

**SECOND SUPPLEMENT DATED JUNE 8, 2012
TO OFFICIAL STATEMENT DATED MAY 3, 2012**

relating to the

\$87,845,000	\$72,345,000
LOS ANGELES UNIFIED SCHOOL DISTRICT	LOS ANGELES UNIFIED SCHOOL DISTRICT
Refunding Certificates of Participation	Refunding Certificates of Participation
2012 Series A	2012 Series B
(Headquarters Building Projects)	(Headquarters Building Projects)

This Second Supplement dated June 8, 2012 to the Official Statement dated May 3, 2012 (the "Official Statement") of the Los Angeles Unified School District (the "District") with respect to the above-captioned Certificates (the "Second Supplement") is provided to update information contained in the Official Statement, as supplemented by the Supplement dated May 30, 2012 to Official Statement dated May 3, 2012 (the "First Supplement"). This Second Supplement must be read together with the Official Statement and the First Supplement. Capitalized terms used in this Second Supplement not defined herein have the meanings defined in the Official Statement.

1. The subsection "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES — No Additional Encumbrances" contained in the Official Statement is replaced in its entirety with the following:

No Additional Encumbrances. Under the Lease Agreement, the Corporation has agreed that it will not pledge the Lease Payments or other amounts derived from the Property and from 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 and the Trust Agreement. Under the Lease Agreement, the District has agreed that it will not mortgage or encumber the Property, except as provided under the terms of the Lease Agreement and the Trust Agreement. Pursuant to the Lease Agreement, permitted encumbrances include, 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 Lease dated as of April 15, 1986, by and between Corporation and Bank of America NT & SA ("BofA"), as amended (the "Master Lease"); (v) the Sublease dated as of July 31, 2001 by and between BofA and the Corporation (the "Master Sublease"); (vi) the Prior Deeds of Trust; (vii) any right or claim of any mechanic, laborer, materialman, supplier or vendor filed or perfected in the manner prescribed by law; (viii) 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 (ix) 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. See Appendix C – "Summary of Principal Legal Documents – The Lease Agreement - Representations, Covenants and Warranties" attached hereto.

Pursuant to the Master Lease, BofA was the master tenant for all office space in the Headquarters Building, would remain a tenant for a decreasing portion of the Headquarters Building and would administer certain subleases with other tenants until December 31, 2005. Pursuant to the Master Sublease, the Corporation subleased increasing portions of the Headquarters Building until December 31, 2005, when the Corporation would occupy the entire space within the Headquarters Building. Further, upon the expiration of the Master Lease and the Master Sublease on December 31, 2005, the Lease Agreement continued to be in effect as a direct lease between the Corporation and the District and would permit the District to enjoy full beneficial use and occupancy of the Headquarters Building. The Master Lease and the Master Sublease expired in accordance with their respective terms on December 31, 2005 and no

longer encumber the Property. The District believes that, subsequent to the expiration of the Master Lease and the Master Sublease, the Prior Deeds of Trust should have been reconveyed and should no longer be reflected as encumbrances upon the Property. Accordingly, the District has covenanted in the Trust Agreement to take all reasonable actions necessary to cause the Prior Deeds of Trust to be removed as encumbrances on the Property at the earliest possible date following delivery of the Certificates. See Appendix C – “Summary of Principal Legal Documents – The Trust Agreement - Covenants” attached hereto. The District expects that the Prior Deeds of Trust will be reconveyed to the District and removed as encumbrances subsequent to the execution and delivery of the Certificates.

2. The section “Definitions of Certain Terms” contained in Appendix C – “Summary of Principal Legal Documents” attached to the Official Statement is amended to replace the definition of “Permitted Encumbrances” with the following definition:

“*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 Master Lease; (v) the Master Sublease; (vi) the Prior Deeds of Trust; (vii) any right or claim of any mechanic, laborer, materialman, supplier or vendor filed or perfected in the manner prescribed by law; (viii) 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 (ix) 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.

3. The section “Definitions of Certain Terms” contained in Appendix C – “Summary of Principal Legal Documents” attached to the Official Statement is amended to add the following definitions:

“*Prior Deeds of Trust*” means, collectively, the Prior First Deed of Trust and the Prior Third Deed of Trust.

“*Prior First Deed of Trust*” means that certain First Deed and Trust and Fixture Financing Statement dated as of April 15, 1986, from Beaudry I Investors, a California limited partnership, as owner, to TICOR Title Insurance Company of California, a California corporation, as trustee, for the benefit of Beaudry I Investors Corp., a Delaware corporation, as beneficiary, and recorded in the official records of Los Angeles County on May 20, 1986 as Document No. 86-628772 (as amended, modified, restated and assigned from time to time).

“*Prior Third Deed of Trust*” means that certain Third Deed of Trust and Fixture Financing Statement dated as of April 15, 1986, from Beaudry I Investors, a California limited partnership, as owner, to TICOR Title Insurance Company of California, a California corporation, as trustee, for the benefit Real-Vest Corporation, a Delaware corporation and Printon, Kane & Co., as beneficiaries, and recorded in the official records of Los Angeles County on May 20, 1986 as Document No. 86-628780 (as amended, modified, restated and assigned from time to time).

3. The subsection “TRUST AGREEMENT – Covenants” contained in Appendix C – “Summary of Principal Legal Documents” attached to the Official Statement is amended to add the following:

Removal of Prior Deeds of Trust. The District shall take all reasonable actions necessary to cause the Prior Deeds of Trust to be removed as encumbrances on the Property at the earliest possible date following the date of delivery of the Series 2012 Certificates.

**SUPPLEMENT DATED MAY 30, 2012
TO OFFICIAL STATEMENT DATED MAY 3, 2012**

relating to the

\$87,845,000 LOS ANGELES UNIFIED SCHOOL DISTRICT Refunding Certificates of Participation 2012 Series A (Headquarters Building Projects)	\$72,345,000 LOS ANGELES UNIFIED SCHOOL DISTRICT Refunding Certificates of Participation 2012 Series B (Headquarters Building Projects)

This Supplement dated May 30, 2012 to the Official Statement dated May 3, 2012 (the “Official Statement”) of the Los Angeles Unified School District (the “District”) with respect to the above-captioned Certificates (the “Supplement”) is provided to update information contained in the Official Statement. This Supplement must be read together with the Official Statement. Capitalized terms used in this Supplement not defined herein have the meanings defined in the Official Statement.

1. The subsection “DISTRICT FINANCIAL INFORMATION — State Financial Accountability and Oversight Provisions — *March 2012 Fiscal Stabilization Plan*” contained in Appendix A to the Official Statement is replaced in its entirety with the following:

Fiscal Stabilization Plan. The March 2012 Fiscal Stabilization Plan outlined the District’s strategies to address a Fiscal Year 2012-13 budget deficit in the initially projected amount of \$557 million. The initial projection was made at the time of the District’s Fiscal Year 2011-12 First Interim Report in December 2011. In connection with the \$557 million deficit projection, the District Board identified \$557 million of unilateral cuts and budgetary measures that the District could implement. Further, the District Board issued approximately 11,700 March 15 Notices (defined herein) to certificated employees based on a projected General Fund deficit of \$557 million.

In the intervening months, various budget measures occurred that resulted in the District currently projecting a budget deficit of \$190.2 million in Fiscal Year 2012-13. The District reduced the projected budget deficit to \$190.2 million from \$557 million due to, among other things, \$60 million from reduced expenditures relating to the District’s prevailing in arbitration with UTLA relating to furlough days, \$166.8 million from new revenues from the State, balances from Fiscal Year 2011-12 available for use in Fiscal Year 2012-13 and an anticipated \$140 million of labor concessions. Unless additional revenues can be identified to close the remaining \$190.2 million deficit, the District expects that it will reduce or eliminate certain programs and expenditures set forth in the list of budgetary measures approved in connection with the March 2012 Fiscal Stabilization Plan.

2. The subsection “DISTRICT FINANCIAL INFORMATION — State Financial Accountability and Oversight Provisions — *Contingency Plan to Address Voter Dependent State Revenues*” contained in Appendix A to the Official Statement is replaced in its entirety with the following:

Contingency Plans to Address the Fiscal Year 2012-13 District Budget and Voter Dependent State Revenues. The District’s Fiscal Stabilization Plan includes a two-stage contingency plan. The first stage of the contingency plan reflects the District’s issuance of approximately 11,700 layoff notices. The District can implement measures from the list of \$557 million of budget measures if labor concessions are not achieved. As of the date hereof, four of the 11 bargaining units have tentatively agreed to take up to ten furlough days in Fiscal Year 2012-13. The District is currently negotiating with the other unions

regarding furlough days. The second stage of the contingency plan, pursuant to guidelines established by LACOE guidelines, is predicated on the Governor's Proposed State Budget for Fiscal Year 2012-13 and the May Revision that assume passage of the Governor's Revised 2012 Tax Initiative. In the event the Governor's Revised 2012 Tax Initiative is not approved, the District projects the impact would be a loss of approximately \$444 per ADA or about \$240 million. In the event such reductions are implemented, the District expects to use a portion of the \$333 million Reserve for Revenue Uncertainty, implement workforce reductions, reduce other expenditures or implement a combination of such proposals to offset such reductions. In addition, the District may offset all or a portion of the reductions from temporary borrowing from internal sources or through the issuance of tax and revenue anticipation notes, if any. In the event the District were to only draw amounts from the Reserve for Revenue Uncertainty, the District projects that its Fiscal Year 2012-13 ending fund balance would be approximately 6.7% of expenditures.

3. The subsection "DISTRICT FINANCIAL INFORMATION — Collective Bargaining — *Litigation Regarding District Layoff Procedures*" contained in Appendix A to the Official Statement is hereby amended to add the following:

A complaint for declaratory and injunctive relief was filed on May 14, 2012 against the District and other named parties entitled *Vergara, et al. v. State of California, et al.* (the "*Vergara Complaint*") in the Los Angeles County Superior Court. The plaintiffs, who are public school and public charter school students in the District and Alum Rock Union School District, allege that the hiring and continued employment of grossly ineffective teachers in the State public school system is the direct result of the continued enforcement of Education Code Sections 44929.21(b), 44934, 44938(b)(1), 44938(b)(2), 44944 and 44955 (collectively, the "Challenged Statutes"). The plaintiffs allege that the continued enforcement of the Challenged Statutes causes negative impacts on students' education, infringes upon California students' right to education and causes disparate impacts from classroom to classroom and school to school. Further, the plaintiffs allege that the Challenged Statutes prevent administrators from making employment and dismissal decisions that benefit students due to, among other things, the cost to terminate ineffective teachers, the difficulty, complexity, and length of time associated with the removal process and the seniority basis of the layoff system. The plaintiffs have asked the reviewing court for a declaratory judgment that the Challenged Statutes violate the equal protection provisions of the California Constitution and to permanently enjoin their enforcement, application and implementation. Further, the plaintiffs have asked the reviewing court to permanently enjoin the defendants named therein from implementing at any time in the future, by law or by contract, any system of teacher employment, retention and dismissal that is substantially similar to the framework implemented by the Challenged Statutes. The District cannot predict whether the plaintiffs listed in the *Vergara Complaint* will be successful, and if so, how any final court decision with respect to the *Vergara Complaint* would affect the financial status of the District, the remedy, if any, imposed by the court and the responses of the State Legislature and the Governor.

4. The subsection "STATE FUNDING OF EDUCATION — State Budget — State Budget for Fiscal Year 2012-13" contained in Appendix A to the Official Statement is hereby amended to add the following:

May Revision to the Fiscal Year 2012-13 Proposed State Budget. On May 14, 2012, the Governor released the May Revision to the Fiscal Year 2012-13 Proposed State Budget (the "May Revision"). The May Revisions estimates that the State's budgetary shortfall for Fiscal Year 2012-13 has increased to \$15.7 billion as a result of reduced revenue forecasts, increases in school funding, and unfavorable litigation outcomes and actions and proposals by the federal government. The May Revision proposes \$16.7 billion in budgetary actions in Fiscal Years 2011-12 and 2012-13 to address the projected budgetary shortfall and provide for a reserve of \$1.0 billion at the end of Fiscal Year 2012-13. The May Revision proposes to address the State's deficit through additional spending reductions (including the use

of local reserves to reduce State General Fund costs for local trial courts on a one-time basis, reductions to hospital and nursing home funding and reductions in IHSS hours), implementation of the temporary tax increases set forth in the Governor's Revised 2012 Tax Initiative, and use of various transfers, loans and repayment extensions. Assuming adoption of the proposals set forth in the May Revision and the approval of the Governor's Revised 2012 Tax Initiative, the Governor estimates that the State will end Fiscal Year 2011-12 with revenues and transfers of \$86.809 billion, total expenditures of \$86.500 billion and a year-end deficit of \$2.535 billion, which includes a prior-year State General Fund deficit of \$2.844 billion and an allocation of \$719 million to the reserve for the liquidation of encumbrances. The May Revision projects Fiscal Year 2012-13 revenues and transfers of \$95.689 billion, total expenditures of \$91.387 billion and a year-end surplus of \$1.767 billion (net of the \$2.535 billion deficit from Fiscal Year 2011-12), of which \$719 million will be reserved for the liquidation of encumbrances and \$1.048 billion will be deposited in a reserve for economic uncertainties.

The May Revision also sets forth \$6.1 billion in trigger cuts that are scheduled to go into effect on January 1, 2013, should the Governor's Revised 2012 Tax Initiative fail to pass, including reduced funding for schools, community colleges and other higher education institutions, and reduced funding for a variety of public safety programs. The May Revision further states that potential cost increases associated with actions to reduce the federal deficit, federal government and court decisions, the pace of the economic recovery, an aging population and rising health care costs, among other things, threaten the ability of the State to achieve and maintain a balanced budget over the long-term.

Features of the May Revision affecting school districts in the State in general include, but are not limited to, the following:

1. The May Revision assumes that the State's voters will approve the Governor's Revised 2012 Tax Initiative. In connection with the increased General Fund revenues, the May Revision proposes Proposition 98 expenditures of \$53.7 billion for Fiscal Year 2012-13. In addition, the May Revision projects that more than \$4 billion in additional funding will be available for allocation to schools in Fiscal Year 2012-13. The May Revision proposes that the State apply the increased Proposition 98 funds to fund cost of living adjustments, restore the deficit factor reductions to the revenue limit and reduce deferrals of State Aid.

2. In the event that voters do not approve the Governor's Revised 2012 Tax Initiative, the May Revision projects that trigger reductions will reduce funding K-14 education expenditures by approximately \$5.49 billion. In connection therewith, Proposition 98 expenditures would be approximately \$48.2 billion subsequent to the rebenching of General Fund revenues. Further, the May Revision's proposed \$2.8 billion deferral repayment would not occur in Fiscal Year 2012-13.

3. The May Revision proposes to decrease Proposition 98 expenditures by \$558.6 million to reflect the elimination of the adjustment that was adopted to hold schools harmless from the elimination of the sales tax on gasoline commencing Fiscal Year 2010-11.

4. The May Revision proposes to maintain the rebenching methodology used in the State Budget Act for Fiscal Year 2010-11 for mental health services for children and childcare and provide approximately \$417 million to support educationally-related mental health services.

5. The May Revision proposes several adjustments to Proposition 98 spending for Fiscal Year 2012-13 including, among other things, a reduction in the amount of \$1.498 billion from the General Fund and the use of an over-appropriation of Proposition 98 moneys in Fiscal Year 2011-12 to pay Proposition 98 funding required by the court decision in *California Teacher's Association vs. Schwarzenegger* in the amount of \$785.3 million. In addition, the May Revision proposes to decrease

General Fund spending for the QEIA by \$450 million for Fiscal Year 2012-13 due to the over-appropriation of QEIA funding in Fiscal Year 2011-12. The May Revision proposes to fund QEIA in Fiscal Year 2012-13 with amounts within the Proposition 98 minimum guarantee.

6. In the event that voters approve the Governor's Revised 2012 Tax Initiative, the May Revision proposes to restore approximately \$9.6 billion in reductions that have been made to Proposition 98 funding since Fiscal Year 2007-08 from Fiscal Years 2012-13 through Fiscal Year 2015-16 and to reduce inter-year deferrals of State Aid to \$7.6 billion from the current amount of \$10.4 billion.

7. The Governor continues to propose the weighted student formula set forth in the Fiscal Year 2012-13 Proposed State Budget. However, the May Revision proposes to phase-in the weighted student formula over seven years instead of five. The May Revision proposes to increase the base grant portion of the weighted student formula to \$5,421 from \$4,920. In addition, the May Revision proposes to restore the existing deficit factor reduction to revenue limits before the weighted student formula is fully implemented. Further, the May Revision revises the base grant, supplemental grant and concentration grant formulas based on grade level and status of students as English learners and participants in the Free and Reduced Lunch Program.

8. In consideration of the Governor's proposal to eliminate certain mandates regarding K-12 education and establish block grant programs, the May Revision proposes, among other things, to distribute funding to school districts, county office of education, and charter schools equally based on ADA for K-12 schools and eliminate the six costliest mandates, Graduation Requirements (Second Science Counsel), Behavioral Intervention Plans, Habitual Truants, Notification of Truancy, Notification to Teachers and Pupil Discipline Records, and Pupil Suspend, Expulsions, and Expulsion Appeals. The aforementioned mandates would be suspended in Fiscal Year 2012-13 until such time as the State Legislature can repeal them in their entirety.

9. State law requires that schools provide transitional kindergarten beginning in Fiscal Year 2012-13. The May Revision continues the proposal set forth in the Fiscal Year 2012-13 Proposed State Budget to eliminate such requirement. The May Revision projects that savings related to the elimination of the transitional kindergarten requirement will be approximately \$91.5 million in Fiscal Year 2012-13 and such savings would be available to restore reductions to preschool and support the expansion of preschool enrollment.

10. In connection with the dissolution of redevelopment agencies pursuant to ABx1 26 and the related California Supreme Court decision in *California Redevelopment Association v. Matosantos*, the May Revision proposes legislation to create a framework for successor agencies to transfer cash assets that are not obligated or reserved for legally authorized purposes to cities, counties, special districts and K-14 schools in Fiscal Year 2012-13. The May Revision estimates that approximately \$1.4 billion in Fiscal Year 2012-13 and \$600 million in Fiscal Year 2013-14 will be allocated to school and community college districts.

11. The Fiscal Year 2012-13 Proposed State Budget proposed to require school districts to convey surplus property to any charter school opting to claim that property. The May Revision limits the proposed surplus property conveyance requirement to facilities with an educational purpose that were purchased with State funds.

12. The May Revision proposes to provide school districts with flexibility to reduce the school year by a combined total of 15 days in Fiscal Year 2012-13 and 2013-14.

