>	<u>\$ 764,355</u>

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2010

(3) Reconciliation of Government-Wide And Fund Financial Statements

(a) *Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Assets*

The accompanying governmental fund balance sheet includes reconciliation between *total fund balances – governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.” The details of the \$15,475,159 difference are as follows (in thousands):

Bonds payable and related accrued interest	\$ (12,366,776)
Certificates of participation (COPs)	(461,575)
Capital lease obligations	(2,628)
Children center facilities revolving loan	(792)
California energy commission loan	(439)
Liability for employee benefits	(221,493)
Other Post Employment Benefits (OPEB)	(2,393,811)
Arbitrage payable	(12,445)
Legal settlements	(15,200)
	<hr/>
Net adjustment to reduce <i>total fund balances – governmental funds</i> to arrive at <i>net assets – governmental activities</i>	<u><u>\$ (15,475,159)</u></u>

(b) *Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-Wide Statement of Activities*

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *total net changes in fund balances – governmental funds* and *changes in net assets of governmental activities* as reported in the accompanying government-wide statement of activities. One element of that reconciliation explains that “Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.” The details of this \$1,413,761 difference are as follows (in thousands):

Capital related expenditures	\$ 1,677,858
Depreciation expense	(264,176)
Gain on exchange of capital assets	79
	<hr/>
Net adjustment to increase net changes in <i>total fund balances – governmental funds</i> to arrive at <i>changes in net assets – governmental activities</i>	<u><u>\$ 1,413,761</u></u>

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2010

Another element of that reconciliation states that “Proceeds of new debt and repayment of debt principal are reported as other financing sources and uses in the governmental funds, but constitute additions and reductions to liabilities in the statement of net assets.” The details of this \$3,842,600 difference are as follows (in thousands):

Debt issued or incurred:	
General obligation bonds	\$ (4,232,405)
Certificates of participation	(110,413)
Principal repayments:	
General obligation bonds	404,195
Certificates of participation	93,985
Capital leases	1,311
California energy commission loan	224
Other	503
	<hr/>
Net adjustment to decrease net changes in <i>total fund balances – governmental funds</i> to arrive at <i>changes in net assets – governmental activities</i>	<u><u>\$ (3,842,600)</u></u>

(4) Budgetary Appropriation Amendments

During the fiscal year, modifications were necessary to increase appropriations for expenditures and other financing uses for the General Fund by \$599.7 million. The additional expenditure appropriations were funded by higher other financing sources and from beginning fund balance.

(5) Cash and Investments

Cash and investments as of June 30, 2010 are classified in the accompanying basic financial statements as follows (in thousands):

Statement of net assets:	
Cash and investments	\$ 6,945,037
Cash and investments held by trustee	71,708
	<hr/>
Subtotal	7,016,745
Fiduciary funds:	
Cash and investments	41,090
	<hr/>
Total cash and investments	<u><u>\$ 7,057,835</u></u>

Cash and investments as of June 30, 2010 consist of the following (in thousands):

Cash on hand (cafeteria change funds)	\$ 26
Deposits with financial institutions and LA County Pool (a)	6,272,553
Investments (b)	785,256
	<hr/>
Total cash and investments	<u><u>\$ 7,057,835</u></u>

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2010

- (a) Deposits with financial institutions include cash in the Los Angeles County Pooled Surplus Investment Fund (\$6,170,105), cash held by fiscal agents or trustees (\$71,708), and cash deposited with various other financial institutions, including imprest funds in schools and offices (\$30,740).

School districts are required by Education Code Section 41001 to deposit their funds with the county treasury. Cash in county treasury refers to the fair value of the District's share of the Los Angeles County (County) Pooled Surplus Investment (PSI) Fund.

- (b) Investments include funds set aside in a county repayment account for TRANs (\$764,958) and sinking funds invested by trustees of COPs (\$20,298).

Except for investments by trustees of COPs proceeds, the authority to invest District funds deposited with the county treasury is delegated to the County Treasurer and Tax Collector. Additional information about the investment policy of the County Treasurer and Tax Collector may be obtained from the web site at <http://ttax.co.la.ca.us/>. The table below identifies some of the investment types permitted in the investment policy:

	Authorized Investment Type	Maximum Maturity	Maximum Total Par Value	Maximum Par Value per Issuer
A.	Obligations of the U.S. government, its agencies and instrumentalities.	None	None	None
B.	Approved Municipal Obligations	5 to 30 years	10% of PSI portfolio	None
C.	Asset-Backed Securities with highest ratings	5 years	20% of PSI portfolio	with credit rating limits
D.	Bankers' Acceptances Domestic and Foreign	180 days	40% of PSI portfolio	with credit rating limits
E.	Negotiable Certificates of Deposits – Domestic & Euro	1 to 3 years	30% of PSI portfolio	with credit rating limits
	Negotiable Certificates of Deposits – Euro	1 year	10% of PSI portfolio	with credit rating limits
F.	Corporate and Depository Notes	3 years	30% of PSI portfolio	with credit rating limits
G.	Floating Rate Notes	7 years	10% of PSI portfolio	with credit rating limits
H.	Commercial Paper (CP) rated "A-1" (S&P) and "P-1" (Moody's)	270 days	40% of PSI portfolio	Lesser of 10% of PSI portfolio or credit rating limits
I.	Shares of Beneficial Interest – U.S. government obligations		15% of PSI portfolio	
J.	Repurchase Agreement	30 days	\$1.0 billion	\$500 million/dealer
K.	Reverse Repurchase Agreement	1 year	\$500 million	\$250 million/broker
L.	Forwards, Futures and Options	90 days	\$100 million	\$50 million/counterparty
M.	Interest-Rate Swaps in conjunction with approved bonds and limited to highest credit rating categories.			
N.	Securities Lending Agreement	180 days	20% of base portfolio value	
O.	Investment of Bond Proceeds in accordance with Gov. Code 53601(m)	None	None	None

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2010

Debt proceeds held by trustees are governed by provisions of debt agreements. The table below identifies the investment types that are authorized for such funds:

	Authorized Investment Type	Maximum Maturity	Maximum Total Par Value	Maximum Par Value per Issuer
A.	Obligations of the U.S. government, its agencies and instrumentalities.	None	None	None
B.	Commercial Paper (CP) rated "A-1" (S&P) and "P-1" (Moody's)	270 days	None	None
C.	Investment agreements, the provider of which is rated at one of the two highest rating categories	None	None	None
D.	Money market funds	None	None	None

Interest-rate risk is the risk involved with fluctuations of interest rates that may adversely affect the fair value of the investments. The County's investment guidelines target the weighted average maturity of its portfolio to less than 18 months. As of June 30, 2010, 61.2% of district funds in the County PSI Fund does not exceed one year. In addition, variable-rate notes that comprised 1.18% of the County PSI Fund and other investments portfolio are tied to periodic coupon resets eliminating interest-rate risk by repricing back to par value at each reset date.

Credit risk means the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment, as measured by assignment of a rating by a nationally recognized statistical rating organization. This County's investment guidelines establish minimum acceptable credit ratings issued by any two nationally recognized statistical rating organizations. For a short term debt issuer, the rating must be no less than A-1 from Standard & Poor's or P1 from Moody's, while for a long-term debt issuer, the rating must be no less than A from Standard & Poor's or P from Moody's. The County PSI Fund is not rated.

Concentration of credit risk means the risk of loss attributed to the magnitude of an investment in a single issuer. For District funds in the County pool, the County's investment policy states that no more than 5% of total market value of the pooled funds may be invested in securities of any one issuer, except for obligations of the United States government, and its agencies and instrumentalities. In addition, no more than 10% may be invested in one money market mutual fund. As of June 30, 2010, the County did not exceed these limitations.

Custodial credit risk for deposits is the risk that in the event of failure of a depository financial institution, the District will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Cash in the county treasury is not exposed to custodial credit risk since all county deposits are either covered by federal depository insurance or collateralized with securities held by the County. Deposits other than those with the County are also covered by federal depository insurance or collateralized at the rate of 110% of the deposits, although the collateral may not be held specifically in the District's name.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2010

(6) Receivables/Payables

Receivables by Fund at June 30, 2010 consist of the following (in thousands):

	General	District Bonds	Other Governmental	Internal Service Funds	Total
Taxes	\$ —	\$ —	\$ 86,802	\$ —	\$ 86,802
Accrued grants and entitlements	840,894	—	37,404	—	878,298
Other	37,944	6,405	3,530	2,150	50,029
Interest and dividend	6,724	12,030	2,790	2,703	24,247
Total Receivables	<u>\$ 885,562</u>	<u>\$ 18,435</u>	<u>\$ 130,526</u>	<u>\$ 4,853</u>	<u>\$ 1,039,376</u>

Payables by Fund at June 30, 2010 consist of the following (in thousands):

	General	District Bonds	Other Governmental	Internal Service Funds	Total
Vouchers and accounts	\$ 256,293	\$ 104,252	\$ 27,553	\$ 51,036	\$ 439,134
Contracts	3,785	70,224	18,464	—	92,473
Accrued payroll	210,310	13	—	505	210,828
Other	53,983	—	19,631	1,063	74,677
Total payables	<u>\$ 524,371</u>	<u>\$ 174,489</u>	<u>\$ 65,648</u>	<u>\$ 52,604</u>	<u>\$ 817,112</u>

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2010

(7) Capital Assets

A summary of changes in capital asset activities follows (in thousands):

	Balance, June 30, 2009	Increases	Decreases	Balance, June 30, 2010
Governmental activities:				
Capital assets, not being depreciated:				
Sites	\$ 2,969,404	\$ 100,516	\$ –	\$ 3,069,920
Construction in progress	<u>2,815,518</u>	<u>1,537,506</u>	<u>(773,125)</u>	<u>3,579,899</u>
Total capital assets, not being depreciated	<u>5,784,922</u>	<u>1,638,022</u>	<u>(773,125)</u>	<u>6,649,819</u>
Capital assets, being depreciated:				
Improvement of sites	507,963	15,120	–	523,083
Buildings and improvements	8,243,000	749,789	–	8,992,789
Equipment	<u>1,156,042</u>	<u>39,307</u>	<u>(25,843)</u>	<u>1,169,506</u>
Total capital assets, being depreciated	<u>9,907,005</u>	<u>804,216</u>	<u>(25,843)</u>	<u>10,685,378</u>
Less accumulated depreciation for:				
Improvement of sites	(292,543)	(14,905)	–	(307,448)
Buildings and improvements	(2,046,153)	(222,148)	–	(2,268,301)
Equipment	<u>(1,022,825)</u>	<u>(27,123)</u>	<u>25,839</u>	<u>(1,024,109)</u>
Total accumulated depreciation	<u>(3,361,521)</u>	<u>(264,176)</u>	<u>25,839</u>	<u>(3,599,858)</u>
Total capital assets, being depreciated, net	<u>6,545,484</u>	<u>540,040</u>	<u>(4)</u>	<u>7,085,520</u>
Governmental activities capital assets, net	<u><u>\$ 12,330,406</u></u>	<u><u>\$ 2,178,062</u></u>	<u><u>\$ (773,129)</u></u>	<u><u>\$ 13,735,339</u></u>

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2010

Depreciation expense was charged to the following functions (in thousands):

Governmental activities:

Instruction	\$	3,165
Support services – students		137
Support services – instructional staff		2,827
Support services – general administration		219
Support services – school administration		2,730
Support services – business		1,351
Operation and maintenance of plant services		4,641
Student transportation services		547
Data processing services		2,085
Operation of noninstructional services		762
Depreciation – unallocated		245,712
Total depreciation expense – governmental activities	\$	264,176

(8) Retirement, Termination and Other Postemployment Benefit Plans

The District provides a number of benefits to its employees including, retirement, termination, and postemployment health care benefits.

Retirement Plans

Qualified District employees are covered under either multiple-employer defined benefit retirement plans maintained by agencies of the State of California, or a multiple-employer defined contribution retirement benefit plan administered under a Trust. The retirement plans maintained by the State are 1) the California Public Employees' Retirement System (CalPERS), 2) the State Teachers' Retirement System (STRS), and 3) the Public Agency Retirement (PARS) which is administered under a Trust. In general, certificated employees are members of STRS and classified employees are members of CalPERS. Part-time, seasonal, temporary and other employees who are not members of CalPERS or STRS are members of PARS.

(a) California Public Employees' Retirement System (CalPERS)

Plan Description

The District contributes to a cost-sharing multiple-employer plan for Miscellaneous, and an agent multiple-employer plan for Safety, to the Public Employees' Retirement Fund (PERF), defined benefit pension plans administered by CalPERS. The plans provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Fiscal Services Division, P.O. Box 942703, Sacramento, CA 94229-2703, or by calling (888) CalPERS (225-7377).

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2010

Funding Policy

Active plan members are required to contribute 7% (miscellaneous) or 9% (safety) of their monthly salary and the District is required to contribute based on an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rates for fiscal year 2009-10 were 9.709% for miscellaneous and 30.262% for safety members. The District paid the employee's contribution of 9% for most of the safety members, and certain percentages for employees covered under other collective bargaining units. The contribution requirements of the plan members are established by state statute. The following table shows employer and employee contributions for all members for the fiscal years ended June 30, 2010, 2009, and 2008.

Schedule of Employer Contributions:

	2010		2009	2008
	Safety	Miscellaneous	Safety and Miscellaneous	Safety and Miscellaneous
District contributions:				
Regular	\$ 7,729,915	\$ 105,854,552	\$ 114,068,905	\$ 109,517,246
Annual Savings Recapture – AB 702 Credits	(4,209,073)	23,565,644	24,377,960	25,192,277
Total district contributions	3,520,842	129,420,196	138,446,865	134,709,523
Employee contributions:				
Paid by Employees	367,377	53,564,712	56,282,794	52,009,454
Paid by District	1,911,738	21,128,593	25,176,871	25,856,150
Total employee contributions	2,279,115	74,693,305	81,459,665	77,865,604
Total CalPERS contributions	\$ 5,799,957	\$ 204,113,501	\$ 219,906,530	\$ 212,575,127
Percentage of required contributions made	100%	100%	100%	100%

The District's contributions for all members for the fiscal years ended June 30, 2010, 2009, and 2008 were in accordance with the required contribution rates calculated by the CalPERS actuary for each year. Therefore, annual pension costs for these years were equal to the annual required contributions. There was no net pension obligation for the years ended June 30, 2010, 2009, and 2008.

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Notes to Basic Financial Statements

Year Ended June 30, 2010

A summary of principal assumptions and methods used to determine the ARC for the Safety plan is shown below:

Valuation Date	June 30, 2007
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	32 Years as of the Valuation Date
Asset Valuation Method	15 Year Smoothed Market
Actuarial Assumptions	
Investment Rate Return	7.75 % (net of administrative expenses)
Projected Salary Increases	3.25% to 13.15% depending on Age, Service, and type of employment
Inflation	3.00%
Payroll Growth	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00 % and an annual production growth of 0.25%

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a 30 year rolling period, which results in an amortization of about 6% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30 year amortization period.

Schedule of Funding Progress – Safety

As of June 30, 2009, the most recent actuarial valuation date, the actuarial value of plan assets was \$190,718,449 and the actuarial accrued liability for benefits was \$240,158,247. The unfunded actuarial liability was \$49,439,798. The actuarial value of assets as a percentage of the actuarial accrued liability was 79.4% (funded ratio). The covered payroll (annual payroll of active employees covered by the plan) was \$23,714,632, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 208.5%.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The Schedule of Funding Progress presented as Required Supplementary Information on page 66 following the Notes to the Basic Financial Statements, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial liability of the benefits.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2010

(b) *California State Teachers' Retirement System (STRS)*

Plan Description

The District contributes to the STRS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan and a tax-deferred supplemental program established and administered by the State Teachers' Retirement Law (Section 22000 et seq.) of the California Education Code. The Teachers' Retirement Fund (TRF) is a defined benefit pension plan under the STRS. At June 30, 2009, there were approximately 1,745 contributing employers (school districts, community college districts, county offices of education and regional occupational programs). The State of California is a nonemployer contributor to the TRF.

The Plan provides defined retirement benefits based on members' final compensation, age, and years of credited service. In addition, the retirement program provides benefits to members upon disability and to survivors upon the death of eligible members. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes a ten-year trend information showing the progress in accumulating sufficient assets to pay benefits when due. Copies of the STRS annual financial report may be obtained from California State Teachers' Retirement System, P.O. Box 15275, Sacramento, CA 95851-0275.

Funding Policy

Active plan members are required to contribute 8% of their salary (6% to the Defined Benefit (DB) Program and 2% to the Defined Benefit Supplement (DBS) Program). The District is required to contribute based on an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2009-10 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. Required contributions to STRS for fiscal years ended June 30, 2010, 2009, and 2008 are as follows:

	Percentage of applicable member earnings	2010	2009	2008
District contributions	8.25%	\$ 233,091,634	\$ 270,178,492	\$ 264,383,052
Employee contributions (including adjustments)	8.00%	239,430,919	278,131,825	268,377,194
Total STRS contributions	16.25%	\$ 472,522,553	\$ 548,310,317	\$ 532,760,246
Percentage of required contributions made		100%	100%	100%

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Notes to Basic Financial Statements

Year Ended June 30, 2010

The District's contributions for all members for the fiscal years ended June 30, 2010, 2009, and 2008 were in accordance with the required contribution rates calculated by the STRS actuary for each year.

Beginning July 1, 2003, the State's contribution to the system is 2.017% of the previous calendar year's teachers' payroll. Subsequent to achieving a fully funded System, the State expects to contribute only the amount necessary to help fund the normal cost of the current benefit program unless a subsequent unfunded obligation occurs.

(c) *Public Agency Retirement System (PARS)*

Plan Description

The Omnibus Budget Reconciliation Act of 1990 requires state and local public agencies to provide a retirement plan for all employees not covered under existing employer pension plans and/or Social Security. These employees are primarily part-time, seasonal, and temporary employees (PSTs). This Act also requires that contributions for PSTs be vested immediately and permits any split of the minimum contributions between employee and employer.

On July 1, 1992, the District joined the PARS, a multiple-employer retirement trust established by a coalition of public employers. The plan covers the District's part-time, seasonal, temporary, and other employees not covered under CalPERS or STRS, but whose salaries would otherwise be subject to Social Security tax. Benefit provisions and other requirements are established by District management based on agreements with various bargaining units. PARS is a defined contribution qualified retirement plan under Section 401 (a) of the Internal Revenue Code.

Funding Policy

The minimum total contribution is 7.5% of employees' salaries, of which the District and the employees contribute 3.75% each. The District paid the employee's contribution for certain collective bargaining units. Employees are vested 100% in both employer and employee contributions from the date of membership. When separated from employment, all employees can choose to receive their funds in lump sum or leave it on deposit until the mandatory age of 70 ½ when they must get a distribution.

District employees covered under PARS total 43,544 as of June 30, 2010. District and employee contributions to the plan for the last three fiscal years are as follows: 2009-10 – \$11,476,230, 2008-09 – \$10,191,238, and 2007-08 – \$17,127,502.

The District's contributions for all members for the fiscal years ended June 30, 2010, 2009, and 2008 were in accordance with the required contribution rates calculated by the STRS actuary for each year.

Termination Benefits

In fiscal year 2008-09, and again in 2009-10, the District offered early retirement incentive program to certificated and classified employees. The program was offered to lessen the impact of an anticipated

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Notes to Basic Financial Statements

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reduction in work force in the 2009-10 and 2010-11 school years. The retirement incentive was equal to 40% of basic salary in effect on February 24, 2009 for certificated employees, May 1, 2009 for school-based classified employees, and September 8, 2009 for central office classified employees. The basic benefit is paid in the form of an annuity with lifetime monthly payment options or fixed term monthly payments ranging from 5 to 15 years. It was purchased from Pacific Life Insurance Company and is administered by the Public Agency Retirement System (PARS). The benefits are to be funded in five (5) annual District contributions starting in 2009-10. After discounting the expected future payments to their present value, the total cost of this early retirement incentive is \$62.2 million.

The District also purchased 2 years of additional service credits for certain organizational unit or division identified employees covered by the California Public Employees' Retirement System (CalPERS). The cost of this incentive is estimated at \$1.5 million.

Postemployment Benefits – Health and Welfare for Retirees

Plan Description

The District administers a single-employer defined benefit healthcare plan. The plan provides other post-employment (health care) benefits, in accordance with collective bargaining unit agreements and Board rules. Certificated and classified employees who retire from the District receiving a STRS/CalPERS retirement allowance (for either age or disability) are eligible to continue coverage under the District-paid hospital/medical, dental and vision plans which cover both active and retired members. The following are the eligibility requirements:

- a. Those hired prior to March 11, 1984 must have served a minimum of five consecutive qualifying years immediately prior to retirement;
- b. Those hired from March 11, 1984 through June 30, 1987 must have served a minimum of ten consecutive qualifying years immediately prior to retirement;
- c. Those hired from July 1, 1987 through May 31, 1992 must have served a minimum of 15 consecutive qualifying years immediately prior to retirement, or served ten consecutive qualifying years immediately prior to retirement plus an additional previous ten years which are not consecutive.
- d. Those hired from June 1, 1992 through February 28, 2007 must have at least 80 years combined total of consecutive qualifying service and age.
- e. Those hired from March 1, 2007 through March 31, 2009 must have at least 80 years combined total of consecutive qualifying service and age. In addition, the employee must have 15 consecutive years of qualifying service immediately prior to retirement.
- f. Those hired on or after April 1, 2009 must have at least 85 years combined total of consecutive qualifying service and age. In addition, the employee must have a minimum of 25 consecutive years of qualifying service immediately prior to retirement.

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Year Ended June 30, 2010

School Police (sworn personnel) hired on or after April 1, 2009 must have at least 80 years combined total of consecutive qualifying service and age. In addition, the employee must have a minimum of 20 consecutive years of qualifying service immediately prior to retirement. In order to maintain coverage, the retirees must continue to receive a STRS/CalPERS retirement allowance and must enroll in those parts of Medicare for which they are eligible. As of July 1, 2010, approximately 36,000 retirees now meet these eligibility requirements. The plan does not issue a separate financial report.

Funding Policy

The District's contribution obligation for the fiscal year for the health and welfare benefits of District personnel, including the cost of term life insurance coverage and employee assistance for active employees and coverage under health plans for dependents and retirees, generally is subject to an aggregate contribution limit. Determination of this fiscal year contribution obligation limit occurs through discussions with the relevant collective bargaining units and recommendation by the District-wide Health and Welfare Committee, and is subject to approval by the Board of Education.

For fiscal year 2010, the District contributed \$237,265,355 to the plan for the cost of total District expenditures for health and medical benefits for retired employees. These expenditures consist of retirees' current-year insurance premiums already paid to the Health Maintenance Organizations, retirees' claims reported to the District but not yet paid, and an estimate for claims incurred but not yet reported to the District.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the plan (in thousands):

Annual required contribution	\$ 1,006,755
Interest on net OPEB obligation	123,832
Adjustment to annual required contribution	(153,437)
Annual OPEB cost (expense)	977,150
Contributions made	(237,265)
Increase in net OPEB obligation	739,885
Net OPEB obligation – beginning of year	1,653,926
Net OPEB obligation – end of year	<u><u>\$ 2,393,811</u></u>

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2010

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2010, 2009, and 2008 were as follows (in thousands):

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2010	\$ 977,150	24 %	\$ 2,393,811
6/30/2009	1,088,523	25	1,653,926
6/30/2008	1,088,523	24	832,665

Funded Status and Funding Progress

As of June 30, 2009, the most recent actuarial valuation date, the plan was substantially unfunded. The actuarial accrued liability for benefits was \$9.9 billion, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$9.9 billion. The covered payroll (annual payroll of active employees covered by the plan) was \$4.6 billion, and the ratio of the UAAL to the covered payroll was 214%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about the future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information for the most recent actuarial valuation and in future years, multi-year trend information about whether the actuarial value of plan assets, if any, is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs, as applicable, between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, if any, consistent with the long-term perspective of the calculations.

In the June 30, 2009 actuarial valuation, the actuarial method used in estimating the liability is the entry age normal, level dollar, open cost method which is based on the assumption that the Actuarial Present Value (APV) of employees' expected postretirement benefits accrue on a level basis over their expected working careers, from hire until the date of full eligibility for postretirement medical benefits. The significant assumptions used in the computation include a 5% discount rate and a healthcare cost trend of 9.25% for Kaiser/HealthNet and 9% for Anthem HMO/EPO in 2010, ultimately declining to 5% in 2019 and 2018 respectively and remaining at that level thereafter. A healthcare cost trend rate of 5% is assumed

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Notes to Basic Financial Statements

Year Ended June 30, 2010

for dental and vision. The UAAL is being amortized as a level dollar closed of projected payroll over a 30-year period. The remaining amortization period at June 30, 2010 was twenty-nine years.

(9) Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; job-related illness or injury to employees; and natural disasters. The District has established several self-insurance funds (Internal Service Funds) as follows: the Workers' Compensation Self-Insurance Fund, the Liability Self-Insurance Fund, and the Health and Welfare Benefits Fund. These funds account for the uninsured risk of loss and pay for insurance premiums, management fees, and related expenses. The District is self-insured for its Workers' Compensation Insurance Program and partially self-insured for the Health and Welfare and Liability Insurance Programs. Premium payments to Health Maintenance Organizations for medical benefits and to outside carriers for vision services, dental services, and optional life insurance are paid out of the Health and Welfare Benefits Fund.

Excess insurance has been purchased for fire loss damages, which currently provides \$1 billion coverage above a \$500,000 self-insurance retention and for general liability, which currently provides \$45 million coverage above a \$5 million self-insurance retention. No settlements exceeded insurance coverage in the last four fiscal years ended June 30, 2010.

The District has implemented an Owner Controlled Insurance Program (OCIP) covering new construction and renovation projects funded by school bonds. Under an OCIP, the District provides general liability and workers' compensation insurance coverage for construction contractors. Because contractors remove insurance costs from their bids, potential savings accrue to the District. Under the District's OCIP program, workers' compensation coverage with statutory limits and primary general liability and excess liability coverage with limits of \$100 million have been underwritten by three major insurance carriers.

The District has also purchased pollution liability insurance coverage for the construction program. Two policies protect contractors and the District from losses resulting from pollution liability related incidents occurring during construction. One policy provides optional coverage to ensure that site cleanup cost overruns are not borne by the District. The limits of coverage on the cleanup cost-cap policy are variable by specific project. The total limit available on the other policies is \$50 million.

Liabilities for loss and loss adjustment expenses under school operations workers' compensation and general liability are based on the estimated present value of the ultimate cost of settling the claims including the accumulation of estimates for losses reported prior to the balance sheet date, estimates of losses incurred but not reported, and estimates of expenses for investigating and adjusting reported and unreported losses. Such liabilities are estimates of the future expected settlements and are based upon analysis of historical patterns of the number of incurred claims and their values. Individual reserves are continuously monitored and reviewed and as settlements are made, or reserves adjusted, differences are reflected in current operations.