LAO Analysis of the May Revision. On May 18, 2012, the LAO released an analysis of the May Revision entitled “The 2012-13 Budget: Overview of the May Revision” (the “LAO May Revision Overview”). The LAO Revision May Overview states that the economic and revenue forecasts included in the May Revision are reasonable, but notes that the Governor’s projected revenues for fiscal years after Fiscal Year 2012-13 are higher than those projected by the LAO (ranging from \$1.3 billion to \$4 billion higher through Fiscal Year 2015-16). In addition, the LAO states that the Governor’s estimate of former redevelopment agencies’ liquid assets available for distribution is subject to considerable uncertainty due to, among other things, lawsuits that will delay distribution of funds and the amount of assets that have been spent or are contractually committed to third parties. Further, the LAO recommends that the State Legislature consider an alternative financing plan for the Proposition 98 minimum guarantee rather than the Governor’s proposal set forth in the May Revision in order to balance the State’s budget for Fiscal Year 2012-13. According to the LAO, the State should address two key budgetary goals: (1) retiring the accumulated deficit of recent years, which the Governor’s administration presently estimates to be \$7.6 billion (which may be addressed through one-time actions) and (2) making additional progress toward addressing the State’s ongoing annual operating, or structural, deficit, which the LAO presently estimates to be approximately \$10 billion, through realistic and ongoing budget actions. The LAO also states that given current forecasting challenges, the adoption of realistic budgetary actions, including realistic trigger cuts, is particularly important if the State is to continue making progress toward eliminating the ongoing structural deficit.

State Cash Management Plan for Fiscal Years 2011-12 and 2012-13. In May 2012, the Governor approved Assembly Bill 103 (“AB 103”) which revised the State’s cash management plan for Fiscal Years 2011-12 and 2012-13. AB 103 eliminates the prohibition against the State deferring an amount greater than \$2.5 billion at any given time for school districts, county offices of education and charter schools. AB 103 defers \$1.2 billion of State Aid in July 2012, of which \$700 million would be paid in September 2012, \$600 million of State Aid in August 2012 and \$800 million of State Aid in October 2012. AB 103 directs the State to pay \$1.9 billion of the deferred amounts from July 2012, August 2012 and October 2012 in January 2013. In addition, \$900 million of State Aid is deferred in March 2013 and repaid in its entirety in April 2013. AB 103 provides that a hardship waiver is available in the event a local education agency establishes that it may not be able to meet its financial obligations if payments are deferred in accordance with the schedule.

The State’s Department of Finance has suggested a revision (the “DOF Cash Management Plan”) to the State’s cash management plan to accommodate the uncertainty relating to the Governor’s 2012 Revised Tax Initiative. Pursuant to the DOF Cash Management Plan, the State would reduce State Aid to school districts by \$346 million in each of July 2012 and August 2012 and by \$623 million in each of September 2012, October 2012, November 2012, December 2012 and January 2013 regardless of whether the Governor’s 2012 Revised Tax Initiative is approved or defeated by voters.

In the event the Governor’s 2012 Revised Tax Initiative is approved, the State would reduce State Aid to school districts by \$623 million in February 2013, March 2013, April 2013, May 2013 and July 2013 and would increase school districts’ State Aid in the amount of \$6.9 billion in June 2013. However, in the event the Governors’ Revised Tax Initiative is not approved, the DOF Cash Management Plan proposes to impose trigger reductions to State Aid of \$478 million in each February 2013, March 2013, April 2013, May 2013 and July 2013 and would increase State Aid by \$761 million in each of February 2013, March 2013, April 2013, May 2013 and July 2013. The District cannot predict whether the DOF Cash Management Plan will be approved in its present form. The District continues to monitor the DOF Cash Management Plan and legislation relating to the State’s cash management plan. However, the District cannot predict the manner in which such legislation will affect the financial status of the District or the State.

In the opinion of Orrick, Herrington & Sutcliffe LLP, Special Counsel to the District, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, the portion of each Lease Payment paid by the District designated as and evidencing and representing interest and received by the Owners of the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Special Counsel, interest evidenced by the Certificates is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Special Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Special Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest evidenced by, the Certificates. See "Tax Matters" herein.

**\$87,845,000****LOS ANGELES UNIFIED SCHOOL DISTRICT****Refunding Certificates of Participation****2012 Series A****(Headquarters Building Projects)****\$72,345,000****LOS ANGELES UNIFIED SCHOOL DISTRICT****Refunding Certificates of Participation****2012 Series B****(Headquarters Building Projects)****Dated:** Date of Delivery**Due:** October 1, as shown on the inside cover

The \$87,845,000 Los Angeles Unified School District Refunding Certificates of Participation 2012 Series A (Headquarters Building Projects) (the "Series 2012A Certificates") and the \$72,345,000 Los Angeles Unified School District Refunding Certificates of Participation 2012 Series B (Headquarters Building Projects) (the "Series 2012B Certificates" and together with the Series 2012A Certificates, the "Certificates") are being executed and delivered pursuant to a Trust Agreement, dated as of October 1, 2001, as amended and supplemented, including as amended and supplemented by a Fifth Supplemental Trust Agreement, dated as of June 1, 2012 (the "Trust Agreement"), each by and among the Los Angeles Unified School District (the "District"), the LAUSD Administration Building Finance Corporation (the "Corporation") and U.S. Bank National Association, 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 October 1, 2001, as amended, including as amended by an Amendment No. 5 to Lease Agreement, dated as of June 1, 2012 (the "Lease Agreement"), each by and between the District and the Corporation, pursuant to which the District leases from the Corporation certain real property and all improvements thereon. The proceeds of the Certificates will be applied to (i) refinance the District's Certificates of Participation (Administration Building Project) 2001 Series B, Certificates of Participation (Administration Building Project II) 2002 Series C, Variable Rate Refunding Certificates of Participation (Administration Building Project) 2008 Series A, and Variable Rate Refunding Certificates of Participation (Administration Building Project III) 2008 Series B and (ii) pay certain costs incurred in connection with the delivery of the Certificates. See "Plan of Refinancing" herein.

Interest evidenced by the Certificates is payable on April 1 and October 1 of each year, commencing on October 1, 2012. The Certificates will be delivered as fully-registered certificates registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), which will act as securities depository for the Certificates. Purchases of the Certificates shall 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 F – "Book-Entry System" attached hereto.

The Certificates are subject to optional prepayment and extraordinary prepayment prior to their stated maturities, as described herein. See "The Certificates – Prepayment" herein.

MATURITY SCHEDULES, INTEREST RATES, YIELDS AND PRICES
(shown on inside cover pages)

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 THE 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 of legality by Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Special Counsel to the District, and certain other conditions. 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, Fulbright & Jaworski L.L.P., Los Angeles, California. 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 June 12, 2012.

**RBC Capital Markets®****Piper Jaffray & Co.****Backstrom McCarley Berry & Co., LLC**

MATURITY SCHEDULES, INTEREST RATES, YIELDS AND PRICES

\$87,845,000

LOS ANGELES UNIFIED SCHOOL DISTRICT
Refunding Certificates of Participation, 2012 Series A
(Headquarters Building Projects)
Base CUSIP No.: 544648

Maturity (October 1)	Principal Amount	Interest Rate	Initial Public Offering Price	Yield	CUSIP Suffix
2012	\$1,170,000	2.000%	100.501	0.34%	TQ1
2013	6,040,000	2.000	101.721	0.67	TR9
2014	6,095,000	4.000	106.882	0.97	TS7
2015	6,270,000	4.000	108.733	1.29	TT5
2016	6,460,000	5.000	114.080	1.60	TU2
2017	6,705,000	5.000	115.346	1.94	TV0
2018	6,965,000	5.000	116.136	2.24	TW8
2019	7,240,000	5.000	116.589	2.50	TX6
2020	7,525,000	5.000	116.274	2.79	TY4
2021	7,820,000	5.000	116.037	3.01	TZ1
2022	8,130,000	5.000	115.687	3.20	UA4
2023	7,795,000	5.000	113.710 ^(c)	3.41	UB2
2024	1,255,000	4.250	105.109 ^(c)	3.65	UC0
2025	1,095,000	4.250	103.715 ^(c)	3.81	UD8
2026	1,125,000	3.750	97.612	3.97	UE6
2027	1,160,000	4.000	99.316	4.06	UF3
2028	1,190,000	4.000	98.580	4.12	UG1
2029	1,230,000	4.125	99.079	4.20	UH9
2030	1,270,000	4.125	98.666	4.23	UJ5
2031	1,305,000	4.250	99.084	4.32	UK2

^(c) Priced to the optional call date of October 1, 2022 at a price of par.

\$72,345,000
LOS ANGELES UNIFIED SCHOOL DISTRICT
Refunding Certificates of Participation, 2012 Series B
(Headquarters Building Projects)
Base CUSIP No.: 544648

Maturity (October 1)	Principal Amount	Interest Rate	Initial Public Offering Price	Yield	CUSIP Suffix
2012	\$ 630,000	2.000%	100.501	0.34%	UL0
2013	170,000	2.000	101.708	0.68	UM8
2014	305,000	3.000	104.587	0.98	UN6
2015	315,000	3.000	105.444	1.31	UP1
2016	325,000	3.000	105.669	1.63	UQ9
2017	335,000	4.000	110.330	1.94	UR7
2018	345,000	2.125	99.326	2.24	US5
2019	355,000	2.375	99.168	2.50	UT3
2020	360,000	2.625	98.709	2.80	UU0
2021	375,000	3.000	99.755	3.03	UV8
2022	385,000	3.125	99.343	3.20	UW6
2023	400,000	3.250	98.506	3.41	UX4
2024	6,750,000	5.000	112.507 ^(c)	3.54	UY2
2025	7,525,000	5.000	111.410 ^(c)	3.66	UZ9
2026	7,905,000	5.000	110.415 ^(c)	3.77	VA3
2027	8,300,000	5.000	109.609 ^(c)	3.86	VB1
2028	8,715,000	5.000	108.899 ^(c)	3.94	VC9
2029	9,155,000	5.000	108.370 ^(c)	4.00	VD7
2030	9,605,000	5.000	108.019 ^(c)	4.04	VE5
2031	10,090,000	5.000	107.582 ^(c)	4.09	VF2

^(c) Priced to the optional call date of October 1, 2022 at a price of par.

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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 other 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.

CUSIP is a registered trademark of American Bankers Association. CUSIP data in this Official Statement is provided by Standard & Poor’s CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. CUSIP data herein is set forth for convenience of reference only. The District, the Corporation, the Trustee, the Financial Advisor and the Underwriters assume no responsibility for the selection or uses of the CUSIP numbers or for the accuracy or correctness of such data. The CUSIP number for a specific maturity is subject to being changed after the execution and delivery of the Certificates as a result of various subsequent actions.

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.

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, 2015
3	Tamar Galatzan	June 30, 2015
4	Steve Zimmer	June 30, 2013
5	Bennet Kayser	June 30, 2015
6	Nury Martinez	June 30, 2013
7	Richard Vladovic	June 30, 2015

DISTRICT OFFICIALS

John Deasy, Superintendent
David Holmquist, General Counsel
Megan K. Reilly, Chief Financial Officer
Enrique Boull't, Chief Operating Officer
Luis Buendia, Interim Controller
John Walsh, Interim Director of Finance Policy
Timothy S. Rosnick, Deputy Controller

SPECIAL COUNSEL

Orrick, Herrington & Sutcliffe LLP
Los Angeles, California

DISCLOSURE COUNSEL

Hawkins Delafield & Wood LLP
Los Angeles, California

FINANCIAL ADVISOR

Tamalpais Advisors, Inc.— KNN Public Finance, a Joint Venture
Sausalito, California and Oakland, California

TRUSTEE, PAYING AGENT & ESCROW AGENT

U.S. Bank National Association
Los Angeles, California

VERIFICATION AGENT

Causey Demgen & Moore
Denver, Colorado

OFFICIAL STATEMENT

\$87,845,000	\$72,345,000
LOS ANGELES UNIFIED SCHOOL DISTRICT	LOS ANGELES UNIFIED SCHOOL DISTRICT
Refunding Certificates of Participation	Refunding Certificates of Participation
2012 Series A	2012 Series B
(Headquarters Building Projects)	(Headquarters Building Projects)

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 C – “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 \$87,845,000 Los Angeles Unified School District Refunding Certificates of Participation, 2012 Series A (Headquarters Building Projects) (the “Series 2012A Certificates”) and the \$72,345,000 Los Angeles Unified School District Refunding Certificates of Participation, 2012 Series B (Headquarters Building Projects) (the “Series 2012B Certificates” and together with the Series 2012A Certificates, the “Certificates”). The Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of October 1, 2001, as amended and supplemented by the First Supplemental Trust Agreement, dated as of December 1, 2002, the Second Supplemental Trust Agreement, dated as of May 1, 2005, a Third Supplemental Trust Agreement, dated as of May 1, 2005, a Fourth Supplemental Trust Agreement, dated as of August 1, 2008, and the Fifth Supplemental Trust Agreement, dated as of June 1, 2012 (collectively, the “Trust Agreement”), each by and among the Los Angeles Unified School District (the “District”), the LAUSD Administration Building Finance Corporation (the “Corporation”) and U.S. Bank National Association, as trustee (the “Trustee”). The proceeds of the Certificates will be applied to (i) refinance all or a portion of the District’s Certificates of Participation (Administration Building Project) 2001 Series B (the “Series 2001B Certificates”), Certificates of Participation (Administration Building Project II) 2002 Series C (the “Series 2002C Certificates”), Variable Rate Refunding Certificates of Participation (Administration Building Project) 2008 Series A (the “Series 2008A Certificates”), and Variable Rate Refunding Certificates of Participation (Administration Building Project III) 2008 Series B (the “Series 2008B Certificates” and together with the Series 2001B Certificates, the Series 2002C Certificates, and the Series 2008A Certificates, the “Prior Certificates”) and (ii) pay certain costs of delivery incurred in connection with the Certificates. See “Plan of Refinancing” herein.

The District leases certain real property and all improvements thereon relating to the Headquarters (defined herein), as more particularly described herein (the “Property”) from the Corporation pursuant to the Lease Agreement, dated as of October 1, 2001, as amended by Amendment No. 1 to Lease Agreement, dated as of December 1, 2002, Amendment No. 2 to Lease Agreement, dated as of May 1, 2005, Amendment No. 3 to Lease Agreement, dated as of May 1, 2005, Amendment No. 4 to Lease Agreement, dated as of August 1, 2008, and Amendment No. 5 to Lease Agreement, dated as of June 1, 2012 (collectively, the “Lease Agreement”), each 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, encompassing approximately 710 square miles, is located in the western section of the County of Los Angeles (the “County”) in the State of California (the “State”) 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 portions of the County which includes residential and industrial areas. As of June 30, 2011, the total population within the District’s boundaries was estimated to be approximately 4.6 million. A map of the District appears after the maturity schedule set forth on the inside cover page hereof.

The District was formed in 1854 as the Common Schools for the City 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. The District estimates it will serve 580,031 K-12 students in Fiscal Year 2011–12. As of June 30, 2011, the District is operating 448 elementary schools, 83 middle/junior high schools, 81 senior high schools, 56 options schools, 15 multi level schools, 16 special education schools, 26 magnet schools and 145 magnet centers, 24 community adult schools, five regional occupational centers, five skills centers, one regional occupational program center, 102 early education centers, four infant centers, and 20 primary school centers. In addition, as of June 30, 2011, there were 11 affiliated charter schools operated by the District and 171 fiscally independent charter schools within the District’s boundaries.

Additional information on the District is set forth in Appendices A and B hereto. See Appendix A – “District Financial Information and Regional Economic and Demographic Information” and Appendix B – “Selected Information from Audited Financial Statements of the District for the Fiscal Year ended June 30, 2011” attached hereto.

The Corporation

The Corporation was organized on August 22, 2001, as a California nonprofit public benefit corporation. The Corporation was formed at the request of the District for the specific and primary purpose of providing financing assistance to the District by financing the acquisition, construction, remodeling, rehabilitation, equipping, improvement, financing and refinancing of all the public facilities (consisting of the land, improvements, related parking facilities, associated rights and easements and equipment) of the District’s administration headquarters building located at 333 South Beaudry Avenue in Los Angeles, California, which is located on a 1.3 acre parcel and includes approximately 935,922 square feet of office space and parking for approximately 743 cars in an underground garage and surface parking lot (collectively, the “Headquarters Building”), and by leasing said facilities, land, improvements, related parking facilities, associated rights and easements and equipment for the use, benefit and enjoyment of the public served by the District, as well as any other purpose incidental thereto. The Corporation is a single-purpose corporation that will not be used in connection with any District projects other than the Headquarters Building described herein. See “The Corporation” 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 (each, an “Authorized Denomination”). The principal evidenced by each Series of the Certificates will evidence the sum of the portions of the Lease Payments designated as principal components of such Series of Certificates coming due on the Principal Payment Date in each year. Interest evidenced by each Series of the Certificates is payable on April 1 and October 1 of each year, commencing on October 1, 2012 (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 any person which 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 is treated as the owner of any Certificates for federal income tax purposes (each, a "Beneficial Owner") is the responsibility of DTC Participants. See "The Certificates – General" herein and Appendix F – "Book-Entry System" attached hereto.

Security and Sources 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.

The District is obligated to make Lease Payments from any source of legally available funds, and the District has covenanted in the Lease Agreement to make the necessary annual appropriations therefor. The District's obligation to make Lease Payments may be abated during any period in which, by reason of damage, destruction 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 that have been removed and any additions or modifications of the Property as described in the Lease Agreement) which is the subject of the Lease Agreement. Failure of the District to make Lease Payments during any such period shall 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", "- Reserve Fund" and "- Abatement" and "Risk Factors – Abatement" herein.

Pursuant to an Assignment Agreement, dated as of October 1, 2001, as amended and supplemented by Amendment No. 1 to Assignment Agreement, dated as of June 1, 2012 (collectively, the "Assignment Agreement"), each by and between the Corporation and the Trustee, the Corporation has 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 the Lease Payments under the Lease Agreement. See Appendix C – "Summary of Principal Legal Documents – Lease Agreement" and "- The 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 THE 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.

Reserve Fund

A reserve fund (the "Reserve Fund") is established under the Trust Agreement as a reserve for the payment when due of all Lease Payments and Prepayments to be paid pursuant to the Lease Agreement and of all

payments on the Certificates and Additional Certificates. Pursuant to the Trust Agreement, the Reserve Fund is required to be funded and maintained in an amount equal to the Reserve Requirement. Upon delivery of the Certificates, there will be established within the Reserve Fund an account for the Series 2012A Certificates (the “Series 2012A Reserve Account”) and an account for the Series 2012B Certificates (the “Series 2012B Reserve Account”). In connection with the execution and delivery of the Series 2012A Certificates and the Series 2012B Certificates, there will be deposited into the Series 2012A Reserve Account and the Series 2012B Reserve Account the amounts of \$7,840,623.10 and \$5,081,009.00, respectively, which amounts shall satisfy and constitute the respective portions of the Reserve Requirement for such Series of Certificates. See “Security and Sources of Payment for the Certificates - Reserve Fund” herein and Appendix C – “Summary of Principal Legal Documents – The Trust Agreement – Reserve Fund” attached hereto.