As of June 30, 2010, the amount of the total claims liabilities recorded for health and welfare, liability self-insurance, and workers' compensation was \$528.3 million. During the fiscal year, the District recorded workers' compensation claims liability at reduced levels as a result of a continued decline in the number of new claims filed and the effective management of claims. A number of large claims were paid from the

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Notes to Basic Financial Statements

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Liability Self-Insurance Fund, causing its estimated liability to be higher. Health and welfare claims paid in the second half of the fiscal year were lower, resulting in a lower estimated liability. Changes in the reported liabilities since July 1, 2008 are summarized as follows:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	End of Fiscal Year Liability
2009-2010				
Health and welfare benefits	\$ 53,059,000	\$ 293,134,830	\$ (308,366,830)	\$ 37,827,000
Workers' compensation	471,168,828	59,726,132	(78,496,457)	452,398,503
Liability self-insurance	27,542,480	33,194,847	(22,618,556)	38,118,771
Total	<u>\$ 551,770,308</u>	<u>\$ 386,055,809</u>	<u>\$ (409,481,843)</u>	<u>\$ 528,344,274</u>
2008-2009				
Health and welfare benefits	\$ 46,390,000	\$ 361,681,219	\$ (355,012,219)	\$ 53,059,000
Workers' compensation	479,561,962	72,195,742	(80,588,876)	471,168,828
Liability self-insurance	22,749,679	14,665,168	(9,872,367)	27,542,480
Total	<u>\$ 548,701,641</u>	<u>\$ 448,542,129</u>	<u>\$ (445,473,462)</u>	<u>\$ 551,770,308</u>

(10) Certificates of Participation, Long-Term Capital Leases, and Operating Leases

The District has entered into Certificates of Participation (COPs) for the acquisition of school sites, relocatable classroom buildings, a new administration building, furniture and equipment, and for various other construction projects as follows:

On December 9, 1997, the District issued variable rate COPs 1997 Series A in the amount of \$91,400,000. Interest is payable monthly and has ranged from 0.10% to 8.75% over the life of the COPs. Principal payments are due annually through 2017. The proceeds are to fund the construction of the Vista Hermosa (formerly known as the Belmont Learning Complex). This issue was refinanced by COPs 2010 Series A on January 27, 2010.

On June 10, 1998, the District issued COPs 1998 Series A (1993 Ambassador Refunding) in the amount of \$60,805,000. Interest is due semiannually ranging from 4.00% to 5.25%. Principal payments are due annually through 2013. The proceeds from the issuance are to finance an escrow fund to prepay the District's 1993 Refunding COPs, to fund a reserve fund, and to pay the costs associated with the issuance of the certificates. The refunding resulted in a reduction to the District's total debt service payments over the next 15 years by \$3.1 million and an economic gain of \$2.0 million. This issue was refinanced by COPs 2010 Series A on January 27, 2010.

On May 23, 2000, the District issued COPs 2000 Series A (Qualified Zone Academy Bonds Project) in the amount of \$30,446,700, a first-of-its-kind bond under a federal program that offers investors tax credits rather than interest payments. Of this amount, \$3,800,000 was issued on behalf of Fenton Avenue Charter

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School and \$3,800,000 for Vaughn Next Century Learning Center. Scheduled payments to a sinking fund are to be made annually through maturity in 2012. The proceeds from the issuance are to pay for the rehabilitation or repair of facilities and the acquisition and installation of equipment at School to Career Academy Programs school sites and at the two charter schools. This issue was partially refunded by COPs 2004 Series B in July 2004. A portion of this issue is being repaid from Measure Y funds.

On October 4, 2000, the District issued COPs 2000 Series B (Multiple Properties Project) in the amount of \$172,715,000. Interest is payable semiannually ranging from 4.00% to 5.50% with annual principal payments through 2010. The proceeds are to pay for internet connectivity, portable classrooms, air-conditioning projects, sports facility improvements, and construction at adult schools.

On November 6, 2001, the District issued COPs 2001 Series B (Administration Building Project I) in the amount of \$68,890,000. Interest is paid semiannually at 5.00%. Principal payments are due annually beginning 2024 through 2031. The proceeds are to pay for improvements at the District's new administration building. This issue was partially refunded by COPs 2004 Series A in July 2004.

On December 19, 2002, the District issued COPs 2002 Series C (Administration Building Project II) in the amount of \$9,490,000. Interest is payable semiannually ranging from 2.00% to 5.00%. Principal payments are due annually through 2031. The proceeds are to fund tenant improvements and Heating, Ventilation and Air Conditioning (HVAC) upgrades for the 12th floor and painting and lighting upgrades of the garage of the Administration Building. This issue was partially refunded by COPs 2004 Series A in July 2004.

On June 26, 2003, the District issued COPs 2003 Series B (Capital Project I) in the amount of \$31,620,000. Interest is payable semiannually ranging from 2.00% to 5.00%. Principal payments are due annually through 2028. The proceeds are used to purchase and equip a turn-key warehouse in the City of Pico Rivera. This issue was partially refunded by COPs 2004 Series A in July 2004.

On July 28, 2004, the District issued COPs 2004 Series A (Refinancing and Refunding Project I) in the amount of \$50,700,000. Interest is payable semiannually ranging from 3.00% to 5.00%. Principal payments are due annually through 2014. Proceeds are to refinance certain prior debt service payments and to refund portions of the District COPs. This advance refunding was undertaken to reduce General Fund debt service payments in fiscal years 2004-05 and 2005-06 by \$45.0 million with an increase to total debt service payments of \$17.8 million over the next ten years. This issue was partially refunded by Measure Y Series D Bonds in February 2006.

On December 13, 2005, the District issued COPs 2005 (2004-05 Qualified Zone Academy Bonds) in the amount of \$10,000,000. The zero interest tax credit bonds are used for modernizing nine schools to accommodate existing or planned academy programs that address student career pathway/higher education interests. Scheduled payments to a sinking fund are to be made annually through maturity in 2020. A portion of this issue is being repaid from Measure Y funds.

On November 15, 2007, the District issued COPs 2007 Series A (Information Technology Projects) in the amount of \$99,660,000. Interest is payable semiannually ranging from 4.00% to 5.00%. Principal payments are due annually through 2017. The proceeds are used to finance acquisition, development and

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2010

installation of the information technology systems of the District. A portion of this issue will be repaid from Measure Y funds.

On August 6, 2008, the District issued variable rate refunding COPs 2008 Series A (Administration Building Project) in the amount of \$97,530,000. Interest is payable monthly and has ranged from 0.12% to 7.30% over the life of the COPs. The interest rate on June 30, 2010 was 0.22%. Principal payments are due annually through 2024. The proceeds are to prepay all of the outstanding Series 2005A Certificates, fund a reserve account for the Series 2008A Certificates, and fund portions of reserve accounts for the 2001B and 2002C Certificates.

On August 6, 2008, the District issued variable rate refunding COPs 2008 Series B (Administration Building Project III) in the amount of \$23,420,000. Interest is payable monthly and has ranged from 0.13% to 8.00% over the life of the COPs. The interest rate on June 30, 2010 was 0.22%. Principal payments are due annually through 2031. The proceeds are to prepay all of the outstanding Series 2005B Certificates, fund a reserve account for the Series 2008B Certificates, and fund portions of reserve accounts for the 2001B and 2002C Certificates. The 2008 Series A and the 2008 Series B refunding resulted in a reduction of debt service payment of about \$10.7 million over 23 years and an economic gain of \$11.8 million.

On September 29, 2009, the District issued COPs 2009 Series A (Food Services Project) in the amount of \$40,728,200. Interest is payable semiannually at 3.92%. Principal payments are due semiannually through 2019. The proceeds are used to fund the implementation of the Cafeteria Management System (CMS) and the purchase of new equipment at the Newman Nutrition Center (NNC). A portion of this issue will be repaid from Measure Y funds.

On January 27, 2010, the District issued Refunding COPs 2010 Series A (Multiple Properties Project) in the amount of \$69,685,000. Interest is payable semiannually ranging from 1.00% to 5.00%. Principal payments are due annually through 2017. The proceeds are used to refinance the 1997 Series A Certificates and the 1998 Series A Certificates and to fund a reserve account for the Series 2010A Certificates. The refunding resulted in a reduction of debt service payments of \$1.2 million over 8 years and an economic gain of \$0.8 million.

In prior years, the District defeased certain principal amounts of its certificates of participation by placing proceeds of general obligation bonds in an irrevocable escrow fund to provide for all future debt service payments on the prior certificates of participation through the call date or maturity, as applicable. Accordingly, the escrow account assets and the liability for the defeased certificates of participation are not included in the District's financial statements. At June 30, 2010, \$118.84 million of outstanding certificates of participation are considered legally defeased.

In prior years, the District defeased certain sinking fund payments for its 2000 Certificates of Participation (Qualified Zone Academy Bonds) and its 2005 Certificates of Participation (Qualified Zone Academy Bonds) by placing general fund monies, payments from charter schools that received proceeds of the 2000 Certificates of Participation (Qualified Zone Academy Bonds), proceeds of general obligation bonds and interest earnings on all said deposits into the respective sinking fund accounts held by the respective trustees to provide for the payment of the 2000 Certificates of Participation (Qualified Zone Academy Bonds) and the 2005 Certificates of Participation (Qualified Zone Academy Bonds) at maturity. While the

LOS ANGELES UNIFIED SCHOOL DISTRICT

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District's financial statements indicate that the full principal amount of each of the 2000 Certificates of Participation (Qualified Zone Academy Bonds) and the 2005 Certificates of Participation (Qualified Zone Academy Bonds) are outstanding as of June 30, 2010, a total of \$28.04 million of accumulated sinking fund payments have been made, which amount reflects the portion of the respective certificates of participation that are considered economically defeased.

Other Leasing Arrangements

The District has entered into various lease agreements ranging from three to five years to finance the acquisition of office equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. The future minimum lease payments (principal plus interest) and the net present value of these minimum lease payments (principal only) are detailed in Note 11 – Long-Term Obligations.

The District's operating leases consist of various leased facilities and office equipment (primarily copiers). The leased facilities have varying terms ranging from less than a year to 30 years. Some leases are month to month and a few are year to year. The leases expire over the next 10 years subject to renewal option provisions.

The office equipment lease (primarily copiers) is also under various lease terms that range from less than a year to 5 years. The leases expire during the next 5 years.

The total expenditure for all operating leases amounted to \$30,646,564 in 2009-10. The future minimum commitments for noncancelable operating lease of the District as of June 30, 2010 are as follows (in thousands):

	Amount (in thousands)
Fiscal year ending:	
2011	\$ 26,161
2012	9,737
2013	6,453
2014	2,804
2015	1,910
2016-2020	8,583
2021-2025	477
	<u>\$ 56,125</u>

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Notes to Basic Financial Statements

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(11) Long-Term Obligations

The following is a summary of changes in long-term obligations for the year ended June 30, 2010 (in thousands):

	Balance, July 1, 2009	Additions	Deductions	Balance, June 30, 2010	Due Within One Year	Interest Expense
General Obligation Bonds*	\$ 8,223,575	\$ 4,331,262	\$ 440,333	\$ 12,114,504	\$ 278,180	\$ 477,454
Certificates of Participation (Note 10)**	442,655	114,184	97,820	459,019	29,356	13,387
Capital Lease Obligations	3,008	931	1,311	2,628	1,164	160
Children Center Facilities Revolving Loan	792	—	—	792	—	—
California Energy Commission Loan	663	—	224	439	222	25
Liability for Employee Benefits	234,586	88,718	98,420	224,884	17,027	—
Self-Insurance Claims (Note 9)	551,769	386,058	409,482	528,345	159,720	—
Other Postemployment Benefits (OPEB)	1,653,926	977,150	237,265	2,393,811	—	—
Arbitrage Payable	11,967	2,780	2,302	12,445	—	—
Legal Settlements	25,378	—	10,178	15,200	—	—
Total	<u>\$11,148,319</u>	<u>\$ 5,901,083</u>	<u>\$ 1,297,335</u>	<u>\$ 15,752,067</u>	<u>\$ 485,669</u>	<u>\$ 491,026</u>

* Net of unamortized premiums and discounts.

** Including unamortized premium.

Future annual payments on long-term debt obligations are as follows (in thousands):

Year Ending June 30	General Obligation Bonds			Capital Lease Obligations/ Certificates of Participation			Other Loans		Total		
	Principal	Amortization	Interest	Principal	Amortization	Interest	Principal	Interest	Principal	Amortization	Interest
2011	\$ 278,180	\$ 20,359	\$ 567,673	\$ 30,520	\$ 1,217	\$ 19,077	\$ 222	\$ 15	\$ 308,922	\$ 21,576	\$ 586,765
2012	285,200	20,392	583,847	55,256	1,279	15,502	296	6	340,752	21,671	599,355
2013	326,910	20,134	569,831	30,655	1,237	14,354	79	—	357,644	21,371	584,185
2014	326,440	17,746	554,778	31,635	1,134	13,114	79	—	358,154	18,880	567,892
2015	335,245	16,703	539,080	32,736	992	11,827	79	—	368,060	17,695	550,907
2016-2020	1,849,695	77,058	2,435,239	131,956	1,455	39,068	397	—	1,982,048	78,513	2,474,307
2021-2025	2,351,830	40,670	1,921,638	59,830	—	24,033	79	—	2,411,739	40,670	1,945,671
2026-2030	3,183,140	20,072	1,242,056	58,080	—	12,586	—	—	3,241,220	20,072	1,254,642
2031-2035	2,937,790	6,940	470,252	23,665	—	1,127	—	—	2,961,455	6,940	471,379
	<u>\$ 11,874,430</u>	<u>\$ 240,074</u>	<u>\$ 8,884,394</u>	<u>\$ 454,333</u>	<u>\$ 7,314</u>	<u>\$ 150,688</u>	<u>\$ 1,231</u>	<u>\$ 21</u>	<u>\$ 12,329,994</u>	<u>\$ 247,388</u>	<u>\$ 9,035,103</u>

The General Obligation Bonds balance of \$12,114.5 million, which includes unamortized bond premiums (net of unamortized charges) of \$240.1 million, consists of:

(a) six issuances of Proposition BB bonds:

1. Series "A" bonds, sold in July 1997 at \$356.00 million par value, of which \$18.53 million and \$133.18 million were refunded in December 2004 and July 2005, respectively. As of June 30, 2010, outstanding obligation was \$90.85 million after payment of \$12.28 million on July 1, 2009;

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2. Series "B" bonds, sold in August 1998 at \$350.00 million par value, of which \$90.93 million, \$151.50 million, and \$1.47 million were refunded in April 2002, July 2005, and October 2009, respectively. As of June 30, 2010, the liability was fully extinguished after payment of \$11.71 million on July 1, 2009;
3. Series "C" bonds, sold in August 1999 at \$300.00 million par value, of which \$70.85 million, \$14.22 million, \$124.27 million, and \$10.30 million were refunded in April 2002, December 2004, July 2005, and October 2009, respectively. As of June 30, 2010, the liability was fully extinguished after payment of \$9.50 million on July 1, 2009;
4. Series "D" bonds, sold in August 2000 at \$386.66 million par value, of which \$100.96 million, \$107.18 million and \$76.56 million were refunded in April 2002, December 2004 and July 2005, respectively. As of June 30, 2010, outstanding obligation was \$12.09 million after payment of \$11.50 million on July 1, 2009;
5. Series "E" bonds, sold in April 2002 at \$500.00 million par value, of which \$75.77 million, \$231.22 million, \$25.80 million, \$15.26 million, and \$19.79 million were refunded in December 2004, November 2006, February 2007, October 2009, and March 2010, respectively. As of June 30, 2010, outstanding obligation was \$44.84 million after payment of \$13.56 million on July 1, 2009; and
6. Series "F" bonds, sold in March 2003 at \$507.35 million par value of which \$129.51 million and \$23.81 million were refunded in January 2007 and October 2009. As of June 30, 2010, outstanding obligation was \$283.20 million after payment of \$15.20 million on July 1, 2009.

(b) seven issuances of Measure K bonds:

1. Series "A" bonds, sold in February 2003 at \$2.10 billion par value, of which \$131.94 million, \$330.15 million, \$1.12 billion, and \$53.06 million were refunded in February 2006, October 2006, January 2007, and March 2010, respectively. As of June 30, 2010, outstanding obligation was \$413.56 million after payment of \$19.68 million;
2. Series "B" bonds, sold in February 2007 at \$500.00 million par value. As of June 30, 2010, outstanding obligation was \$475.56 million after payment of \$12.46 million on July 1, 2009;
3. Series "C" bonds, sold in August 2007 at \$150.00 million par value. As of June 30, 2010, outstanding obligation was \$142.18 million after payment of \$3.50 million on July 1, 2009;
4. Series "D" bonds, sold in February 2009 at \$250.00 million par value. As of June 30, 2010, outstanding obligation was \$245.10 million after payment of \$4.90 million on July 1, 2009;
5. Series "KRY" Federally Taxable, sold in October 2009 at \$200.00 million par value. No payment was due as of June 30, 2010;
6. Series "KRY" Tax Exempt, sold in March 2010 at \$149.14 million par value. No payment was due as of June 30, 2010; and

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7. Series "KY" bonds, sold in May 2010 at \$0.86 million par value. No payment was due as of June 30, 2010.

(c) eleven issuances of Measure R bonds:

1. Series "A" bonds at \$72.63 million par value, Series "B" bonds at \$60.48 million par value, Series "C" bonds at \$50.0 million par value and Series "D" bonds at \$16.90 million par value, all sold in September 2004 and all of which, except for Series C, were used to partially and fully refund certain certificates of participation. As of June 30, 2010, liability on Series "A", Series "B", and Series "D" bonds were fully extinguished; Series "C" bonds outstanding obligation was \$43.26 million after payment of \$1.36 million on July 1, 2009;
2. Series "E" bonds, sold in August 2005 at \$400.0 million par value. As of June 30, 2010, outstanding obligation was \$339.24 after payment of \$9.23 million on July 1, 2009;
3. Series "F" and Series "G" bonds, sold in February 2006 at \$500.0 million par value and in August 2006 at \$400.0 million par value, respectively. As of June 30, 2010, outstanding obligation for Series "F" was \$463.18 million after payment of \$12.75 million on July 1, 2009. Series "G" was refunded in October 2009 for \$6.27 million. As of June 30, 2010, outstanding obligation for Series "G" was \$353.6 million after payment of \$9.0 million on July 1, 2009;
4. Series "H" bonds, sold in August 2007 at \$550.00 million par value. This was refunded in October 2009 for \$15.17 million. As of June 30, 2010, outstanding obligation was \$502.70 million after payment of \$12.09 million on July 1, 2009; and
5. Series "I" bonds, sold in February 2009 at \$550.00 million par value. As of June 30, 2010, outstanding obligation was \$539.95 million after payment of \$10.05 on July 1, 2009.
6. Series "KRY" Tax Exempt, sold in October 2009 at \$36.99 million par value and Taxable Build America bonds for \$363.01 million par value. No payment was due as of June 30, 2010.
7. Series "KRY" Tax Exempt and Series "RY" Federally Taxable Build America bonds, sold in March 2010 at \$157.17 million par value and \$477.63 million par value, respectively. No payment was due as of June 30, 2010.

(d) ten issuances of Measure Y bonds:

1. Four issuances of Measure Y bonds sold in February 2006: Series "A" bonds at \$56.79 million par value, Series "B" bonds at \$80.20 million par value, Series "C" bonds at \$210.00 million par value and Series "D" bonds at \$47.40 million par value, all of which, except for Series C and \$5.70 million of Series D, were used to partially or fully refund certain certificates of participation. As of June 30, 2010, outstanding obligations for Series "A", Series "B", Series "C", and Series "D" were \$41.50 million, \$55.50 million, \$194.54 million, and \$35.10 million after payments of \$9.90 million, \$12.60 million, \$7.90 million, and \$8.90 million, respectively, on July 1, 2009;

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2. Series "E", sold in August 2007 for \$300.00 million par value. As of June 30, 2010, outstanding obligation was \$285.27 million after payment of \$6.66 million on July 1, 2009;
3. Series "F", sold in February 2009 at \$150.00 million par value. As of June 30, 2010, outstanding obligation was \$147.20 million after payment of \$2.78 million on July 1, 2009;
4. Two issuances of Measure Y bonds sold in October 2009: Series "G" at \$5.61 million par value and Series "H" at \$318.80 million par value. Series "KRY" Taxable Build America bonds at \$806.80 million par value and Series "KRY" Tax Exempt at \$168.79 million par value. No payment was due as of June 30, 2010;
5. Series "I" Federally Taxable, Series "RY" Federally Taxable Build America, and Series "KRY" Tax Exempt, sold in March 2010 at \$3.80 million par value, \$772.96 million par value, and \$172.27 million par value. No payment was due as of June 30, 2010;
6. Series "KY" Tax Exempt bonds and Series "J-1" and Series "J-2" Qualified School Construction Federally Taxable Direct Subsidy bonds, sold in May 2010 at \$158.64 million par value, \$190.20 million par value, and \$100.00 million par value, respectively. No payment was due as of June 30, 2010.

(e) general obligation refunding bonds:

1. 2002 General Obligation Refunding issued on April 17, 2002 which refunded Proposition BB Series B, C, and D for \$258.38 million. As of June 30, 2010, outstanding balance was \$254.09 million. The refunding resulted in a reduction of debt service payments of \$12.80 million over 17 years and an economic gain of \$8.0 million;
2. 2004 Series "A-1" and "A-2" sold in December 2004 at \$219.12 million par value. As of June 30, 2010, outstanding obligation was \$217.91 million after payment of \$0.32 million on July 1, 2009. The refunding resulted in a reduction to debt service payments of \$10.60 million over 18 years and an economic gain of \$7.79 million;
3. 2005 Series "A-1" and "A-2" sold in July 2005 at \$467.68 million par value, 2006 Series "A" sold in February 2006 at \$132.33 million par value, which are still outstanding as of June 30, 2010. The 2005 Series "A-1" and "A-2" refunding resulted in a reduction to debt service payments of \$38.40 million over 20 years and an economic gain of \$24.16 million. The 2006 Series "A" refunding resulted in a reduction to debt service payments of \$6.35 million over 13 years and an economic gain of \$4.20 million;
4. 2006 Series "B" sold in November 2006 at \$574.91 million par value. As of June 30, 2010, outstanding obligation was \$560.80 million after payment of \$1.17 million on July 1, 2009. The refunding resulted in a reduction to debt service payments of \$29.33 million over 21 years and an economic gain of \$18.97 million;
5. 2007 Series "A-1" and "A-2" sold in January 2007 at \$1.29 billion par value. As of June 30, 2010, outstanding obligation was \$1.28 billion after payment of \$3.09 million on July 1,

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2009. The refunding resulted in a reduction to debt service payments of \$82.11 million over 21 years and an economic gain of \$46.23 million;

6. 2007 Series "B" sold in February 2007 at \$24.85 million par value, all of which were used to partially refund certain general obligation bonds. As of June 30, 2010, outstanding obligation was \$24.65 million. The refunding resulted in a reduction to debt service payments of \$1.80 million over 12 years and an economic gain of \$1.20 million;
7. 2009 New Refunding Bonds Series "A" sold in October 2009 for \$74.77 million par value. No principal payment was due as of June 30, 2010. The refunding resulted in a reduction to debt service payments of \$2.10 million over 9 years and an economic gain of \$1.36 million.
8. 2010 New Refunding Bonds Series "A" sold in March 2010 for \$74.99 million par value. No principal payment due as of June 30, 2010. The refunding resulted in a reduction to debt service payments of \$2.43 million over 5 years and an economic gain of \$2.24 million.

In prior years, the District defeased certain principal amounts of its general obligation bonds by placing proceeds of the new bonds in an irrevocable escrow fund to provide for all future debt service payments on the old bonds. Accordingly, the escrow account assets and the liability for the defeased general obligation bonds are not included in the District's financial statements. At June 30, 2010, \$2.46 billion of outstanding certificates of participation are considered legally defeased.

The Children Center Facilities revolving loan represents loan proceeds from the State Child Development Revolving Fund for the purchase of relocatable buildings, sites and site improvements for child care facilities. The loan, which does not incur interest charges, must be repaid in ten years. Annual repayment will begin when the full amount of the loan is received.

The California Energy Commission has agreed to provide the District with State funding of up to \$8 million (at a 3.95% annual interest rate) of which \$1.32 million was received in fiscal year 2004-05 and \$0.06 million, in fiscal year 2005-06. The principal and interest will be repaid in its entirety through energy cost avoidance that the District intends to achieve from its energy project. The project involves use of energy efficient equipment, certain building shell components and improved methods of lighting and lighting controls.

The Arbitrage Payable balance reflects amounts due to the United States Treasury in order to comply with Internal Revenue Code Section 148(f). When the District issues tax-exempt debt, IRS regulations limit the yield that the District can earn on the bond proceeds. If the District earns an amount in excess of the bond yield and does not qualify for a spending exception, the District must remit the excess earnings to the US Treasury. Payments equal to 90% of the calculated excess earnings are due on each fifth anniversary of a bond's issuance date. When a bond issue is retired, all of the remaining excess earnings must be remitted.

The Legal Settlements balance of \$15.2 million represents estimated liabilities on projected settlement of legal cases that are pending at the end of the fiscal year.