Tax Matters

In the opinion of Orrick, Herrington & Sutcliffe LLP, Special Counsel to the District, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, the portion of each Lease Payment paid by the District designated as and evidencing and representing interest and received by the Owners of the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Special Counsel, interest evidenced by the Certificates is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Special Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Special Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest evidenced by the Certificates. See “Tax Matters” 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 (“Listed Events”) in a timely manner not in excess of ten (10) Business Days after the occurrence of such Listed 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 events. See “Continuing Disclosure” herein and Appendix E – “Form of Continuing Disclosure Certificate” attached hereto. Copies of the District’s annual reports and notices of Listed 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.

Miscellaneous

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

The description herein of the Trust Agreement, the Lease Agreement 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 C – “Summary of Principal Legal Documents” attached hereto. Copies of the Trust Agreement, the Lease Agreement and the Assignment Agreement are on file and available for inspection at the Corporate Trust Office of the Trustee at U.S. Bank National Association, 633 West Fifth Street, 24th Floor, Los Angeles, California 90071.

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 REFINANCING

On June 12, 2012, the prepayment date for the Series 2008A Certificates and the Series 2008B Certificates, Bank of America, N.A. (the “Series 2008 Credit Provider”) will pay from draws made by the trustee for the Series 2008A Certificates and the Series 2008B Certificates on the irrevocable direct-pay letters of credit (collectively, the “Series 2008 Letters of Credit”) which secure the Series 2008A Certificates and the Series 2008B Certificates the prepayment price of 100% of the principal amount thereof, plus accrued interest to the prepayment date of the Series 2008A Certificates and the Series 2008B Certificates. Proceeds of the Series 2012A Certificates, together with amounts held by the Trustee, will be used to reimburse the Series 2008 Credit Provider for payment of the prepayment price of the Series 2008A Certificates and the Series 2008B Certificates and related costs.

The Series 2012B Certificates are being executed and delivered to prepay the outstanding Series 2001B Certificates and Series 2002C Certificates at a prepayment price equal to the principal evidenced by the Series 2001B Certificates and the 2002C Certificates, plus accrued interest evidenced thereby to the respective prepayment dates of September 10, 2012 with respect to the Series 2001B Certificates and March 11, 2013 with respect to the Series 2002C Certificates. The District will use a portion of the proceeds of the Series 2012B Certificates to purchase State and Local Government Series securities (“SLGS”) in an amount, together with uninvested amounts, sufficient to prepay the Series 2001B Certificates and the Series 2002C Certificates and will deposit the SLGS into separate escrow funds (each, an “Escrow Fund”). The amounts on deposit in the Escrow Fund will be applied by U.S. Bank National Association, as escrow agent (the “Escrow Agent”), to prepay such Prior Certificates pursuant to separate Escrow Agreements, each dated as of June 1, 2012 (each, an “Escrow Agreement”). The mathematical computations used to determine the sufficiency of the escrow deposits will be verified by the Verification Agent (defined herein). See “Verification of Mathematical Computations” herein.

Proceeds of the Certificates also will be applied to pay certain costs of delivery incurred in connection with the Certificates.

THE PROPERTY

The Property under the Lease Agreement is the District's Headquarters Building. The Headquarters Building is located at 333 South Beaudry Avenue in the downtown area of Los Angeles, California. This property was acquired in 2001 and improved with a portion of the proceeds from the Series 2001B Certificates, the Series 2001C Certificates, the District's Certificates of Participation, 2002 Series C (Administration Building Project II), and the District's Certificates of Participation, 2005 Series B (Administration Building Project III) to facilitate the District's consolidation of most of its administrative functions into one building. The Headquarters Building includes the administration building, which was originally built in 1986, and is located on a 1.3 acre parcel and includes approximately 935,922 square feet of office space and parking for approximately 743 cars in an underground garage and surface parking lot. The Headquarters Building is used by the District Board and for all of the District's central administrative and support functions and its information technology systems.

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 Property upon compliance with all of the conditions set forth in the Lease Agreement. See "Security and Sources of Payment for the Certificates - Substitution, Addition and Removal of Property" herein and Appendix C – "Summary of Principal Legal Documents – The Lease Agreement - Assignment, Subleasing and Amendment - Amendment of Lease Agreement" attached hereto.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds of the Certificates and certain other amounts are expected to be applied approximately as follows:

	Series 2012A Certificates	Series 2012B Certificates
Sources:		
Aggregate Principal Amount	\$ 87,845,000.00	\$72,345,000.00
Net Original Issue Premium/(Discount)	10,175,895.80	6,471,625.75
Prior Certificate Funds	<u>7,840,623.10</u>	<u>5,081,009.00</u>
Total Sources	<u>\$105,861,518.90</u>	<u>\$83,897,634.75</u>
Uses:		
Deposit to Escrow Funds	\$ 97,500,000.00 ⁽¹⁾	\$78,386,847.86
Reserve Account for Series 2012A Certificates	7,840,623.10	--
Reserve Account for Series 2012B Certificates	--	5,081,009.00
Delivery Costs ⁽²⁾	<u>520,895.80</u>	<u>429,777.89</u>
Total Uses	<u>\$105,861,518.90</u>	<u>\$83,897,634.75</u>

⁽¹⁾ Amounts deposited in the Escrow Fund for the prepayment of the Series 2008A Certificates and the Series 2008B Certificates include amounts held by the Trustee under the Trust Agreement for the Series 2008A Certificates and the Series 2008B Certificates.

⁽²⁾ Includes underwriters' discount, rating agencies fees, financial advisor fees, title insurance fees, legal fees and expenses, trustee fees, printing costs and other 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 C – “Summary of Principal Legal Documents” attached hereto.

General

The Certificates of each Series will be dated their date of delivery and principal evidenced by the each Series of Certificates will be payable on the dates set forth on the inside cover page of this Official Statement. Interest evidenced by each Series of 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 Certificates of each Series 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 F – “Book-Entry System” attached hereto.

Prepayment

Optional Prepayment of Series 2012A Certificates. The Series 2012A Certificates maturing on or after October 1, 2023, are subject to optional prepayment in whole or in part (in integral multiples of \$5,000) on any Business Day on or after October 1, 2022, at a prepayment price of par plus accrued interest to the prepayment date, from prepayments of the Lease Payments made at the option of the District under the Lease Agreement.

Optional Prepayment of Series 2012B Certificates. The 2012B Certificates maturing on or after October 1, 2023, are subject to optional prepayment in whole or in part (in integral multiples of \$5,000) on any Business Day on or after October 1, 2022, at a prepayment price of par plus accrued interest to the prepayment date, from prepayments of the Lease Payments made at the option of the District under the Lease Agreement.

Extraordinary Prepayment. The Certificates are subject to prepayment, in whole or in part, *pro rata* by Series, in any integral multiple of an Authorized Denomination, on any Interest Payment Date for the Certificates, from Net Proceeds of an insurance or title insurance award, a condemnation award theretofore deposited in the Prepayment Fund for such purpose, which Net Proceeds are deposited in the respective accounts in the Prepayment Fund and credited towards the prepayment of the Lease Payments made by the District pursuant to the Lease Agreement, at a prepayment price equal to the principal amount of the Certificates to be prepaid, together with accrued interest to the date fixed for prepayment, without premium.

Selection of Certificates for Prepayment. Whenever less than all the Outstanding Certificates of a Series are to be prepaid on any one date, the Trustee will select the Certificates of such Series to be prepaid as directed by the District, and by lot among the Certificates of such Series with the same stated maturity date in any manner that the Trustee deems fair and appropriate, which decision will be final and binding upon the District and the Owners, and the Trustee will promptly notify the District in writing of the numbers of the Certificates so selected for prepayment on such date. For purposes of such selection, any Certificates may be prepaid in part in Authorized Denominations.

Notice of Prepayment. When prepayment is authorized or required pursuant to the Trust Agreement, the Trustee shall give notice on behalf and at the expense of the District of the prepayment of the Certificates. All notices of prepayment shall be dated and shall state: (i) the prepayment date, (ii) the prepayment price, (iii) if less

than all Outstanding Certificates of a Series are to be prepaid, the identification (and, in the case of partial prepayment, the respective principal amounts) of the Certificates to be prepaid, (iv) that on the prepayment date the prepayment price will become due and payable with respect to each such Certificate or portion thereof called for prepayment, and that interest with respect thereto shall cease to accrue from and after said date, (v) the place where such Certificates are to be surrendered for payment of the prepayment price, and (vi) whether the District has deposited, or caused the deposit of, an amount of money sufficient to pay the prepayment price of all the Certificates or portions of Certificates which are to be prepaid on such date and, if not, that such notice of prepayment is revocable.

Notice of prepayment having been given as provided in the Trust Agreement, the Certificates or portions of Certificates so to be prepaid will, on the prepayment date, become due and payable at the prepayment price therein specified, and from and after such date (unless the District shall default in the payment of the prepayment price) interest with respect to such Certificates or portions of Certificates will cease to be payable. Upon surrender of such Certificates for prepayment in accordance with said notice, such Certificates shall be paid by the Trustee at the prepayment price. Installments of interest due on or prior to the prepayment date shall be payable as provided in the Trust Agreement provided for payment of interest. Upon surrender for any partial prepayment of any Certificate, there shall be prepared for the Owner a new Certificate or Certificates of the same Series and maturity in the amount of the unpaid principal. All Certificates which have been prepaid shall be canceled by the Trustee, shall not be redelivered and shall be destroyed pursuant to the Trust Agreement.

With respect to any notice of any optional prepayment of the Certificates of a Series, unless at the time such notice is given the Certificates to be prepaid shall be deemed to have been paid within the meaning of the provisions of the Trust Agreement with respect to defeasance, such notice will state that such prepayment is conditional upon receipt by the Trustee, on or prior to the date fixed for such prepayment, of moneys that, together with other available amounts held by the Trustee, are sufficient to pay the prepayment price of, and accrued interest evidenced by, the Certificates to be prepaid, and that if such moneys have not been so received said notice will be of no force and effect and such Certificates will not be required to be prepaid, and in the event a notice of prepayment of Certificates contains such a condition and such moneys are not so received, the prepayment of Certificates as described in the conditional notice of prepayment will not be made and the Trustee will, within a reasonable time after the date on which such prepayment was to occur, give notice to the persons and in the manner in which the notice of prepayment was given, that such moneys were not so received and that there will be no prepayment of Certificates pursuant to such notice of prepayment.

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 the 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 THE 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.

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”, “-Reserve Fund” and “-Abatement” herein and “Risk Factors – Abatement” herein.

The Trustee, pursuant to the Trust Agreement and the Assignment Agreement, will receive Lease Payments for the benefit of the Owners. 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.

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 due under the Lease Agreement in each of its budgets during the Term of 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 set forth in the Lease Agreement.

The District is required under the Lease Agreement to make the Lease Payments to the Corporation as and when due subject to the provisions of the Lease Agreement regarding abatement. Pursuant to the Assignment Agreement, the Corporation has transferred and assigned to the Trustee, for the benefit of the Owners of the Certificates, all of the Corporation’s rights under the Lease Agreement (excepting only the Corporation rights regarding indemnification, rights to recover attorneys’ fees and the Corporation’s obligations under the Lease Agreement regarding its tax covenants) including, without limitation, all its rights to receive the Lease Payments and Additional Payments scheduled to be paid by the District under and pursuant to the Lease Agreement. Pursuant to the Trust Agreement, all moneys at any time deposited by the Trustee in a Lease Payment Account within the Lease Payment Fund will be held by the Trustee in trust for the benefit of the Owners of the related Certificates. So long as any Certificates 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 Trust Agreement does not expressly provide that the funds and accounts established under the Trust Agreement and the money therein are pledged to the Owners of the Certificates. However, the Trust Agreement provides that the moneys and investments held by the Trustee under the Trust Agreement are irrevocably held for the purposes specified in the Trust Agreement, and such moneys are not subject to levy or attachment or lien by or for the benefit of any creditor of the Corporation, the Trustee, the District or any Owner of Certificates, except as provided in the Trust Agreement.

No Acceleration of Lease Payments. There shall 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 the breach thereof 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 shall 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 shall, 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 shall be payable to the Trustee at the time and

in the manner as provided in the Lease Agreement. See Appendix C - “Summary of Principal Legal Documents - The Trust Agreement - Events of Default” attached hereto.

Lease Payments Schedule. Pursuant to the Lease Agreement, the District agrees to pay to the Corporation, its successors and assigns, as rental for the use and occupancy of the Property, the Lease Payments (denominated into components of principal and interest) to be due and payable, no later than fifteen Business Days prior to each April 1 or October 1, as applicable, for the Certificates (the “Lease Payment Dates”), 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 and Appendix C - “Summary of Principal Legal Documents - The Lease Agreement - Destruction and Eminent Domain; Use of Net Proceeds - Abatement of Lease Payments” attached hereto.

The following table sets forth the payments of the principal components and semi-annual interest components evidenced by the Certificates and the semi-annual Lease Payments due under the Lease Agreement. See Appendix A - “District Financial Information and Regional Economic and Demographic Information - District Financial Information - District Debt - Certificates of Participation” attached hereto for additional information regarding the District’s outstanding certificates of participation.

Certificate Payment Dates	Series 2012A Certificates		Series 2012B Certificates		Annual Total Lease Payments⁽¹⁾
	Principal	Interest	Principal	Interest	
October 1, 2012	\$ 1,170,000.00	\$ 1,200,650.14	\$ 630,000.00	\$ 1,066,230.06	\$ 4,066,880.00
April 1, 2013		1,971,025.00		1,754,446.88	3,725,472.00
October 1, 2013	6,040,000.00	1,971,025.00	170,000.00	1,754,446.88	9,935,472.00
April 1, 2014		1,910,625.00		1,752,746.88	3,663,372.00
October 1, 2014	6,095,000.00	1,910,625.00	305,000.00	1,752,746.88	10,063,372.00
April 1, 2015		1,788,725.00		1,748,171.88	3,536,897.00
October 1, 2015	6,270,000.00	1,788,725.00	315,000.00	1,748,171.88	10,121,897.00
April 1, 2016		1,663,325.00		1,743,446.88	3,406,772.00
October 1, 2016	6,460,000.00	1,663,325.00	325,000.00	1,743,446.88	10,191,772.00
April 1, 2017		1,501,825.00		1,738,571.88	3,240,397.00
October 1, 2017	6,705,000.00	1,501,825.00	335,000.00	1,738,571.88	10,280,397.00
April 1, 2018		1,334,200.00		1,731,871.88	3,066,072.00
October 1, 2018	6,965,000.00	1,334,200.00	345,000.00	1,731,871.88	10,376,072.00
April 1, 2019		1,160,075.00		1,728,206.25	2,888,281.00
October 1, 2019	7,240,000.00	1,160,075.00	355,000.00	1,728,206.25	10,483,281.00
April 1, 2020		979,075.00		1,723,990.63	2,703,066.00
October 1, 2020	7,525,000.00	979,075.00	360,000.00	1,723,990.63	10,588,066.00
April 1, 2021		790,950.00		1,719,265.63	2,510,216.00
October 1, 2021	7,820,000.00	790,950.00	375,000.00	1,719,265.63	10,705,216.00
April 1, 2022		595,450.00		1,713,640.63	2,309,091.00
October 1, 2022	8,130,000.00	595,450.00	385,000.00	1,713,640.63	10,824,091.00
April 1, 2023		392,200.00		1,707,625.00	2,099,825.00
October 1, 2023	7,795,000.00	392,200.00	400,000.00	1,707,625.00	10,294,825.00
April 1, 2024		197,325.00		1,701,125.00	1,898,450.00
October 1, 2024	1,255,000.00	197,325.00	6,750,000.00	1,701,125.00	9,903,450.00
April 1, 2025		170,656.25		1,532,375.00	1,703,031.00
October 1, 2025	1,095,000.00	170,656.25	7,525,000.00	1,532,375.00	10,323,031.00
April 1, 2026		147,387.50		1,344,250.00	1,491,638.00
October 1, 2026	1,125,000.00	147,387.50	7,905,000.00	1,344,250.00	10,521,638.00
April 1, 2027		126,293.75		1,146,625.00	1,272,919.00
October 1, 2027	1,160,000.00	126,293.75	8,300,000.00	1,146,625.00	10,732,919.00
April 1, 2028		103,093.75		939,125.00	1,042,219.00
October 1, 2028	1,190,000.00	103,093.75	8,715,000.00	939,125.00	10,947,219.00
April 1, 2029		79,293.75		721,250.00	800,544.00
October 1, 2029	1,230,000.00	79,293.75	9,155,000.00	721,250.00	11,185,544.00
April 1, 2030		53,925.00		492,375.00	546,300.00
October 1, 2030	1,270,000.00	53,925.00	9,605,000.00	492,375.00	11,421,300.00
April 1, 2031		27,731.25		252,250.00	279,981.00
October 1, 2031	<u>1,305,000.00</u>	<u>27,731.25</u>	<u>10,090,000.00</u>	<u>252,250.00</u>	<u>11,674,981.00</u>
Total⁽¹⁾	\$ <u>87,845,000.00</u>	\$ <u>31,187,012.64</u>	\$ <u>72,345,000.00</u>	\$ <u>55,448,948.90</u>	\$ <u>246,825,962.00</u>

⁽¹⁾ Total may not equal sum of component parts due to rounding.

Additional Payments

The District will be required under the Lease Agreement to pay when due all costs and expenses incurred by the District and the Corporation in complying with the provisions of the Trust Agreement (“Additional

Payments”). “Additional Payments” included, but are not limited to, 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 shall not be subject to abatement.

Reserve Fund

The Reserve Fund is established under the Trust Agreement as a reserve for the payment when due of all Lease Payments and Prepayments to be paid pursuant to the Lease Agreement and of all payments on the Certificates and Additional Certificates. Pursuant to the Trust Agreement, the Reserve Fund is required to be funded and maintained in an amount equal to the Reserve Requirement. Upon delivery of the Certificates, there will be established within the Reserve Fund an account for the Series 2012A Certificates (the “Series 2012A Reserve Account”) and an account for the Series 2012B Certificates (the “Series 2012B Reserve Account”). In connection with the execution and delivery of the Series 2012A Certificates and the Series 2012B Certificates, there will be deposited into the Series 2012A Reserve Account and the Series 2012B Reserve Account the amounts of \$7,840,623.10 and \$5,081,009.00, respectively, which amounts shall satisfy and constitute the respective portions of the Reserve Requirement for such Series of Certificates. See Appendix C – “Summary of Principal Legal Documents – The Trust Agreement – Reserve Fund” attached hereto.

Insurance

The Lease Agreement provides that the District shall 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, the Trustee and their respective members, officers, agents and employees against the risks and in the amounts set forth in the Lease Agreement. 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. The Lease Agreement provides that said policy or policies shall 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.

The Lease Agreement provides that the District shall 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 insurance (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. Further, 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 the Net Proceeds of such insurance shall be applied as provided in the Lease Agreement

In addition, the Lease Agreement provides that the District shall procure and maintain, or cause to be procured and maintained, throughout the Term of the Lease Agreement, earthquake insurance, in such amounts and for such terms as may be commercially available at a reasonable cost from an admitted insurer. The District has determined that earthquake insurance is not commercially available at reasonable cost from an admitted insurer at this time.