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(12) Interfund Transactions

(a) *Interfund Receivables/Payables (Due to/from Other Funds)*

Interfund receivables/payables are eliminated on the government-wide statement of net assets but are reported on the fund financial statements. These consist of borrowings between funds to cover temporary cash insufficiencies and permit payment of obligations. Interfund receivables and payables at June 30, 2010 (in thousands) are as follows:

<u>Fund Group</u>	<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General:	Unrestricted	\$ 25,300	\$ —
	Total General	25,300	—
Special Revenue:	Cafeteria	—	15,300
	Child development	—	10,000
	Total Special Revenue	—	25,300
	Total Interfund Receivables/Payables	<u>\$ 25,300</u>	<u>\$ 25,300</u>

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(b) *Interfund Transfers*

Interfund transfers are eliminated on the government-wide statement of activities but are reported on the fund financial statements. These consist of transfers for exchange of services or reimbursement of expenditures. In addition, interfund transactions are also made to move revenue collected in one fund to another fund where the resources are spent or accounted for, in accordance with budgetary authorization, including amounts provided as matching funds or for debt service. Transfers between funds for the year ended June 30, 2010 were as follows (in thousands):

From	To	Purpose	
General	Child Development	Child development support	\$ 165
General	Health & Welfare	Medicare Part D subsidy	12,629
General	Adult Education	Adult education apportionment	168,282
General	Capital Services	Debt service	30,993
General	Cafeteria	Cafeteria subsidy	12,210
General	Capital Facilities	Capital facilities support	83
Special Reserve	Capital Services	Debt service	73,100
Special Reserve	General	Funding for new financial system	5,028
Special Reserve	General	Funding for capital expenditures	57,409
Special Reserve	Building – Bond Proceeds	Reimbursement of capital expenditures	1,557
Special Reserve	Building – Measure R	Reimbursement of capital expenditures	14,298
Special Reserve	Building – Measure K	Reimbursement of capital expenditures	629
Special Reserve	County School Facilities	Reimbursement of capital expenditures	100
Special Reserve	CSF – Prop 55	Reimbursement of capital expenditures	2,232
Special Reserve	Cafeteria	Funding for capital expenditures	11,803
Special Reserve – CRA	General	Reimbursement of major maintenance expenditures	4,003
Special Reserve – CRA	Capital Services	Debt service	325
Capital Facilities	Capital Services	Debt service	12,158
Capital Facilities	Building – Measure K	Reimbursement of capital expenditures	4
SSBldg Lease/Purchase	Building – Bond Proceeds	Reimbursement of capital expenditures	118
SSBldg Lease/Purchase	County School Facilities	Reimbursement of capital expenditures	104
SSBldg Lease/Purchase	CSF – Prop 55	Reimbursement of capital expenditures	7
SSBldg Lease/Purchase	SSBldg Lease/Purchase	Reimbursement of capital expenditures	(29)
County School Facilities	Deferred Maintenance	Reimbursement of capital expenditures	857
County School Facilities	Special Reserve	Reimbursement of capital expenditures	129
County School Facilities	Building – Measure R	Reimbursement of capital expenditures	3,086
County School Facilities	Building – Measure K	Reimbursement of capital expenditures	1,691
County School Facilities	Building – Bond Proceeds	Reimbursement of capital expenditures	4,998
County School Facilities	CSF – Prop 47	Reimbursement of capital expenditures	734
County School Facilities	CSF – Prop 55	Reimbursement of capital expenditures	419
County School Facilities	Capital Facilities	Reimbursement of capital expenditures	53
County School Facilities	SSBldg Lease/Purchase	Reimbursement of capital expenditures	45
CSF – Prop 47	Building – Bond Proceeds	Reimbursement of capital expenditures	261
CSF – Prop 47	Building – Measure K	Reimbursement of capital expenditures	1,126
CSF – Prop 55	Building – Bond Proceeds	Reimbursement of capital expenditures	1,753
CSF – Prop 55	Building – Measure K	Reimbursement of capital expenditures	4,637
CSF – Prop 55	Building – Measure R	Reimbursement of capital expenditures	4,753
CSF – Prop 55	County School Facilities	Reimbursement of capital expenditures	293
CSF – Prop 1D	Building – Bond Proceeds	Reimbursement of capital expenditures	6,277
CSF – Prop 1D	Building – Measure R	Reimbursement of capital expenditures	4,524
CSF – Prop 1D	Building – Measure K	Reimbursement of capital expenditures	551
CSF – Prop 1D	County School Facilities	Reimbursement of capital expenditures	526
CSF – Prop 1D	CSF – Prop 55	Reimbursement of capital expenditures	370
Adult Education	General	ROC subsidy	10,600
Child Development	General	Fund balance transfer	853
Cafeteria	Capital Services	Debt service	2,482
Building – Measure R	Building – Bond Proceeds	Reimbursement of capital expenditures	4,714
Building – Measure R	County School Facilities	Reimbursement of capital expenditures	7,229
Building – Measure R	CSF – Prop 55	Reimbursement of capital expenditures	520

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Transfers between funds for the year ended June 30, 2010 (continued) (in thousands):

From	To	Purpose	
Building – Measure R	CSF – Prop 1D	Reimbursement of capital expenditures	\$ 2,480
Building – Measure R	Building – Measure K	Reimbursement of capital expenditures	158
Building – Measure R	Building – Measure Y	Reimbursement of capital expenditures	787
Building – Measure R	Special Reserve	Reimbursement of capital expenditures	1,587
Building – Measure R	SSBldg Lease/Purchase	Reimbursement of capital expenditures	33
Building – Measure Y	Adult Education	Reimbursement of capital expenditures	2
Building – Measure Y	Capital Services	Debt service	4,073
Building – Measure Y	Building – Measure R	Reimbursement of capital expenditures	1,675
Building – Measure Y	Building – Measure K	Reimbursement of capital expenditures	3,798
Building – Measure Y	Building – Bond Proceeds	Reimbursement of capital expenditures	1,452
Building – Measure Y	County School Facilities	Reimbursement of capital expenditures	512
Building – Measure Y	CSF – Prop 1D	Reimbursement of capital expenditures	807
Building – Measure K	County School Facilities	Reimbursement of capital expenditures	50
Building – Measure K	Special Reserve	Reimbursement of capital expenditures	94
Building – Measure K	Building – Measure R	Reimbursement of capital expenditures	175
Building – Measure K	Building – Measure Y	Reimbursement of capital expenditures	415
Building – Measure K	Building – Bond Proceeds	Reimbursement of capital expenditures	751
Building – Bond Proceeds	General	Reimbursement of capital expenditures	76
Building – Bond Proceeds	Deferred Maintenance	Reimbursement of capital expenditures	84
Building – Bond Proceeds	Building – Measure R	Reimbursement of capital expenditures	36,480
Building – Bond Proceeds	Building – Measure K	Reimbursement of capital expenditures	5,484
Building – Bond Proceeds	Building – Measure Y	Reimbursement of capital expenditures	15
Building – Bond Proceeds	County School Facilities	Reimbursement of capital expenditures	7,689
Building – Bond Proceeds	CSF – Prop 47	Reimbursement of capital expenditures	814
Building – Bond Proceeds	CSF – Prop 55	Reimbursement of capital expenditures	2,432
Building – Bond Proceeds	CSF – Prop 1D	Reimbursement of capital expenditures	417
Building – Bond Proceeds	SSBldg Lease/Purchase	Reimbursement of capital expenditures	82
Building – Bond Proceeds	Special Reserve	Reimbursement of capital expenditures	68
Building – Bond Proceeds	Capital Facilities	Reimbursement of capital expenditures	195
Capital Services	General	Unused funds	904
Capital Services	Special Reserve	Unused funds	1,424
Capital Services	County School Facilities	Unused funds	3,593
Capital Services	SSBldg Lease/Purchase	Unused funds	2,975
Sub-total			552,270
Adult Education	General	Transfer of support costs	3,599
Cafeteria	General	Transfer of support costs	7,687
Child Development	General	Transfer of support costs	344
Total			<u>\$ 563,900</u>

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(13) Fund Equity

The following is a summary of reserved, designated and undesignated fund balances at June 30, 2010 (in thousands):

	General Fund	District Bonds	Other Governmental Funds
Reserved for:			
Revolving and imprest funds	\$ 2,802	\$ 3,800	\$ 114
Inventories	7,968	—	5,195
State fiscal stabilization fund	48,904	—	—
Medi-Cal billing option	15,462	—	—
Cops More program	35	—	—
School Mental Health-Medi-Cal Rehabilitation	4,217	—	—
English language acquisition program, teacher training and student assistance	4,304	—	—
Special education	5,803	—	—
Quality education investment act (QEIA)	98,814	—	—
California energy comission loan expenditures	397	—	—
Ongoing & major Maintenance Account	15,962	—	—
Certificates of participation – (acquisition accounts) proceeds	23,413	—	—
Cognitive behavioral intervention therapy	470	—	—
Specially funded programs	76,211	—	—
Total reserved fund balances	304,762	3,800	5,309
Designated for			
Subsequent year expenditures	173,227	3,488,803	788,781
Economic uncertainties	65,376	—	—
Total designated fund balances	238,603	3,488,803	788,781
Undesignated fund balances	119,542	—	705,744
Total fund balances	\$ 662,907	\$ 3,492,603	\$ 1,499,834

Reserved fund balances represent those portions not available for expenditure or those portions legally segregated for a specific future use.

Designated fund balances represent those portions segregated to indicate tentative plans for financial resource utilization in a future period.

Undesignated fund balances represent the portion available for appropriation in the next fiscal year.

(14) Contingencies

(a) General

The District has been named as a defendant in numerous lawsuits. These seek, among other things, to require the District to reinstate terminated and laid-off employees, to remedy alleged noncompliance regarding special education schools, and to change existing instructional programs, pupil integration methods, and employment and administration procedures. In certain instances, monetary damages are sought including claims for retroactive pay. Based on the opinion of counsel, management

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believes that the ultimate outcome of such lawsuits will not have a material effect on the District's financial condition.

(b) Grants

The District has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under the terms of the grants, management believes that any required reimbursement will not be material to the financial statements.

(c) Construction Contracts

The District has entered into various contracts for the construction of facilities throughout the campuses. During fiscal year 2009-10 the District entered into approximately 192 contracts with a combined value of \$819.2 million. The durations of the contracts range from four weeks to three years.

(15) Subsequent Events

On July 1, 2010 the District issued \$540 million of Tax and Revenue Anticipation Notes. The District will make the required deposits of \$189.0 million on January 31, 2011, \$189.0 million on March 31, 2011, and \$172.8 million on April 30, 2011 in anticipation of repayment of TRANS on June 30, 2011. The TRANS carried a coupon of 2.00% and had an arbitrage yield of 0.67%.

Cafeteria Fund

In June 2010, the District received a letter from the CDE (the "June 2010 CDE Cafeteria Letter") which stated that, among other things, certain expenditures relating to administrative support were inappropriately charged to the District's Cafeteria Fund (the "Cafeteria Fund") in Fiscal Years 2004-05 and 2007-08 and directed the District to immediately transfer \$54.9 million to the Cafeteria Fund to correct these alleged unallowable expenditures for those fiscal years. Further, the CDE directed the District's Office of the Inspector General (the "OIG") to quantify the amount of similar expenditures in Fiscal Years 2005-06, 2006-07, and 2009-10. The CDE indicated their findings were based upon audits performed by the OIG for Fiscal Years 2004-05 and 2007-08.

Subsequently, CDE sent an addendum to the District in July 2010 requesting that the District, among other things, provide written verification of the District's transfer of \$54.9 million from the General Fund to the Cafeteria Fund, direct the OIG to quantify the amount of money that the District is alleged to owe the Cafeteria Fund from Fiscal Years 2005-06 through 2009-10, implement appropriate cost allocation methods for Fiscal Year 2010-11, as outlined in reports of the OIG, and provide verification that the District's corrective actions to the Cafeteria Fund have been implemented permanently. In November 2010, the OIG sent a letter to CDE stating that, due to the OIG's statutory duty to report to the District Board, the CDE could not direct the OIG to undertake additional audits of the Cafeteria Fund. In addition, the OIG believes that the methodology used by the CDE to calculate the amount of \$54.9 million mischaracterized the findings of the OIG's audit and inappropriately reached conclusions concerning the amount of money owed to the Cafeteria Fund in the subject years.

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Notes to Basic Financial Statements

Year Ended June 30, 2010

The District informed the CDE that any required reimbursement to the Cafeteria Fund should take into account the District's prior years' General Fund subsidy to the Cafeteria Fund and prior years' indirect cost allocations to the program. Nevertheless, on December 7, 2010, the District received a letter from CDE (the "December 2010 CDE Cafeteria Letter") indicating that the District had not submitted acceptable corrective action documents to the CDE regarding the CDE's requests. The CDE contends that the amount and timing of the District's prior transfers and the District's proposed cost allocation methodology do not satisfy the CDE's requests. In addition, the December 2010 CDE Cafeteria Letter stated that the CDE disagreed with the OIG's contention that additional involvement by the OIG with respect to verification of the District's corrective actions for the Fiscal Year 2004-05 and 2007-08 OIG audit financings is beyond CDE's authority. The December 2010 CDE Cafeteria Letter requests that the District submit acceptable corrective action documents to it by January 6, 2011 and states that the CDE will withhold the District's meal reimbursement payments if the District fails to satisfy such request. The District is presently unable to determine the financial impact on the District which may occur as a result of the CDE's actions, particularly as a result of the duration of any withholding of reimbursements due to the District.

The District continues to contest the CDE's contention that the Cafeteria Fund was overcharged \$54.9 million. Further, the District does not believe the CDE has taken into account the full amount of the General Fund subsidy. The District is currently in discussions with CDE about this matter. The District expects to submit additional documents to provide additional responses and clarification as requested in the December 2010 CDE Cafeteria Letter. The District is unable to determine the financial impact which may occur upon final resolution of this matter. Accordingly, the \$54.9 million potential liability or any potential liability resulting from an audit of fiscal years 2005-06, 2006-07, and 2009-10 have not been reflected in the financial statements as of June 30, 2010.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Required Supplementary Information
Year Ended June 30, 2010
(in thousands)

1. Schedule of Funding Progress for California Public Employees' Retirement System (CalPERS) - Safety:

Valuation Date	Accrued Liability	Actuarial Value of Assets (AVA)	Market Value of Assets (MVA)	Unfunded Liability (UL)	Funded Ratio		Annual Covered Payroll	UL as a percentage of Payroll
					AVA	MVA		
06/30/07	\$ 201,054	\$ 166,134	\$ 193,132	\$ 34,921	82.6%	96.1%	\$ 19,913	175.4%
06/30/08	219,066	181,002	184,911	38,064	82.6	84.4	22,832	166.7
06/30/09	240,158	190,718	139,579	49,440	79.4	58.1	23,715	208.5

2. Schedule of Funding Progress for Postemployment Healthcare Benefits:

Actuarial Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Liability (Entry Age Normal) (AAL)	Unfunded Actuarial Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
6/30/2007	\$ —	\$ 10,563,623	\$ 10,563,623	0%	\$ 4,609,494	229 %
6/30/2009	—	9,925,788	9,925,788	0	4,628,914	214

Note: The District elected for prospective implementation of GASB Statement No. 45 which became effective in Fiscal Year 2007-2008. Accordingly, comparative data for prior years is not available. Three-year trend information will be presented in future years.

See accompanying independent auditor's report.

APPENDIX D

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

This Appendix D contains only a brief summary of certain of the terms of the Lease Agreement, the Trust Agreement, the Site Lease and the Assignment Agreement and a full review should be made of the entire Official Statement, including the cover page and the appendices thereto. All statements contained in this Appendix D are qualified in their entirety by reference to the entire Official Statement, including the cover page and the appendices thereto. Terms used herein but not defined herein will be as defined in the Official Statement and the Lease Agreement, the Trust Agreement, the Site Lease and the Assignment Agreement. References to and summaries of provisions of the documents referred to in the Lease Agreement, the Trust Agreement, the Site Lease and the Assignment Agreement do not purport to be complete and such references are qualified in their entirety by reference to the complete provisions of such documents.

DEFINITIONS

The following are definitions of certain terms used in this Appendix D - "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" or elsewhere in this Official Statement:

"Additional Payments" means all costs and expenses incurred by the District and the Corporation in complying with the provisions of the Trust Agreement, including without limitation payment of all Delivery Costs (to the extent not paid from amounts on deposit in the Delivery Costs Fund), compensation, reimbursable expenses and fees due to the Trustee, all costs and expenses of auditors, engineers, counsel and accountants and any amounts required to be rebated to the federal government.

"Assignment Agreement" means the Assignment Agreement, dated as of the date hereof, by and between the Trustee and the Corporation, and any duly authorized and executed amendments thereto.

"Available Moneys" means (a) the proceeds of any obligations issued or incurred to refund the Certificates, (b) insurance proceeds or a condemnation award paid directly to the Trustee, (c) investment income derived from the investment of moneys described in clauses (a) and (b) hereof, or (d) moneys of the District which have been transferred to and on deposit with the Trustee, for a period of not less than one hundred twenty-three (123) days during which no general assignment for the benefit of creditors of the District or by or against the District has been made under debtor and creditor law in the State, or no petition has been filed by or against the District under the United States Bankruptcy Code, as amended from time to time, or if such petition has been filed it has been dismissed during such one hundred and twenty-three (123) day period.

"Business Day" means any day of the year other than Saturday or Sunday or any other day on which banks in New York, New York or Los Angeles, California are not authorized or obligated by law or executive order to close and on which the New York Stock Exchange is not closed.

"Certificate of Completion" means the certificate of a District Representative certifying that a Project has been completed and that all Project Costs related to such Project have been paid.

"Certificate of the District" means an instrument in writing signed by a District Representative. Such certificate will include (a) a statement that, in the opinion of the signer, he or she has made or caused to be made such examination or investigation as is necessary to enable the signatory to express an informed opinion as to what he or she is certifying to and (b) a statement as to whether, in the opinion of the signer, the agreement, condition, covenant or term being certified to has been complied with.

“Certificate of the Corporation” means an instrument in writing signed by a Corporation Representative. Such certificate will include (a) a statement that, in the opinion of the signer, he or she has made or caused to be made such examination or investigation as is necessary to enable the signatory to express an informed opinion as to what he or she is certifying to and (b) a statement as to whether, in the opinion of the signer, the agreement, condition, covenant or term being certified to has been complied with.

“Certificates” means, collectively, the Taxable Series B-1 Certificates and the Series B-2 Certificates to be executed and delivered pursuant hereto.

“Certificate Year” will have the meaning ascribed thereto in the related Tax Certificate.

“Closing Date” means the day when the Certificates, duly executed by the Trustee, are delivered to the Underwriters thereof.

“Code” means the Internal Revenue Code of 1986, as amended, and the regulations issued thereunder, as the same may be amended from time to time, and any successor provisions of law. Reference to a particular section of the Code will be deemed to be a reference to any successor to any such section.

“Completion Date” means the date of completion of the Project, as evidenced by the filing by the District with the Trustee of a Certificate of Completion.

“Continuing Disclosure Certificate” means the Continuing Disclosure Certificate executed by the District dated the date of the execution and delivery of the Certificates, as amended from time to time in accordance with the terms thereof.

“Corporation” means the LAUSD Financing Corporation, a California nonprofit public benefit corporation, and its successors and assigns.

“Corporation Representative” means the President, the Vice President, the Treasurer or the Secretary of the Corporation, or any person authorized to act on behalf of the Corporation under or with respect to the Lease Agreement.

“Debt Service Reserve Fund” means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

“Debt Service Reserve Requirement” means, with respect to a Series of Certificates, as of the date of calculation as provided in the Trust Agreement, the least of (1) the maximum aggregate annual Lease Payments related to a Series of Certificates payable under the Lease Agreement with respect to such Series of Certificates during then-current and all remaining Certificate Years the Certificates of such Series are to remain Outstanding, (2) 125% of the average annual aggregate Lease Payments payable under the Lease Agreement with respect to such Series of Certificates for then-current and any remaining Certificate Years the Certificates of such Series are to remain Outstanding, or (3) 10% of the principal amount evidenced by such Series of Certificates; provided, however, that if the related Series of Certificates have original issue discount or premium that exceeds two percent (2%) of the stated principal amount due at maturity including any original issue premium attributable exclusively to underwriters’ compensation, the initial offering prices to the public will be used in lieu of the stated principal amount for purposes of the 10% limitation. The initial Debt Service Reserve Requirement for the Taxable Series B-1 Certificates is \$2,101,885.90, which will be funded with a portion of the proceeds of the Taxable Series B-1 Certificates. The initial Debt Service Reserve Requirement for the Series B-2

Certificates is \$6,476,382.52, which will be funded with a portion of the proceeds of the Series B-2 Certificates.

“Delivery Costs” means and includes all items of expense directly or indirectly payable by or reimbursable to the District or the Corporation relating to the execution and delivery of the Certificates, including but not limited to underwriting costs, title insurance, filing and recording costs, settlement costs, printing costs, word processing costs, reproduction and binding costs, initial fees and charges of the Trustee, including its first annual administration fee and the fees of its counsel, legal fees and charges, financing and other professional consulting fees, costs of rating agencies or credit ratings, fees for execution, transportation and safekeeping of the Certificates and charges and fees in connection with the foregoing.

“Delivery Costs Fund” means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

“District” means the Los Angeles Unified School District, a school district organized and existing under the Constitution and laws of the State, and its successors and assigns.

“District Representative” means the Chief Financial Officer or the Controller of the District, or a person authorized by the Chief Financial Officer or the Controller to act on behalf of the District under or with respect to the Trust Agreement.

“Eligible Securities” means (1) Non-callable obligations of, or obligations fully and unconditionally guaranteed as to the timely payment of principal and interest by, the United States or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the United States. These include, but are not limited to:

- U.S. Treasury Obligations
All direct or fully guaranteed obligations
- Farmers Home Administration
Certificates of beneficial ownership
- General Services Administration
participation certificates
- U.S. Maritime Administration
Guaranteed Title XI financing
- Small Business Administration
Guaranteed participation certificates
Guaranteed pool certificates
- Government National Mortgage Association (GNMA)
GNMA - guaranteed mortgage-backed securities
GNMA - guaranteed participation certificates
- U.S. Department of Housing and Urban Development
Local authority bonds

- Washington Metropolitan Area Transit Authority
Guaranteed transit bonds
- State and Local Government Series
- Veterans Administration
Guaranteed REMIC Pass-through certificates

(2) Non-callable obligations of government-sponsored agencies that are not backed by the full faith and credit of the U.S. Government. These include, but are not limited to:

- Federal Home Loan Mortgage Corp. (FHLMC)
Debt Obligations
- Farm credit System (Formerly: Federal Land Banks, Intermediate Credit Banks, and Banks for Cooperatives)
Consolidated Systemwide bonds and notes
- Federal Home Loan Banks (FHL Banks)
Consolidated debt obligations
- Federal National Mortgage Association (FNMA)
Debt Obligations
- Student Loan Marketing Association (SLMA)
Debt obligations
- Resolution Funding Corp. (REFCORP)
Debt obligations
- U.S. Agency for International Development (U.S. A.I.D.)
Guaranteed Notes (must mature at least 4 business days before the appropriate payment date)

(3) Certain stripped securities where the principal-only and interest-only strips are derived from non-callable obligations issued by the U.S. Treasury, and REFCORP securities stripped by the Federal Reserve Bank of New York. (No custodial receipts, i.e. CATs, TIGERS, unit investment trusts and mutual funds, etc. will be permitted).

“Event of Default” means an event of default as defined in each of the Lease Agreement and Trust Agreement.

“Facility” means, as of any date, the improvements comprising a portion of the Property leased by the Corporation to the District pursuant to the Lease Agreement.

“Fiscal Year” means the fiscal year of the District commencing July 1 of each calendar year and ending June 30 of the next calendar year.

“Independent Appraiser” means a qualified appraiser who is not an employee of the Corporation, the Trustee or the District.

“Interest Payment Date” means June 1 and December 1 of each year, commencing June 1, 2011, with respect to the interest payments evidenced by the Certificates so long as any Certificates remain Outstanding.

“Lease Agreement” means the Lease Agreement, dated the date hereof, between the District and the Corporation, and any authorized and executed amendments thereto.

“Lease Deposit Date” means three Business Days preceding any Lease Payment Date.

“Lease Payment” means any payment required to be paid by the District to the Corporation pursuant to the Lease Agreement and set forth in Exhibit A thereto.

“Lease Payment Accounts” means, collectively, the Series B-1 Lease Payment Account and the Series B-2 Lease Payment Account.

“Lease Payment Date” means each June 1 and December 1, commencing June 1, 2011.

“Lease Payment Fund” means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

“Moody’s” means Moody’s Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, and, if such corporation will for any reason no longer perform the function of a securities rating agency, “Moody’s” will be deemed to refer to any other nationally recognized rating agency designated by the District.

“Net Proceeds” means any proceeds of insurance carried pursuant to the Lease Agreement, performance bonds, or taking by eminent domain or condemnation paid with respect to the Property remaining after payment therefrom of any expenses (including attorneys’ fees) incurred in the collection thereof.

“Net Proceeds Fund” means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

“Outstanding,” when used as of any particular time with respect to the Certificates, means (subject to the provisions of the Trust Agreement) all Certificates theretofore executed and delivered by the Trustee under the Trust Agreement except:

(1) Certificates theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;

(2) Certificates for the payment or prepayment of which funds or Eligible Securities, together with interest earned thereon, in the necessary amount will have theretofore been deposited with the Trustee (whether upon or prior to the maturity or prepayment date of such Certificates) pursuant to the Trust Agreement, provided that, if such Certificates are to be prepaid prior to maturity, notice of such prepayment will have been given as provided in the Trust Agreement or provision satisfactory to the Trustee shall have been made for the giving of such notice; and

(3) Certificates in lieu of or in exchange for which other Certificates shall have been executed and delivered by the Trustee pursuant to the Trust Agreement.

“Owner” or “Certificate Owner” or “Owner of a Certificate,” or any similar term, when used with respect to a Certificate, means the person in whose name such Certificate is registered on the Certificate Register.

“Permitted Encumbrances” means, with respect to the Property, as of any particular time: (i) liens for general *ad valorem* taxes and assessments, if any, not then delinquent, or which the District may permit to remain unpaid; (ii) the Assignment Agreement; (iii) the Lease Agreement; (iv) the Site Lease, (v) any right or claim of any mechanic, laborer, materialman, supplier or vendor filed or perfected in the manner prescribed by law; (vi) ground leases, judgment liens in favor of the District, easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record on the related Closing Date; and (vii) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions established following the date of recordation of the Lease Agreement and to which the Corporation and the District consent in writing.

“Permitted Investments” means any of the following that at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein:

1. Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Treasury Department) or obligations the timely payment of principal of and interest on which are fully and unconditionally guaranteed by the United States of America.
2. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):
 - a. Farmers Home Administration (FmHA) certificates of beneficial ownership
 - b. Federal Housing Administration debentures (FHA)
 - c. General Services Administration participation certificates
 - d. Government National Mortgage Association (GNMA or “Ginnie Mae”) GNMA-guaranteed mortgage-backed bonds and GNMA-guaranteed pass-through obligations (participation certificates)
 - e. U.S. Maritime Administration guaranteed Title XI financing
 - f. U.S. Department of Housing and Urban Development (HUD) project notes and local authority bonds
3. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself):
 - a. Federal Home Loan Bank System senior debt obligations (consolidated debt obligations)

- b. Federal Home Loan Mortgage Corporation (FHLMC or “Freddie Mac”) Participation Certificates (Mortgage-backed securities) and senior debt obligations
 - c. Federal National Mortgage Association (FNMA or “Fannie Mae”) Mortgage-backed securities and senior debt obligations (excluded are stripped mortgage securities that are valued greater than par on the portion of unpaid principal.)
 - d. Student Loan Marketing Association (SLMA or “Sallie Mae”) senior debt obligations
 - e. Resolution Funding Corp. (REFCORP): Only the interest component of REFCORP strips that have been stripped by request to the Federal Reserve Bank of New York in book-entry form are acceptable.
 - f. Farm Credit System consolidated system-wide bonds and notes
4. Money market mutual funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by Standard & Poor’s of “AAAm-G,” “AAAm,” or “AA-m” and if rated by Moody’s, “Aaa,” “Aa1,” or “Aa2,” including funds for which the Trustee or its affiliates provide investment advisory or other management services or serve as investment administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (i) the Trustee or an affiliate of the Trustee receives fees from funds for services rendered, (ii) the Trustee collects fees for services rendered pursuant to the Trust Agreement, which fees are separate from the fees received from such funds, and (iii) services performed for such funds and pursuant to the Trust Agreement may at times duplicate those provided to such funds by the Trustee or an affiliate of the Trustee.
 5. Certificates of deposit secured at all times by collateral described in (1) and/or (2) above. Certificates of deposit must have a five year or less maturity. Such certificates must be issued by commercial banks, including the Trustee and its affiliates, savings and loan associations or mutual savings banks whose short term obligations are rated “A-1”+ or better by Standard & Poor’s and “Prime-1” by Moody’s.

The collateral must be held by a third party and the Trustee must have a perfected first security interest in the collateral.
 6. Certificates of deposit (including those placed by a third-party pursuant to an agreement between the District and the Trustee), time deposits, interest bearing deposits, overnight bank deposits, interest bearing money market accounts, trust funds, trust accounts), savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BIF and SAIF including those of the Trustee or its affiliates.
 7. Investment agreements, including guaranteed investment contracts, approved by the rating agencies then rating the Certificates.
 8. Commercial paper rated “Prime-1” by Moody’s and “A-1+” or better by Standard & Poor’s.

9. Bonds or notes issued by any state or municipality that are rated by Moody's and Standard & Poor's in one of the two highest long-term rating categories assigned by such agencies.
10. Federal funds, bank deposits or bankers' acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and non-guaranteed obligation rating of "Prime-1" or "A3 " or better by Moody's and "A-1+" by Standard & Poor's or are fully FDIC-insured, including those of the Trustee and its affiliates.
11. Repurchase agreements (including those of the Trustee or any of its affiliates) that provide for the transfer of securities from a dealer bank or securities firm (seller/borrower) to the Trustee (buyer/lender), and the transfer of cash from the Trustee to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the Trustee in exchange for the securities at a specified date. Repurchase agreements (each a "repo" and, collectively, "repos") must satisfy the following criteria:
 - a. Repos must be between the Trustee and the following dealers or banks:
 - (1) Primary dealers on the Federal Reserve reporting dealer list which fall under the jurisdiction of the SIPC and that are rated A or better by Standard & Poor's and Moody's, or
 - (2) Banks rated "A" or above by Standard & Poor's and Moody's.
 - b. The written repo contract must include the following:
 - (1) Securities that are acceptable for transfer are: (a) Direct U.S. governments, and (b) Federal agencies backed by the full faith and credit of the U.S. government (and FNMA & FHLMC)
 - (2) The term of the repo may be up to 30 days
 - (3) The collateral must be delivered to the Trustee (if Trustee is not supplying the collateral) or third party acting as agent for the Trustee (if the Trustee is supplying the collateral) before/simultaneous with payment (perfection by possession of certificated securities).
 - (4) The Trustee has a perfected first priority security interest in the collateral.
 - (5) Collateral is free and clear of third-party liens and in the case of SIPC brokers, was not acquired pursuant to a repo or reverse repo.
 - (6) Failure to maintain the requisite collateral percentage, after a two day restoration period, will require the Trustee to liquidate collateral.
 - (7) Valuation of Collateral is determined as follows: (a) The securities must be valued weekly, marked-to-market at current market price plus accrued interest; (b) The value of collateral must be equal to 104% of the amount of cash transferred by the Trustee to the dealer bank or security firm under the repo plus accrued interest. If the value of securities held as collateral slips below 104% of

the value of the cash transferred by Trustee, then additional cash and/or acceptable securities must be transferred. If, however, the securities used as collateral are FNMA or FHLMC, then the value of collateral must equal 105%.

c. A legal opinion must be delivered to the Trustee that the Repo meets guidelines under State law for legal investment of public funds.

12. Pre-refunded municipal bonds rated “Aaa” by Moody’s and “AAA” by Standard & Poor’s. If, however, the issue is rated only by Standard & Poor’s (i.e., there is no Moody’s rating), then the pre-refunded bonds must have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, or “AAA” rated pre-refunded municipals to satisfy this condition.

13. Los Angeles County Investment Pool.

“Prepayment” means any payment made by the District pursuant to the Lease Agreement as a prepayment of the Lease Payments.

“Prepayment Accounts” means, collectively, the Series B-1 Prepayment Account and the Series B-2 Prepayment Account.

“Prepayment Fund” means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

“Principal Office” means the corporate trust office of the Trustee in Los Angeles, California, provided however, that for purposes of transfer, exchange, surrender, payment and prepayment, such term means the designated corporate trust office or agency of the Trustee, The Bank of New York Mellon Trust Company, N.A., or such other office designated by the Trustee.

“Principal Payment Date” means December 1 of each year, commencing December 1, 2011, with respect to the principal payments evidenced by the Certificates.

“Project” means the acquisition, development and installation of certain information technology systems of the District.

“Project Costs” means all costs of payment of, or reimbursement for, acquisition and improvement of the Project by the District and the Corporation, including but not limited to, architect and engineering fees, costs relating to environmental remediation, if any, title insurance premiums, costs of feasibility and other reports, inspection costs and permit fees.

“Project Fund” means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

“Property” means that certain real property and the improvements thereon as defined in the Lease Agreement.

“Rebate Fund” means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

“Related Document” means each of the Trust Agreement, the Lease Agreement, the Site Lease and the Assignment Agreement.

“Rental Period” means the period from the Closing Date through June 30, 2011 and, thereafter, the twelve-month period commencing on July 1 of each year during the term of the Lease Agreement.

“Series” means the each series of Certificates executed, authenticated and delivered on the date of delivery of the Certificates and identified pursuant to the Trust Agreement as the Taxable Series B-1 Certificates and Series B-2 Certificates.

“Series B-1 Lease Payment Account” means the account by that name established and held by the Trustee pursuant to the Trust Agreement.

“Series B-1 Lease Payments” means any payment required to be paid by the District to the Corporation evidenced by the Taxable Series B-1 Certificates pursuant to the Lease Agreement.

“Series B-1 Prepayment Account” means the account by that name established and held by the Trustee pursuant to the Trust Agreement.

“Series B-1 Project Account” means the account by that name established and held by the Trustee pursuant to the Trust Agreement.

“Series B-1 Rebate Account” means the account by that name established and held by the Trustee pursuant to the Trust Agreement.

“Series B-1 Reserve Account” means the account by that name established and held by the Trustee pursuant to the Trust Agreement.

“Series B-1 Tax Certificate” means the Tax Certificate dated as of the date of delivery of the Taxable Series B-1 Certificates, executed by and delivered to the District on the date of execution and delivery of the Taxable Series B-1 Certificates, including any and all exhibits attached thereto.

“Series B-2 Certificates” means the \$61,730,000 Certificates of Participation, 2010 Series B-2 (Tax-Exempt)(Capital Projects I) to be executed and delivered pursuant to the Trust Agreement.

“Series B-2 Lease Payment Account” means the account by that name established and held by the Trustee pursuant to the Trust Agreement.

“Series B-2 Lease Payments” means any payment required to be paid by the District to the Corporation evidenced by the Series B-2 Certificates pursuant to the Lease Agreement.

“Series B-2 Prepayment Account” means the account by that name established and held by the Trustee pursuant to the Trust Agreement.

“Series B-2 Project Account” means the account by that name established and held by the Trustee pursuant to the Trust Agreement.

“Series B-2 Rebate Account” means the account by that name established and held by the Trustee pursuant to the Trust Agreement.

“Series B-2 Reserve Account” means the account by that name established and held by the Trustee pursuant to the Trust Agreement.

“Series B-2 Tax Certificate” means the Tax Certificate dated as of the date of delivery of the Series B-2 Certificates, executed by and delivered to the District on the date of execution and delivery of the Series B-2 Certificates, including any and all exhibits attached thereto.

“Site Lease” means the Site Lease, dated the date hereof, between the Corporation and the District.

“Special Counsel” means an attorney or firm of attorneys of nationally recognized standing in matters pertaining to the tax-exempt status of interest on obligations issued by states and their political subdivisions and acceptable to the District.

“Standard & Poor’s” means Standard & Poor’s Ratings Services, division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and their assigns, or, if such corporation shall for any reason no longer perform the function of a securities rating agency, “Standard & Poor’s” will be deemed to refer to any other nationally recognized rating agency designated by the District.

“State” means the State of California.

“Tax Certificates” means, collectively, the Series B-1 Tax Certificate and the Series B-2 Tax Certificate.

“Taxable Series B-1 Certificates” means the \$21,615,000 Certificates of Participation, 2010 Series B-1 (Federally Taxable Direct Pay Build America Bonds) (Capital Projects I) to be executed and delivered pursuant to the Trust Agreement.

“Term” means the time during which the Lease Agreement is in effect, as provided in the Lease Agreement.

“Treasury Department” means the United States Department of the Treasury.

“Trust Agreement” or “Agreement” means the Trust Agreement, together with any amendments hereof or supplements hereto permitted to be made hereunder.

“Trustee” means The Bank of New York Mellon Trust Company, N.A., or any successor thereto.

“Underwriters” means, collectively, De La Rosa & Co. and Barclays Capital Inc. as the original purchasers of the Certificates.

“Written Request of the District” means an instrument in writing signed by a District Representative.

LEASE AGREEMENT

Lease

Under the Lease Agreement, the Corporation leases the Property to the District and the District under the Lease Agreement leases the Property from the Corporation, upon the terms and conditions set forth in the Lease Agreement.

Term of Lease Agreement

The Term of the Lease Agreement will commence on the date of recordation of the Lease Agreement and will end on December 1, 2035, unless such term is extended as provided in the Lease Agreement. If, on December 1, 2035, the Trust Agreement and the Lease Agreement will not be discharged or otherwise terminated by their respective terms, or if the Lease Payments payable hereunder will have been abated at any time and for any reason, then the Term of the Lease Agreement will be extended until there has been deposited with the Trustee an amount sufficient to pay all obligations due under the Trust Agreement and the Lease Agreement, as the case may be; provided, however, that in no event will the Term of the Lease Agreement extend beyond December 1, 2045.

Lease Payments

The District agrees to pay to the Corporation, its successors and assigns, as rental for the use and occupancy of the Property, as composed at any time, and from time to time, during each Rental Period, the Lease Payments (denominated into components of principal and interest) in the semiannual amounts and on the dates specified in Exhibit A to the Lease Agreement, as such exhibit may be amended and modified from time to time in connection with any change in the Property, to be due and payable on the respective Lease Deposit Dates. Each Lease Payment will be deposited with the Trustee no later than the Lease Deposit Date preceding the Lease Payment Date on which such Lease Payment is due.

Any amount held in the Lease Payment Fund on any Lease Payment Date (other than amounts resulting from the prepayment of the Lease Payments in part but not in whole pursuant to the Lease Agreement and other than amounts required for payment of Certificates not yet surrendered) will be credited towards the Lease Payment due and payable on the succeeding Lease Payment Date; and no Lease Payment need be deposited on any Lease Deposit Date if the amounts then held in the related subaccount in the Lease Payment Fund and available for such purpose are at least equal to the Lease Payment then required to be deposited. The Lease Payments for the Property due and payable in any Rental Period will be for the use and occupancy of the Property during such Rental Period.

THE OBLIGATION OF THE DISTRICT TO MAKE LEASE PAYMENTS DOES NOT CONSTITUTE AN OBLIGATION OF THE DISTRICT FOR WHICH THE DISTRICT IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE DISTRICT HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE OBLIGATION OF THE DISTRICT TO MAKE THE LEASE PAYMENTS DOES NOT CONSTITUTE AN INDEBTEDNESS OF THE DISTRICT, THE CORPORATION, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

In the event that the District prepays all remaining Lease Payments evidenced by a Series of Certificates in full pursuant to the Lease Agreement and the Trust Agreement, the obligations under the Lease Agreement with respect to such Lease Payments will thereupon cease and terminate including, but not limited to, the obligation to pay such Lease Payments under the Lease Agreement evidenced by such Series of Certificates; subject however, to the provisions of the Lease Agreement in the case of prepayment by application of a security deposit. In the event that the District prepays the Lease Payments in part for a Series of Certificates, but not in whole, pursuant to the Lease Agreement as a result of any insurance or condemnation award with respect to any portion of the Property, the District will apply such amounts towards the prepayment of the principal components of the Lease Payments in Authorized Denominations as set forth in an amendment to the Lease Agreement executed and delivered pursuant to the Lease Agreement.

In the event the District should fail to make any of the payments required in the applicable provisions of the Lease Agreement evidenced by a Series of Certificates, the payment in default will continue as an obligation of the District until the amount in default will have been fully paid, and the District agrees to pay the same with interest thereon, to the extent permitted by law, from the date of default to the date of payment at rates equal to the rates then payable with respect to such Series of Certificates. Such interest, if received, will be deposited in the related subaccount in the Lease Payment Fund.

The Lease Payments for the Property for each Rental Period will constitute the total rental for the Property for each such Rental Period and will be paid by the District in each Rental Period for and in consideration of the right of the use and occupancy, and the continued quiet use and enjoyment, of the Property during each Rental Period. The parties to the Lease Agreement have agreed and determined that the Lease Payments for the Property do not exceed the fair rental value of the Property. In making such determination, consideration has been given to the obligations of the parties under the Lease Agreement, the uses and purposes which may be served by the Property and the benefits therefrom which will accrue to the District and the general public.

The Lease Payments will be payable from any source of available funds of the District, subject to the provisions of the Lease Agreement. The District covenants to take such action as may be necessary to include all Lease Payments and Additional Payments due under the Lease Agreement in each of its budgets during the Term of the Lease Agreement and to make the necessary appropriations for all such Lease Payments and Additional Payments due under the Lease Agreement in the Fiscal Year covered by such budget. The District will provide a written determination of such budgeted amount to the Trustee pursuant to the Trust Agreement. The covenants on the part of the District contained in the Lease Agreement will be deemed to be and will be construed to be duties imposed by law and it will be the duty of each and every public official of the District to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the District to carry out and perform the covenants and agreements in the Lease Agreement agreed to be carried out and performed by the District.

The District understands and agrees that all Lease Payments have been assigned by the Corporation to the Trustee in trust, pursuant to the Assignment Agreement, for the benefit of the Owners of the Certificates and the District under the Lease Agreement assents to such assignment. The Corporation under the Lease Agreement directs the District, and the District under the Lease Agreement agrees to pay to the Trustee at its Principal Office, all payments payable by the District pursuant to the Lease Agreement and all amounts payable by the District pursuant to the Lease Agreement.

The District under the Lease Agreement irrevocably elects (i) in accordance with Section 54AA(d)(1)(C) of the Code, to treat the Lease Payments evidenced by the Taxable Series B-1 Certificates as "Build America Bonds" to which Section 54AA of the Code will apply, and (ii) in accordance with Section 54AA(g)(2)(B) of the Code, to treat the Lease Payments evidenced by the Taxable Series B-1 Certificates as "qualified bonds" to which Section 54AA(g) of the Code will apply, allowing the District to receive a thirty-five percent (35%) credit with respect to each interest payment evidenced by the Taxable Series B-1 Certificates under Section 6431 of the Code, provided all of the requirements of the Code for allowance of such credit are satisfied. Upon the receipt of such credit, if any, the District will deposit such amount into the Series B-1 Lease Payment Account.

Lease Payments

The aggregate principal amount of the Lease Payments of each Series of Certificates to be paid by the District to the Corporation hereunder with respect to the Property will be as set forth in Exhibit A to

the Lease Agreement. The District will pay to the Trustee for deposit in the related subaccount of the Lease Payment Fund the scheduled principal components and interest components of the Lease Payments on the Lease Deposit Dates.

Quiet Enjoyment

During the Term of the Lease Agreement, the Corporation will provide the District with quiet use and enjoyment of the Property, and the District will, during such Term, peaceably and quietly have and hold and enjoy the Property, without suit, trouble or hindrance from the Corporation, except as expressly set forth in the Lease Agreement. The Corporation will, at the request and at the cost of the District, join in any legal action in which the District asserts its right to such possession and enjoyment to the extent the Corporation may lawfully do so. Notwithstanding the foregoing, the Corporation will have the right to inspect the Property as provided in the Lease Agreement.

Title

During the Term of the Lease Agreement, the Corporation will hold fee title (or leasehold title pursuant to (i) the Site Lease when the District will hold fee title to the Property or (ii) a Permitted Encumbrance) to those portions of the Property which are newly acquired and any and all additions which compose fixtures, repairs, replacements or modifications to the Property, except for those fixtures, repairs, replacements or modifications which are added to the Property by the District at its own expense and which may be removed without damaging the Property and except for any items added to the Property by the District pursuant to the Lease Agreement.

If the District prepays the Lease Payments in full pursuant to the Lease Agreement or makes the security deposit permitted by the Lease Agreement, or pays all Lease Payments during the Term of the Lease Agreement as the same become due and payable, all right, title and interest of the Corporation under the Lease Agreement in and to the related Property will be transferred to and vested in the District. The Corporation agrees to take any and all steps and execute and record any and all documents reasonably required by the District to consummate any such transfer of title or other interest.

Additional Payments

In addition to the Lease Payments, the District will pay when due all costs and expenses incurred by the District and the Corporation in complying with the provisions of the Trust Agreement, including without limitation payment of all Delivery Costs (to the extent not paid from amounts on deposit in the Delivery Costs Fund), compensation, reimbursable expenses and fees due to the Trustee, all costs and expenses of auditors, engineers, counsel and accountants and any amounts required to be rebated to the federal government, which payments will not be subject to abatement.

No Merger

It is the express intention of the parties to the Lease Agreement that the Lease Agreement, and the obligations of the parties hereunder, will be and remain separate and distinct from the Site Lease, if the Site Lease will be delivered, and the obligations of the parties thereunder, and that, during the term of the Site Lease, if the Site Lease will be delivered, no merger of title or interest will occur or be deemed to occur as a result of the position of the District as lessor under the Site Lease and as lessee hereunder or the position of the Corporation as lessee under the Site Lease and as lessor under the Lease Agreement.

Acquisition, Construction and Installation of the Project

The Corporation under the Lease Agreement appoints the District as its agent to carry out all phases of the acquisition, construction and installation of the Project. The District under the Lease Agreement accepts such appointment and, as such agent, under the Lease Agreement assumes all duties, rights, responsibilities and liabilities of the Corporation regarding the acquisition, construction and installation of the Project. The District, as agent of the Corporation, will, in all respects, supervise and provide for, or cause to be supervised and provided for, the acquisition, construction and installation of the Project.

In connection with the acquisition, construction and installation of the Project, payment of the Project Costs will be made from the moneys deposited with the Trustee in the Project Fund, which will be disbursed for such purposes in accordance and upon compliance with the Trust Agreement. In the event that there is at any time a deficiency in the Project Fund to pay all Project Costs in full, the amount of such deficiency will be deposited therein by the District, from and only to the extent it has additional funds legally available to it for such purpose.

Maintenance, Utilities, Taxes and Assessments

Throughout the Term of the Lease Agreement, as part of the consideration for the rental of the Property, all improvement, repair and maintenance of the Property will be the responsibility of the District, and the District will pay for or otherwise arrange for the payment of all utility services supplied to the Property, which may include, without limitation, janitor service, security, power, gas, telephone, light, heating, water and all other utility services, and will pay for or otherwise arrange for the payment of the cost of the repair and replacement of the Property resulting from ordinary wear and tear or want of care on the part of the District or any assignee or sublessee thereof. In exchange for the Lease Payments provided in the Lease Agreement, the Corporation agrees to provide only the Property, as set forth in the Lease Agreement. The District waives the benefits of subsection 2 of Section 1932 and subsection 4 of Section 1933 of the California Civil Code, but such waiver will not limit any of the rights of the District under the terms of the Lease Agreement.

The District will also pay or cause to be paid all taxes and assessments of any type or nature, if any, charged to the Corporation or the District affecting the Property or the respective interests or estates therein; provided that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the District will be obligated to pay only such installments as are required to be paid during the Term of the Lease Agreement as and when the same become due.

The District may, at its expense and in its name, in good faith contest any such taxes, assessments, utility and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless the Corporation will notify the District that, in the opinion of Independent Counsel, by nonpayment of any such items, the interest of the Corporation in the Property will be materially endangered or the Property or any part thereof will be subject to loss or forfeiture, in which event the District will promptly pay such taxes, assessments or charges or provide the Corporation with full security against any loss which may result from nonpayment, in form satisfactory to the Corporation and the Trustee.

Modification of Property

The District will, at its own expense, have the right to remove portions of the Property or to make additions or modifications to the Property. All additions and modifications will thereafter compose part of the Property and be subject to the provisions of the Lease Agreement. Such additions and modifications will not in any way damage the Property, substantially alter its nature, cause the interest component of Lease Payments evidenced by the Series B-2 Certificates to be subject to federal income taxes or cause the Property to be used for purposes other than those authorized under the provisions of State and federal law or the articles of incorporation of the Corporation; and the Property, during and upon completion of any removal, additions or modifications made thereto pursuant to the applicable sections of the Lease Agreement will be of a rental value which is not less than the maximum annual Lease Payments due in any Rental Period evidenced and represented by all Outstanding Certificates. The District will not permit any mechanic's or other lien to be established or remain against the Property for labor or materials furnished in connection with any remodeling, additions, modifications, improvements, repairs, renewals or replacements made by the District pursuant to the applicable provisions of the Lease Agreement; provided that if any such lien is established and the District will first notify or cause to be notified the Corporation of the intention to do so, the District may in good faith contest any lien filed or established against the Property, and in such event may permit the items so contested to remain undischarged and unsatisfied during the period of such contest and any appeal therefrom and will provide the Corporation with full security against any loss or forfeiture which might arise from the nonpayment of any such item, in form satisfactory to the Corporation. The Corporation will cooperate fully in any such contest, upon the request and at the expense of the District. The District agrees that it will take no action that would affect the availability of the Property for its use and possession.

Liability and Property Damage Insurance

The District will maintain or cause to be maintained, throughout the Term of the Lease Agreement, insurance policies, including a standard comprehensive general insurance policy or policies in protection of the Corporation, the District and the Trustee and their respective members, officers, agents and employees. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance coverage carried by the District, and may be maintained through the Corporation or in the form of self-insurance by the District; provided, however, that the District will not maintain rental interruption insurance in the form of self-insurance. Said policy or policies will provide for indemnification of said parties against direct or consequential loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the operation of the Property. Said policy or policies will provide coverage in the minimum liability limits of \$1,000,000 for personal injury or death of each person and \$3,000,000 for personal injury or deaths of two or more persons in each accident or event, and in a minimum amount of \$1,000,000 (subject to a deductible clause not to exceed \$500,000 per occurrence) for damage to property resulting from each accident or event. Such liability and property damage insurance may, however, be in the form of a single limit policy in the amount of \$3,000,000 covering all such risks.

Fire, Extended Coverage, Boiler and Machinery and Workers' Compensation Insurance

The District will procure and maintain, or cause to be procured and maintained, throughout the Term of the Lease Agreement, insurance against loss or damage to any structures constituting any part of the Property by fire, lightning and flood (if reasonably necessary), with extended coverage and vandalism and malicious mischief insurance, with the Trustee named as additional insured and loss payee, with responsible and reputable insurance companies. Such insurance may be maintained as part of or in conjunction with any other fire and extended coverage insurance carried by the District and may be maintained in whole or in part through the Corporation.

Said extended coverage insurance will, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance. Such insurance will be in an amount equal to the lesser of 100% of the replacement value of the Property or 100% of the remaining Lease Payments evidencing and representing principal with respect to all outstanding Certificates. The Net Proceeds of such insurance will be applied as provided in the Lease Agreement.

The District will also procure and maintain, or cause to be maintained, throughout the term of the Lease Agreement, boiler and machinery coverage against loss or damage by explosion of steam boilers, pressure vessels and similar apparatus now or hereafter installed on any portion of the Property in an amount not less than \$5,000,000 per accident, and worker's compensation insurance issued by a responsible carrier authorized under the laws of the State of California to insure its employees against liability for compensation under the Worker's Compensation Insurance and Safety Act now in force in the State of California, or any act hereafter enacted as an amendment or supplement thereto. As an alternative, such insurance may be maintained as part of or in conjunction with any other insurance carried by the District.

Rental Interruption Insurance

The District will procure and maintain, or cause to be maintained, throughout the Term of the Lease Agreement rental interruption insurance to cover loss, total or partial, of the use of any part of the Property during the Term of the Lease Agreement with respect to the Property in an amount equal to the greatest twenty-four (24) months of Lease Payments for such Property, with the Trustee named as additional insured and loss payee. Such insurance may be carried in conjunction with, and may be subject to the same provisions as, the insurance required under the applicable provisions of the Lease Agreement. The District under the Lease Agreement assigns to the Corporation all right of the District, if any, to collect and receive Net Proceeds under any of said policies, which right has been assigned by the Corporation to the Trustee pursuant to the Assignment Agreement. The Net Proceeds of such insurance will be paid to the Trustee and deposited in the Lease Payment Fund and will be credited towards the payment of the Lease Payments in the order in which the Lease Payments are due and payable.

Title Insurance

The District will provide, from moneys in the Delivery Costs Fund or at its own expense, on the Closing Date or as soon thereafter as practicable, a ALTA or CLTA title insurance policy covering, and in the amount of not less than the principal amount of the Certificates, insuring all of the fee title of the District in the Property, the subleasehold estate of the Corporation in the Property and the leasehold estate of the District in the Property securing the Certificates (provided that one or more of said estates may be insured through an endorsement to such policy), subject only to Permitted Encumbrances, with the Trustee as additional insured and loss payee. The Net Proceeds of such title insurance will be applied as provided in the Lease Agreement.

General Insurance Requirements; Form of Policies; Annual Certification

The District will maintain or cause to be maintained, during the entire term of the Lease Agreement, with insurers of recognized responsibility (or through the District's current program of self-insurance with respect to insurance required by the applicable provisions of the Lease Agreement) all coverage required by the applicable provisions of the Lease Agreement. The District may not change its program of self-insurance for any insurance required under the Lease Agreement. Each policy of insurance required by the applicable provisions of the Lease Agreement will be obtained from an insurance provider licensed to do business in the State and rated "A" or better by A.M. Best & Company,

and will provide that all proceeds thereunder will be payable to the District and the Trustee as insureds and applied as provided in the Lease Agreement. The District will pay or cause to be paid when due the premiums for all insurance policies required by the Lease Agreement.

The District will cause to be delivered to the Trustee on prior to the end of each fiscal year of the District a certificate of the District that the insurance requirements of the Lease Agreement have been met. If the District maintains the insurance required by the applicable provisions of the Lease Agreement through a program of self-insurance, the District will include with such annual certificate a statement, verified by a risk manager of the District or an independent financial consultant, which specifies the amounts of coverage available through such self-insurance program. If it will appear to such risk manager or independent financial consultant that the amounts available pursuant to such self-insurance program are insufficient, taking into account the loss history of the District and the requirements of the Lease Agreement, then (i) such report will so state and (ii) the District will obtain commercial insurance or increase the amounts available under such self-insurance program in accordance with the recommendations of such risk manager or independent financial consultant to the extent moneys are available for such purpose and not otherwise appropriated and, provided, that the District will obtain the insurance required by the applicable provisions of the Lease Agreement in an amount equal to the lesser of 100% of the replacement value of the Property or 100% of the remaining Lease Payments evidencing and representing principal with respect to all Outstanding Certificates.

The Trustee will not be responsible for the sufficiency of any insurance required in the Lease Agreement, including any forms of self-insurance and will be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss.

The District will affirmatively make (or cause to be made) a claim for payment under any insurance required to be maintained pursuant to the Lease Agreement as soon as practicable following the event or events giving rise to such a claim.

Installation of Equipment

The District may at any time and from time to time, in its sole discretion and at its own expense, install or permit to be installed other items of equipment or other personal property in or upon the Property. All such items will remain the sole property of the District, in which neither of the Corporation nor the Trustee will have any interest, and may be modified or removed by the District at any time provided that the District will repair and restore any and all damage to the Property resulting from the installation, modification or removal of any such items. Nothing in the Lease Agreement will prevent the District from purchasing or leasing items to be installed pursuant to the Lease Agreement under a lease or conditional sale agreement, or subject to a vendor's lien or security agreement, as security for the unpaid portion of the purchase price thereof, provided that no such lien or security interest will attach to any part of the Property.

Liens

The District will not, directly or indirectly, create, incur, assume or suffer to exist any mortgage, pledge, lien, charge, encumbrance or claim on or with respect to the Property, other than the respective rights of the Corporation and the District as provided in the Lease Agreement and Permitted Encumbrances. Except as expressly provided in the Lease Agreement, the District will promptly, at its own expense, take such action as may be necessary to duly discharge or remove any such mortgage, pledge, lien, charge, encumbrance or claim, for which it is responsible, if the same will arise at any time. The District will reimburse the Corporation or the Trustee, as applicable, for any expense incurred by

either of them in order to discharge or remove any such mortgage, pledge, lien, charge, encumbrance or claim.

Tax Covenants

The District under the Lease Agreement covenants with the holders of the Certificates that, notwithstanding any other provisions of this Lease, it will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the status of the District's lease obligations evidenced by the Taxable Series B-1 Certificates as "Build America Bonds" under the Code or adversely affect the exclusion from gross income of interest evidenced by the Series B-2 Certificates with respect to Section 103 of the Code. The District will not, directly or indirectly, use or permit the use of Proceeds of the Certificates or any of the property financed or refinanced with Proceeds of the Certificates, or any portion thereof, by any person other than a governmental unit (as such term is used in Section 141 of the Code), in such manner or to such extent as would adversely affect the status of the District's lease obligations evidenced by the Taxable Series B-1 Certificates as "Build America Bonds" under the Code or result in the loss of exclusion from gross income for federal income tax purposes of the interest evidenced by the Series B-2 Certificates.