The Lease Agreement provides that the District shall 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, 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 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.

The Lease Agreement provides that the District shall 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 such Property in an amount equal to twenty-four (24) months of Lease Payments for such Property (calculated assuming that the annual Lease Payment amount determined in accordance with the provisions of the Lease Agreement relating to the budgeted amount of Lease Payments and Additional Payments consists of twelve equal monthly deposits), with the Trustee named as additional insured and loss payee, assuming all sinking fund payments are made when due. Such insurance may be carried in conjunction with, and may be subject to the same provisions as, the insurance required under the provisions of the Lease Agreement regarding fire insurance, extended coverage insurance, earthquake insurance, if any, boiler and machinery insurance and worker's compensation insurance. 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 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 shall 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 public liability and property damage insurance coverage, 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), boiler and machinery and workers' compensation insurance) all coverage required by public liability and property damage insurance, fire, extended coverage, earthquake insurance (in such amounts and for such terms as may be commercially available at a reasonable cost from an admitted insurer), boiler and machinery insurance, and workers' compensation insurance, rental interruption insurance and title insurance. Each policy of earthquake insurance, if any, rental interruption insurance, and title insurance 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 shall be payable to the Trustee and applied as provided in the Lease Agreement. The Lease Agreement provides that the District shall 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 A - "District Financial Information and Regional Economic and Demographic Information - District General Information - Insurance" and Appendix C - "Summary of Principal Legal Documents - The Lease Agreement - Maintenance; Taxes; Insurance; Use Limitations; and Other Matters" attached hereto.

Abatement

Under California Law, the Lease Agreement becomes effective as of the date of the Certificates. However, the obligation of the District to make Lease Payments may be subject to abatement in whole or in part. See "Risk Factors – Abatement" herein. The Lease Payments with respect to the Certificate shall be abated during any period in which, by reason of damage, destruction, non-completion 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 that have been removed and any additions or modifications of the Property as described in the Lease Agreement), and the District waives certain benefits 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 shall 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, incomplete or otherwise unavailable for use and occupancy by the District. Such abatement shall continue for the period commencing with such damage, destruction, non-completion or other event and

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, non-completion or non-availability, the Lease Agreement shall continue in full force and effect and the District waives any right to terminate the Lease Agreement by virtue of any such damage, destruction, non-completion or unavailability.

Pursuant to the Lease Agreement, there will be no abatement of Lease Payments by reason of damage, destruction, non-completion 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 obligation 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 principal component of the Lease Payments; or (ii)(A) the proceeds of rental interruption insurance or (B) amounts in the Insurance and Condemnation Fund and/or the Lease Payment Fund are available to pay Lease Payments which would otherwise be abated under the Lease Agreement, it being declared pursuant to the Lease Agreement that such proceeds and amounts constitute special funds for the payment of the Lease Payments. See Appendix C - "Summary of Principal Legal Documents - The Lease Agreement - Destruction and Eminent Domain; Use of Net Proceeds - Abatement of Lease Payments" attached hereto.

Substitution, Addition and Removal of Property

The District may amend the Lease Agreement to substitute other land or facilities (the "Substituted Property") for all or a portion of the Property, to add additional land or facilities (the "Additional Property"), to the definition of Property, or to remove any portion of the Property from the definition of Property, upon compliance with all of the conditions set forth in the Lease Agreement, which includes, among other things, the condition that such substitution, addition or release shall not cause the District to violate any of its covenants, representations and warranties made in the Lease Agreement or in the Trust Agreement. See Appendix C - "Summary of Principal Legal Documents - The Lease Agreement - Assignment, Subleasing and Amendment - Amendment of Lease Agreement" attached hereto.

No Additional Encumbrances

Under the Lease Agreement, the Corporation has agreed that it will not pledge the Lease Payments or other amounts derived from the Property and from 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 and the Trust Agreement. Under the Lease Agreement, the District has agreed that it will not mortgage or encumber the Property, except as provided under the terms of the Lease Agreement and the Trust Agreement. See Appendix C - "Summary of Principal Legal Documents - The Lease Agreement - Representations, Covenants and Warranties" attached hereto.

Additional Certificates

In addition to the Certificates, the District, the Corporation and the Trustee may by execution of a Supplemental Trust Agreement, without the consent of the Owners, provide for the execution and delivery of Additional Certificates in one or more Series. Such Additional Certificates may only be executed and delivered upon compliance by the District with the provisions of the Trust Agreement. See Appendix C - "Summary of Principal Legal Documents - Trust Agreement - Certain Provisions Relating to the Certificates of Participation - Execution and Delivery of Additional Certificates" attached hereto.

Investment of Funds

The proceeds of the Certificates will be held under the Trust Agreement and invested as provided thereunder. See Appendix C - "Summary of Principal Legal Documents - Trust Agreement" 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 A hereto. Excerpts from the District's audited financial statements for the fiscal year ended June 30, 2011 are set forth in Appendix B hereto. See "Financial Statements" herein and Appendix A - "District Financial Information and Regional Economic and Demographic Information" and Appendix B - Selected Information from Audited Financial Statements of the district for the Fiscal Year ended June 30, 2011" attached hereto.

THE CORPORATION

The Corporation was organized on August 22, 2001 as a California nonprofit public 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 all the public facilities (consisting of the land, improvements, related parking facilities, associated rights and easements and equipment) of the District's Headquarters Building located at 333 South Beaudry Avenue in Los Angeles, California, and by leasing said facilities, land, improvements, related parking facilities, associated rights and easements and equipment for the use, benefit and enjoyment of the public served by the District, as well as any other purpose incidental thereto. The Corporation is a single-purpose corporation that will not be used in connection with any District projects other than the Headquarters Building described herein. See "The Corporation" herein.

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 the members of the Board of Education of the District. The officers of the Corporation presently are:

Mónica García, President
Richard Vladovic, Vice President
Megan K. Reilly, Treasurer
Luis Buendia, 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 A – "District Financial Information and Regional Economic and Demographic Information" attached hereto. The District has the capacity to enter 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 A - "District Financial Information and Regional Economic and Demographic 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.

Default; Remedies Upon Default; No Right of Acceleration

There is no remedy of acceleration of the total Lease Payments due over the term of the Lease Agreement, nor is the Trustee empowered to sell the Property and use the proceeds of such sale to prepay the Certificates or pay debt service thereon. The District shall remain liable and agrees to keep or perform all covenants and conditions contained in the Lease Agreement to be kept or performed by the District and, to pay the rent to the end of the term of the Lease Agreement and further agrees to pay such rent and/or rent deficiency punctually at the same time and in the same manner as provided in the Lease Agreement for the payment of rent

hereunder (without acceleration). 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.

Abatement

The amount of the annual Lease Payments does not exceed the annual fair rental value of the Property. The Lease Payments with respect to the Certificate will be abated during any period in which, by reason of damage, destruction, non-completion 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 that have been removed and any additions or modifications of the Property as described in the Lease Agreement), and the District waives certain benefits 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 shall 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, incomplete or otherwise unavailable for use and occupancy by the District. Such abatement shall continue for the period commencing with such damage, destruction, non-completion or other event and 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, non-completion or non-availability, the Lease Agreement shall continue in full force and effect and the District waives any right to terminate the Lease Agreement by virtue of any such damage, destruction, non-completion or unavailability. Such abatement will commence with such damage, destruction, non-completion or taking and end with the substantial completion of the replacement or repair.

Pursuant to the Lease Agreement, there will be no abatement of Lease Payments by reason of damage, destruction, non-completion 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 obligation 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 principal component of the Lease Payments; or (ii)(A) the proceeds of rental interruption insurance or (B) amounts in the Insurance and Condemnation Fund and/or the Lease Payment Fund are available to pay Lease Payments which would otherwise be abated under the Lease Agreement, it being declared pursuant to the Lease Agreement that such proceeds and amounts constitute special funds for the payment of the Lease Payments.

The District is also required under the Lease Agreement to 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 twenty-four (24) months of Lease Payments for such Property (calculated assuming that the annual Lease Payment amount determined in accordance with the provisions of the Lease Agreement relating to the budgeted amount of Lease Payments and Additional Payments consists of twelve equal monthly deposits). The Net Proceeds of such insurance shall be paid to the Trustee and deposited in the Lease Payment Fund and shall be credited towards the payment of the Lease Payments pursuant to the Trust Agreement. See Appendix C - "Summary of Principal Legal Documents - The Lease Agreement - Destruction and Eminent Domain; Use of Net Proceeds - Abatement of Lease Payments" attached hereto.

State Funding of Education; Constitutional School Funding Guarantee

Historically, a large portion of the District's annual general fund revenues has consisted of payments from the State. State income tax and other receipts that affect State revenues can fluctuate significantly from year to year depending upon economic conditions in the State and the United States of America. In addition, 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 or eliminated 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 A – "District Financial Information and Regional Economic and Demographic Information - District Financial Information - District Budget" and " - State Funding of Education" attached hereto.

Seismic Events; Force Majeure

The Property is located within a seismically active area. The District is required under the Lease Agreement to procure and maintain, or cause to be procured and maintained, earthquake insurance, in such amounts and for such terms as may be commercially available at reasonable cost from an admitted insurer, on the Property. The District has determined that earthquake insurance is not commercially available at reasonable cost from an admitted insurer at this time. There can be no assurance that earthquake insurance on the Property, if any, will be acquired by the District or, if acquired, would be renewed, or will be available to pay Lease Payments or debt service on 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 "Risk Factors – Abatement" herein. The District cannot predict when or if a seismic event might occur, or if one occurs the impact it would have on the Headquarters Building.

Operations at 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. The District cannot predict what force majeure events may occur in the future. See Appendix A - "District Financial Information and Regional Economic and Demographic Information - District General Information - Insurance" and Appendix C - "Summary of Principal Legal Documents - The Lease Agreement - Maintenance; Taxes; Insurance; Use Limitations; and Other Matters" 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 and Appendix C - "Summary of Principal Legal Documents - The Lease Agreement - Destruction and Eminent Domain; Use of Net Proceeds - Abatement of Lease Payments" attached hereto.

Financial Condition of the United States

Due to the ongoing uncertainty regarding the debt of the United States of America, including without limitation, the general economic conditions in the United States, and other political and economic developments that may affect the financial condition of the United States government, the United States debt limit and the bond ratings of the United States and its instrumentalities, obligations issued by state and local governments, such as the Certificates, could be subject to a rating downgrade. Furthermore, if a significant default or other financial crisis should occur in the affairs of the United States or of any of its agencies or political subdivisions, then such event could also adversely affect the market for and the ratings, liquidity, and market value of outstanding debt obligations such as the Certificates. See “Ratings” herein.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, special counsel to the District (“Special Counsel”), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, the portion of each Lease Payment paid by the District designated as and evidencing and representing interest and received by the Owners of the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”) and is exempt from State of California personal income taxes. Special Counsel is of the further opinion that interest evidenced by the Certificates is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Special Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Special Counsel is set forth in Appendix D hereto.

To the extent the issue price of any maturity of the Certificates is less than the amount to be paid at maturity of such Certificates (excluding amounts stated to be interest and payable at least annually over the term of such Certificates), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest evidenced by the Certificates which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Certificates is the first price at which a substantial amount of such maturity of the Certificates is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Certificates accrues daily over the term to maturity of such Certificates on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Certificates to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Certificates. Beneficial Owners of the Certificates should consult their own tax advisors with respect to the tax consequences of ownership of Certificates with original issue discount, including the treatment of Beneficial Owners who do not purchase such Certificates in the original offering to the public at the first price at which a substantial amount of such Certificates is sold to the public.

Certificates purchased, whether at original execution and delivery or otherwise, for an amount higher than their principal evidenced thereby payable on the scheduled principal payment date thereof (or, in some cases, at their earlier prepayment date) (“Premium Certificates”) will be treated as having amortizable premium. No deduction is allowable for the amortizable premium in the case of obligations, like those evidenced by the Premium Certificates, the interest with respect to which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner’s basis in a Premium Certificate, will be reduced by the amount of amortizable premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Certificates should consult their own tax advisors with respect to the proper treatment of amortizable premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest evidenced by obligations such as the Certificates. The District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest evidenced by the Certificates will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest evidenced by the Certificates being included in gross income for federal income tax purposes, possibly from the date of original execution and delivery of the Certificates. The opinion of Special Counsel assumes the accuracy of these representations and compliance with these covenants. Special Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Special Counsel's attention after the date of execution and delivery of the Certificates may adversely affect the value of, or the tax status of interest evidenced by, the Certificates. Accordingly, the opinion of Special Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Special Counsel is of the opinion that interest evidenced by the Certificates is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest evidenced by, the Certificates may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Special Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest evidenced by the Certificates to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. As one example, the Obama Administration recently announced a legislative proposal which, for tax years beginning on or after January 1, 2013, generally would limit the exclusion from gross income of interest evidenced by obligations like the Certificates to some extent for taxpayers who are individuals and whose income is subject to higher marginal income tax rates. Other proposals have been made that could significantly reduce the benefit of, or otherwise affect, the exclusion from gross income of interest evidenced by obligations like the Certificates. The introduction or enactment of any such legislative proposals, clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Certificates. Prospective purchasers of the Certificates should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and regarding the impact of future legislation, regulations or litigation, as to which Special Counsel expresses no opinion.

The opinion of Special Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Special Counsel's judgment as to the proper treatment of the Certificates for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Special Counsel cannot give and has not given any opinion or assurance about the future activities of the District or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The District has covenanted, however, to comply with the requirements of the Code.

Special Counsel's engagement with respect to the Certificates ends with the execution and delivery of the Certificates, and, unless separately engaged, Special Counsel is not obligated to defend the District or the Beneficial Owners regarding the tax-exempt status of the Certificates in the event of an audit examination by the IRS. Under current procedures, parties other than the District and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the District legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Certificates for audit, or the course or result of such

audit, or an audit of obligations presenting similar tax issues may affect the market price for, or the marketability of, the Certificates, and may cause the District or the Beneficial Owners to incur significant expense.

CERTAIN LEGAL MATTERS

The legality of the Lease Agreement, the Assignment Agreement and the Trust Agreement and certain other legal matters are subject to the approval of Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Special Counsel to the District, and certain other conditions. A complete copy of the proposed form of opinion of Special Counsel is contained in Appendix D hereto. Special Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. 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, Fulbright & Jaworski L.L.P., Los Angeles, California.

FINANCIAL STATEMENTS

The basic financial statements of the District for the Fiscal Year ended June 30, 2011, certain sections of which are included in Appendix B to this Official Statement, have been audited by Simpson & Simpson CPA, independent certified public accountants, as stated in their report appearing in Appendix B. The District has not requested nor has the District obtained the consent of Simpson & Simpson CPA to the inclusion of its report as Appendix B. 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, 2011, 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 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 A hereto, 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 A - District Financial Information and Regional Economic and Demographic Information - District Financial Information - Recent Events Regarding Suspended and Former District Employees", " - 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 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 at 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.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Upon the delivery of the Certificates, Causey Demgen & Moore (the "Verification Agent"), will deliver a report stating that the firm has verified the mathematical accuracy of the schedules with respect to the sufficiency of the Escrow Fund established to pay, when due, the principal of, redemption premium and interest on the Prior Certificates to be prepaid in full on the dates on the respective Prepayment Dates thereof. The scope of the verification will be based solely on information and assumptions provided to the Verification Agent by the Underwriters. The Verification Agent will express no opinion on the assumptions provided to them, nor as to the exemption from taxation of the interest on the Certificates.

UNDERWRITING

The Certificates are being purchased by RBC Capital Markets, LLC on behalf of itself and Piper, Jaffray & Co. and Backstrom McCarley Berry & Co., LLC (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 Series 2012A Certificates at an aggregate purchase price of \$97,776,040.74 (representing the aggregate principal amount evidenced by the Series 2012A Certificates of \$87,845,000.00, plus original issue premium of \$10,175,895.80, and less an Underwriters' discount of \$244,855.06). The Underwriters have agreed, subject to certain conditions, to purchase the Series 2012B Certificates at an aggregate purchase price of \$78,614,974.67 (representing the aggregate principal amount evidenced by the Series 2012B Certificates of \$72,345,000.00, plus original issue premium of \$6,471,625.75, and less an Underwriters' discount of \$201,651.08). The Purchase Contract 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 initial public offering prices of the Certificates may be changed from time to time by the Underwriters.

Piper Jaffray & Co. and Pershing LLC, a subsidiary of The Bank of New York Mellon Corporation, entered into an agreement (the "Agreement") which enables Pershing LLC to distribute certain new issue municipal securities underwritten by or allocated to Piper Jaffray & Co., including the Bonds. Under the Agreement, Piper Jaffray & Co. will share with Pershing LLC a portion of the fee or commission paid to Piper Jaffray & Co.

FINANCIAL ADVISOR

The District has retained Tamalpais Advisors, Inc.-KNN Public Finance, a Joint Venture, 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 2011-12 and notice of the occurrence of Listed Events in a timely manner not in excess of ten (10) Business Days after the occurrence of such Listed 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 E – "Form of Continuing Disclosure Certificate" attached hereto. Copies of the District's annual reports and notices of Listed 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.

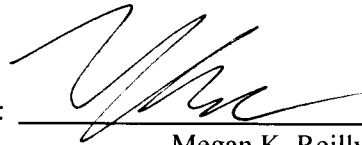
MISCELLANEOUS

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: _____



Megan K. Reilly
Chief Financial Officer

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APPENDIX A

DISTRICT FINANCIAL INFORMATION AND REGIONAL ECONOMIC AND DEMOGRAPHIC INFORMATION

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The information in this Appendix A 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 A, to obtain information essential to making an informed investment decision. The District’s Refunding Certificates of Participation 2012 Series A (Multiple Administration Building Projects) (the “Series 2012A Certificates”) and the Refunding Certificates of Participation 2012 Series B (Multiple Administration Building Projects) (the “Series 2012B Certificates” and together with the Series 2012A 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 A.

DISTRICT GENERAL INFORMATION

District Boundaries

The District, encompassing approximately 710 square miles, is located in the western section of 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 portions of the County which includes residential and industrial areas. The boundaries for the District are about 80% coterminous with the City, with the remaining 20% included in smaller neighboring cities and unincorporated County areas. 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”). John E. Deasy currently serves as the Superintendent. Brief biographical information for Superintendent Deasy and other senior management of the District is set forth below.

John E. Deasy, Ed. D., Superintendent. Dr. Deasy was appointed to serve as the Superintendent on April 1, 2011. Prior to his appointment as Superintendent, Dr. Deasy served as a Deputy Superintendent for the District since August 2010, during which time he led 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, Superintendent of the Prince George’s County Public Schools in Maryland, Superintendent of the Santa Monica-Malibu Unified School District in California and of the Coventry Public Schools in Rhode Island. Dr. Deasy has nearly three decades of experience in education and has written extensively on education and serves on numerous boards. 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 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.

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.