The District will not take any action, or fail to take any action, if any such action or failure to take action would cause the District's obligations evidenced by the Certificates to be "private activity bonds" within the meaning of Section 141 of the Code, and in furtherance thereof, will not make any use of the Proceeds of the Certificates or any of the property financed or refinanced with Proceeds of the Certificates, or any portion thereof, or any other funds of the District, that would cause the District's obligations evidenced by the Certificates to be "private activity bonds" within the meaning of Section 141 of the Code. To that end, so long as any Certificates are outstanding, the District, with respect to such Proceeds and property and such other funds, will comply with applicable requirements of the Code and all regulations of the Treasury Department issued thereunder and under Section 103 of the Internal Revenue Code of 1954, as amended (the "1954 Code"), to the extent such requirements are, at the time, applicable and in effect. The District will establish reasonable procedures necessary to ensure continued compliance with Section 141 of the Code (or, if applicable, the 1954 Code) and the continued qualification of the District's obligations evidenced by the Certificates as "governmental bonds."

The District will not, directly or indirectly, use or permit the use of any Proceeds of any Certificates, or of any property financed or refinanced thereby, or other funds of the District, or take or omit to take any action, that would cause the District's obligations evidenced by the Certificates to be "arbitrage bonds" within the meaning of Section 148 of the Code. To that end, the District will comply with all requirements of Section 148 of the Code and all regulations of the Treasury Department issued thereunder to the extent such requirements are, at the time, in effect and applicable to the District's obligations evidenced by the Certificates.

The District will not make any use of the Proceeds of the Certificates or any other funds of the District, or take or omit to take any other action, that would cause the District's obligations evidenced by the Certificates to be "federally guaranteed" within the meaning of Section 149(b) of the Code.

In furtherance of the foregoing tax covenants of the Lease Agreement, the District covenants that it will comply with the provisions of the Tax Certificates, which are incorporated in the Lease Agreement. These covenants will survive payment in full or defeasance of the Certificates.

No Condemnation

The District under the Lease Agreement covenants and agrees, to the extent it may do so, that so long as any of the Certificates remain Outstanding and unpaid, the District will not exercise the power of condemnation with respect to the Property. The District further covenants and agrees, to the extent it may lawfully do so, that if for any reason the foregoing covenant is determined to be unenforceable or if the District should fail or refuse to abide by such covenant and condemns the Property, the appraised value of the Property will not be less than the greater of (i) if the Certificates are then subject to prepayment, the principal and interest components of the Certificates Outstanding through the date of their prepayment; or (ii) if such Certificates are not then subject to prepayment, the amount necessary to defease such Certificates to the first available prepayment date in accordance with the Trust Agreement.

Eminent Domain

If all of the Property (or portions thereof such that the remainder is not usable for public purposes by the District) will be taken permanently under the power of eminent domain or sold to a government threatening to exercise the power of eminent domain, the Term of the Lease Agreement will thereupon terminate. If less than all of the Property will be taken permanently and the remainder is usable for public purposes by the District at the time of such taking, or if all of the Property will be taken temporarily under the power of eminent domain, (1) the Lease Agreement will continue in full force and effect and will not be terminated by virtue of such taking and the parties waive the benefit of any law to the contrary, and (2) there will be a partial abatement of Lease Payments as a result of the application of the Net Proceeds of any eminent domain award to the prepayment of the Lease Payments hereunder, in an amount to be agreed upon by the District and the Corporation such that the resulting Lease Payments represent fair consideration for the use and occupancy of the remaining usable portion of such Property.

Application of Net Proceeds

The District will remit promptly to the Trustee any Net Proceeds received by the District regarding casualty insurance, and the Trustee will deposit such Net Proceeds pursuant to the Trust Agreement, promptly upon receipt thereof. The District and/or the Corporation will transfer to the Trustee any other Net Proceeds received by the District and/or Corporation in the event of any accident, destruction, or taking by eminent domain or condemnation with respect to the Property for deposit in the Net Proceeds Fund.

Disbursement for Replacement or Repair of the Property

Upon receipt of the certification described in the Lease Agreement and the requisition described in the Lease Agreement, the Trustee will disburse moneys in the Net Proceeds Fund to the person, firm or corporation named in such requisition as provided in the Trust Agreement.

The District Representative must certify to the Corporation and the Trustee that:

(i) The Net Proceeds available for such purpose, together with any other funds supplied by the District to the Trustee and held in the Net Proceeds Fund for such purpose, are expected to equal at least 110% of the projected costs of replacement or repair, as demonstrated in an attached requisition budget; and

(ii) In the event that damage, destruction or taking results or is expected to result in an abatement of Lease Payments, such replacement or repair can be fully completed within a period not in excess of the period in which rental interruption insurance proceeds as described in

the Lease Agreement, together with other identified available moneys, will be available to pay in full all Lease Payments coming due during such period as demonstrated in an attached requisition schedule; and

- (iii) There are no encumbrances on the Property other than Permitted Encumbrances.

The District Representative must state with respect to each payment to be made: (i) the requisition number; (ii) the name and address of the person, firm or corporation to whom payment is due; (iii) the amount to be paid; (iv) that each obligation mentioned therein has been properly incurred, is a proper charge against the Net Proceeds Fund and has not been the basis of any previous withdrawal; and (v) in reasonable detail, the nature of the payment obligation.

Subject to the requirements of the Trust Agreement, any balance of the Net Proceeds remaining after such replacement or repair has been completed, as certified in a Written Request of the District to the Trustee, will be paid to the District.

Disbursement for Prepayment

If the District shall not have determined to repair or replace the Property, as provided above, the Trustee will promptly transfer the Net Proceeds to the Prepayment Fund as provided in the Trust Agreement and apply them to prepayment of Lease Payments, as provided in the Lease Agreement, and prepayment of the corresponding amount of principal represented by the Certificates as provided in the Trust Agreement, upon the earlier of the following events:

- (i) Written determination of the District Representative that the certification provided in the Lease Agreement cannot be made and that replacement or repair of any item or portion of the Property, is not economically feasible or in the best interest of the District; and
- (ii) One (1) year after the receipt of Net Proceeds.

Abatement of Lease Payments

Lease Payments with respect to the Certificates will be abated during any period in which, by reason of damage, destruction, any defect in title or other event (other than by eminent domain which is provided for in the Lease Agreement), there is substantial interference with the use and occupancy by the District of the Property or any portion thereof (other than any portions of the Property described in the applicable provisions of the Lease Agreement), and the District waives the benefits of subsection 2 of Section 1932 and subsection 4 of Section 1933 of the California Civil Code and any and all other rights to terminate the Lease Agreement by virtue of any such interference, and the Lease Agreement will continue in full force and effect. The extent of such abatement will be agreed upon by the District and the Corporation such that the resulting Lease Payments represent fair consideration for the use and occupancy of the portions of the Property not damaged, destroyed or otherwise unavailable for use and occupancy by the District. Such abatement will continue for the period commencing with such damage, defect in title, destruction or other event and, with respect to damage or destruction of property, ending with the substantial completion of the work of repair or reconstruction or of completion of the Property or of the regained availability of use and occupancy. In the event of any such damage, destruction or non-availability, the Lease Agreement will continue in full force and effect and the District waives any right to terminate the Lease Agreement by virtue of any such damage, destruction or unavailability.

Notwithstanding the foregoing, there will be no abatement of Lease Payments under the applicable provisions of the Lease Agreement by reason of damage, destruction or unavailability of all or a portion of the Property to the extent that:

(i) the fair rental value of the portions of the Property not damaged, destroyed, incomplete or otherwise unavailable for use and occupancy by the District (giving due consideration to the factors identified in the applicable provisions of the Lease Agreement relating fair rental value), based upon the opinion of an MAI appraiser with expertise in valuing such properties or other appropriate method of valuation, is equal to or greater than the unpaid Lease Payments; or

(ii) (A) the proceeds of rental interruption insurance or (B) amounts in the Net Proceeds Fund and/or the Lease Payment Fund or Debt Service Reserve Fund are available to pay Lease Payments which would otherwise be abated under the applicable provisions of the Lease Agreement, it being under the Lease Agreement declared that such proceeds and amounts constitute special funds for the payment of the Lease Payments.

Disclaimer of Warranties

THE CORPORATION MAKES NO WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AS TO THE VALUE, DESIGN, CONDITION, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OR FITNESS FOR THE USE CONTEMPLATED BY THE DISTRICT OF THE PROPERTY OR ANY OTHER REPRESENTATION OR WARRANTY WITH RESPECT TO THE PROPERTY. IN NO EVENT WILL THE CORPORATION OR ITS ASSIGNS BE LIABLE FOR INCIDENTAL, INDIRECT, SPECIAL OR CONSEQUENTIAL DAMAGES IN CONNECTION WITH OR ARISING OUT OF THE SITE LEASE, IF ANY, THE LEASE AGREEMENT OR THE TRUST AGREEMENT FOR THE EXISTENCE, FURNISHING, FUNCTIONING OR THE USE OF THE PROPERTY.

Access to the Property

The District agrees that the Corporation and any Corporation Representative, the Corporation's successors or assigns, will have the right at all reasonable times to enter upon and to examine and inspect the Property. The District further agrees that the Corporation, any Corporation Representative, the Corporation's successors or assigns will have such rights of access to the Property as may be reasonably necessary to cause the proper maintenance of the Property in the event of failure by the District to perform its obligations hereunder.

Release and Indemnification Covenants

To the extent permitted by law, the District will and under the Lease Agreement agrees to indemnify and save the Corporation and the Trustee and their officers, agents, successors and assigns harmless from and against all claims, losses and damages, including legal fees and expenses, arising out of (i) the use, maintenance, condition or management of, or from any work or thing done on the Property by the District, including, without limitation, the presence on, under or about, or release from, the Property of any substance, material or waste which is or becomes regulated or classified as hazardous or toxic under State, federal or local law, (ii) any breach or default on the part of the District in the performance of any of its obligations under the Lease Agreement, (iii) any act or omission of the District or of any of its agents, contractors, servants, employees or licensees with respect to the Property, (iv) any act or omission of any sublessee of the District with respect to the Property, (v) the acquisition, construction, installation and equipping of the Property or the authorization of payment of the Project

Costs and Delivery Costs, or (vi) the execution of the Trust Agreement and acceptance, administration and performance by the Trustee of the duties of the Trustee under the Trust Agreement. No indemnification is made under the Lease Agreement for willful misconduct, negligence or breach of duty under the Lease Agreement by the Corporation or the Trustee, their officers, agents, employees, successors or assigns.

Assignment by the Corporation

The Corporation's rights under the Lease Agreement, including the right to receive and enforce payment of the Lease Payments to be made by the District under the Lease Agreement, have been assigned to the Trustee pursuant to the Assignment Agreement, to which assignment the District under the Lease Agreement consents.

Assignment and Subleasing by the District

The Lease Agreement may not be assigned by the District. The District may sublease the Property or any portion thereof, but only with the prior written consent of the Corporation, subject to all of the following conditions:

The Lease Agreement and the obligation of the District to make Lease Payments hereunder will remain obligations of the District;

(i) The District will, within thirty (30) days after the delivery thereof, furnish or cause to be furnished to the Corporation and the Trustee a true and complete copy of such sublease;

(ii) No such sublease by the District will cause the Property to be used for a purpose other than as may be authorized under the provisions of the constitution and laws of the State; and

(iii) The District will furnish the Corporation and the Trustee with a written opinion of Special Counsel stating that such sublease will not in and of itself result in the change in status of the District's obligations evidenced by the Taxable Series B-1 Certificates as "Build America Bonds" under the Code or result in the interest components of the Lease Payments evidenced by the Series B-2 Certificates to become subject to federal income taxation.

Substitution, Addition and Release of Property; Amendments

The District will have, and is under the Lease Agreement granted, the option at any time and from time to time during the Term of the Lease Agreement, to substitute other land, including the Facilities thereon (a "Substitute Site") for the Property or a portion thereof, or to add additional land, including the Facilities thereon to the Property ("Additional Site"), provided that the District will satisfy all of the following requirements which are under the Lease Agreement declared to be conditions precedent to such substitution or addition:

If the District holds fee title to such Substitute Site or Additional Site, the District will file with the Corporation and the Trustee an amended and recorded Exhibit A to the Site Lease which describes such Substitute Site or Additional Site and will record or caused to be recorded with the Los Angeles County Recorder any document necessary to include such Substitute Site or Additional Site in the description of the Property contained in the Site Lease;

(i) The District will file with the Corporation and the Trustee an amended and recorded Exhibit B to the Lease Agreement and will record or caused to be recorded with the Los Angeles County Recorder any document necessary to include such Substitute Site or Additional Site in the description of the Property contained in the Lease Agreement;

(ii) The District delivers to the Trustee and the Corporation a certificate of the District stating that the Property after said substitution or addition has an annual fair rental value equal to or greater than the maximum Lease Payments due in any Rental Period, as determined on the basis of an appraisal of the Property after said substitution or addition, conducted by an MAI appraiser designated by the District and that the Property after said substitution or addition has a useful life equal to or greater than the maximum remaining term of the Lease Agreement (including any extensions authorized pursuant to the Lease Agreement);

(iii) The District will obtain an amendment to the existing title insurance policy required pursuant to or will obtain a new title insurance policy meeting the requirements of the Lease Agreement which describes the Substitute Site or Additional Site;

(iv) The District will provide notice of such substitution or addition to any rating agency then rating the Certificates;

(v) Such substitution or addition will not cause the District to violate any of its covenants, representations and warranties made in the Lease Agreement or in the Trust Agreement, as evidenced by a certificate of a District Representative delivered to the Trustee;

(vi) The District will deliver to the Trustee and the Corporation a certificate that the substituted or additional property is essential for performing the District's governmental functions relating to public education; and

(vii) The District will obtain an opinion of Special Counsel that such substitution or addition, in and of itself, will not adversely affect the status of the District's obligations evidenced by the Taxable Series B-1 Certificates as "Build America Bonds" under the Code or result in the loss of exclusion from gross income for federal income tax purposes of the interest evidenced by the Series B-2 Certificates.

The District will have, and is under the Lease Agreement granted, the option at any time and from time to time during the Term of the Lease Agreement to release any portion of the Property, provided that the District will satisfy all of the following requirements which are under the Lease Agreement declared to be conditions precedent to such release:

If the District holds fee title to such Property, the District will file with the Corporation and the Trustee an amended and recorded Exhibit A to the Site Lease which describes the Property, as revised by such release and will record or cause to be recorded any document necessary to re-convey such released property under the Site Lease;

(i) The District will file with the Corporation and the Trustee an amended and recorded Exhibit B to the Lease Agreement which describes the Property, as revised by such release and will record or cause to be recorded with the Los Angeles County Recorder any document necessary to re-convey such released property hereunder;

(ii) The District delivers to the Trustee and the Corporation a certificate of the District stating that the Property after said release has an annual fair rental value equal to or

greater than the maximum Lease Payments due in any Rental Period, as determined on the basis of an appraisal of the Property after said release, conducted by an MAI appraiser designated by the District and that the Property after said release has a useful life equal to or greater than the maximum remaining term of the Lease Agreement (including of any extensions authorized pursuant to the Lease Agreement);

(iii) The District will obtain an amendment to the title insurance policy required pursuant to or will obtain a new title insurance policy meeting the requirements of the Lease Agreement which describes the Property, as revised by such release;

(iv) The District will provide notice of such release to any rating agency then rating the Certificates;

(v) Such release will not cause the District to violate any of its covenants, representations and warranties made in the Lease Agreement or in the Trust Agreement, as evidenced by a certificate of a District Representative delivered to the Trustee; and

(vi) The District will obtain an opinion of Special Counsel that such release, in and of itself, will not adversely affect the status of the District's lease obligations evidenced by the Taxable Series B-1 Certificates as "Build America Bonds" under the Code or result in the loss of exclusion from gross income for federal income tax purposes of the interest evidenced by the Series B-2 Certificates.

Without the prior written consent of the Trustee the District and the Corporation will not alter, modify or cancel, or agree or consent to alter, modify or cancel the Lease Agreement, except in connection with a substitution, addition or release permitted by the Lease Agreement and as may be permitted by the Trust Agreement.

Events of Default

The following will be "Events of Default" under the Lease Agreement and the terms "Events of Default" and "Default" will mean, whenever they are used in the Lease Agreement, any one or more of the following events:

Failure by the District to pay any Lease Payment or Additional Payment required to be paid hereunder at the time specified in the Lease Agreement.

(a) Failure by the District to observe and perform any covenant, condition or agreement on its part to be observed or performed, other than as referred to in the Lease Agreement, for a period of thirty (30) days after written notice specifying such failure and requesting that it be remedied has been given to the District by the Corporation, the Trustee or the Owners of not less than five percent (5%) in aggregate principal amount of Certificates then Outstanding; provided, however, if the failure stated in the notice can be corrected, but not within the applicable period, the Corporation, the Trustee, and such Owners will not unreasonably withhold their consent to an extension of such time if corrective action is instituted by the District within the applicable period and diligently pursued until the default is corrected.

(b) The filing by the District of a voluntary petition in bankruptcy, or failure by the District promptly to lift any execution, garnishment or attachment, or adjudication of the District as a bankrupt, or assignment by the District for the benefit of creditors, or the entry by the District into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to

the District in any proceedings instituted under the provisions of the Federal Bankruptcy Code, as amended, or under any similar acts which may hereafter be enacted.

Remedies on Default

Whenever any Event of Default or Default referred to in the Lease Agreement will have happened and be continuing, it will be lawful for the Corporation to exercise any and all remedies available pursuant to law or granted pursuant to the Lease Agreement; provided, however, that notwithstanding anything in the Lease Agreement or in the Trust Agreement to the contrary, there will be no right under any circumstances to accelerate the Lease Payments or otherwise declare any Lease Payments not then in default to be immediately due and payable. Each and every covenant of the Lease Agreement to be kept and performed by the District is expressly made a condition and upon the breach thereof the Corporation may exercise any and all rights of entry and re-entry upon the Property, and also, at its option, with or without such entry, may terminate the Lease Agreement as provided in the Lease Agreement; provided, that no such termination will be effected either by operation of law or acts of the parties to the Lease Agreement, except only in the manner expressly provided in the Lease Agreement. In the event of such Event of Default or Default and notwithstanding any re-entry by the Corporation, the District will, as expressly provided in the Lease Agreement, continue to remain liable for the payment of the Lease Payments and/or damages for breach of the Lease Agreement and the performance of all conditions contained in the Lease Agreement and, in any event such Lease Payments and/or damages will be payable to the Corporation at the time and in the manner as provided in the Lease Agreement, to wit:

In the event the Corporation does not elect to terminate the Lease Agreement in the manner provided in the Lease Agreement, the District agrees to and will remain liable for the payment of all Lease Payments and the performance of all conditions contained in the Lease Agreement and will reimburse the Corporation for any deficiency arising out of the re-leasing of the Property, or, in the event the Corporation does not re-lease the Property, then for the full amount of all Lease Payments to the end of the Term of the Lease Agreement, but said Lease Payments and/or deficiency will be payable only at the same time and in the same manner as provided in the Lease Agreement for the payment of Lease Payments hereunder, notwithstanding such entry or re-entry by the Corporation or any suit in unlawful detainer, or otherwise, brought by the Corporation for the purpose of effecting such re-entry or obtaining possession of the Property or the exercise of any other remedy by the Corporation. The District under the Lease Agreement irrevocably appoints the Corporation as the agent and attorney-in-fact of the District to enter upon and re-lease the Property upon the occurrence and continuation of any Default or Event of Default and to remove all personal property whatsoever situated upon the Property to place such property in storage or other suitable place in Los Angeles County, for the account of and at the expense of the District, and the District under the Lease Agreement exempts and agrees to save harmless the Corporation from any costs, loss or damage whatsoever arising or occasioned by any such entry upon and re-leasing of the Property and the removal and storage of such property by the Corporation or its duly authorized agents in accordance with the provisions contained in the Lease Agreement. The District under the Lease Agreement waives any and all claims for damages caused or which may be caused by the Corporation in re-entering and taking possession of the Property as provided in the Lease Agreement and all claims for damages that may result from the destruction of or injury to the Property and all claims for damages to or loss of any property belonging to the District that may be in or upon the Property. The District agrees that the terms of the Lease Agreement constitute full and sufficient notice of the right of the Corporation to re-lease the Property in the event of such re-entry without effecting a surrender of the Lease Agreement, and further agrees that no acts of the Corporation in effecting such re-leasing will constitute a surrender or termination of the Lease Agreement irrespective of the term for which such re-leasing is made or the terms and conditions of such re-leasing, or otherwise, but that, on the contrary, upon the occurrence and continuation of any Default or Event of Default hereunder, the right to terminate the Lease Agreement will vest in the Corporation to be effected in the sole and exclusive manner provided for in the Lease

Agreement. The District further waives the right to any rental obtained by the Corporation in excess of the Lease Payments and under the Lease Agreement conveys and releases such excess to the Corporation as compensation to the Corporation for its services in re-leasing the Property.

Upon the occurrence and continuation of any Default or Event of Default hereunder, the Corporation at its option may terminate the Lease Agreement and re-lease all or any portion of the Property. In the event of the termination of the Lease Agreement by the Corporation at its option and in the manner provided in the Lease Agreement on account of an Event of Default or a Default by the District (and notwithstanding any re-entry upon the Property by the Corporation in any manner whatsoever or the re-leasing or sale of the Property), the District nevertheless agrees to pay to the Corporation all costs, loss or damages howsoever arising or occurring payable at the same time and in the same manner as is provided in the Lease Agreement in the case of payment of Lease Payments. Any surplus received by the Corporation from such re-leasing will be the absolute property of the Corporation and the District will have no right thereto, nor will the District be entitled to any credit in the event of a deficiency in the rentals received by the Corporation from the Property. Neither notice to pay rent or to deliver up possession of the premises given pursuant to law nor any proceeding in unlawful detainer taken by the Corporation will of itself operate to terminate the Lease Agreement, and no termination of the Lease Agreement on account of default by the District will be or become effective by operation of law, or otherwise, unless and until the Corporation will have given written notice to the District of the election on the part of the Corporation to terminate the Lease Agreement. The District covenants and agrees that no surrender of the Property or of the remainder of the Term of the Lease Agreement or any termination of the Lease Agreement will be valid in any manner or for any purpose whatsoever unless stated or accepted by the Corporation by such written notice.

No Remedy Exclusive

No remedy conferred in the Lease Agreement upon or reserved to the Corporation is intended to be exclusive and every such remedy will be cumulative and will be in addition to every other remedy given under the Lease Agreement or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default will impair any such right or power or will be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Corporation to exercise any remedy reserved to it in the applicable articles of the Lease Agreement it will not be necessary to give any notice, other than such notice as may be required under the applicable articles of the Lease Agreement or by law.

Agreement to Pay Attorneys' Fees and Expenses

In the event either party to the Lease Agreement should default under any of the provisions of the Lease Agreement and the nondefaulting party should employ attorneys or incur other expenses for the collection of moneys or the enforcement or performance or observance of any obligation or agreement on the part of the defaulting party contained in the Lease Agreement, the defaulting party agrees that it will on demand therefor pay to the nondefaulting party the reasonable fees of such attorneys and such other expenses so incurred by the nondefaulting party.

No Additional Waiver Implied by One Waiver

In the event any agreement contained in the Lease Agreement should be breached by either party and thereafter waived by the other party, such waiver will be limited to the particular breach so waived and will not be deemed to waive any other breach hereunder.

Application of Proceeds

All net proceeds received from the release or other disposition of the Property under the applicable articles of the Lease Agreement, and all other amounts derived by the Corporation or the Trustee as a result of a Default or an Event of Default hereunder, will be transferred to the Trustee promptly upon receipt thereof and applied by the Trustee in accordance with the Trust Agreement.

Trustee and Certificate Owners to Exercise Rights

Such rights and remedies as are given to the Corporation under the applicable articles of the Lease Agreement have been assigned by the Corporation to the Trustee under the Trust Agreement, to which assignment the District under the Lease Agreement consents. Such rights and remedies will be exercised by the Trustee and the Owners of the Certificates as provided in the Trust Agreement and in the Lease Agreement.

Security Deposit

Notwithstanding any other provision of the Lease Agreement the District may, secure the payment of all or a portion of the Lease Payments remaining due with respect to the Certificates by a deposit with an escrow holder under an escrow deposit and trust agreement as referenced in the Trust Agreement, of: (a) in the case of a security deposit relating to all Lease Payments, either (i) an amount which, together with amounts on deposit in the Lease Payment Fund and Net Proceeds Fund (all of which will be Available Moneys (as defined in the Trust Agreement)), is sufficient to pay all unpaid Lease Payments with respect to such Certificates, including the principal and interest components thereof, in accordance with the Lease Payment schedule set forth in the Lease Agreement, or (ii) Eligible Securities derived from Available Moneys in such amount as will, in the opinion of an independent certified public accountant, together with interest to accrue thereon and, if required, all or a portion of moneys or Eligible Securities then on deposit and interest earnings thereon in the Lease Payment Fund and Net Proceeds Fund with respect to such Certificates (all of which shall be Available Moneys), be fully sufficient to pay or repay all unpaid Lease Payments with respect to such Certificates on or before their respective Payment Dates (a "Verification Report"); or (b) in the case of a security deposit relating to a portion of the Lease Payments with respect to such Certificates, a certificate executed by a District Representative designating the portion of the Lease Payments with respect to such Certificates to which the deposit pertains, and either (i) an amount derived from Available Moneys which is sufficient to pay the portion of the Lease Payments with respect to such Certificates designated in such District Representative's certificate, including the principal and interest components thereof, or (ii) Eligible Securities derived from Available Moneys in such amount as will, together with interest to be received thereon, if any, in the opinion of an independent certified public accountant, be fully sufficient to pay the portion of the Lease Payments with respect to such Certificates designated in the aforesaid District Representative's certificate.

Prior to any defeasance becoming effective under the Lease Agreement: (i) the District will cause to be delivered a copy of the escrow deposit agreement entered into in connection with such defeasance, which escrow deposit agreement will provide that no substitution of Eligible Securities will be permitted except with other Eligible Securities and upon delivery of a new Verification Report and no reinvestment of Eligible Securities will be permitted except as contemplated by the original Verification Report or upon delivery of a new Verification Report, and (ii) a copy of an opinion of Special Counsel, dated the date of such defeasance and addressed to the Trustee and the District, in form and in substance acceptable to the Trustee and the District, to the effect that such Certificates have been paid within the meaning and with the effect expressed in the Trust Agreement, and all agreements and covenants of the Corporation,

the District and the Trustee to the Owners of such Certificates under the Trust Agreement have ceased, terminated and become void and have been discharged and satisfied.

The use of Available Moneys, as required in the preceding paragraph, in connection with a security deposit for the payment of Lease Payments, is subject, in all cases, to the receipt by the District (with a copy provided to the Trustee) of the written opinion of nationally recognized counsel experienced in bankruptcy matters, acceptable to each rating agency then rating the Certificates, to the effect that the application thereof could not constitute a voidable preference in the case of bankruptcy of the District or the Corporation.

In the event of a deposit pursuant to the Trust Agreement as to all Lease Payments evidenced by the Certificates and satisfaction of the requirements set forth in the Trust Agreement, all obligations of the District under the Lease Agreement will cease and terminate, excepting only the obligation of the District to make, or cause to be made, all payments from the deposit made by the District pursuant to the Lease Agreement. Said deposit and interest earnings thereon will be deemed to be and will constitute a special fund for the payments provided for by the Lease Agreement.

Net-net-net Lease

The Lease Agreement will be deemed and construed to be a “net-net-net lease” and the District agrees under the Lease Agreement that the Lease Payments will be an absolute net return to the Corporation, free and clear of any expenses, charges or set-offs whatsoever.

Further Assurances and Corrective Instruments

The Corporation and the District agree that they will, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, such supplements to the Lease Agreement and such further instruments as may reasonably be required for correcting any inadequate or incorrect description of the Property leased under the Lease Agreement or intended so to be or for carrying out the expressed intention of the Lease Agreement.

Assignment to Trustee

The District understands and agrees that, upon the execution and delivery of the Assignment Agreement (which is occurring simultaneously with the execution and delivery of the Lease Agreement), all right, title and interest of the Corporation in and to the Lease Agreement will be sold, assigned and transferred to the Trustee for the benefit of the Owners of the Certificates. The District consents under the Lease Agreement to such sale, assignment and transfer. Upon the execution and delivery of the Assignment Agreement, references in the operative provisions of the Lease Agreement to the Corporation will be deemed to be references to the Trustee, as assignee of the Corporation.

TRUST AGREEMENT

Project Fund

There is established under the Trust Agreement and the Trustee will maintain a special fund designated as the “2010 Los Angeles Unified School District Project Fund” (the “Project Fund”) in which there will be established for the Taxable Series B-1 Certificates a separate account designated as the “Series B-1 Project Account” and for the Series B-2 Certificates a separate account designated as the

“Series B-2 Project Account”. The Trustee will keep such fund separate and apart from all other funds and moneys held by it, and will administer such fund and accounts as provided in the Trust Agreement.

Proceeds of the sale of the Certificates will be deposited in the Project Fund in the amount required to be deposited therein pursuant to the Trust Agreement, together with any other amounts from time to time deposited with the Trustee for such purpose as may be identified in writing to the Trustee, and will be used and withdrawn by the Trustee to pay the costs of the Project.

Amounts in the Project Fund will be disbursed for Project Costs. The Trustee will disburse moneys in the Project Fund upon receipt of a requisition requesting disbursement executed by a District Representative. Each such requisition will:

- (i) set forth the amounts to be disbursed for payment or reimbursement of previous payments of Project Costs with respect to the Project and the person or persons to whom said amounts are to be disbursed;
- (ii) state that the amounts to be disbursed constitute Project Costs with respect to the Project, that said amounts are required to be disbursed pursuant to a contract entered into therefor by or on behalf of the Corporation or the District, or were necessarily and reasonably incurred, and that said amounts are not being paid in advance of the time, if any, fixed for payment;
- (iii) state that no amount set forth in the requisition was included in any requisition requesting disbursement previously filed with the Trustee pursuant to the Trust Agreement; and
- (iv) state that the amount remaining in the Project Fund, together with interest earnings thereon or deposited therein will, after payment of the amount set forth in the requisition requesting disbursement, be sufficient to pay all remaining Project Costs with respect to the Project as then estimated.

Delivery Costs Fund

There is established under the Trust Agreement and the Trustee will maintain a special fund designated as the “2010 Los Angeles Unified School District Delivery Costs Fund” (the “Delivery Costs Fund”) in which there will be established for the Taxable Series B-1 Certificates a separate account designated as the “Series B-1 Delivery Costs Account” and for the Series B-2 Certificates a separate account designated as the “Series B-2 Delivery Costs Account”. The Trustee will keep such fund separate and apart from all other funds and moneys held by it, and will administer such fund and accounts as provided in the Trust Agreement. Moneys in the Delivery Costs Fund will be expended for Delivery Costs of the Certificates in accordance with the Trust Agreement.

Transfers of Unexpended Proceeds from the Project Fund

The Trustee is hereby directed that all unexpended moneys remaining in the Project Fund with respect to the Project and not identified in writing by a District Representative to be required for payment of Project Costs, on the Completion Date (evidenced by the filing by the District of a Certificate of Completion) with respect to the Project, be transferred to the Series B-1 Lease Payment Account and the Series B-2 Lease Payment Account on a *pro rata* basis and applied to pay the Lease Payments with respect to the Project and the Certificates as the same become due and payable.

Transfers of Unexpended Proceeds from the Delivery Costs Fund

Upon the earlier of (i) receipt of a Certificate of the District that all Delivery Costs have been paid as provided in Exhibit C to the Trust Agreement or (ii) the date that is one year following the date of execution and delivery of the Certificates, the Trustee will withdraw all remaining moneys in the Delivery Costs Fund, will transfer such moneys to the District free and clear of the lien of the Trust Agreement.

Prepayment Fund and Prepayment Accounts

There is established under the Trust Agreement and the Trustee will maintain a special fund designated as the "2010 Certificates Los Angeles Unified School District Prepayment Fund" (the "Prepayment Fund") in which there will be established for the Taxable Series B-1 Certificates a separate account designated as the "Series B-1 Prepayment Account" and for the Series B-2 Certificates a separate account designated as the "Series B-2 Prepayment Account". The Trustee will keep such funds and accounts separate and apart from all other funds and moneys held by it and will administer such funds and accounts as provided in the Trust Agreement. Moneys to be used for prepayment of any Certificates of a Series will be deposited into the related Prepayment Account and used solely for the purpose of prepaying such Certificates of such Series in advance of their maturity on the date designated for prepayment and upon presentation and surrender of such Certificates.

The Trustee will notify the District of any funds remaining in the Prepayment Fund after prepayment and payment of all Certificates Outstanding of the related Certificates, including accrued interest, and payment of any applicable fees and expenses to the Trustee (including amounts due pursuant to the Trust Agreement), or provision made therefor satisfactory to the Trustee, and provisions for all amounts required to be transferred to the District to pay rebate pursuant to the related Tax Certificate. All such funds will be withdrawn by the Trustee and timely remitted to the District.

In the event of prepayment of the principal components of the Lease Payments in full under the Trust Agreement or the Lease Agreement, such that the Trust Agreement will be discharged by its terms as a result of such prepayment, all amounts then on deposit in the Lease Payment Fund will be credited towards the amounts then required to be so prepaid.

Security Provisions

In order to secure the respective rights of the Owners to the payments required to be made thereto as provided in the Trust Agreement, the District hereby irrevocably pledges to the Trustee, for the benefit of the Owners, all of its right, title and interest, if any, in and to all amounts on deposit from time to time in the funds and accounts established hereunder. It is the intent of the District and the Corporation that by reason of the assignment by the Corporation pursuant to the Assignment Agreement, the Corporation will have no right, title or interest in or to the funds and accounts established hereunder or the amounts on deposit therein. Nonetheless, should it be determined that, notwithstanding the intent of the parties, the Corporation does have any interest in the funds and accounts established hereunder or the amounts on deposit therein, the Corporation hereby irrevocably pledges to the Trustee for the benefit of the Owners all of its right, title and interest in and to all amounts on deposit from time to time in the funds and accounts established hereunder (other than the Rebate Fund). This pledge will constitute a first lien on the funds and accounts established hereunder in accordance with the terms hereof.

All Lease Payments will be paid directly by the District to the Trustee, and if received by the Corporation at any time will be deposited by the Corporation with the Trustee within one Business Day after the receipt thereof. All Lease Payments paid by the District will be deposited by the Trustee in the Series B-1 Lease Payment Account and the Series B-2 Lease Payment Account, as applicable, which the

Trustee will establish and maintain until all required Lease Payments are paid in full pursuant to the Lease Agreement and until the first date upon which the Certificates are no longer Outstanding. The moneys in the Lease Payment Fund will be held in trust by the Trustee and will be disbursed only for the purposes and uses authorized in the Trust Agreement.

The District, the Corporation, the Trustee and each of them acknowledges and agree that upon the execution and delivery of the Assignment Agreement, the Corporation will have no rights (except its rights to indemnification), obligations, or duties under the Site Lease and the Lease Agreement, and will have been released from all of such rights, obligations, and duties, all of which have been assigned to the Trustee pursuant to the Assignment Agreement.

Lease Payment Fund and Lease Payment Accounts

There is established under the Trust Agreement and the Trustee will maintain a special fund designated as the “2010 Los Angeles Unified School District Lease Payment Fund” (the “Lease Payment Fund”) in which there will be established for the Taxable Series B-1 Certificates a separate account designated as the “Series B-1 Lease Payment Account” and for the Series B-2 Certificates a separate account designated as the “Series B-2 Lease Payment Account”. All moneys at any time deposited by the Trustee in the Series B-1 Lease Payment Account will be held by the Trustee in trust for the benefit of the Owners of the Taxable Series B-1 Certificates. All moneys at any time deposited by the Trustee in the Series B-2 Lease Payment Account will be held by the Trustee in trust for the benefit of the Owners of the Series B-2 Certificates. So long as any Certificates of a Series are Outstanding, neither the District nor the Corporation will have any beneficial right or interest in the Lease Payment Fund or the moneys deposited therein, except only as provided in the Trust Agreement, and such moneys will be used and applied by the Trustee as set forth in the Trust Agreement.

The Trustee, on each Lease Payment Date, will deposit in the Lease Payment Fund a sufficient amount of money such that the aggregate of amounts therein equal the portion of the Lease Payments designated as the principal and interest component coming due on such Lease Payment Date. Moneys in the Series B-1 Lease Payment Account and the Series B-2 Lease Payment Account will be used by the Trustee for the purpose of paying the principal and interest evidenced by the Taxable Series B-1 Certificates and the Series B-2 Certificates, respectively, when due and payable.

There will be deposited in the Lease Payment Fund all Lease Payments received by the Trustee, including any moneys received by the Trustee for deposit therein pursuant to the Lease Agreement (regarding Lease Payments), and any other moneys required to be deposited therein pursuant to the Lease Agreement or pursuant to the Trust Agreement, including pursuant to the Lease Agreement (regarding proceeds of rental interruption insurance). Upon receipt of all amounts to be deposited in the Lease Payment Fund, the Trustee will credit the amount of Lease Payments required to pay the principal and interest with evidenced by the related Series of Certificates.

Application of Moneys

All amounts in the Lease Payment Funds will be used and withdrawn by the Trustee solely for the purpose of paying the principal and interest evidenced by the Certificates as the same will become due and payable, in accordance with the provisions of the Trust Agreement, subject to the requirement that certain investment earnings thereon may be transferred to the District to pay rebate as the District instructs the Trustee in writing in accordance with the related Tax Certificate.

On or before each Interest Payment Date, the Trustee will first set aside from each account an amount sufficient to pay the interest evidenced by the Certificates becoming due and payable on such

date, and pay such amount to the Owners; and second, set aside from each account an amount sufficient to pay the principal evidenced by the Certificates becoming due and payable on such Interest Payment Date, and pay such amount to the Owners.

Surplus

The Trustee will notify the District of any funds remaining in the Lease Payment Fund after payment of all Certificates Outstanding, including accrued interest and payment of any applicable fees to the Trustee or other amounts due the Trustee pursuant to the Trust Agreement, or provision made therefor satisfactory to the Trustee, and provision for any amounts required to be transferred to the District to pay rebate as the District instructs the Trustee in writing in accordance with the related Tax Certificate. All such funds will be withdrawn by the Trustee and timely remitted to the District.

Notice of Lease Payments

The Trustee will send written notification to the District at least twenty-one (21) days prior to each Interest Payment Date, which notification will indicate the Lease Payment due on the next succeeding Lease Payment Date for each Series of the Certificates as provided in the Lease Agreement, less any amount available under the Trust Agreement in the related subaccounts of the Lease Payment Fund for application as a credit against such Lease Payments; provided, however, that any failure of the Trustee to send such notice will not relieve the District of its obligation to make Lease Payments.

Debt Service Reserve Fund and Debt Service Reserve Accounts

There is established under the Trust Agreement and the Trustee will maintain a special fund designated as the "2010 Series B Los Angeles Unified School District Debt Service Reserve Fund" (the "Debt Service Reserve Fund"). The Trustee will establish and maintain an account designated as the "Series B-1 Los Angeles Unified School District Reserve Account" (the "Series B-1 Reserve Account") and an account designated as the "Series B-2 Los Angeles Unified School District Reserve Account" (the "Series B-2 Reserve Account") within the Debt Service Reserve Fund until the date on which all amounts are transferred therefrom in accordance with the Trust Agreement are no longer needed. All moneys at any time on deposit in the Debt Service Reserve Fund (which amounts may be in cash, Permitted Investments or a combination thereof, equal to the Debt Service Reserve Requirement for each Series of the Certificates shall be held by the Trustee in trust for the benefit of the Owners of the related Series of Certificates, as a reserve for the payment when due of all the related Lease Payments and Prepayments to be paid pursuant to the Lease Agreement with respect to a Series of Certificates and applied solely as provided in the Trust Agreement. Notwithstanding anything to the contrary set forth in the Trust Agreement, amounts in the Series B-1 Reserve Account and the Series B-2 Reserve Account will be applied solely to the payment of principal and interest evidenced by the related Series of Certificates. The Debt Service Reserve Requirement upon the delivery of the Certificates will be satisfied upon the deposits of the amounts set forth in the Trust Agreement in the Series B-1 Reserve Account and the Series B-2 Reserve Account, as applicable.

Replenishment of Debt Service Reserve Accounts

If the sum of the amount on deposit in the Series B-1 Reserve Account or the Series B-2 Reserve Account, as applicable, will be reduced below the Debt Service Reserve Requirement for such Series of Certificates, the first portion of Lease Payments evidenced thereby thereafter received from the District under the Lease Agreement with respect to such Series of Certificates and not needed to pay the interest or principal payable to the Owners of such Series of Certificates on the next Interest Payment Date will be used to increase the amount on deposit in the Series B-1 Reserve Account or the Series B-2 Reserve

Account, as applicable, to an amount which will equal the Debt Service Reserve Requirement for such Series of Certificates.

If, as a result of investment losses on funds on deposit in the Series B-1 Reserve Account and the Series B-2 Reserve Account, as applicable, the sum of the amount on deposit in the Series B-1 Reserve Account and the Series B-2 Reserve Account, as applicable, will be reduced below the Debt Service Reserve Requirement for such Series of Certificates, the District will pay to the Trustee on the next succeeding Lease Deposit Date, such amounts as are required to increase the amount on deposit in the Series B-1 Reserve Account and the Series B-2 Reserve Account, as applicable, to an amount which is equal to the Debt Service Reserve Requirement for such Series of Certificates. Debt Service Reserve Fund investments will not have maturities extending beyond five (5) years.

Transfers of Excess

The Trustee will, on or before May 1 and November 1 of each year, provide written notice to the District of any moneys then on hand in the Series B-1 Reserve Account and the Series B-2 Reserve Account in excess of the Debt Service Reserve Requirement for the related Series of Certificates (based on fair market value) and on the following May 15 and November 15 of such year, the Trustee will transfer such excess moneys to the related Lease Payment Account to be applied to the next Lease Payment due from the District.

Application of Debt Service Reserve Fund in Event of Deficiency in the Lease Payment Fund

Whether or not Lease Payments are then in abatement, if one day immediately preceding any Interest Payment Date, the moneys available in a subaccount of the Lease Payment Fund are less than the amount of the principal and interest evidenced by the related Series of Certificates then coming due and payable, the Trustee first will apply the moneys on hand in the Series B-1 Reserve Account or the Series B-2 Reserve Account, as applicable, to make delinquent Series B-1 Lease Payments or Series B-2 Lease Payments, as applicable, on behalf of the District by transferring the amount necessary for this purpose to the Series B-1 Lease Payment Account or the Series B-2 Lease Payment Account, as applicable, from any cash on deposit. Such transfer will be made from the related subaccount of the Debt Service Reserve Fund to the applicable Lease Payment Account. Under no circumstances will moneys in the Debt Service Reserve Fund be applied for any fees due to the Trustee under the Trust Agreement or any other costs of the Trustee or their agents, attorneys and counsel incurred with respect to an Event of Default hereunder or otherwise. The Trustee will notify the District of the amount of any deficiency in the Debt Service Reserve Fund.

Transfer to make all Lease Payments

If on any Interest Payment Date, the moneys on deposit in an account within the Debt Service Reserve Fund and the related Lease Payment Account (excluding amounts required for payment of past due principal or interest evidenced by the Certificates not presented for payment) are sufficient to pay all Outstanding Certificates of a Series, including all principal, interest and prepayment premiums (if any), the Trustee will, upon the Written Request of the District, transfer all amounts then on hand in the related Debt Service Account to the related Lease Payment Account or Prepayment Account to be applied to the payment of the Lease Payments evidenced by the related Series of Certificates or prepayments on behalf of the District, and such moneys will be distributed to the Owners of such Series of Certificates in accordance with the Trust Agreement. Any amounts remaining in the Debt Service Reserve Fund upon payment in full of all Outstanding Certificates, or upon provision for such payment as provided in the Trust Agreement and provisions for any amounts required to be transferred to the District to pay rebate, as the District notifies the Trustee in writing, pursuant to the related Tax Certificates, will be withdrawn by

the Trustee and paid to the District after payment of any amounts due the Trustee pursuant to the Trust Agreement.

Net Proceeds Fund

There is established under the Trust Agreement and the Trustee will maintain a special fund when needed designated as the “2010 Series B Los Angeles Unified School District Net Proceeds Fund” (the “Net Proceeds Fund”) to be maintained and held in trust for the benefit of the Owners, subject to disbursement therefrom as provided in the Trust Agreement. The Trustee will deposit Net Proceeds in the Net Proceeds Fund as provided in the Lease Agreement.

The Trustee will disburse Net Proceeds for replacement or repair of the Property as provided in the Lease Agreement only if it has received the certification and moneys, if any, required by the Lease Agreement (and the Trustee will be protected absolutely in making any disbursements from the Net Proceeds Fund in reliance upon the requisition described in the Lease Agreement), or transfer such Net Proceeds to the Prepayment Fund upon notification by the District Representative as provided in the Lease Agreement. After all of the Certificates have been retired, the entire amount of principal and interest with respect to the Certificates has been paid in full, and payment of any amounts due to the Trustee pursuant to the Trust Agreement, or provision is made therefor satisfactory to the Trustee, including provisions for all amounts required to be transferred to the District to pay rebate pursuant to the related Tax Certificate, the Trustee will remit any remaining moneys in the Net Proceeds Fund to the District.

The Corporation and the Trustee will cooperate fully with the District at the expense of the District in filing any proof of loss with respect to any insurance policy maintained pursuant to the Lease Agreement and in the prosecution or defense of any prospective or pending condemnation proceeding with respect to the Property or any item or portion thereof.

Rebate Fund

There is established under the Trust Agreement and the Trustee will maintain a special fund designated as the “2010 Los Angeles Unified School District Rebate Fund” (the “Rebate Fund”) in which there will be established for the Taxable Series B-1 Certificates a separate account designated as the “Series B-1 Rebate Account” and for the Series B-2 Certificates a separate account designated as the “Series B-2 Rebate Account”. Absent an opinion of Special Counsel that, with respect to the Taxable Series B-1 Certificates, the status of the District’s lease obligations evidenced by the Taxable Series B-1 Certificates as “Build America Bonds” under the Code will not be adversely affected, or, with respect to the Series B-2 Certificate, the exclusion from gross income for federal income tax purposes of interest evidenced by the Series B-2 Certificates will not be adversely affected (as the case may be), the District will cause to be deposited in the Series B-2 Rebate Account and the Series B-2 Rebate Account, respectively, such amounts as are required to be deposited therein pursuant to the Trust Agreement and the related Tax Certificate. All money at any time deposited in the Rebate Fund will be held by the Trustee in trust for payment to the United States Treasury. All amounts on deposit in the Rebate Fund for the Certificates will be governed by the Trust Agreement and the Tax Certificate for the related Series of Certificates, unless and to the extent that the District delivers to the Trustee an opinion of Special Counsel that, with respect to the Taxable Series B-1 Certificates, the status of the District’s lease obligations evidenced by the Taxable Series B-1 Certificates as “Build America Bonds” under the Code will not be adversely affected, or, with respect to the Series B-2 Certificate, the exclusion from gross income for federal income tax purposes of interest evidenced by the Series B-2 Certificates will not be adversely affected (as the case may be), if such requirements are not satisfied.

The Trustee will be responsible for the safekeeping and investment (in accordance with the Trust Agreement) of the moneys held in the Rebate Fund and the payment thereof in accordance with the Trust Agreement, but the Trustee will not be responsible for such requisitions except to ensure that the contents of such requisitions conform to the requirements of the Trust Agreement.

Held in Trust

The moneys and investments held by the Trustee under the Trust Agreement are irrevocably held in trust for the benefit of the Owners of the Certificates, and such moneys, and any income or interest earned thereon, will be expended only as provided in the Trust Agreement, and will not be subject to levy or attachment or lien by or for the benefit of any creditor of the Corporation, the Trustee or the District, or any of them. The Certificates evidence an interest in all Lease Payments, and all funds and accounts established hereunder are held for the benefit of all Owners equally.

Investments Authorized

The District will by Written Request of the District filed with the Trustee direct investment in specific Permitted Investments identified in such Written Request of the District; provided, however, that the District will not instruct the Trustee to invest the Debt Service Reserve Fund moneys in maturities extending beyond five (5) years. In the absence of such Written Request of the District, the Trustee will make investments solely in those Permitted Investments set forth in paragraph (4) of the definition thereof; provided, however, that such investment will be made by the Trustee only if, prior to the date on which such investment is to be made, the Trustee has received written direction of the District specifying a specific money market fund, and if no such written direction of the District is received, the Trustee will hold such moneys uninvested. The Trustee may conclusively rely upon such investment direction as a certification that such investment constitutes a Permitted Investment.

Such investments, if registrable, will be registered in the name of the Trustee for the benefit of the Owners and held by the Trustee. The Trustee or any of its affiliates may act as sponsor, advisor or provide administrative or management services in connection with any Permitted Investments.

The Trustee or an affiliate may purchase or sell to itself or any affiliate, as principal or agent, Permitted Investments and will be entitled to its customary fee therefor. The Trustee may act as purchaser or agent in the making or disposing of any investment.

The Trustee will not be responsible or liable for any loss suffered in connection with any investment of funds made by it in accordance with the Trust Agreement and upon the Written Request of the District.

Any income, profit or loss on the investment of moneys held by the Trustee under the Trust Agreement will be credited for which such moneys are held, except as otherwise provided in the Trust Agreement; provided that in all cases income on investments may be transferred to the District to pay rebate pursuant to the Tax Certificate for the related Series of Certificates upon the Written Request of the District.

Accounting of Investments

The Trustee will furnish to the District, not less frequently than monthly, an accounting of all investments made by the Trustee and all funds and amounts held by the Trustee hereunder. The Trustee will keep accurate records in accordance with industry standards of all funds administered by it and of all Certificates paid and discharged. The Corporation and District acknowledge that to the extent regulations

of the Comptroller of the Currency or other applicable regulatory entity grant the Corporation or the District the right to receive brokerage confirmations of security transactions as they occur at no additional cost, the Corporation and the District specifically waive receipt of such confirmations to the extent permitted by law. The Trustee will furnish the Corporation and the District periodic cash transaction statements which include detail for all investment transactions made by the Trustee hereunder.

Disposition of Investments

The Trustee will sell, or present for prepayment, any Permitted Investment so purchased by the Trustee whenever it shall be necessary in order to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund to which such Permitted Investment is credited.

Commingling of Moneys in Funds

The Trustee may commingle any of the funds held by it pursuant to the Trust Agreement into a separate fund or funds for investment purposes only; provided, however, that all funds or accounts held by the Trustee under the Trust Agreement will be accounted for separately notwithstanding any such commingling by the Trustee.

The Trustee

Any successor Trustee appointed pursuant to the provisions of the Trust Agreement will be a trust company or bank in good standing, located in or incorporated under the laws of the State, duly authorized to exercise trust powers and subject to examination by federal or State authority, and have a reported capital and surplus of not less than \$50,000,000. If such bank or trust company publishes a report of condition at least annually pursuant to law or to the requirements of any supervising or examining authority referred to above, then for the purpose of the Trust Agreement the combined capital and surplus of such bank or trust company will be deemed to be its combined capital and surplus as set forth in its most recent published report of condition.

So long as there is no Event of Default or occurrence that with the passage of time will become an Event of Default, upon 30 days' written notice, the District may remove the Trustee initially appointed, and any successor thereto, and may appoint a successor or successors thereto. Subject to the provisions of the Trust Agreement, the Trustee may be removed by the District any time for any breach of trust under the Trust Agreement.

The Trustee may resign by giving written notice to the District and the Corporation; provided that such resignation will not take effect until a successor Trustee is appointed as provided in the Trust Agreement. Upon receiving such notice of resignation, the District will promptly appoint a successor Trustee. In the event the District does not name a successor Trustee within 30 days of receipt of notice of the Trustee's resignation, then the Trustee may petition a court of suitable jurisdiction to seek the immediate appointment of a successor Trustee.

Any resignation or removal of the Trustee and appointment of a successor Trustee will become effective upon acceptance of appointment by the successor Trustee. Upon such acceptance, the successor Trustee will mail notice thereof to the Certificate Owners at their respective addresses set forth on the Certificate Register.

Merger or Consolidation

Any banking corporation or national banking association into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it will be a party or any banking corporation or national banking association to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided that such banking corporation or national banking association will be eligible under the Trust Agreement, will be the successor to the Trustee without the execution or filing of any paper or further act, anything in the Trust Agreement to the contrary notwithstanding. Prompt notice of such merger or consolidation will be given to the District and the Corporation. All costs and expenses of such merger or consolidation will be paid by the successor trustee and no additional charges will be levied against the District or the Corporation.

Protection of the Trustee

The Trustee will be protected and will incur no liability in acting or proceeding in good faith upon any resolution, notice, telegram, request, consent, waiver, certificate, statement, affidavit, voucher, bond, requisition or other paper or document which it will in good faith believe to be genuine and to have been passed or signed by the proper board or person or to have been prepared and furnished pursuant to any of the provisions of the Trust Agreement, and the Trustee will be under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument, but may, in the absence of bad faith on its part, accept and rely upon the same as conclusive evidence of the truth and accuracy of such statements and matters.

The Trustee may consult with counsel, who may be counsel to the District, with regard to legal questions, and the opinion of such counsel will be full and complete authorization and protection in respect of any action taken or suffered by the Trustee hereunder in good faith in accordance therewith. Before being required to take any action, the Trustee may require an opinion of Special Counsel acceptable to the Trustee, which opinion will be made available to the other parties hereto upon request, which counsel may be counsel to any of the parties hereto, or the Trustee may require a Certificate of the District or Certificate of the Corporation, in lieu of or in addition to such opinion, concerning the proposed action. If it does so in good faith, the Trustee will be absolutely protected in relying on such opinion or such verified certificate.

Whenever in the administration of its duties under the Trust Agreement, the Trustee will deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be specifically prescribed in the Trust Agreement), in the absence of bad faith on the Trustee's part, will be deemed to be conclusively proved and established by a Certificate of the District or a Certificate of the Corporation and such certificate will be full warranty to the Trustee, in the absence of bad faith on its part, for any action taken or suffered under the provisions of the Trust Agreement upon the faith thereof, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as the Trustee may deem reasonable.

No provision in the Trust Agreement will require the Trustee to risk or expend its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder if the Trustee will have reasonable grounds for believing that repayment of such funds or indemnity satisfactory to it against such risk or liability is not assured to it.