Enrique Boull't, Chief Operating Officer. Mr. Boull't has been employed by the District for the past 34 years in a number of capacities. Currently, he is serving as the District's Interim Chief Operating Officer responsible for the administrative oversight of multiple business operations including Food Services, Procurement, Risk Management and Insurance Services, Transportation and Environmental Health and Safety. Mr. Boull't has over 20 years as a District administrator having served in various executive level positions with oversight of Transportation, Accounts Payable and Payroll Customer Support. He is a graduate of Cal State Dominguez Hills with a Bachelor of Arts degree in Interdisciplinary Studies with an emphasis on Labor Relations. Mr. Boull't is an active member of a number of professional organizations including the Association of California School Administrators, California Association of School Transportation Officials, School Transportation Coalition and the Schools Federal Credit Union Supervisory Committee.

Luis Buendia, Interim Controller. Mr. Buendia began serving as the District's Controller in February 2012. He has been employed by the District since 1990 in various capacities in both School Fiscal Services and Finance. Mr. Buendia served as Assistant Budget Director of Budget Services and Financial Planning from 2002 through 2008 and as Deputy Controller from 2008 through February 2012. Mr. Buendia graduated from De La Salle University, with a Bachelor of Science degree in Accounting, and received a Master of Business Administration degree from the Graziadio School of Business and Management at Pepperdine University. Mr. Buendia is a member of the Government Finance Officers Association.

John Walsh, Interim Director of Finance Policy. Mr. Walsh began serving as the District's Interim Director of Finance Policy in April 2012. Mr. Walsh served as Assistant General Counsel to the District from January 2002 to March 2012. Prior to joining the District, Mr. Walsh was an attorney with Best, Best & Krieger LLP and Crowell & Moring LLP. Mr. Walsh graduated from Queen's University with honors with Bachelor of Arts degree in History and Politics, graduated from American University with a Master of Arts degree in History, and graduated from Claremont Graduate School with a doctorate in History. Mr. Walsh graduated from Loyola Law School *cum laude* with a Juris Doctorate.

Timothy S. Rosnick, Deputy Controller. Mr. Rosnick joined the District in October 2006 and has served as the District's Controller since June 2008. Mr. Rosnick became Deputy Controller on June 13, 2011. 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, 2011, 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, 2011, there were 11 affiliated charter schools operated by the District and 171 fiscally independent charter schools within the District's boundaries. 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. Accordingly, information regarding enrollment, average daily attendance ("ADA"), budgets and other financial information relating to such 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, 2011, the District employed approximately 43,702 certificated (full-time equivalent ("FTE")) employees, approximately 29,226 classified FTE employees and approximately 20,992 non-regular employees. The District also employs part-time and temporary employees.

Petitions have occasionally been filed with the Los Angeles County Office of Education ("LACOE") to divide portions of the District into smaller school districts. In addition, the County Committee on School District Organization has been periodically requested to approve petitions to form smaller school districts within the District. There are presently no petitions pending with LACOE or the County Committee on School District Organization to divide the District.

Academic Performance and Instructional Initiatives

Public Schools Accountability Act of 1999. The California's Public Schools Accountability Act of 1999 (the "PSAA") established the State's Academic Performance Index ("API"), which is the State's basic measurement of academic progress. In order to calculate the API, which score ranges from 200 to 1000, the California Department of Education analyzes the results from the Standardized Testing and Reporting Program and the California High School Exit Examination. The Statewide API performance target for all schools is 800. The CDE measures API growth by the extent to which a school or local education agency moves toward or past the statewide performance target of 800. The API is used in meeting state requirements under the PSAA and federal Adequate Yearly Progress ("AYP") requirements under the federal No Child Left Behind Act of 2001 (the "NCLB Act"). Under State requirements, if a school meets certain API participation and growth criteria, it may be eligible to become a California Distinguished School, National Blue Ribbon School, or Title I Academic Achievement Award School. If a school does not meet or exceed its growth targets and is ranked in the lower part of the statewide distribution of the Base API, it may be identified for participation in State intervention programs, which are designed to help the school improve its academic performance. Under federal NCLB Act requirements, the API is one of the factors for determining AYP.

During the last decade, the District has made progress regarding its students' performance on the API. The District obtained an overall API score of 728 for Fiscal Year 2010-11, which is an increase of 16% from the District's API score for Fiscal Year 2009-10, although the District's mean API scores for elementary schools, middle schools and high schools are lower than the Statewide API target of 800. However, approximately one-third of the District's schools have obtained or surpassed the Statewide target. 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.

Elementary and Secondary Education Act. In connection with the reauthorization of the Elementary and Secondary Education Act of 1965, the United States Congress passed 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 AYP, evaluated by state standards, for two consecutive years. Despite academic gains on the State's API, the District has been deemed a "Program Improvement District" based on measures established under the NCLB Act. 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 related mainly to the academic performance of the District's special education students and students for whom English is not their native language.

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 April 2012, the State had identified more than 200 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. Based upon the year or program improvement status, a local education agency may be required to incur additional expenditures relating to, among other things, pupil transportation to schools that have met AYP or the provision of supplemental educational services. Schools that are in Year 5 Corrective Action and beyond may close and reopen as charter schools, transfer management to private entities or the State, replace staff, contract with private management companies, or undergo major governance restructuring. See "District General Information - Public School Choice Program" herein.

More than 300 schools and independent charter schools within the District's boundaries 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 an 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. In August 2011, the State Superintendent of Public Instruction requested that the United

States Department of Education freeze certain sanctions and designations that are expected to be applied to school districts within California in order to provide additional time for California to implement current interventions.

In September 2011, the United States Secretary of Education announced a policy pursuant to which the federal government will provide to States and local education agencies, subject to an application and approval process, waivers to certain existing requirements set forth in the NCLB Act. The waivers relate to, among other things, timelines for determining AYP, implementation of school improvement requirements, interventions with respect to the educational programs in the schools, implementation of improvement plans relating to highly qualified teachers, the ability to transfer certain funds and the ability to use school improvement grant funds to support priority schools. The State has not submitted an application seeking waivers to certain existing requirements set forth in the NCLB Act. The District cannot predict what actions the District will take or what actions will be taken in the future by the State, Congress or the President in connection with the proposed reauthorization of the Elementary and Secondary Education Act of 1965 or the waiver of certain requirements set forth therein. Further, the United States Secretary of Education may terminate any waivers that the Department of Education has granted if such waivers are superseded by the reauthorization of the Elementary and Secondary Education Act of 1965. To the extent that the reauthorization of the Elementary and Secondary Education Act of 1965 or the waivers result in reduced revenues or increased expenses for the District or requires programmatic changes, the District will be required to make adjustments to its budget.

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 NCLB Act. The application process requires approval of a plan by, among others, local review teams, and an advisory panel selected by the Superintendent. The District Board makes the final decision regarding each application. Schools that participate in the Public School Choice Program may be operated as traditional schools, pilot schools, iDesign schools, magnet schools, affiliated charter schools or independent charter schools.

In December 2011, the District and UTLA (defined herein) entered into an agreement pursuant to which proposals from non-District affiliated applicants to operate schools pursuant to the Public School Choice Program are suspended for Fiscal Years 2011-12 through 2013-14. In addition, during such period, the Public School Choice program will be limited to applicants who provide plans that rely on District employees to staff the school’s faculty positions. The agreement further provides that schools that continue to underperform or fail to meet designated benchmarks will continue to be subject to the interventions set forth in the NCLB Act, excluding the transfer of operational control to a non-District operator.

Recent Events Regarding Suspended and Former District Employees

In January 2011, the Los Angeles County Sheriff’s Department (the “Sheriff’s Department”) informed the District of a pending investigation of a teacher based at Miramonte Elementary School (“Miramonte”). Upon notice of the investigation, the District suspended and terminated the teacher. In January 2012, the Sheriff’s Department arrested the former teacher and charged him with several criminal counts relating to lewd acts against minors. The Sheriff’s Department has indicated that the investigation regarding this former teacher is ongoing and additional counts may be filed. In February 2012, the Sheriff’s Department arrested a second teacher based at Miramonte and charged him with several criminal counts relating to sexual misconduct. Upon notice of the allegations, the District suspended and terminated the teacher.

In response to the acts alleged to have been committed by former employees of the District, the District temporarily reassigned teachers and staff at Miramonte to other sites in the District, mandated that a two-person team of a teacher and a counselor be present in each class, offered counseling services, and commenced a review of events that occurred at Miramonte. In addition, the District announced that an independent commission chaired by Carlos Moreno, retired Associate Justice of the Supreme Court of California, had been appointed to review the events that occurred at Miramonte and provide recommendations to the District.

Following these events, in February 2012, the State’s Commission on Teacher Credentialing (the “Credentialing Commission”) issued a letter to the District stating the District’s failure to timely notify the Credentialing Commission of the dismissal of credentialed employees while allegations of misconduct are pending poses a risk to student safety and may constitute professional misconduct by the Superintendent. Superintendent Deasy acknowledged that the District failed to timely inform the Credentialing Commission of the initial termination referenced above and directed District staff to investigate the cause of such failure. Further, Superintendent Deasy noted that such failure was contrary to District practice, but directed District staff to review other dismissals to ensure that the Credentialing Commission has received the required notice under State law.

The Joint Legislative Audit Committee of the California Legislature (the “Legislative Audit Committee”) has requested that the State Auditor conduct a performance audit of the District to review and evaluate the District’s processes for handling and documenting claims of abuse against students. The Legislative Audit Committee has asked the State Auditor to evaluate matters including, among other things, training, monitoring and oversight of employees relating to the prevention, identification and reporting of misconduct, removal of offending employees from school sites, tracking claims of misconduct, and the use of settlement agreements for claims or lawsuits filed alleging misconduct and the amounts of such settlement agreements, if any.

The District is currently investigating additional allegations of misconduct by current and former District personnel. In addition, the District and its officials are cooperating with the Sheriff’s Department in connection with its investigations of former and current District employees. The District has been presented with 113 claims and has been named as a party in four complaints relating to the actions described above by current or former employees of the District. The District anticipates that it will receive additional complaints seeking declaratory, injunctive, and monetary relief relating to such actions. The District cannot predict whether any plaintiffs listed in the aforementioned complaints will be successful, and if so, how any final court decision with respect to any lawsuit may affect the financial status, insurance claims, policies or operations of the District, as the nature of any court’s remedy and the responses thereto are unknown at the present time. The District is self-insured in an amount not to exceed \$5 million per occurrence with a \$45 million excess coverage limit. See “District Financial Information - Insurance” herein.

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” below.

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 readopt 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 has used a single adoption process for its budget since its Fiscal Year 2009-10 Final Adopted Budget.

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 a 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 (the “Reserve for Anticipated Balances”), economic uncertainties (the “Reserve for Economic Uncertainties”), 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, the Reserve for Anticipated Balances 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. Generally, the Reserve for Anticipated Balances is represented by the aggregate amount of the estimated Assigned Ending Balance and the estimated Restricted Ending Balance in the District’s budget for each fiscal year. The District’s Chief Financial Officer has recommended that, with the exception of the Reserve for Economic Uncertainties which State law requires to be fully funded and the Reserve for Anticipated Balances, the District henceforth postpone contributions to its reserves until the District can fund such reserves without significant adverse impacts to the District’s instructional program and

its other essential activities. See “District Financial Information - District Budget - Fiscal Year 2011-12 District Budget” herein.

Fiscal Year 2011-12 District Budget. The District Board adopted its budget for Fiscal Year 2011-12 on June 30, 2011 (the “Fiscal Year 2011-12 District Budget”) and submitted the Fiscal Year 2011-12 District Budget to LACOE in a timely manner for review. LACOE approved the District’s Fiscal Year 2011-12 District Budget on August 9, 2011. Due to concerns about the District’s fiscal status in Fiscal Year 2012-13 and 2013-14, LACOE requested that the District submit options that the District Board would consider implementing as part of a fiscal stabilization plan to meet the District’s fiscal requirements in Fiscal Years 2012-13 and 2013-14. See “District Financial Information - State Financial Accountability and Oversight Provisions - District First Interim Report for Fiscal Year 2011-12” herein.

The Fiscal Year 2011-12 beginning balances reflected estimates based upon the District’s interim financial report for Fiscal Year 2010-11 submitted to LACOE in June 2011. The Fiscal Year 2011-12 District Budget projected a District General Fund beginning balance of \$828.6 million, revenues of \$6.12 billion, total estimated expenditures of \$6.31 billion and an ending balance of \$641.9 million. The General Fund beginning balance of \$828.6 million included \$65.4 million for the mandatory Reserve for Economic Uncertainties the latter amount of which equals the State’s required Reserve for Economic Uncertainty of 1% of the District’s General Fund expenditures, \$282.0 million of legally restricted funds, \$10.8 million reserved for inventories and revolving cash funds, \$355.3 million from the undesignated balance from Fiscal Year 2010-11 and \$115.2 million from the assigned balance from Fiscal Year 2010-11. See “- Reductions to Fiscal Year 2011-12 Education Expenditures and District Contingency Plan” and “- District Fiscal Policies” below.

The District’s projected funded revenue limit ADA is 561,061 for Fiscal Year 2011-12. Declining enrollment statutes enabled the District to claim Fiscal Year 2011-12 revenue limit funding based on the ADA for Fiscal Year 2010-11. 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 declining enrollment statutes.

In the Fiscal Year 2011-12 District Budget, the Base Revenue Limit is the largest unrestricted General Fund revenue source. The Fiscal Year 2011-12 District Budget assumed a 2.24% cost of living adjustment and a 19.754% deficit factor for the Base Revenue Limit. After the cost of living adjustment, deficit factor and other adjustments by the State are applied, the District’s funded revenue limit was expected to generate approximately \$3.0 billion in Fiscal Year 2011-12. The Fiscal Year 2011-12 District Budget projected fund balances for the District’s General Fund of \$641.9 million as of June 30, 2012, which is approximately 10.5% of General Fund revenues.

The Fiscal Year 2011-12 District Budget included certain assumptions and policies, including among other things: (i) no cost of living adjustment for the State-funded portion of Special Education’s AB 602 funding; (ii) funding for AB 3632 mental health services in the amount of \$15 million in Fiscal Year 2011-12; (iii) no cost of living adjustment for Tier I, II, and III categorical programs; (iv) an enrollment decline of 26,861 from Fiscal Year 2010-11 for non-charter school enrollment and an enrollment increase of 19,298 from Fiscal Year 2010-11 for fiscally independent charter school enrollment; (v) a projected increase of 7% for utility expenditures and a California Consumer Price Index increase of 3.1% on other operating expenditures; (vi) the restoration of positions as specified in the bargaining unit agreements with UTLA, AALA (defined herein), Unit B (defined herein), Unit C (defined herein), Unit E (defined herein), Unit F (defined herein), has been implemented; (vii) implementation of budget balancing solutions adopted by the District Board in February 2011; (viii) four furlough days for UTLA, AALA, Service Employees International Union Local 99, Unit A, Unit B, Unit C, Unit F, Unit E, Unit H and District- represented employees (See “District Financial Information - Collective Bargaining - Furlough Days” herein); (ix) funding for employee health and medical benefits is being budgeted at the 2011 per participant rate level

pursuant to the 2009-2011 Health and Welfare Agreement; (x) funding for Other Postemployment Benefit (“OPEB”) Plans in an amount greater than the estimated pay-as-you-go funding amount with a contribution of \$22.5 million for 2011-12 and \$25 million from prior years’ funds designated for OPEB; (xi) a contribution of \$74 million to the Worker’s Compensation fund and a total Workers’ Compensation actuarially determined funded liability of \$423.7 million based on the central estimate of the projected ultimate loss discounted by 2.5%.

In addition, the Fiscal Year 2011-12 District Budget authorized the District to transfer amounts, as necessary, to implement technical adjustments related to development of the budget. In addition, the Fiscal Year 2011-12 District Budget authorized the District to appropriate new, unanticipated Fiscal Year 2011-12 revenues. The Fiscal Year 2011-12 District Budget included a commitment to continue to use all non-restricted amounts in the deferred maintenance fund in Fiscal Years 2010-11 to 2014-15 on non-routine related maintenance expenditures. The Fiscal Year 2011-12 District Budget also included a commitment to continue the use of the adult education fund and transfer a portion of the related State apportionment into the adult education fund for Fiscal Years 2011-12 to 2014-15.

The following Table A-1 sets forth the District’s Final Adopted Budgets for the District General Fund, inclusive of regular and specially funded programs for Fiscal Years 2007-08 through 2011-12. See “ - Significant Accounting Policies, System of Accounts and Audited Financial Statements” herein for audited financial results for Fiscal Years 2006-07 through 2010-11.

TABLE A-1

LOS ANGELES UNIFIED SCHOOL DISTRICT
District Budgets for Fiscal Years 2007-08 through 2011-12
for the District General Fund⁽¹⁾⁽²⁾⁽³⁾
(\$ in millions)

	Final Adopted Budget 2007-08	Final Adopted Budget 2008-09	Final Adopted Budget 2009-10⁽⁴⁾	Final Revised Budget 2010-11⁽⁵⁾	Final Adopted Budget 2011-12
Beginning Balance⁽⁶⁾	\$ 518.3	\$ 574.3	\$ 300.1	\$ 646.9	\$ 828.6
Revenue:					
State Apportionment	\$2,912.0	\$2,762.7	\$2,368.7	\$2,026.9	\$ 2,232.4
Property Taxes	741.2	780.4	785.3	846.0	775.5
Total Revenue Limit					
Revenues	\$3,653.2	\$3,543.1	\$3,154.0	\$2,872.9	\$3,007.9
Federal	905.7	830.8	1,355.1	1,251.9	935.2
Other State	2,336.4	2,169.0	1,872.4	2,108.4	2,036.8
Other Local	139.8	148.0	106.6	147.3	124.1
Other Sources	124.4	102.8	43.8	40.2	18.9
Total Revenue	\$7,159.5	\$6,792.0	\$6,532.0	\$6,420.7	\$6,123.0
Total Beginning Balance and Revenue	\$7,677.9	\$7,366.3	\$6,832.1	\$7,067.7	\$6,951.6
Expenditures:					
Certificated Salaries	\$3,376.7	\$3,203.7	\$2,939.2	\$2,779.9	\$2,689.3
Classified Salaries	977.7	998.1	888.2	839.4	794.8
Employee Benefits	1,346.9	1,301.5	1,411.7	1,397.7	1,412.8
Books and Supplies	589.7	467.7	514.7	598.1	365.4
Other Operating Expenses	763.7	817.2	709.8	792.1	810.8
Capital Outlay	60.9	41.1	37.4	39.7	43.9
Other Outgo/Other Uses	91.9	72.5	39.1	145.0	192.6
Total Expenditures	\$7,207.6	\$6,901.7	\$6,540.1	\$6,591.9	\$6,309.7
Ending Balance	\$ 470.2	\$ 464.6	\$ 292.0	\$ 475.8	\$ 641.9

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

(2) Includes the Regular Program and the Specially-Funded Programs.

(3) The District's Fiscal Year 2009-10 Final Adopted Budget was based upon information from the State through the May Revision (as defined herein) to the State Budget Act (as defined herein) for Fiscal Year 2009-10. Accordingly, the information set forth above does not reflect the information that was later set forth in the State Budget Act (as defined herein) for Fiscal Year 2009-10.

(4) Amounts set forth in Table A-1 reflect the "Estimated Amounts" in the District's budget for the respective fiscal year rather than the "Authorized Amount". Pursuant to the Education Code, school districts may not spend more than Authorized Amount in the Final Adopted Budget as adjusted during the fiscal year.

(5) The Fiscal Year 2010-11 Revised District Budget was based upon information from the State through September 2010 and the assumptions described above. Accordingly, the information set forth above does not reflect the information that was later set forth in the Fiscal Year 2010-11 State Budget Act (as defined herein).

(6) Actual beginning balance for each Fiscal Year, except for (a) Fiscal Year 2008-09, which was an unaudited estimate that was later revised to reflect refinements of Fiscal Year 2007-08 expenditures in selected programs, (b) Fiscal Year 2009-10, which was estimated and reflected a downward adjustment to the estimate in the Fiscal Year 2009-10 Adopted Budget to account for certificates of participation that had been assumed but ultimately were not issued in Fiscal Year 2008-09, and (c) Fiscal Year 2011-12, which was subsequently updated by the Fiscal Year 2010-11 Unaudited Actuals amount of \$899.6 million.

Sources: Los Angeles Unified School District's Final Adopted Budgets for Fiscal Years 2007-08 through 2009-10 and 2011-12; Final Revised Budget for Fiscal Year 2010-11.

Funding from the Quality Education Investment Act of 2006. The District received approximately \$129.0 million in Fiscal Year 2010-11 under the Quality Education Investment Act of 2006 (“QEIA”), which was signed into law in 2006 to implement the terms of the *CTA, et al. v. Schwarzenegger, et al.* settlement and to 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 purpose of QEIA funding is to provide additional support to raise academic performance at low performing schools. QEIA funding for a particular school can be eliminated if such school fails to timely meet certain academic achievement targets. In Fiscal Year 2011-12, QEIA funding for eligible students in grades K-3 is estimated to be \$500 per pupil, grades 4-8 is estimated to be \$900 per pupil and grades 9-12 is estimated to be \$1,000 per pupil. The District expects total funding from QEIA of \$119.6 million in Fiscal Year 2011-12. See “State Funding of Education—State Budget” herein.

Reductions to Fiscal Year 2011-12 Education Expenditures and District Contingency Plan. The 2011-12 State Budget Act authorized approximately \$601.0 million in funding reductions in the areas of higher education, health and human services and public safety beginning in January 2012, if the State’s Director of Finance estimated that the State’s General Fund revenues for Fiscal Year 2011-12 would be less than \$87.4 billion, but were at least \$86.4 billion. If the State’s Director of Finance estimated that the State’s General Fund revenues for Fiscal Year 2011-12 would be less than \$86.4 billion, the 2011-12 State Budget Act authorized an additional \$1.86 billion in education reductions. These reductions would include reductions to certain Proposition 98 allocations, a reduction of up to \$1.5 billion from K-12 education, including reductions in the school year by up to seven days, and a reduction of up to \$248 million relating to funding for home-to-school transportation (collectively, the “Maximum Trigger”). In order to address the possible impact of the Maximum Trigger and uncertainties related to State funding generally, the District set aside \$334 million in the Reserve for Anticipated Balances as part of the Fiscal Year 2011-12 District Budget. See “District Financial Information - District Budget - Budget and Finance Policy” herein.

On December 13, 2011, the State of California Department of Finance (the “Department of Finance”) released its 2011-12 Revenue Forecast/Determination Pursuant to Chapter 41, Statutes of 2011 (the “DOF Revenue Forecast”). According to the DOF Revenue Forecast, the Department of Finance’s updated revenue estimate for the State’s General Fund for Fiscal Year 2011-12 was \$86.2 billion, an amount which would cause the implementation of the Maximum Trigger. See State Funding of Education - State Budget - State Budget for Fiscal Year 2011-12” herein. Although the Maximum Trigger reduced State expenditures for home-to-school transportation by \$248 million, the Governor approved Senate Bill 81 (“SB 81”). SB 81, among other things, authorized an appropriation to the California Department of Education from the State General Fund in the amount of \$248 million to restore funding for home-to-school transportation and small school district transportation for Fiscal Year 2011-12. In addition, SB 81 authorized an increase to the deficit factor for Fiscal Year 2011-12 in order to offset the increase to the home-to-school transportation appropriation.

Projected Impacts of Assembly Bill 114 upon District Budget. In connection with the 2011-12 State Budget Act, Assembly Bill 114 (“AB 114”) directed each school district to adopt its budget for Fiscal Year 2011-12 based upon the same level of revenue per unit of ADA as it received in Fiscal Year 2010-11 and to maintain staffing and program levels commensurate with that level. Pursuant to AB 114, the State reduced funding due to the DOF Revenue Forecast. In addition, pursuant to AB 114, during Fiscal Year 2011-12, the State does not require any school district to demonstrate that it is able to meet its financial obligations for the two subsequent fiscal years as part of the budget process. AB 114 also provides school districts with the authority to reduce the minimum number of instructional days and minutes by up to seven days during Fiscal Year 2011-12, which is in addition to the authority to reduce the number of instructional days by up to five days under the Education Code. See “State Funding of Education - State Budget - Fiscal Year 2011-12 State Budget” herein.

As part of its review of the District's Fiscal Year 2011-12 District Budget, LACOE determined that the District was in compliance with the provisions of AB 114. Although the District was not required to demonstrate that it would be able to meet its financial obligations for two subsequent fiscal years under the provisions of AB 114, the Education Code requires the District to prepare and submit interim financial reports and to certify whether the District is able to meet its financial obligations for the remainder of the current fiscal year and the next two fiscal years. See "District Financial Information - State Financial Accountability and Oversight Provisions - District First Interim Report for Fiscal Year 2011-12" and " - District Second Interim report for Fiscal Year 2011-12" herein.

Parcel Tax Measure. In March 2012, the District Board approved a resolution ordering an election to authorize a parcel tax (the "Parcel Tax Measure") at the general election to be held in November 2012. The Parcel Tax Measure would authorize the levy of a special tax of \$298 per year on each parcel of taxable real property within the District, commencing in Fiscal Year 2013-14 for five years. The District projects that the Parcel Tax Measure, if approved, would provide public schools in the District's boundaries, including charter schools, with an aggregate annual amount of \$255 million, of which approximately \$220 million would be allocated to the District and the remainder would be allocated to charter schools. The parcel tax revenues would be used for such operating expenses as teachers and staff for various programs, student transportation and early education, and career and technical programs.

District Budget and Interim Financial Estimates. The following Table A-2 summarizes the originally budgeted revenues and expenditures and the projected year-end amounts, including the projected year-end General Fund Balance as reported in the Fiscal Year 2011-12 District Budget, the Fiscal Year 2011-12 First Interim Report (as defined herein) and the Fiscal Year 2011-12 Second Interim Report (as defined herein). The District has timely prepared each of these estimates of its Fiscal Year 2011-12 financial results and provided this information to the District Board and LACOE. See " - State Financial Accountability and Oversight Provisions - Interim Reporting Requirements - District First Interim Report for Fiscal Year 2011-12" and " - District Second Interim Report for Fiscal Year 2011-12" herein. The District expects to submit an update to the Second Interim Report for Fiscal Year 2011-12 in June 2012.

TABLE A-2

LOS ANGELES UNIFIED SCHOOL DISTRICT
District General Fund
Summary of Balances, Revenues and Expenditures
Fiscal Year 2011-12
(\$ in millions)⁽¹⁾

	Fiscal Year 2011-12 District Budget	First Interim Report (December 2011)	Second Interim Report (March 2012)
Beginning Balance	\$ 899.6	\$ 899.6	\$ 903.5 ⁽²⁾
Revenues/Other Sources	6,104.1	5,839.7	5,861.0
Expenditures/Other Uses	6,290.1	5,966.7	6,056.9
Operating Surplus (Deficit)	\$ (186.7)	\$ (127.0)	\$ (195.9)
Ending Balance	\$ 641.9	\$ 772.5	\$ 707.6

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

⁽²⁾ The Adjusted Beginning Balance of \$903.5 million set forth in the Second Interim Report reflects the estimated Beginning Balance of \$899.6 million, less Audit Adjustments in the amount of approximately \$1.1 million, plus Other Restatements in the approximate amount of \$5.1 million.

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 school 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 that the repayment of principal and interest evidenced by the Certificates described in the forepart of the Official Statement is probable.

District First Interim Report for Fiscal Year 2011-12. The District’s Fiscal Year 2011-12 First Interim Report (the “Fiscal Year 2011-12 First Interim Report”) was filed with LACOE by December 15, 2011, the deadline therefor. The District submitted its Fiscal Year 2011-12 First Interim Report with a self-certified qualified certification of its financial condition. The Fiscal Year 2011-12 First Interim Report stated that the District would be able to meet its financial obligations in Fiscal Year 2011-12 and projected that the District would need budget-balancing solutions and/or shared commitments from its collective bargaining units to close projected deficits for Fiscal Years 2012-13 and 2013-14. The Fiscal Year 2011-12 First Interim Report assumed the Maximum Trigger would reduce District revenues by \$188.8 million on a one-time only basis and impact revenue limit and home-to-school transportation revenues. See “District Financial Information - District Budget - Reductions to Fiscal Year 2011-12 Education Expenditures and District Contingency Plan” and “State Funding of Education- State Budget - Fiscal Year 2011-12 State Budget” herein.

The District’s Fiscal Year 2011-12 First Interim Report projected that the District’s ending balance of \$772.5 million would consist of approximately \$10.4 million of nonspendable moneys, \$210.3 million of restricted funds, \$468.3 million of assigned funds, \$65.4 million to be deposited in the Reserve for Economic Uncertainties and \$18.1 million of unassigned/unappropriated funds. The Fiscal Year 2011-12 First Interim Report projected that the District would satisfy the minimum percentages required to be deposited in its Reserve for Economic Uncertainties in Fiscal Years 2011-12, 2012-13 and 2013-14. However, absent corrective action set forth in the December 2011 Fiscal Stabilization Plan (defined herein), the Fiscal Year 2011-12 First Interim Report projected deficits of \$980.7 million and \$1.19 billion in Fiscal Years 2012-13 and 2013-14, respectively.

In connection with the Fiscal Year 2011-12 First Interim Report, the District submitted a fiscal stabilization plan (the “December 2011 Fiscal Stabilization Plan”) to LACOE in order to address its fiscal

status. The December 2011 Fiscal Stabilization Plan was a multi-phased plan that addresses a projected budget deficit of \$532 million for Fiscal Year 2012-13 under three scenarios: (i) shared commitments between the District and its bargaining units and new ongoing sustainable revenue sources which would restore approximately \$532 million of services; (ii) shared commitments between the District and its bargaining units, but without a new ongoing sustainable revenue source which would restore approximately \$169.3 million of services; or (iii) no shared commitments approved between the District and its bargaining units and no new ongoing sustainable revenue sources which would lead to reductions of \$532 million of services. Pursuant to the December 2011 Fiscal Stabilization Plan, the District must reduce expenditures in Fiscal Year 2012-13 by approximately \$362.7 million or secure a sustainable source of revenue to eliminate the ongoing operating deficit caused by declining enrollment and other factors. In the event the District is unable to secure a sustainable source of revenues and secured shared commitments, the District expects to consider reductions to, among other things, adult education, cafeteria support, the regional occupancy career education program, early childhood education, school readiness language development program, and certain classified and certificated personnel. See “ - District Second Interim Report for Fiscal Year 2011-12 - March 2012 Fiscal Stabilization Plan” herein.

District Second Interim Report for Fiscal Year 2011-12. The District’s Fiscal Year 2011-12 Second Interim Report (the “Fiscal Year 2011-12 Second Interim Report”) was filed with LACOE by March 15, 2012, the deadline therefor. The District submitted its Fiscal Year 2011-12 Second Interim Report with a self-certified qualified certification of its financial condition. The Fiscal Year 2011-12 Second Interim Report projects that the District will be able to meet its financial obligations in Fiscal Year 2011-12. However, the Fiscal Year 2011-12 Second Interim Report states that the District must implement budget-balancing solutions, including commitments from its collective bargaining units, to reduce or eliminate projected deficits for Fiscal Years 2012-13 and 2013-14.

The Fiscal Year 2011-12 Second Interim Report projects a \$27.3 million increase in projected revenues from the amount projected in the Fiscal Year 2011-12 First Interim Report. The Fiscal Year 2011-12 Second Interim Report projects a \$20.6 million decrease in projected revenues for the unrestricted portion of the District’s General Fund due to, among other things, the effect of the Maximum Trigger and a revenue reduction of \$31.6 million, net of an \$8.3 million projected increase in revenues relating to ADA. See “ - District Budget - Reductions to Fiscal Year 2011-12 Education Expenditures and District Contingency Plan” herein. In addition, the Fiscal Year 2011-12 Second Interim Report projects that federal reimbursement revenues will decrease by \$9 million but that the District will receive a \$5.8 million increase in revenues attributable to the State lottery.

The Fiscal Year 2011-12 Second Interim Report projects that General Fund expenditures will increase by \$90.2 million from the amount projected in the Fiscal Year 2011-12 First Interim Report. In addition, Unrestricted General Fund expenditures are expected to increase by \$26.4 million as compared to the Fiscal Year 2011-12 First Interim Report. The District attributes this change to the uncertainty of savings related to furlough days for District employees, which savings are not included in the District’s projections in the Fiscal Year 2011-12 Second Interim Report. However, the District projects lower health and welfare contributions of \$15.4 million due to fewer employees receiving these benefits. Further, compared to the Fiscal Year 2011-12 First Interim Report, General Fund contributions to restricted programs are projected to increase by \$14.4 million and interfund transfers to special education programs and the cafeteria fund are expected to increase by \$11.8 million and \$7.9 million, respectively. The Fiscal Year 2011-12 Second Interim Report projected that the District’s expenditures would be reduced by approximately \$7.8 million in connection with the federal Early Retirement Reimbursement Program, which provides funds for health care coverage for certain early retirees of the District and their dependents, and lower rates of interest on the District’s outstanding variable rate COPs (defined herein).

The Fiscal Year 2011-12 Second Interim Report projects that the budgetary deficit for Fiscal Year 2012-13 would be \$377 million absent corrective action, which amount is less than the \$557 million deficit

projected in the Fiscal Year 2011-12 First Interim Report. Subsequent to the submission of the Fiscal Year 2011-12 First Interim Report, the State implemented the Maximum Trigger and adopted SB 81 which impacted the District's financial projections and assumptions. See “ - District Budget - *Reductions to Fiscal Year 2011-12 Education Expenditures and District Contingency Plan*” herein. In addition, the 2012-13 Proposed State Budget included a proposal to implement a weighted pupil funding formula to be phased in over the next five years. See “State Funding of Education - State Budget - State Budget for Fiscal Year 2012-13 - *Fiscal Year 2012-13 Proposed State Budget*” herein. However, the District expects the application of the weighted pupil funding formula to be revenue-neutral provided that the commitment from the Governor to school districts to hold school districts harmless is realized. Accordingly, the District expects a net increase in revenues from the State in the amount of approximately \$103 million for Fiscal Year 2012-13. Further, the District expects budgetary adjustments to provide an additional \$77.5 million to reduce the projected deficit for Fiscal Year 2012-13 to approximately \$377 million.

The District's Fiscal Year 2011-12 Second Interim Report projects that the District's ending balance for Fiscal Year 2011-12 will be \$707.6 million which is approximately 11.5% of total General Fund revenues. Such amount would consist of approximately \$10.4 million of nonspendable moneys, \$199.3 million of restricted funds, \$358.0 million of assigned funds, \$65.4 million to be deposited in the Reserve for Economic Uncertainties and \$74.6 million of unassigned/unappropriated funds. The District's ending balance of \$65.4 million in the Reserve for Economic Uncertainties would satisfy the minimum percentages required by the State only for Fiscal Years 2011-12 and 2012-13. In connection with the Fiscal Year 2011-12 Second Interim Report, the District submitted an updated fiscal stabilization plan to LACOE in order to address the District's fiscal status and has continued to revise update its fiscal stabilization plan (as updated, the “March 2012 Fiscal Stabilization Plan”).

March 2012 Fiscal Stabilization Plan. The March 2012 Fiscal Stabilization Plan outlines the District's strategies to address deficits that are projected as of June 30, 2013, in the amount of \$390 million and in the amount of \$557 million. The projected deficit of \$557 million as of June 30, 2013, is based upon the District's February 2012 assessment of its structural budget deficit and the Maximum Trigger. See “ - District Financial Information - District Budget - *Reductions to Fiscal Year 2011-12 Education Expenditures and District Contingency Plan*” herein. The projected deficit of \$390 million as of June 30, 2013, reflects the \$557 million projected deficit reduced by the amounts the Governor has committed to reverse, those being \$78.8 million in transportation reductions and \$24.9 million in reductions caused by the adoption of a new pupil funding formula (collectively, the “Governor's Commitments”), and reduced by \$76.5 million of additional revenues that are in the District's budget set forth in the Fiscal Year 2011-12 Second Interim Report.

In connection with the deficit reduction due to the above-described \$103.4 million from the Governor's Commitments and the \$76.5 million budget improvement projected in the Fiscal Year 2011-12 Second Interim Report, the District Board voted to restore certain programs and positions that the District previously considered eliminating and to eliminate certain proposed increases in class-size ratios for Fiscal Year 2012-13. In the event that all or a portion of the \$76.5 million improvement projected in the Fiscal Year 2011-12 Second Interim Report fails to materialize and the Governor's Commitments are not enacted into law, the District Board does not expect to restore such programs and positions. In the event the Governor's Commitments are enacted into law, the District plans to maintain class sizes for grades kindergarten through three, grades four through six, and grades six through eight at their current levels rather than increasing the class sizes by six students, three students and one student, respectively, in accordance with the March 2012 Fiscal Stabilization Plan.

The Governor's Commitments have not been enacted into State law and the benefits related thereto may not be realized. Accordingly, the District Board issued approximately 11,700 March 15 Notices (defined herein) to certificated employees based on a projected net General Fund deficit of \$557 million rather than \$390 million. See “District Financial Information - Collective Bargaining - Employment Status Notices”

herein. The District expects the Governor to affirm all or a portion of the Governor's Commitments in connection with the May Revision to the Proposed State Budget for Fiscal Year 2012-13.

In connection with the projected \$390 million deficit as of June 30, 2013 identified in the Fiscal Year 2011-12 Second Interim Report, the District Board adopted three phases intended to restore certain programs and positions. The first phase was based on the District prevailing in the then-pending arbitration between the District and UTLA, which concluded in April 2012, and thereby restored \$60 million, \$27.0 million of which will be used by schools based upon students' needs and approximately \$33.0 million of which will be used for adult education programs. See "District Financial Information - Collective Bargaining - Furlough Days" herein.