The Trustee will not be accountable for the use or application by the District, the Corporation or any other party of any funds which the Trustee has released in accordance with the terms of the Trust Agreement.

The Trustee makes no representation or warranty, express or implied, as to the title, value, design, compliance with specifications or legal requirements, quality, durability, operation, condition, merchantability or fitness for any particular purpose or fitness for the use contemplated by the District or the Corporation of the Property. In no event will the Trustee be liable for incidental, indirect, special or consequential damages in connection with or arising from the Lease Agreement or the Trust Agreement for the existence, furnishing or use of the Property.

The Trustee undertakes to perform such duties, and only such duties as are specifically set forth in the Trust Agreement and no implied duties or obligations will be read into the Trust Agreement against the Trustee.

In accepting the trust hereby created, the Trustee acts solely as Trustee for the Owners and not in its individual capacity, and all persons, including without limitation the Owners, the District and the Corporation, having any claim against the Trustee arising from actions taken by the Trustee in compliance with the Trust Agreement will look only to the funds and accounts held by the Trustee hereunder for payment except as otherwise provided in the Trust Agreement. Under no circumstances will the Trustee be liable in its individual capacity for the obligations evidenced by the Certificates.

Before taking any action under the Trust Agreement at the request of the Owners, the Trustee may require that a satisfactory indemnity bond be furnished by the Owners for the reimbursement of all expenses to which it may be put and to protect it against all liability, except liability which is adjudicated to have resulted from its negligence or willful misconduct in connection with any action so taken.

The Trustee will have no responsibility, opinion or liability with respect to any information, statement or recital in any offering memorandum or other disclosure material prepared or distributed with respect to the execution and delivery of the Certificates.

All indemnifications and releases from liability granted under the Trust Agreement to the Trustee will extend to its officers, directors, employees and agents.

Rights of the Trustee

The Trustee may become the Owner of Certificates with the same rights that it would have if it were not Trustee; may acquire and dispose of other bonds or evidences of indebtedness of the District with the same rights that it would have if it were not the Trustee; and may act as a depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Owners of Certificates, whether or not such committee will represent the Owners of the majority in principal amount of the Certificates then Outstanding.

The Trustee may execute any of the trusts or powers hereof and perform the duties required of it hereunder by or through attorneys, agents, or receivers, and will be entitled to advice of counsel concerning all matters of trust and its duty under the Trust Agreement.

Standard of Care

The Trustee will not be liable in connection with the performance of its duties hereunder or under the Assignment Agreement, except for its own negligence or willful misconduct. Upon the occurrence of

an Event of Default, the Trustee will exercise such care in performing its duties hereunder as a reasonable person would exercise in the conduct of his or her affairs.

Compensation of the Trustee

As Additional Payments under the Lease Agreement, the District will pay to the Trustee reasonable compensation for its services as will be agreed upon between the Trustee and the District, and the District will reimburse the Trustee for all of its advances and expenditures, including but not limited to advances to and fees and expenses of Independent Appraisers, accountants, consultants, counsel, agents and attorneys-at-law or other experts employed by the Trustee in the exercise and performance of its powers and duties hereunder, and the Trustee will have a lien therefor on any and all funds at any time held by it under the Trust Agreement, which lien will be prior and superior to the lien of the Certificate Owners. The District's obligation hereunder will remain valid and binding notwithstanding maturity and payment of the Certificates.

Indemnification of the Trustee

The District will indemnify, to the extent permitted by law, and save the Trustee harmless from and against all claims, losses, costs, expenses, liability and damages, including legal fees and expenses, arising out of: (i) the use, maintenance, condition or management of, or from any work or thing done on or to, the Property by the District; (ii) any breach or default on the part of the District in the performance of any of its obligations under the Trust Agreement and any other agreement made and entered into for purposes of the Property; (iii) any act of negligence of the District or of any of its agents, contractors, servants, employees or licensees with respect to the Property; (iv) any act of negligence of any assignee of, or purchaser from, the District or of any of its or their agents, contractors, servants, employees or licensees with respect to the Property; (v) acquisition or construction of the Property; (vi) the actions of any other party, including but not limited to the ownership, operation or use of the Property by the District; (vii) the Trustee's exercise and performance of its powers and duties hereunder or under any Related Document; (viii) any untrue statement or alleged untrue statement of any material fact or omission or alleged omission to state a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading in any official statement or other offering circular utilized in connection with the sale of the Certificates; or (ix) or related to the presence on, under or about, or release from the Property, or any portion thereof, of any substance, material or waste which is or becomes regulated or classified as toxic or hazardous under State, local or federal law, and the violation or noncompliance with, any such laws by the District or the Corporation. Such indemnification will include the costs and expenses of defending against any claim or liability arising under the Trust Agreement. No indemnification will be made under the Trust Agreement for willful misconduct, negligence, or breach of duty under the Trust Agreement by the Trustee, its officers, agents, employees, successors or assigns. The District's obligations hereunder will remain valid and binding notwithstanding maturity and payment of the Certificates or the resignation or removal of the Trustee. The District's obligations under the Trust Agreement will remain valid and binding notwithstanding the maturity and payment of the Certificates or resignation or removal of the Trustee.

Amendments

The Trust Agreement and the rights and obligations of the Owners, the Lease Agreement and the rights and obligations of the parties thereto, the Site Lease and the rights and obligations of the parties thereto and the Assignment Agreement and the rights and obligations of the parties thereto may be modified or amended at any time by a supplemental agreement that will become effective when the written consents of the Owners of a majority in aggregate principal amount of the Certificates then

Outstanding, exclusive of Certificates disqualified as provided in the Trust Agreement, will have been filed with the Trustee. No such modification or amendment will:

- (i) extend or have the effect of extending the fixed maturity of any Certificate or the time of payment of interest evidenced thereby, or reduce or have the effect of reducing the interest rate with respect to any Certificate, the amount of principal evidenced thereby or the amount of any premium payable upon the prepayment thereof, or
- (ii) reduce or have the effect of reducing the percentage of Certificates required for the affirmative vote or written consent to an amendment or modification of the Lease Agreement, or
- (iii) modify any of the rights or obligations of the Trustee without its written assent thereto.

Any such supplemental agreement will become effective as provided in the Trust Agreement.

The Trust Agreement and the rights and obligations of the Owners, the Lease Agreement and the rights and obligations of the parties thereto, the Site Lease and the rights and obligations of the parties thereto and the Assignment Agreement and the rights and obligations of the parties thereto, may be modified or amended at any time by a supplemental agreement, without the consent of any such Owners, but only to the extent permitted by law and only:

- (i) to cure, correct or supplement any ambiguous or defective provision contained in the Trust Agreement or therein;
- (ii) in regard to matters arising hereunder or thereunder, as the parties hereto or thereto may deem necessary or desirable and which (based upon opinions as provided in the Trust Agreement), will not adversely affect the interest of the Owners; or
- (iii) to remove, add or substitute Property as provided by the Lease Agreement.

Any such supplemental agreement will become effective upon execution and delivery by the parties hereto or thereto as the case may be.

Prior to executing such supplemental agreements, the Trustee will be entitled to receive and rely on an opinion of counsel to the effect that the execution of such supplemental agreement is authorized or permitted under the Trust Agreement.

The Trust Agreement, the Lease Agreement, the Site Lease or the Assignment Agreement may be amended by supplemental agreement as provided in the Trust Agreement in the event that the consent of the Owners is required pursuant to the Trust Agreement. A copy of such supplemental agreement, together with a request to the Owners for their consent thereto, will be mailed by the Trustee by first-class mail, postage prepaid, to each Owner of a Certificate at his or her address as set forth in the Certificate Register, but failure to receive copies of such supplemental agreement and request so mailed will not affect the validity of the supplemental agreement when assented to as provided in the Trust Agreement.

Such supplemental agreement will not become effective unless there will be filed with the Trustee the written consent of the Owners of at least a majority in aggregate principal amount of the Certificates then Outstanding (exclusive of Certificates disqualified as provided in the Trust Agreement) and notices will have been mailed as provided in the Trust Agreement. Each such consent will be effective only if accompanied by proof of ownership of the Certificates for which such consent is given, which proof will

be such as is permitted by the Trust Agreement. Any such consent will be binding upon the Owner of the Certificate giving such consent and on any subsequent Owner thereof (whether or not such subsequent Owner has notice thereof) unless such consent is revoked in writing by the Owner giving such consent or a subsequent Owner by filing such revocation with the Trustee prior to the date when the notice provided for in the next paragraph has been mailed.

After the Owners of the required percentage of Certificates will have filed their consents to such supplemental agreement, the Trustee will mail a notice to the Owners of the Certificates in the manner hereinbefore provided in the Trust Agreement for the mailing of such supplemental agreement, stating in substance that such supplemental agreement has been consented to by the Owners of the required percentage of Certificates and will be effective as provided in the Trust Agreement (but failure to mail copies of said notice will not affect the validity of such supplemental agreement or consents thereto). A record, consisting of the papers required by the Trust Agreement to be filed with the Trustee, will be proof of the matters therein stated until the contrary is proved.

Disqualified Certificates

Certificates owned or held by or for the account of the District or the Corporation or by any person directly or indirectly controlled or controlled by, or under direct or indirect common control with the District or the Corporation (except any Certificates held in any pension or retirement fund) will not be deemed Outstanding for the purpose of any vote, consent, waiver or other action or any calculation of Outstanding Certificates provided for in the Trust Agreement, and will not be entitled to vote upon, consent to, or take any other action provided for in the Trust Agreement; except that in determining whether the Trustee will be protected in relying upon any such vote, consent, waiver or other action of an Owner, only Certificates which the Trustee actually knows to be owned or held by or for the account of the District or the Corporation or by any person directly or indirectly controlled or controlled by, or under direct or indirect common control with the District or the Corporation (except any Certificates held in any pension or retirement fund) will be disregarded unless all Certificates are so owned, in which case such Certificates will be considered outstanding for the purpose of such determination.

The District or Trustee may adopt appropriate regulations to require each Owner, before his consent provided for in the Trust Agreement will be deemed effective, to reveal if the Certificates as to which such consent is given are disqualified.

Effect of Supplemental Agreement

From and after the time that any supplemental agreement becomes effective pursuant to the Trust Agreement, the Trust Agreement, the Site Lease or the Lease Agreement, as the case may be, will be deemed to be modified and amended in accordance therewith, the respective rights, duties and obligations of the parties hereto or thereto and of all Owners of Certificates Outstanding, as the case may be, will thereafter be determined, exercised and enforced hereunder subject in all respects to such modification and amendment, and all of the terms and conditions of any supplemental agreement will be deemed to be part of the terms and conditions of the Trust Agreement, the Lease Agreement or the Site Lease, as the case may be, for any and all purposes.

Compliance with and Enforcement of the Lease Agreement

The District covenants and agrees with the Owners to perform all obligations and duties imposed on it under the Lease Agreement. The Corporation covenants and agrees with the Owners to perform all obligations and duties imposed on it under the Lease Agreement.

The District will not do or permit anything to be done, or omit or refrain from doing anything, in any case where any such act done or permitted to be done, or any such omission of or refraining from action, would or might be a ground for cancellation or termination of the Lease Agreement by the Corporation. The Corporation and the District, immediately upon receiving or giving any notice, communication or other document in any way relating to or affecting their respective estates, or the leasehold interests therein, which may or can in any manner affect such estate of the District, will deliver the same, or a copy thereof, to the Trustee.

Observance of Laws and Regulations

The District will well and truly keep, observe and perform all valid and lawful obligations or regulations now or hereafter imposed on it by contract, or prescribed by any law of the United States of America, or of the State, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of any and every right, privilege or franchise now owned or hereafter acquired by the District, including its right to exist and carry on business as a school district, to the end that such rights, privileges and franchises will be maintained and preserved, and will not become abandoned, forfeited or in any manner impaired.

Prosecution and Defense of Suits

The District will promptly take such action as may be necessary or proper to remedy or cure any defect in or cloud upon the title to the Property, whether now existing or hereafter developing and will prosecute all such suits, actions and other proceedings as may be appropriate for such purpose and will indemnify, to the extent permitted by law, and save the Trustee and every Owner harmless from all loss, cost, damage and expense, including attorneys' fees, which they or any of them may incur by reason of any such defect, cloud, suit, action or proceeding.

District Budgets

In accordance with the Lease Agreement, the District will provide the Trustee with an annual certification by December 31 of each year that the District has complied with its obligations thereunder, and the District Representative will certify to the Trustee that the District has included all Lease Payments (other than Prepayments) due under the Lease Agreement in the Fiscal Year covered by its proposed budget and adopted budget. If the District fails to provide the Trustee with such certification, the Trustee will promptly provide the District written notice specifying that the District has failed to observe and perform its covenant and agreement in such section requesting that such failure be remedied within thirty (30) days, or such failure will constitute an Event of Default pursuant to the Lease Agreement. The Trustee will forward a copy of such notice to the Corporation. Upon receipt of such notice, the District will notify the Trustee of the proceedings proposed to be taken by the District, and will keep the Trustee advised of all proceedings thereafter taken by the District.

Further Assurances

The Corporation and the District will make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Trust Agreement, and for the better assuring and confirming unto the Owners the rights and benefits provided in the Trust Agreement.

Continuing Disclosure

The District hereby covenants and agrees that it will comply with and carry out the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of the Trust Agreement, failure of the District to comply with the Continuing Disclosure Certificate will not be considered an Event of Default hereunder; however, any Owner or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this the Trust Agreement. For purposes of the section of the Trust Agreement regarding continuing disclosure, "Beneficial Owner" means any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Certificates (including persons holding Certificates through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Certificates for federal income tax purposes.

Limited Liability of the District and Corporation

Except for the payment of Lease Payments, Additional Payments and Prepayments when due in accordance with the Lease Agreement and the performance of the other covenants and agreements of the District contained in the Trust Agreement and in the Lease Agreement, the District will have no obligation or liability to the Owners or to any of the other parties hereto with respect to the Trust Agreement or the terms, execution, delivery or transfer of the Certificates, or the distribution of Lease Payments to the Owners by the Trustee. The Corporation will not have any obligation or liability to the Owners or to any of the other parties hereto with respect to the Trust Agreement or the terms, execution, delivery or transfer of the Certificates, or the payment when due of the Lease Payments or the Additional Payments by the District or the distribution of the Lease Payments to the Owners by the Trustee, or the performance by the District of the other agreements and covenants required to be performed by the District contained in the Lease Agreement and the Trust Agreement.

Except as expressly provided in the Trust Agreement, neither the District nor the Corporation will have any obligation or liability to any of the other parties or to the Owners with respect to the performance by the Trustee of any duty imposed upon it under the Trust Agreement.

Limited Liability of Trustee

The Trustee will have no obligation or responsibility for providing information to the Owners concerning the investment character of the Certificates.

The Trustee makes no representations as to the validity or sufficiency of the Certificates, will incur no responsibility in respect thereof, other than in connection with the duties or obligations in the Trust Agreement or in the Certificates expressly assigned to or imposed upon it. The Trustee will not be responsible for the sufficiency of the Lease Agreement. The Trustee will not be liable for the sufficiency or collection of any Lease Payments or other moneys required to be paid to it under the Lease Agreement (except as provided in the Trust Agreement), its right to receive moneys pursuant to said Lease, or the value of the Property.

The Trustee will have no obligation or liability to any of the other parties or the Owners with respect to the Trust Agreement or the failure or refusal of any other party to perform any covenant or agreement made by any of them under the Trust Agreement or the Lease Agreement, but will be responsible solely for the performance of the duties and obligations expressly imposed upon it hereunder as provided in the Trust Agreement.

The Trustee assumes no responsibility for the correctness of the recitals of facts, covenants and agreements in the Trust Agreement and contained in the Certificates of the District or the Corporation (as the case may be).

Limitation of Rights of Parties and Certificate Owners

Nothing in the Trust Agreement or in the Certificates expressed or implied is intended or will be construed to give any person other than the District, the Corporation, the Trustee, and the Owners any legal or equitable right, remedy or claim under or in respect of the Trust Agreement or any covenant, condition or provision hereof; and all such covenants, conditions and provisions are and will be for the sole and exclusive benefit of the District, the Corporation, the Trustee, and the Owners.

Events of Default

The following events will be Events of Default:

- (i) default in the due and punctual payment of the principal of or premium, if any, with respect to any Certificate when and as the same will become due and payable, whether at maturity as therein expressed, by proceedings for prepayment, by declaration or otherwise;
- (ii) default in the due and punctual payment of any installment of interest with respect to any Certificate when and as such interest installment will become due and payable;
- (iii) default by the District in the observance of any of the covenants, agreements or conditions on its part in the Trust Agreement contained, if such default will have continued for a period of 30 days after written notice thereof, specifying such default and requiring the same to be remedied, will have been given to the District and the Corporation by the Trustee, or to the District, the Corporation and the Trustee by the Owners of not less than twenty-five percent in aggregate principal amount of the Certificates at the time Outstanding; provided, however, that if such default can be remedied but not within such 30-day period and if the District has taken all action reasonably possible to remedy such default within such 30-day period, such default will not become an Event of Default for so long as the District will diligently proceed to remedy the same in accordance with and subject to any directions or limitations of time reasonably established by the Trustee; or
- (iv) an event of default will have occurred and be continuing under the Lease Agreement.

Remedies

If an Event of Default will happen, then, and in each and every such case during the continuance of such Event of Default, the Trustee may, after being indemnified to its satisfaction and subject to the provisions of the Trust Agreement, exercise any and all remedies available pursuant to law or granted pursuant to the Lease Agreement; provided, however, that notwithstanding anything in the Trust Agreement or in the Lease Agreement to the contrary, THERE WILL BE NO RIGHT UNDER ANY CIRCUMSTANCES TO ACCELERATE THE MATURITIES OF THE CERTIFICATES OR OTHERWISE TO DECLARE ANY LEASE PAYMENTS NOT THEN IN DEFAULT TO BE IMMEDIATELY DUE AND PAYABLE.

Application of Funds

All moneys received by the Trustee pursuant to any right given or action taken under the provisions of the Trust Agreement or of the Lease Agreement, will be deposited into the Series B-1 Lease

Payment Account and the Series B-2 Lease Payment Account on a *pro rata* basis and will be applied by the Trustee in the following order:

First, Costs and Expenses: to the payment of the costs and expenses of the Trustee and then of the Owners, including reasonable compensation to its or their agents, attorneys and counsel incurred in connection with the particular Event of Default and any sums owed to the Trustee pursuant to the Trust Agreement (provided that no amounts transferred from the Debt Service Reserve Fund to the Lease Payment Fund will be applied for the foregoing purposes, but will be applied only for the purposes in paragraphs second and third below);

Second, Interest: to the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installment, and, if the amount available will not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference.

Third, Principal: upon presentation and surrender of the several Certificates, to the payment to the persons entitled thereto of the unpaid principal of any Certificates that will have become due, whether at maturity or by call for prepayment, in the order of their due dates, with interest on the overdue principal and interest at a rate equal to the rate paid with respect to the Certificates and, if the amount available will not be sufficient to pay in full all the amounts due with respect to the Certificates on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the persons entitled thereto, without any discrimination or preference.

Fourth, Debt Service Reserve Fund: to replenish amounts in the Reserve Fund as set forth in the Trust Agreement, if applicable.

Institution of Legal Proceedings

If one or more Events of Default shall happen and be continuing, the Trustee in its discretion may, and upon the written request of the Owners of a majority in principal amount of the Certificates then Outstanding, and upon being indemnified to its satisfaction therefor, will, proceed to protect or enforce its rights or the rights of the Owners by a suit in equity or action at law, either for the specific performance of any covenant or agreement contained in the Trust Agreement or in the Lease Agreement, or in aid of the execution of any power granted in the Trust Agreement, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as the Trustee will deem most effectual in support of any of its rights or duties hereunder.

Non-Waiver

Nothing in the Trust Agreement or in the Certificates will affect or impair the obligation of the District, which is absolute and unconditional, to pay or prepay (in certain circumstances) the Lease Payments as provided in the Lease Agreement (or prepay Lease Payments in certain circumstances as provided in the Lease Agreement). No delay or omission of the Trustee or of any Owner to exercise any right or power arising upon the happening of any Event of Default will impair any such right or power or will be construed to be a waiver of any such Event of Default or an acquiescence therein, and every power and remedy given by the Trust Agreement to the Trustee or to the Owners may be exercised from time to time and as often as will be deemed expedient by the Trustee or the Owners.

Remedies Not Exclusive

No remedy in the Trust Agreement conferred upon or reserved to the Trustee or to the Owners is intended to be exclusive of any other remedy, and every such remedy will be cumulative and will be in addition to every other remedy given hereunder or now or hereafter existing, at law or in equity or by statute or otherwise.

Power of Trustee to Control Proceeding

In the event that the Trustee, upon the happening of an Event of Default, will have taken any action, by judicial proceedings or otherwise, pursuant to its duties hereunder, whether upon its own discretion or upon the request of the Owners of a majority in principal amount of the Certificates then Outstanding, it will have full power, in the exercise of its discretion for the best interest of the Owners of the Certificates, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Trustee will not, unless there no longer continues an Event of Default, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Owners of at least a majority in principal amount of the Outstanding Certificates (along with continued indemnities to the Trustee's satisfaction) hereunder opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation.

Limitation on Certificate Owners' Right to Sue

No Owner of any Certificate executed hereunder will have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Trust Agreement, unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default under the Lease Agreement; (b) the Owners of a majority in aggregate principal amount of all of the Certificates then Outstanding shall have made written request upon the Trustee to exercise the powers in the Trust Agreement before granted or to institute such action, suit or proceeding in its own name; (c) said Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of 60 days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are hereby declared, in every case, to be conditions precedent to the exercise by any Owner of any remedy hereunder; it being understood and intended that no one or more Owners shall have any right in any manner whatever by their action to enforce any right under the Trust Agreement, except in the manner provided in the Trust Agreement and for the equal benefit of all Owners of the Outstanding Certificates.

The right of any Owner of any Certificate to receive payment of said Owner's proportionate interest in the Lease Payments as the same become due, or to institute suit for the enforcement of such payment, shall not be impaired or affected without the consent of such Owner, notwithstanding the foregoing provisions of the Trust Agreement.

Agreement to Pay Attorneys' Fees and Expenses

In the event the District or Corporation should default under any of the provisions hereof and the nondefaulting party should employ attorneys or incur other expenses for the collection of moneys or the enforcement or observance of any obligation or agreement on the part of the defaulting party contained in the Trust Agreement, the defaulting party agrees that it will on demand therefor pay to the nondefaulting

party the reasonable fees of such attorneys and such other expenses so incurred by the nondefaulting party.

Defeasance

If and when any Outstanding Certificates of a Series shall be paid and discharged in any one or more of the following ways:

Payment: by well and truly paying or causing to be paid the principal of and interest and prepayment premiums (if any) evidenced by such Certificates to be defeased, as and when the same become due and payable;

Cash: if prior to maturity and having given notice of prepayment by irrevocably depositing with the Trustee, in trust, at or before maturity, an amount of cash which (together with cash then on deposit in the related account within Lease Payment Fund and the related account within the Debt Service Reserve Fund, in the event of payment or provision for payment of all Outstanding Certificates of such Series) is sufficient to pay such Certificates of such Series, including all principal and interest and premium, if any; or by irrevocably depositing with the Trustee, in trust in an escrow fund, noncallable Eligible Securities, together with cash, if required, in such amount as will, together with interest to accrue thereon, as set forth in the opinion of an independent certified public accountant delivered to the Trustee (and, in the event of payment or provision for payment of all Outstanding Certificates of such Series moneys then on deposit in the related account within Lease Payment Fund and the related account within the Debt Service Reserve Fund together with the interest to accrue thereon), be fully sufficient to pay and discharge such Certificates of such Series (including all principal and interest represented thereby and prepayment premiums, if any) at or before their maturity date.

then, notwithstanding that any such Certificates of such series shall not have been surrendered for payment, all obligations of the Corporation, the Trustee and the District with respect to such Certificates of such Series will cease and terminate, except only certain of the rights of the Trustee (as described in the provisions of the Trust Agreement relating to the indemnification of the Trustee and compensation of the Trustee) and the obligation of the Trustee to pay or cause to be paid, from Lease Payments paid by or on behalf of the District from funds deposited pursuant to the Trust Agreement to the Owners of such Certificates of such series not so surrendered and paid all sums due with respect thereto, and in the event of deposits pursuant to the Trust Agreement such Certificates of such Series will continue to represent direct and proportionate interests of the Owners thereof in the related Lease Payments under the Lease Agreement.

The Trustee will notify the District of any funds held by the Trustee at the time of payment or provision for payment of all Outstanding Certificates pursuant to one of the procedures described in the Trust Agreement, which are not required for payment to be made to Owners will, after the payment of all fees and expenses of the Trustee, including pursuant to the Trust Agreement, be timely paid over to the District.

Notwithstanding the satisfaction and discharge hereof, the Trustee will retain such rights, powers and privileges under the Trust Agreement as may be necessary or convenient for the payment of the principal, interest and prepayment premium, if any, evidenced by the Certificates and for the registration, transfer and exchange of the Certificates.

SITE LEASE

Demised Premises

Under the Site Lease, the District leases to the Corporation and the Corporation leases from the District for the benefit of the Owners of the Certificates the Property (and appurtenant easements for ingress and egress, for the furnishing of maintenance and support, and for parking), subject to the terms hereof and subject to any conditions, reservations, exceptions and rights of way which are of record.

Term

The term of the Site Lease will remain in effect until the termination of the Lease Agreement as provided therein; *provided, however*, that if any Lease Payments due under the Lease Agreement remain unpaid at such termination of the Lease Agreement, then the Site Lease will not terminate until the earlier of (i) ten (10) years after the final scheduled maturity date of the Certificates or (ii) the date on which the Certificates have been paid in full.

The leasing by the Corporation to the District of the Property pursuant to the Lease Agreement will not effect or result in a merger of the District's fee estate and its leasehold estate under the Lease Agreement. The Corporation will continue to have and hold a leasehold estate in the Property pursuant to the Site Lease throughout the term hereof.

Assignment

The District acknowledges and affirms the assignment by the Corporation of its rights under the Site Lease to the Trustee under the terms of the Assignment Agreement. The District consents to such assignment. Upon the execution and delivery of the Assignment Agreement, references in the operative provisions hereof to the Corporation will be deemed to be references to the Trustee, as assignee of the Corporation.

Restrictions on District

The District agrees that, except with respect to Permitted Encumbrances, it will not mortgage, sell, encumber, assign, transfer or convey the Property or any portion thereof during the term of the Site Lease.

Termination

Upon the termination of the Site Lease, the Corporation agrees to quit and surrender the Property without warranty as to condition, reasonable wear and tear excepted, and agrees that any permanent improvements and structures existing upon the Property at the time of the termination of the Site Lease will remain thereon and title thereto will vest in the District.

Quiet Enjoyment

At all times during the term of the Site Lease, the Corporation will peaceably and quietly have, hold and enjoy all of the Property.

Default

In the event that the Corporation will be in default in the performance of any obligation on its part to be performed under the terms of the Site Lease, which default continues for thirty (30) days following written notice to and demand for correction thereof, the District, with the consent of the Trustee, may exercise any and all remedies granted by law which do not adversely affect the interests of the Owners of the Certificates; provided that the District may not terminate the Site Lease and will exercise only remedies providing for specific performance hereunder; and provided further, that so long as any of the Certificates are Outstanding and unpaid in accordance with the terms thereof, the Lease Payments assigned by the Corporation to the Trustee under the Assignment Agreement will continue to be paid to the Trustee.