The second phase was premised on the District seeking negotiated labor concessions and other adjustments in the amount of \$220 million. The \$220 million of labor concessions and other adjustments would include, among other things, furlough days, salary adjustments and benefit adjustments. In the event the District cannot obtain \$220 million of labor concessions and other adjustments, the District would save such amount by, among other things, the elimination of fourteen Option Centers, reductions in early education programs and adult education programs, reductions to cafeteria support and reductions to the School Readiness Language Development program.

The third phase was to obtain \$173.5 million of additional revenue from the State or otherwise obtain a new, ongoing revenue source. In the event that \$173.5 million of new revenues are not identified, additional budget reductions including, among other things, further reductions to adult education programs, further reductions to cafeteria support, reductions to central office costs, and reductions relating to teacher block grants, would be implemented.

Contingency Plan to Address Voter Dependent State Revenues. In accordance with LACOE's recommended assumptions for Fiscal Year 2012-13 school district budgets, the District assumed that the Governor's 2012 Tax Initiative (defined herein) would be approved by the voters. Further, the District currently assumes that voters will approve the Governor's Revised 2012 Tax Initiative (defined herein). Accordingly, projections and assumptions contained in the March 2012 Stabilization Plan reflect increased revenues that will be available to the District as a result of the Governor's Revised 2012 Tax Initiative. In the event the Governor's Revised 2012 Tax Initiative is not approved and the State reduces expenditures to school districts, the District estimates this could cause reductions in an amount ranging from \$370 per ADA to \$470 per ADA which would total between approximately \$200.9 million to \$255.0 million. In order to address these potential reductions, the District has reserved approximately \$333 million as a Reserve for Revenue Uncertainty for Fiscal Year 2012-13, the cash for which is deferred until Fiscal Year 2013-14. In the event such reductions are implemented, the District expects to use a portion of the Reserve for Revenue Uncertainty to offset such reductions and to fund the reductions from temporary borrowing from internal sources or through the issuance of tax and revenue anticipation notes. See "District Financial Information - Future Financings - Tax and Revenue Anticipation Notes" herein.

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 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 B - "Audited Financial Statements of the District for the Fiscal Year ended June 30, 2011" attached hereto. Note 1 to such audited financial statements sets forth significant accounting policies that the District follows.

In addition to the significant accounting policies set forth in the District's audited financial statements for the fiscal year ended June 30, 2011, included in Appendix B attached hereto, the District, beginning with the Fiscal Year 2011-12 District Budget, will follow Governmental Accounting Standards Board Statement No. 54 - "Fund Balance Reporting and Governmental Fund Type Definitions" ("GASB 54") which was developed in order for governments to classify amounts consistently regardless of the fund type or column in which they are presented. Pursuant to GASB 54, the fund balances will be designated as one of the following five categories: (i) nonspendable fund balance which includes amounts that are not in a spendable form or are required to be maintained intact, (ii) restricted fund balance which includes amounts constrained to specific purposes by their providers, through constitutional provisions, or by enabling legislation; (iii) committed fund balance which includes amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint; (iv) assigned fund balance which includes amounts a government intends to use for a specific purpose whereby the intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority; and (v) unassigned fund balance which includes amounts that are available for any purpose; these amounts are reported only in the General Fund.

The District is required to file its audited financial statements for the preceding fiscal year with the State Controller's Office, the CDE and the County Superintendent of Schools by December 15 of each year. 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." 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 ("CAFRs") 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 timely filed its CAFRs for Fiscal Year 2009-10 and 2010-11 with LACOE pursuant to the Education Code by the respective deadlines therefor. The human resources and payroll components of Business Tools for Schools are currently operating within industry standards. The District is currently reconciling data with respect to its CalSTRS, CalPERS and PARS (each term as defined herein) 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 CalSTRS, CalPERS and PARS contributions or the amounts of such revised estimate. The District expects to timely file its CAFR for Fiscal Year 2011-12.

Notwithstanding the delays relating to the reconciliation of the District's audited financial statements 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 Years 2006-07 and 2007-08 when they were available and timely filed its audited financial statements for Fiscal Years 2008-09, 2009-10 and 2010-11 in accordance with its continuing disclosure agreements. See "Legal Matters—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 2010-11. See Appendix B - "Audited Financial Statements of the District for the Fiscal Year ended June 30, 2011" attached hereto.

The following Table A-3 sets forth the District's audited District General Fund revenues, expenditures and fund balances for the Fiscal Years 2006-07 through 2010-11.

TABLE A-3

LOS ANGELES UNIFIED SCHOOL DISTRICT
Statement of Revenues, Expenditures and District General Fund Balances⁽¹⁾⁽²⁾
Fiscal Years 2006-07 through 2010-11
(\$ in millions)

	Fiscal Year 2006-07	Fiscal Year 2007-08	Fiscal Year 2008-09	Fiscal Year 2009-10	Fiscal Year 2010-11
Beginning Balance	\$ 434.5	\$ 695.2	\$ 657.2	\$ 750.0	\$ 668.0
Revenues					
State Apportionment	\$2,912.3	\$2,817.7	\$2,517.5	\$2,120.9	\$2,146.9
Property Taxes	<u>811.3</u>	<u>806.4</u>	<u>927.4</u>	<u>856.4</u>	<u>909.5</u>
Total Revenue Limit Revenues	<u>\$3,723.6</u>	<u>\$3,624.1</u>	<u>\$3,444.9</u>	<u>\$2,977.2</u>	<u>\$3,056.3</u>
Federal	775.6	756.4	1,077.1	964.0	1,066.5
Other State	2,302.1	2,304.5	1,964.3	2,159.4	2,031.8
Other Local	120.3	123.7	163.4	108.1	173.9
Other Sources ⁽³⁾	<u>72.4</u>	<u>145.6</u>	<u>114.8</u>	<u>93.5</u>	<u>100.4</u>
Total Revenues	<u>\$6,994.0</u>	<u>\$6,954.3</u>	<u>\$6,764.5</u>	<u>\$6,302.1</u>	<u>\$6,428.9</u>
Total Beginning Balance and Revenues	\$7,428.5	\$7,649.5	\$7,421.7	\$7,052.1	\$7,096.9
Expenditures					
Certificated Salaries	\$3,214.5	\$3,314.6	\$3,231.9	\$2,807.9	\$2,816.3
Classified Salaries	981.1	1,054.2	997.7	908.1	855.8
Employee Benefits	1,314.0	1,318.0	1,284.5	1,407.4	1,338.8
Books and Supplies	373.9	435.3	296.6	260.1	349.3
Other Operating Expenses	708.0	764.9	744.4	760.7	683.8
Capital Outlay	34.8	37.0	27.5	18.2	71.6
Other Outgo/Other Uses ⁽⁴⁾	<u>107.0</u>	<u>68.2</u>	<u>89.0</u>	<u>226.7</u>	<u>77.7</u>
Total Expenditures	<u>\$6,733.3</u>	<u>\$6,992.2</u>	<u>\$6,671.8</u>	<u>\$6,389.1</u>	<u>\$6,193.4</u>
Ending Balance	\$ 695.2	\$ 657.2	\$ 750.0	\$ 662.9	\$ 903.5

⁽¹⁾ Totals may equal sum of component parts due to rounding.

⁽²⁾ Includes Regular Program and the Specially-Funded Programs.

⁽³⁾ Includes operating transfers in, support costs transferred to the District General Fund, insurance proceeds and proceeds from capital leases.

⁽⁴⁾ Includes operating transfers out, support costs transferred from the District General Fund and funds transferred to pay non-general obligation bond debt service.

Sources: Los Angeles Unified School District's audited financial statements for Fiscal Years 2006-07 through 2010-11.

Collective Bargaining

General. The District has 11 bargaining units with existing contracts. In addition, approximately 290 classified supervisors expect to form a new bargaining unit. The negotiations with respect to which are ongoing. The largest bargaining unit among the District's employees is the United Teachers of Los Angeles ("UTLA"), which is comprised of, among other employees, teachers, instructors, counselors, advisers, nurses, psychologists, and social workers. As of June 30, 2011, the District employed approximately 46,382 teachers, including credentialed and non-credentialed teachers. The following Table A-4 sets forth the expiration dates of the labor agreements with each of the District's employee bargaining units.

TABLE A-4

**LOS ANGELES UNIFIED SCHOOL DISTRICT
Employee Bargaining Units**

Employee Bargaining Unit	Contract Expiration Date (June 30)⁽¹⁾
Associated Administrators of Los Angeles	2014
Unit A (School Police)	2014
Unit B (Instructional Aides)	2011
Unit C (Operations – Support Services)	2011
Unit D (Office – Technical and Business Services)	2014
Unit E (Skilled Crafts)	2014
Unit F (Teacher Assistants)	2011
Unit G (Playground Aides)	2011
Unit H (Sergeants and Lieutenants)	2008
Unit S (Classified Supervisors)	2011
United Teachers of Los Angeles	2011

⁽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.

Labor Agreements. The District is currently in negotiations with UTLA regarding the recommendations made by the Teacher Effectiveness Task Force in April 2010 and from the Joint Statement of Interest (the “Joint Statement of Interest”) by and between the District and UTLA which was executed in December 2011. The Joint Statement of Interest focuses successor negotiations on mitigating the impact of the State budget crisis, potential new revenue sources and matters relating to teacher support, development and evaluation. In connection with the current contract by and between the Associated Administrators of Los Angeles (“AALA”) and the District, AALA may reopen negotiations with respect to certain matters relating to salaries, furlough days or compensation and two additional articles thereof. The District has submitted initial proposals to reopen negotiations with AALA regarding compensation and evaluations.

In November 2011, 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 establishes the estimated contribution by the District of \$981.1 million for Fiscal Year 2011-12, a 0% increase from Fiscal Year 2010-11, \$1 billion for Fiscal Year 2012-13, a 4.7% increase from the prior fiscal year, and \$1.04 billion for Fiscal Year 2013-14, a 4.5% increase from the prior fiscal year. The agreement also requires contributions to be drawn from the reserve account established by the Health Benefits Committee, which is comprised of representatives of the respective bargaining units and one District representative, to match each of the District’s contributions. See “—Other Postemployment Benefits” herein.

Furlough Days. Seven out of the eleven bargaining units have signed furlough agreements (each, a “Furlough Agreement”) for four furlough days for Fiscal Year 2011-12. Unit F, Unit G, and District-represented employees will also take the corresponding number of furlough days as those bargaining units requiring negotiated agreements. The Furlough Agreements include a formula that provides for a reduction of the number of furlough days as the District’s base revenue limit appropriation improves and an increase in the number of furlough days up to a maximum of six in the event economic conditions worsen. Unit S (Teamsters) has not agreed to take furlough days for the 2012-13 school year. UTLA is contested the

calculation of the base revenue limit figure that is part of the formula used in each of the Furlough Agreements. The arbitration hearing between UTLA and the District concluded with a decision in favor of the District.

Employment Status Notices. Pursuant to the Education Code, in general the District must give written notice to a certificated employee by the March 15 (each, a “March 15 Notice”) prior to the commencement of a school year if such certificated employee is to be released, demoted or reassigned for that school year. If such certificated employee is in a position that requires an administrative or supervisory credential, the District must provide notice to such certificated employee not less than 45 days prior to the effective date of a change in employment status. In March 2012, the District issued notices (each, a “March 15 Notice”) to approximately 11,700 certificated personnel notifying them that they may be released, demoted or reassigned for the following school year beginning July 1, 2012. In addition, classified employees who are employed through specially funded programs whose classified positions will be eliminated at the end of a school year and classified employees whose positions will be eliminated due to funding must be given written notice of termination on or before April 29. If the specially funded programs will terminate on a date other than June 30, the District must provide notice to the affected classified employee not less than 45 days prior to the effective date of his or her layoff. In the event the District must layoff a classified employee due to a lack of work, the District must give notice to the affected employee not less than 45 days prior to the effective date of layoff. The District expects to rescind a portion of the March 15 Notices subsequent to the release of the Governor’s May Revision to the Proposed 2012-13 State Budget and the District’s analysis of the revised projections of revenues and expenditures. However, the number of March 15 Notices to be rescinded by the District will depend upon the enactment of the Government’s Commitments into law and the revenue projections contained in the Governor’s May Revision to the Proposed 2012-13 State Budget.

On March 22, 2012, the LAO released a report entitled “ A Review of the Teacher Layoff Process in California” (the “LAO Teacher Layoff Report”) which provided an overview by the LAO of the existing layoff process in the State, an evaluation of process, and recommendations for improvement. According to the LAO, timing differences between statutory deadlines for layoff notices and the availability of certain State budget information is one of the most significant problems for school districts in planning their budgets. In order to satisfy the statutory deadlines and provide budgetary flexibility, the LAO noted that school districts are routinely providing layoff notices to teachers in amounts that greatly exceed the actual amount necessary. In addition, the LAO noted that unnecessary costs are routinely incurred by school districts because of inefficiencies in the hearing and appeals process. The LAO has recommended that the State modify the notice deadlines to link them with the availability of State and local fiscal information. Further, the LAO recommended that the State give school districts additional flexibility when making employment decisions beyond seniority. The District cannot predict at this time whether the State Legislature and the Governor will adopt any of the suggestions provided by the LAO or the extent to which such proposals, if adopted, would impact the District’s finances or layoff process.

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 were students at three middle schools within the District, alleged in this complaint that the State’s and the District’s budgetary measures 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 alleged, the plaintiffs had been deprived of educational equality. Among other relief, the plaintiffs sought declaratory relief that the State and the District had violated their rights under the State Constitution and the State Government Code and injunctive relief prohibiting the defendants from implementing future layoffs of teachers at the schools named therein that were 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 then-currently assigned at the three middle schools during the then-current layoff proceedings. In October 2010, the District Board approved a tentative settlement agreement pursuant to which the District would no longer lay off 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 opposed the tentative settlement agreement. The Los Angeles County Superior Court entered a final order in February 2011. UTLA has appealed the matter. The District is unable to predict the outcome of this appeal. The District conducted its Reduction in Force (“RIF”) notice procedure for Fiscal Year 2011-12 in accordance with the tentative settlement agreement.

Retirement Systems

General. The District currently participates in CalSTRS (defined herein), CalPERS (defined herein) and PARS (defined herein). The amounts of the District’s contributions to STRS, CalPERS and PARS are subject to, among other things, the implementation of any layoff proposal with respect to the District’s workforce and modifications to or approvals of collective bargaining agreements. See Table A-5 “Annual Regular CalSTRS Contributions” and Table A-7 “Annual CalPERS Regular Contributions” and Table A-9 “Annual PARS Contribution” for the estimated contributions by the District for Fiscal Year 2011-12 for CalSTRS, CalPERS and PARS, respectively. For additional information regarding the District’s pension and retiree health care programs and costs, see the District’s financial statements for Fiscal Year 2010-11 contained in Appendix B - “Audited Financial Statements of the District for the Fiscal Year ended June 30, 2011” attached hereto.

The information set forth below regarding CalSTRS, CalPERS, and PARS has been obtained from publicly available sources and has not been independently verified by the District, the Underwriters or the Financial Advisor, not guaranteed as to the accuracy or completeness of the information and is not to be construed as a representation by the District, the Underwriters or the Financial Advisor. Furthermore, the summary data below should not be read as current or definitive, as recent gains or losses on investments made by the retirement systems generally may have changed the unfunded actuarial accrued liabilities stated below.

California State Teachers’ Retirement System. The California State Teachers’ Retirement System (“CalSTRS”) is a defined benefit plan that 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.

CalSTRS is operated on a Statewide basis and, based on publicly available information, has substantial unfunded liabilities. Additional funding of CalSTRS 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 District is unable to predict what the amount of State pension liabilities will be in the future, or the amount of the contributions which the District may be required to make to CalSTRS. Accordingly, there can be no assurances that the District’s required contributions to CalSTRS will not significantly increase in the future above current levels. Pursuant to the CalSTRS’ comprehensive annual financial report for the Fiscal Year ended June 30, 2011, absent corrective action, the CalSTRS fund will be depleted in 2042, and the State will be obligated to pay the difference between the benefits paid and the contributions received.

The following Table A-5 sets forth the District’s regular annual contributions to CalSTRS for Fiscal Years 2006-07 through 2010-11, the estimated contribution for Fiscal Year 2011-12 and the contributions as a percentage of the District’s Total Governmental Funds expenditures for Fiscal Years 2006-07 through 2010-11. The District has always paid all required CalSTRS annual contributions.

TABLE A-5

LOS ANGELES UNIFIED SCHOOL DISTRICT
Annual Regular CalSTRS Contributions
Fiscal Years 2006-07 through 2011-12
(\$ in millions)

Fiscal Year	District Contributions⁽¹⁾	District Contribution as Percentage of Total Governmental Funds Expenditures
2006-07	\$263.0	2.84%
2007-08	264.4	2.69
2008-09	270.1	2.66
2009-10	233.1	2.50
2010-11	236.7	2.64
2011-12	218.1 ⁽²⁾	N/A ⁽³⁾

⁽¹⁾ Excludes employee contributions paid by the District.

⁽²⁾ Estimated.

⁽³⁾ Projected Total Governmental Funds expenditures are not included in the District's Fiscal Year 2011-12 Second Interim Report. The District's Total Governmental Funds expenditures for Fiscal Year 2011-12 will be included in the District's audited financial statements for Fiscal Year 2011-12.

Source: Los Angeles Unified School District Comprehensive Annual Financial Reports for Fiscal Years 2006-07 through 2010-11; Fiscal Year 2011-12 Second Interim Report.

The unfunded actuarial accrued liabilities and funded status of the CalSTRS pension fund as of June 30 of Fiscal Years June 30, 2007 through June 30, 2011 are set forth in the following Table A-6. The individual funding progress for the District is not provided in the actuarial report from CalSTRS.

TABLE A-6

Actuarial Value of State Teachers' Retirement Fund Defined Benefit Program
Valuation Dates June 30, 2007 through June 30, 2011
(\$ in billions)

Valuation Date (June 30)	Accrued Liability	Actuarial Value of Assets⁽¹⁾	Unfunded Liability	Funded Ratio (Actuarial Value)	Funded Ratio (Fair Market Value)
2007	\$167.129	\$146.419	\$20.710	89.0%	88.0%
2008	177.734	155.215	22.519	87.0	85.0
2009	185.683	145.142	40.541	78.0	58.0
2010	196.315	140.291	56.024	71.5	59.7
2011	208.405	143.930	64.475	69.1	67.2

⁽¹⁾ Actuarial Value of Assets does not include amounts allocable to the CalSTRS Supplemental Benefits Maintenance Account

Sources: California State Teachers' Retirement System Defined Benefit Program Actuarial Valuations as of June 30, 2006 through June 30, 2011.