Taxes

Pursuant to the Site Lease, the District covenants and agrees to pay any and all assessments of any kind or character and also all taxes, including possessory interest taxes, levied or assessed upon the Property pursuant to the Lease Agreement.

Eminent Domain

In the event that the whole or any part of the Property is taken by eminent domain proceedings, the interest of the Corporation will be recognized and is determined to be the amount of unpaid Lease Payments and Additional Payments due the Corporation under the Lease Agreement.

Amendments of Site Lease

Any amendment to the Site Lease may be entered into only in accordance with the provisions set forth in the Trust Agreement. The Site Lease may be amended to provide for the addition of additional real property or the substitution of real property for all or a portion of the Property or to provide for the removal of real property from the Property, provided that the Lease Agreement is correspondingly amended pursuant to the Lease Agreement.

Covenants and Warranties of the District

The District covenants and warrants to the Corporation that:

- (1) the District has good and marketable title to the Property and will cause the Site Lease to be recorded in the Recorder's Office for the County of Los Angeles;
- (2) except for Permitted Encumbrances, the Property is not currently subject to any dedication, easement, right of way, reservation in patent, covenant, condition, restriction, lien or encumbrance which would prohibit or materially interfere with the financing as contemplated by the Lease Agreement;
- (3) all taxes, assessments, or impositions of any kind with respect to the Property, except current taxes, have been paid in full;
- (4) the Property is properly zoned for its intended purposes;

- (5) the Property is integral for performing the District's governmental functions; and
- (6) the District will not abandon or vacate the Property.

Warranties of the Corporation

The Corporation covenants and warrants to the District that the Corporation has the corporate power and authority to enter into, execute and deliver the Site Lease, and to perform all of its duties and obligations hereunder, and has duly authorized the execution and delivery hereof.

Indemnification and Hold Harmless Agreement

To the extent permitted by law, the District agrees to defend, indemnify, protect, save, and keep harmless the Corporation and its officers, directors, employees, representatives, agents and affiliates and each of their respective successors and assigns from and against, any and all liabilities, obligations, losses, damages (including, without limitation, any and all consequential damages), taxes, impositions, penalties, fines, claims, actions, suits, costs, expenses, and disbursements (including, without limitation, any and all legal fees and expenses) of whatsoever kind and nature imposed on, asserted against, incurred by, or suffered by the Corporation or its directors, officers, employees, representatives, agents or affiliates or their respective successors and assigns in any way relating to or arising out of the Site Lease or the Lease Agreement.

ASSIGNMENT AGREEMENT

Assignment

Under the Assignment Agreement, the Corporation assigns to the Trustee, provided, however that nothing contained in the Assignment Agreement will abrogate the Corporation's rights to be indemnified as provided in the Lease Agreement:

- (1) all right, title and interest of the Corporation in the Lease Agreement, including without limitation:
 - (A) the right to receive and collect all of the Lease Payments and Additional Payments from the District under the Lease Agreement;
 - (B) the right to receive and collect any proceeds of any insurance maintained pursuant to the Lease Agreement or any condemnation award rendered with respect to the Property;
 - (C) the right to take all actions and give all consents under the Lease Agreement, including without limitation, the provision regarding liens, the provision regarding subleases, the provision regarding amendments and modifications and substitution and additions of property and facility and release of property and the provisions regarding remedies on default;
 - (D) the right to exercise such rights and remedies conferred on the Corporation pursuant to the Lease Agreement as may be necessary or convenient (i) to enforce payment of the Lease Payments and Additional Payments, and any other amounts required to be deposited in the Lease Payment Fund, Debt Service Reserve Fund or any other funds established under the Trust Agreement, or (ii) otherwise to protect the interests of the Corporation in the event of default by the District under the Lease Agreement;

- (2) all right, title, and interest of the Corporation in the Site Lease; and
- (3) all right, title, and interest of the Corporation in the funds and accounts established pursuant to the Trust Agreement or the Lease Agreement.

APPENDIX E-1

PROPOSED FORM OF OPINION OF SPECIAL COUNSEL - TAXABLE SERIES B-1 CERTIFICATES

Upon the delivery of the Taxable Series B-1 Certificates, Hawkins Delafield & Wood LLP, Special Counsel to the District, proposes to render its final approving opinion in substantially the following form:

Board of Education
Los Angeles Unified School District
Los Angeles, California

Ladies and Gentlemen:

We have acted as Special Counsel to the Los Angeles Unified School District (the "District") in connection with the execution and delivery of \$21,615,000 Certificates of Participation 2010 Series B-1 (Federally Taxable Direct Pay Build America Bonds) (Capital Projects I) (the "Taxable Series B-1 Certificates"), evidencing proportionate and undivided interests of the owners thereof in certain Lease Payments to be made by the District under the Lease Agreement, dated as of December 1, 2010 (the "Lease Agreement"), by and between the LAUSD Financing Corporation (the "Corporation"), as lessor, and the District, as lessee. The Taxable Series B-1 Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of December 1, 2010 (the "Trust Agreement"), by and among the Corporation, the District and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee").

In rendering this opinion, we have reviewed the record of the actions taken by the District in connection with the execution and delivery of the Taxable Series B-1 Certificates. We have examined and relied on originals or copies, certified or otherwise identified to our satisfaction, of such documents, instruments, or corporate records, and have made such investigation of law, as we have considered necessary or appropriate for the purpose of this opinion.

We are of the opinion that:

1. The Site Lease, dated as of December 1, 2010 (the "Site Lease"), by and between the District, as lessor, and the Corporation, as lessee, the Lease Agreement and the Trust Agreement have been duly executed and delivered by the District and constitute the valid and binding obligations of the District and, assuming due execution by the other parties thereto, are enforceable against the District in accordance with their respective terms.

2. Interest evidenced by the Taxable Series B-1 Certificates is included in gross income for Federal income tax purposes. This opinion is not intended or provided by Special Counsel to be used and cannot be used by an owner of the Taxable Series B-1 Certificates for the purpose of avoiding penalties that may be imposed on the owner of such Taxable Series B-1 Certificates. The opinion set forth in this paragraph is provided to support the promotion or marketing of the Taxable Series B-1 Certificates. Each owner of any Taxable Series B-1 Certificates should seek advice based on its particular circumstances from an independent tax advisor.

3. Under existing statutes, interest evidenced by the Taxable Series B-1 Certificates is exempt from State of California income tax imposed on individuals.

Except as stated in paragraphs 2 and 3 above, we express no opinion as to any Federal, state or local tax consequences arising with respect to the Taxable Series B-1 Certificates or the ownership or disposition

thereof. Furthermore, we express no opinion as to the effect of any action hereafter taken or not taken in reliance upon an opinion of counsel other than ourselves on the Federal income tax treatment of interest evidenced by the Taxable Series B-1 Certificates, or under State, local and foreign tax law.

This opinion is issued as of the date hereof, and we assume no obligation to update, revise or supplement this opinion to reflect any action hereafter taken or not taken, or any facts or circumstances, or any changes in law or in interpretations thereof, that may hereafter arise or occur, or for any other reason.

This letter is furnished by us as Special Counsel and is solely for your benefit and it is not to be used, circulated, quoted, or otherwise referred to for any purposes other than the execution and delivery of the Taxable Series B-1 Certificates and may not be relied upon by any other person or entity without our express written permission, except that references may be made to it in any list of closing documents pertaining to the execution and delivery of the Taxable Series B-1 Certificates.

The foregoing opinions are qualified to the extent that the enforceability of the Lease Agreement, Site Lease and Trust Agreement may be limited by bankruptcy, moratorium, insolvency or other laws affecting creditors' rights or remedies and are subject to general principles of equity (regardless of whether such enforceability is considered in equity or at law).

Very truly yours,

APPENDIX E-2

PROPOSED FORM OF OPINION OF SPECIAL COUNSEL - SERIES B-2 CERTIFICATES

Upon the delivery of the Series B-2 Certificates, Hawkins Delafield & Wood LLP, Special Counsel to the District, proposes to render its final approving opinion in substantially the following form:

Board of Education
Los Angeles Unified School District
Los Angeles, California

Ladies and Gentlemen:

We have acted as Special Counsel to the Los Angeles Unified School District (the “District”) in connection with the execution and delivery of \$61,730,000 Certificates of Participation Series B-2 (Tax-Exempt) (Capital Projects I) (the “Series B-2 Certificates”), evidencing proportionate and undivided interests of the owners thereof in certain Lease Payments to be made by the District under the Lease Agreement, dated as of December 1, 2010 (the “Lease Agreement”), by and between the LAUSD Financing Corporation (the “Corporation”), as lessor, and the District, as lessee. The Series B-2 Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of December 1, 2010 (the “Trust Agreement”), by and among the Corporation, the District and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”).

In rendering this opinion, we have reviewed the record of the actions taken by the District in connection with the execution and delivery of the Series B-2 Certificates. We have examined and relied on originals or copies, certified or otherwise identified to our satisfaction, of such documents, instruments, or corporate records, and have made such investigation of law, as we have considered necessary or appropriate for the purpose of this opinion.

We are of the opinion that:

1. The Site Lease, dated as of December 1, 2010 (the “Site Lease”), by and between the District, as lessor, and the Corporation, as lessee, the Lease Agreement and the Trust Agreement have been duly executed and delivered by the District and constitute the valid and binding obligations of the District and, assuming due execution by the other parties thereto, are enforceable against the District in accordance with their respective terms.

2. Under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein (i) interest evidenced by the Series B-2 Certificates is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”) and (ii) interest evidenced by the Series B-2 Certificates is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code and is not included in the adjusted current earnings of corporations for purposes of calculating the alternative minimum tax. In rendering this opinion, we have relied on certain representations, certification of fact, and statements of reasonable expectations made by the District in connection with the execution and delivery of the Series B-2 Certificates, and we have assumed compliance by the District with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest evidenced by the Series B-2 Certificates from gross income under Section 103 of the Code. Noncompliance with such requirements may cause interest evidenced by the Series B-2 Certificates to become subject to Federal income taxes retroactive to their date of delivery, irrespective of the date on which such noncompliance is ascertained.

3. Under existing statutes, interest evidenced by the Series B-2 Certificates is exempt from State of California income tax imposed on individuals.

We express no opinion regarding any other Federal or state tax consequences with respect to the Series B-2 Certificates. We render our opinions under existing statutes and court decisions as of the issue date, and assume no obligation to update, revise or supplement our opinion to reflect any action hereafter taken or not taken, or any facts or circumstances that may hereafter come to our attention, or changes in law or in interpretations thereof that may hereafter occur, or for any other reason. We express no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest evidenced by the Series B-2 Certificates, or under state and local tax law.

This letter is furnished by us as Special Counsel and is solely for your benefit and it is not to be used, circulated, quoted, or otherwise referred to for any purposes other than the execution and delivery of the Series B-2 Certificates and may not be relied upon by any other person or entity without our express written permission, except that references may be made to it in any list of closing documents pertaining to the execution and delivery of the Series B-2 Certificates.

The foregoing opinions are qualified to the extent that the enforceability of the Lease Agreement, Site Lease and Trust Agreement may be limited by bankruptcy, moratorium, insolvency or other laws affecting creditors' rights or remedies and are subject to general principals of equity (regardless of whether such enforceability is considered in equity or at law).

Very truly yours,

APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the Los Angeles Unified School District (the “District”), and acknowledged and agreed to by Digital Assurance Certification, L.L.C., as dissemination agent, in connection with the execution of \$21,615,000 principal amount of Certificates of Participation, 2010 Series B-1 (Federally Taxable Direct Pay Build America Bonds)(Capital Projects I) (the “Taxable Series B-1 Certificates”) and the \$61,730,000 principal amount of Certificates of Participation, 2010 Series B-2 (Tax-Exempt)(Capital Projects I) (the “Series B-2 Certificates” and together with the Taxable Series B-1 Certificates, the “Certificates”). The Certificates are being issued pursuant to a Trust Agreement, dated as of December 1, 2010 (the “Trust Agreement”), by and among the Los Angeles Unified School District (the “District”), the LAUSD Financing Corporation (the “Corporation”) and The Bank of New York Mellon Trust Company, N.A. (the “Trustee”). The District covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District and the Dissemination Agent for the benefit of the Holders and Beneficial Owners of the Certificates and in order to assist the Participating Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth in the Trust Agreement, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Beneficial Owner” shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Certificates (including persons holding Certificates through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Certificates for federal income tax purposes.

“Business Day” shall mean any day of the year other than Saturday or Sunday or any other day on which banks in New York, New York or Los Angeles, California are not authorized or obligated by law or executive order to close and on which the New York Stock Exchange is not closed.

“Dissemination Agent” shall mean Digital Assurance Certification, L.L.C., or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation.

“EMMA System” shall mean the MSRB’s Electronic Municipal Market Access system.

“Holder” shall mean either the registered owners of the Certificates, or if the Certificates are registered in the name of The Depository Trust Company or another recognized depository, any applicable participant in such depository system.

“Notice Event” shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

“MSRB” shall mean the Municipal Securities Rulemaking Board, or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule.

“Official Statement” shall mean the Official Statement relating to the Certificates, dated December 15, 2010.

“Participating Underwriters” shall mean any of the original underwriters of the Certificates required to comply with the Rule in connection with offering of the Certificates.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 3. Transmission of Notices, Documents and Information. (a) Unless otherwise required by the MSRB, all notices, documents and information provided to the MSRB shall be provided to the MSRB’s Electronic Municipal Markets Access (EMMA) system, the current internet address of which is <http://emma.msrb.org>.

(b) All notices, documents and information provided to the MSRB shall be provided in an electronic format as prescribed by the MSRB.

Section 4. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent to, not later than 240 days after the end of the District’s fiscal year (currently ending June 30), commencing with the report for the Fiscal Year ending June 30, 2010 (which is due not later than February 25, 2011), provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided, that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the District’s fiscal year changes, it shall give notice of such change in the same manner as for a Notice Event under Section 6(c).

(b) Not later than thirty (30) days (not more than sixty (60) days) prior to the date on which the Annual Report is to be provided pursuant to subsection (a), the Dissemination Agent shall give notice to the District that the Annual Report is so required to be filed in accordance with the terms of this Disclosure Certificate. Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to the MSRB, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If by said date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall notify the District of such failure to receive the Annual Report.

(c) If the District is unable to provide to the Dissemination Agent an Annual Report by the date required in subsection (a), the Dissemination Agent is irrevocably instructed to file a notice to the MSRB through its EMMA System in substantially the form attached hereto as Exhibit A.

(d) The Dissemination Agent shall file a report with the District stating that the Annual Report has been provided to the MSRB pursuant to this Disclosure Certificate and stating the date it was provided.

Section 5. Content of Annual Reports.

(a) The District's Annual Report shall contain or include by reference the following:

- Audited financial statements of the District for the preceding fiscal year, prepared in accordance with the laws of the State of California and including all statements and information prescribed for inclusion therein by the Controller of the State of California. If the District's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 4(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

To the extent not included in the audited financial statements of the District, the Annual Report shall also include the following:

- Adopted budget of the District for the current fiscal year.
- Information regarding total assessed valuation of taxable properties within the District as set forth in Table B-25 of Appendix B to the Official Statement.
- Information regarding total tax levies and collections on taxable properties within the District as set forth in Table B-26 of Appendix B to the Official Statement.
- District outstanding debt as set forth in Tables B-15, B-16, B-17, B-18 and B-20 and the aggregate debt service on the District's outstanding certificates of participation as set forth in the "Fiscal Year Total Debt Service" column of Table B-19 of Appendix B to the Official Statement.
- District average daily attendance as set forth in Table B-30 of Appendix B to the Official Statement entitled "Annual Average Daily Attendance."
- Statement of revenues, expenditures and changes in general fund balances of the District.

(b) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, (i) available to the public through the EMMA system or (ii) filed with the Securities and Exchange Commission. If the document included by reference is a final official statement, it

must be available from the MSRB through its EMMA System. The District shall clearly identify each such other document so included by reference. The provisions of this Section 5 shall not apply to notices of Notice Events pursuant to Section 6 hereof.

Section 6. Reporting of Notice Events.

(a) If a Notice Event occurs, the District shall provide, in a timely manner not in excess of ten (10) Business Days after the occurrence of such Notice Event, notice of such Notice Event to (i) the MSRB and (ii) the Dissemination Agent.

(b) Pursuant to the provisions of this Section 5, the District shall give, or cause to be given, notice of the occurrence of any of the following events (each, a “Notice Event”) with respect to the Certificates:

1. principal and interest payment delinquencies.
2. non-payment related defaults, if material.
3. modifications to rights of Holders, if material.
4. Bond calls, if material and tender offers.
5. defeasances.
6. rating changes.
7. adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (Internal Revenue Service Form 5701-TEB) or other material notices of determinations with respect to the tax status of the Certificates, or other material events affecting the tax status of the Certificates.
8. unscheduled draws on the debt service reserves reflecting financial difficulties.
9. unscheduled draws on the credit enhancements reflecting financial difficulties.
10. release, substitution or sale of property securing repayment of the Certificates, if material.
11. bankruptcy, insolvency, receivership or similar event of the District (such event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the District in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under State or federal law in which a court or government authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing

governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District;

12. substitution of credit or liquidity providers, or their failure to perform;
13. the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
14. appointment of a successor or additional trustee or the change of name of a trustee, if material.

(c) If the District determines that a Notice Event has occurred, the District shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (d) and Section 3 hereof.

(d) If the Dissemination Agent has been instructed by the District to report the occurrence of a Notice Event, the Dissemination Agent shall file a notice of such occurrence with the MSRB through its EMMA System.

Section 7. CUSIP Numbers. Whenever providing information to the Dissemination Agent, including but not limited to Annual Reports, documents incorporated by reference to the Annual Reports, Audited Financial Statements and notices of Notice Events, the District shall indicate the full name of the Certificates and the 9-digit CUSIP numbers for the Certificates as to which the provided information relates.

Section 8. Termination of Reporting Obligation. (a) The District's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Certificates. If such termination occurs prior to the final maturity of the Certificates, the District shall give notice of such termination in the same manner as for a Notice Event under Section 6(c).

(b) This Disclosure Certificate, or any provision hereof, shall cease to be effective in the event that the District (1) delivers to the Dissemination Agent an opinion of Counsel, addressed to the District and the Dissemination Agent, to the effect that those portions of the Rule which require this Disclosure Certificate, or such provision, as the case may be, do not or no longer apply to the Certificates, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as shall be specified in such opinion, and (2) delivers copies of such opinion to the MSRB.

Section 9. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure

Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be Digital Assurance Certification, L.L.C. If at any time there is no designated Dissemination Agent appointed by the District, or if the Dissemination Agent so appointed is unwilling or unable to perform the duties of the Dissemination Agent hereunder, the District shall be the Dissemination Agent and undertake or assume its obligations hereunder. The Dissemination Agent (other than the District) shall not be responsible in any manner for the content of any notice or report required to be delivered by the District pursuant to this Disclosure Certificate.

Section 10. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 4(a), 5, or 6, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Certificates, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Certificates, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Certificates in the same manner as provided in the Trust Agreement for amendments to the Trust Agreement with the consent of Holders, or (ii) does not, in the opinion of a nationally recognized bond counsel, materially impair the interest of the Holders or Beneficial Owners of the Certificates.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the District shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the District. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Notice Event under Section 6(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 11. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Notice Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice of occurrence of a Notice Event in addition to that which is specifically required by this Disclosure Certificate, the District shall

have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Notice Event.

Section 12. Additional Disclosure Obligations. The District acknowledges and understands that other State and federal laws, including but not limited to the Securities Act of 1933, as amended, and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the District and that, under some circumstances, compliance with this Disclosure Certificate without additional disclosures or other action may not fully discharge all duties and obligations of the District under such laws.

Section 13. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate, the Dissemination Agent may (and, at the request of any Participating Underwriter or the Holders or Beneficial Owners of at least 25% of aggregate principal amount of the Certificates then outstanding, shall) or any Holders or Beneficial Owners of the Certificates may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate; provided that any such action may be instituted only in the Superior Court of the State of California in and for the County of Los Angeles or in the U.S. District Court in the County of Los Angeles. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Trust Agreement, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

Section 14. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's gross negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Certificates.

Section 15. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Certificates, and shall create no rights in any other person or entity.

Section 16. Execution in Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same agreement.

Dated: December 21, 2010

LOS ANGELES UNIFIED SCHOOL DISTRICT

By: _____
Timothy Rosnick
Controller

ACKNOWLEDGED AND AGREED TO BY:

DIGITAL ASSURANCE CERTIFICATION,
L.L.C., as Dissemination Agent

By: _____
Dissemination Agent

EXHIBIT A
NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD OF
FAILURE TO FILE ANNUAL REPORT

Name of District: Los Angeles Unified School District

Name of Bond Issues: Certificates of Participation, 2010 Series B-1 (Federally Taxable Direct Pay Build America Bonds) (Capital Projects I) and Certificates of Participation, 2010 Series B-2 (Tax-Exempt)(Capital Projects I)

Date of Execution: December 21, 2010

NOTICE IS HEREBY GIVEN that Los Angeles Unified School District has not provided an Annual Report with respect to the above named Certificates as required by the Continuing Disclosure Certificate relating to the above-referenced Certificates, dated as of December 21, 2010. Los Angeles Unified School District anticipates that the Annual Report will be filed by _____.

Dated: _____

DIGITAL ASSURANCE CERTIFICATION,
L.L.C., on behalf of Los Angeles Unified
School District

By:_____

cc: Los Angeles Unified School District

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APPENDIX G

BOOK-ENTRY SYSTEM

THE INFORMATION IN THIS APPENDIX G CONCERNING THE DEPOSITORY TRUST COMPANY, NEW YORK, NEW YORK AND ITS BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THE DISTRICT AND THE CORPORATION BELIEVE TO BE RELIABLE, BUT THE DISTRICT AND THE CORPORATION TAKE NO RESPONSIBILITY FOR THE ACCURACY THEREOF.

The Depository Trust Company, New York, New York (“DTC”), will act as securities depository for the Certificates of Participation 2010 Series B-1 (Federally Taxable Direct Pay Build America Bonds)(Capital Projects I) (the “Taxable Series B-1 Certificates”) and the Certificates of Participation 2010 Series B-2 (Tax-Exempt) (Capital Projects I) (the “Series B-2 Certificates” and together with the Taxable Series B-1 Certificates, the “Certificates”) . The Certificates will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each issue of the Certificates, each in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Certificates on DTC’s records. The ownership interest of each actual purchaser of each Security (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmations from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmation providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Certificates are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

To facilitate subsequent transfers, all Certificates deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Certificates with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates: DTC records reflect only the identity of the Direct Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. The District, the Corporation, the Trustee and the Underwriters will not have any responsibility or obligation to such Direct Participants and Indirect Participants or the persons for whom they act as nominees with respect to the Certificates. Beneficial Owners of Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Certificates, such as prepayments, defaults, and proposed amendments to the Certificate documents. Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Prepayment notices will be sent to DTC. If less than all of the Certificates within a maturity are being prepaid, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be prepaid.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Certificates unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Trustee as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and Interest payments evidenced by the Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Trustee, on payable dates in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, or the Trustee, subject to any statutory, or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Certificates at any time by giving reasonable notice to the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, certificates are required to be printed and delivered. The Corporation may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, certificates will be printed and delivered to DTC.

THE DISTRICT, THE CORPORATION, THE TRUSTEE AND THE UNDERWRITERS CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE SECURITIES (I) PAYMENTS OF PRINCIPAL OF AND INTEREST EVIDENCED BY THE SECURITIES (II) CONFIRMATIONS OF THEIR OWNERSHIP INTERESTS IN THE SECURITIES OR (III) OTHER NOTICES SENT TO DTC OR CEDE & CO., ITS PARTNERSHIP NOMINEE, AS THE REGISTERED OWNER OF THE SECURITIES, OR THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT.

NEITHER THE DISTRICT, THE CORPORATION, THE TRUSTEE NOR THE UNDERWRITERS WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO DTC, THE DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS OF DTC OR THE BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC; (2) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OF OR INTEREST ON SECURITIES; (3) THE DELIVERY BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED TO BE GIVEN TO OWNERS UNDER THE TERMS OF THE TRUST AGREEMENT; OR (4) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS OWNER OF THE SECURITIES.

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APPENDIX H

LOS ANGELES COUNTY TREASURY POOL

The Treasurer and Tax Collector of the County of Los Angeles (the “Treasurer”) manages, in accordance with State Government Code Section 53600 et seq., funds deposited with the Treasurer by County school and community college districts, various special districts and some cities. State law generally requires that all moneys of the County, school districts and certain special districts be held in the County’s Treasury Pool (the “Treasury Pool”) as described below. The composition and value of investments under management in the Treasury Pool vary from time to time, depending on the cash flow needs of the County and the other public agencies invested in the Treasury Pool, the maturity or sale of investments, purchase of new securities and fluctuations in interest rates generally.

Los Angeles County Pooled Surplus Investments

The Treasurer has the delegated authority to invest funds on deposit in the County Treasury (the “Treasury Pool”). As of October 31, 2010, investments in the Treasury Pool were held for local agencies including school districts, community college districts, special districts and discretionary depositors such as cities and independent districts in the following amounts:

Local Agency	Invested Funds (in billions)
County of Los Angeles and Special Districts	\$ 6.209
Schools and Community Colleges	13.253
Independent Public Agencies	2.088
Total	<u>\$21.550</u>

Of these entities, the involuntary participants accounted for approximately 90.31%, and all discretionary participants accounted for 9.69% of the total Treasury Pool.

Decisions on the investment of funds in the Treasury Pool are made by the County Investment Officer in accordance with established policy, with certain transactions requiring the Treasurer’s prior approval. In Los Angeles County, investment decisions are governed by Chapter 4 (commencing with Section 53600) of Part 1 of Division 2 of Title 5 of the State Government Code, which governs legal investments by local agencies in the State of California, and by a more restrictive Investment Policy developed by the Treasurer and adopted by the Los Angeles County Board of Supervisors on an annual basis. The Investment Policy adopted on March 30, 2010, reaffirmed the following criteria and order of priority for selecting investments:

1. Safety of Principal
2. Liquidity
3. Return on Investment

The Treasurer prepares a monthly Report of Investments (the “Investment Report”) summarizing the status of the Treasury Pool, including the current market value of all investments. This report is submitted monthly to the Board of Supervisors. According to the Investment Report dated November 23, 2010, the October 31, 2010 book value of the Treasury Pool was approximately \$21.550 billion and the corresponding market value was approximately \$21.685 billion.

An internal controls system for monitoring cash accounting and investment practices is in place. The Treasurer's Compliance Auditor, who operates independently from the Investment Officer, reconciles cash and investments to fund balances daily. The Compliance Auditor's staff also reviews each investment trade for accuracy and compliance with the Board adopted Investment Policy. The County Auditor-Controller's Office performs similar cash and investment reconciliations on a quarterly basis and regularly reviews investment transactions for conformance with the approved policies. Additionally, the County's outside independent auditor annually accounts for all investments.

The following table identifies the types of securities held by the Treasury Pool as of October 31, 2010:

Type of Investment	% of Pool
U.S. Government and Agency Obligations	43.34
Certificates of Deposit	15.64
Commercial Paper	36.49
Bankers Acceptances	0.75
Municipal Obligations	0.16
Corporate Notes & Deposit Notes	3.62
Asset Backed Instruments	0.00
Repurchase Agreements	0.00
Other	<u>0.00</u>
	100.00

The Treasury Pool is highly liquid. As of October 31, 2010 approximately 55.12% of the investments mature within 60 days, with an average of 499.09 days to maturity for the entire portfolio.