The actuarial assumptions set forth in the California State Teachers' Retirement System Defined Benefit Program Actuarial Valuation as of June 30, 2011 (the "2011 CalSTRS Actuarial Valuation") use the "Entry Age Normal Cost Method" and, among other things, an assumed 7.50% investment rate of return, which reflects a decrease from the previously assumed investment rate of return of 7.75%, and 4.50% interest on accounts, which reflects a decrease from the previously assumed interest on accounts of 6.00%, projected

3.00% inflation and demographic assumptions relating to mortality rates, length of service, rates of disability, rates of withdrawal, probability of refund, and merit salary increases. In addition, the Teacher's Retirement Board changed the mortality assumption to reflect the fact that members are living longer and lowered the assumption of wage growth to 3.75% from 4.00%. The actuarial assumptions and methods used in the 2011 CalSTRS Actuarial Valuation were based on the Experience Analysis July 1, 2006 – June 30, 2010 adopted by the Teacher's Retirement Board in February 2012 (the "CalSTRS Experience Analysis"). The amounts of CalSTRS' unfunded liability will vary from time to time depending upon actuarial assumptions, and actual rates of return on investment, salary scales and levels of contribution.

CalSTRS' Experience Analysis projects that bringing CalSTRS to full funding would require a payroll contribution of 16.23% of projected expenditures. However, the 2011 CalSTRS Actuarial Valuation projected that full funding would require an increase in employer rates to 13% of projected expenditures. The 2011 CalSTRS Actuarial Valuation projects that, absent any changes in contribution rates or liabilities, the fund will deplete its assets in approximately 30 years. Benefit provisions are established by State legislation in accordance with the State Teachers' Retirement Law. Employees and the District contribute 8.00% and 8.25%, respectively, of gross salary expenditures to CalSTRS. The District has not received any notice from CalSTRS of any plans CalSTRS has to change the rates currently in effect or of any proposed changes in the State law with respect to the contribution rates.

The market value of the CalSTRS pension fund as of June 30, 2010 and June 30, 2011 was \$129.8 billion and \$147.1 billion, respectively. CalSTRS produces a comprehensive annual financial report which includes financial statements and required supplementary information. Copies of the CalSTRS' comprehensive annual financial report may be obtained from CalSTRS, P.O. Box 15275, Sacramento, California 95851. The information presented in these reports is not incorporated by reference in this Official Statement.

California Public Employees' Retirement System. The California Public Employees' Retirement System ("CalPERS") is a defined benefit plan that 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 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. The District is unable to predict what the amount of State pension liabilities will be in the future, or the amount of the contributions which the District may be required to make to CalPERS. Accordingly, there can be no assurances that the District's required contributions to CalPERS will not significantly increase in the future above current levels.

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 rates are based on those adopted by Board of Administration of CalPERS. The required employer contribution rates for the Fiscal Year 2011-12 are 10.923% for miscellaneous and 34.056% 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 A-7 sets forth the District's regular annual contributions, inclusive of employee contributions paid by the District, to CalPERS for Fiscal Years 2006-07 through 2010-11, the estimated contribution for Fiscal Year 2011-12 and the contributions as a percentage of the District's Total

Governmental Funds expenditures for Fiscal Years 2006-07 through 2010-11. The District has always paid all required CalPERS annual contributions.

TABLE A-7

**LOS ANGELES UNIFIED SCHOOL DISTRICT
Annual CalPERS Regular Contributions
Fiscal Years 2006-07 through 2011-12⁽¹⁾
(\$ in millions)**

Fiscal Year	District Contributions⁽¹⁾	District Contribution as Percentage of Total Governmental Funds Expenditures
2006-07	\$149.7	1.62%
2007-08	160.6	1.63
2008-09	163.6	1.61
2009-10	156.0	1.68
2010-11	142.6	1.59
2011-12	98.4 ⁽²⁾	N/A ⁽³⁾

⁽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.

⁽²⁾ Estimated. Excludes employee contributions paid by the District.

⁽³⁾ Projected Total Governmental Funds expenditures are not included in the District's Fiscal Year 2011-12 Second Interim Report. The District's Total Governmental Funds expenditures for Fiscal Year 2011-12 will be included in the District's audited financial statements for Fiscal Year 2011-12.

Source: Los Angeles Unified School District Comprehensive Annual Financial Reports for the Fiscal Years 2006-07 through 2010-11; Fiscal Year 2011-12 Second Interim Report.

CalPERS is operated on a Statewide basis and, based on publicly available information, has unfunded liabilities. The amounts of the pension/award benefit obligation or unfunded actuarially accrued liability will vary from time to time depending upon actuarial assumptions, and actual rates of return on investments, salary scales, and levels of contribution.

Unlike typical defined benefit programs such as those administered by CalPERS, neither the CalSTRS 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%. However, the District is unable to predict what the amount of liabilities will be in the future or the amount of contributions which the District may be required to make.

The unfunded actuarial accrued liabilities and funded status of CalPERS as of June 30 of Fiscal Years June 30, 2006 through June 30, 2010 are set forth in the following Table A-8.

TABLE A-8

**Actuarial Value of Schools Portion of CalPERS
Historical Funding Status
Valuation Dates June 30, 2006 through June 30, 2010
(\$ in millions)**

Valuation Date (June 30)	Actuarial Accrued Liabilities	Market Value of Assets (MVA)	Funded Status (MVA)	Unfunded Liabilities/ (Surplus) (MVA)	Projected Payroll for Contribution	Unfunded/ (Surplus) as a % of Payroll
2006	\$41,408.65	\$40,852.35	98.7%	\$ 556.31	\$ 9,880.89	5.60%
2007	44,810.07	48,292.93	107.8	(3,482.86)	10,249.83	(34.00)
2008	48,537.68	45,547.90	93.8	2,989.78	11,137.70	26.80
2009	52,493.08	34,146.45	65.0	18,346.63	11,109.76	165.10
2010	55,306.96	38,435.17	69.5	16,871.79	11,283.40	149.50

Sources: CalPERS State & Schools Actuarial Valuations as of June 30, 2006 through June 30, 2010.

In December 2009, the CalPERS Board of Administration adopted changes to the asset smoothing method in order to phase in over a three year period the impact of the negative 24% investment loss experienced by CalPERS in Fiscal Year 2008-09. Under the new methodology, which is not mandatory for employers, investment gains and losses will be tracked and the net unamortized gain or loss will be amortized and paid off over a fixed and declining 30-year period instead of the current, rolling 30-year amortization period, with the exception of gains and losses in Fiscal Years 2008-09, 2009-10, and 2010-11. For Fiscal Years 2008-09, 2009-10, and 2010-11, such fiscal year's gains or losses will be isolated and amortized over fixed and declining 30-year periods. In addition, CalPERS has adopted a policy such that if a plan's accrued liability exceeds the actuarial value of assets, the annual contribution with respect to the total unfunded liability of such plan may not be less than the amount produced by a 30-year amortization of the unfunded liability. Further, all CalPERS plans will be subject to a minimum employer contribution rate equal to the employer normal cost plus a 30-year amortization of surplus, if any.

The actuarial funding method used in the CalPERS State & Schools Actuarial Valuation as of June 30, 2010 is the "Individual Entry Age Normal Cost Method". The CalPERS State & Schools Actuarial Valuation as of June 30, 2010 assumes, among other things, a 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. In March 2012, the CalPERS Board of Administration voted to reduce the actuarial assumed rate of return/discount rate to 7.50% from 7.75%. In connection therewith, State and schools employer contributions will increase by 1.2% to 1.6% for Miscellaneous plans and will increase by 2.2% to 2.4% for Safety plans beginning Fiscal Year 2012-13. CalPERS estimates that these modifications will increase expenditures by participating school districts. The District is evaluating the impact of the aforementioned rate increase upon its finances. The District has paid all required contributions in prior fiscal years and expects to continue to do so.

The market value of the CalPERS pension fund as of June 30, 2009 and June 30, 2010 was \$177.0 billion and \$200.5 billion, respectively. CalPERS issues a comprehensive annual financial report and actuarial valuations that include financial statements and required supplementary information. Copies of the CalPERS CAFR and actuarial valuations may be obtained from the CalPERS Financial Services Division, P.O. Box 942703, Sacramento, California 94229-2703. The information set forth therein is not incorporated by reference in this Official Statement.

Public Agency Retirement System. 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 CalSTRS, 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 is unable to predict the amount of the contributions which the District may be required to make to PARS in the future. Further, the District cannot estimate the current amount of unfunded liabilities of the PARS plans or the funding progress therefor. Accordingly, there can be no assurances that the District’s required contributions to PARS will not significantly increase in the future above current levels. The District has always paid all required PARS annual contributions.

The following Table A-9 sets forth the District’s annual contributions to PARS for Fiscal Years 2006-07 through 2010-11, the estimated contribution for Fiscal Year 2011-12 and the contributions as a percentage of the District’s Total Governmental Funds expenditures for Fiscal Years 2006-07 through 2010-11.

TABLE A-9
LOS ANGELES UNIFIED SCHOOL DISTRICT
Annual PARS Contribution
Fiscal Years 2006-07 through 2011-12
(\$ in millions)

Fiscal Year	District Contributions⁽¹⁾	District Contribution as Percentage of Total Governmental Funds Expenditures
2006-07	\$3.5	0.04%
2007-08	8.8	0.09
2008-09	6.9	0.07
2009-10	5.7	0.06
2010-11	5.2	0.06
2011-12	3.6 ⁽³⁾	N/A ⁽⁴⁾

⁽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 Years 2007-08 and 2008-09.

⁽²⁾ Includes amounts related to prior years’ PARS contributions.

⁽³⁾ Estimated.

⁽⁴⁾ Projected Total Governmental Funds expenditures are not included in the District’s Fiscal Year 2011-12 Second Interim Report. The District’s Total Governmental Funds expenditures for Fiscal Year 2011-12 will be included in the District’s audited financial statements for Fiscal Year 2011-12.

Source: Los Angeles Unified School District Comprehensive Annual Financial Report for Fiscal Years 2006-07 through 2009-11; Fiscal Year 2011-12 Second Interim Report.

Other Postemployment Benefits

In addition to employee health care costs, the District provides postemployment health care benefits in accordance with collective bargaining agreements. As of July 1, 2011, there are approximately 37,000 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 A-10 sets forth the District’s funding of other postemployment benefits for Fiscal Years 2006-07 through 2010-11, the estimated contribution for Fiscal Year 2011-12 and

the contributions as a percentage of the District's Total Governmental Funds expenditures for Fiscal Years 2006-07 through 2010-11.

TABLE A-10

**LOS ANGELES UNIFIED SCHOOL DISTRICT
Expenditures for Other Postemployment Benefits
Fiscal Years 2006-07 through 2010-11
(\$ in millions)**

Fiscal Year	Amount	Expenditure as Percentage of Total Governmental Funds Expenditures
2006-07	\$233.5	2.52%
2007-08	255.9	2.60
2008-09	267.3	2.63
2009-10	237.3	2.55
2010-11	240.1	2.68
2011-12	252.4 ⁽¹⁾	N/A ⁽²⁾

⁽¹⁾ Estimated.

⁽²⁾ Projected Total Governmental Funds expenditures are not included in the District's Fiscal Year 2011-12 Second Interim Report. The District's Total Governmental Funds expenditures for Fiscal Year 2011-12 will be included in the District's audited financial statements for Fiscal Year 2011-12.

Source: Los Angeles Unified School District Comprehensive Annual Financial Report for Fiscal Years 2006-07 through 2009-11; Fiscal Year 2011-12 Second Interim Report.

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 postemployment healthcare as well as other forms of postemployment 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 postemployment 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 postemployment 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 post-employment 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 "2010 Postemployment Valuation").

The following are the principal actuarial assumptions used in the 2010 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 2010 Postemployment Valuation sets forth the District’s actuarial valuation of postemployment medical benefits as of June 30, 2009 for its employees and retirees. The 2010 Postemployment Valuation sets forth the liabilities of the postemployment 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 2010 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 2010 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 postemployment benefits is projected to be \$257.963 million. Accordingly, the District’s net pension obligation (“NPO”) as of June 30, 2010 was 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 postemployment 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.

The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (collectively, the “Health Care Reform Act of 2010”) were signed into law in March 2010. The Health Care Reform Act of 2010 imposes an excise tax (the “Health Care Reform Excise Tax”) of 40% on employers that carry “Cadillac healthcare plans” beginning in 2018. The excise tax will be applied to the amount of premium in excess of stated single (\$10,200) and family (\$27,500) thresholds. The 2010 Postemployment Valuation was released prior to the enactment of the Health Care Reform Act of 2010. However, the District’s actuary has estimated the impact of the excise tax using the assumptions and calculations from that valuation. The 2010 Postemployment Valuation was updated by the District’s Actuary to reflect the projected impact of the Health Care Reform Act of 2010 (the “Updated Postemployment Valuation”). Based on the Updated Postemployment Valuation, the actuarial accrued liability for benefits was \$10.3 billion as of June 30, 2011, and the actuarial value of assets was \$0, resulting in a UAAL of \$10.3 billion, of which \$400 million is attributable to the Health Care Reform Excise Tax. 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 223%. See Note 8 to the audited financial statements of the District contained in Appendix B - “Audited Financial Statements of the District for the Fiscal Year ended June 30, 2011” attached hereto.

In consideration of the Health Care Reform Act of 2010, the District’s actuary states that the ARC would be \$1.050 billion as of June 30, 2011, which reflects an increase of approximately \$43.9 million compared to the ARC as if June 30, 2010 if the District pays the tax on “Cadillac healthcare plans” under the Health Care Reform Act of 2010 on behalf of its employees and retirees. The District has not determined whether it will pay such a tax and may elect to have eligible employees and retirees pay the tax themselves.

The Fiscal Year 2011-12 District Budget included a contribution of \$20 million greater than the pay-as-you-go contribution for OPEB for Fiscal Year 2011-12 and a contribution of \$25 million relating to OPEB from prior fiscal years. The District has not placed the aforementioned funds in an irrevocable trust as defined in GASB Statement No. 45. Accordingly, such funds are not restricted to OPEB costs and the District’s Actuary has not included such funds in its analysis of the District’s OPEB liability.

Table A-11 below reflects the District’s ARC, annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for Fiscal Years 2008-09 through 2010-11.

TABLE A-11

LOS ANGELES UNIFIED SCHOOL DISTRICT
Annual Required Contributions, OPEB Costs and Net OPEB Obligations
Fiscal Years 2008-09 through 2010-11
(\$ in thousands)

Fiscal Year	Annual Required Contribution	Annual OPEB Cost	Annual OPEB Cost Contributed	Net OPEB Obligation
2008-09	\$1,088,523	\$1,088,523	25%	\$1,653,926
2009-10	1,006,755	977,150	24	2,393,811
2010-11	1,050,646	1,022,031	23	3,175,742

Source: Los Angeles Unified School District Comprehensive Annual Financial Reports for Fiscal Years 2008-09, 2009-10 and 2010-11.

The District expects to continue to review the Postemployment Valuation in conjunction with the District’s obligations under its postemployment benefit plan to determine, among other things, its course of action with respect to postemployment benefit contributions and what other postemployment 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, tax and revenue anticipation notes, COPs, including the Certificates described in the forepart of this Official Statement, or general obligation bonds, the last of which are payable from voter-approved *ad valorem* property taxes.

For additional information regarding the District's OPEB, see Appendix B - "Audited Financial Statements of the District for the Fiscal Year ended June 30, 2011" attached hereto.

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 million 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 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 A-12 sets forth the workers' compensation liability, claims and changes in estimates and claims paid from Fiscal Years 2006-07 through 2010-11.

TABLE A-12

**LOS ANGELES UNIFIED SCHOOL DISTRICT
Workers' Compensation Claims Paid
Fiscal Years 2006-07 through 2010-11
(\$ in millions)**

Fiscal Year	Liability: Beginning of Fiscal Year	Current Year Claims and Changes in Estimates	Claims Paid	Liability: End of Fiscal Year
2006-07	\$668.5	\$(70.7)	\$(88.4)	\$509.3
2007-08	509.3	58.1	(87.9)	479.5
2008-09	479.5	72.2	(80.6)	471.2
2009-10	471.2	59.7	(78.5)	452.4
2010-11	452.4	66.5	(88.1)	430.8

Source: Los Angeles Unified School District Comprehensive Annual Financial Report for Fiscal Years 2006-07 through 2010-11.

The District purchased through the American International Group's ("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). 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. In March 2012, the District Board approved a proposed settlement agreement with AIG which, upon its execution, will require AIG to pay to the District \$78,750,000 over a period of ten years, commencing Fiscal Year 2011-12.

The District implemented an owner-controlled insurance program ("OCIP") on May 1, 2006 ("OCIP II") after the expiration of its initial OCIP. 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 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 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 from OCIP II 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 2010-11 contained in Appendix B - "Audited Financial Statements of the District for the Fiscal Year ended June 30, 2011" attached hereto.

Cafeteria Fund Expenditures

In March 2011, the District signed a Memorandum of Understanding ("MOU") with the CDE to resolve allegations that certain expenditures relating to administrative support were inappropriately charged to the District's Cafeteria Fund (the "Cafeteria Fund") in Fiscal Years 2004-05 through 2007-08. The MOU sets forth a repayment plan for the District to repay \$109 million into the Cafeteria Fund over a period not to exceed 10 years for the transfers made in Fiscal Years 2004-05 through 2007-08. The District transferred approximately \$32 million to the Cafeteria Fund from the General Fund during Fiscal Year 2010-11 pursuant to the MOU. The repayment plan requirement for Fiscal Year 2011-12 is provided for in the Fiscal Year 2011-12 District Budget.

In addition, pursuant to the MOU the State Controller's Office (the "SCO") audited the Cafeteria Fund's expenditures for Fiscal Years 2008-09 and 2009-10 to determine whether additional amounts need to be repaid from the General Fund to the Cafeteria Fund. In May 2012, the SCO completed a draft of its audit of the Cafeteria Fund for Fiscal Years 2008-09 and 2009-10. The SCO stated in its draft audit report that the District has not substantiated \$46.9 million of labor-related activities and utility expenses that were charged to the Cafeteria Fund in Fiscal Years 2008-09 and 2009-10. The District is reviewing the draft audit and will submit a response to the CDE upon completion of the District's review.

The District expects to repay any amounts owed to the Cafeteria Fund in accordance with the final MOU. However, there can be no assurances that the MOU will not be modified in the future or that any agreement by and between the District and the CDE will not modify the terms for repayment. The District continues to work with the CDE and the United States Department of Agriculture to finalize the required repayment amounts pursuant to the MOU.

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”). The Debt Management Policy establishes targets and ceilings for certificates of participation (“COPs”) and 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 September 13, 2011. 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 to District General Fund appropriations. A target may be increased only through District 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 \$58.722 million, which is below the \$105.0 million cap, and was 0.95% of budgeted District General Fund appropriations for Fiscal Year 2010-11, which is below the 2.0% to 2.5% range established by the Debt Management Policy.

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 A-13 and A-14 below in the annual Debt Report.

As of April 1, 2012, the District had \$464.4 million of outstanding COPs, of which \$97.5 million are variable rate COPs (net of amounts set aside to make payments on certain of the fixed rate COPs). As of April 1, 2012, the net amount of COPs outstanding is \$430.3 million. The District’s average daily General Fund cash balance is projected to be \$642.6 million for Fiscal Year 2011-12. Accordingly, the District believes that interest rate exposure on its variable rate COPs is naturally hedged by this cash position.

The following Table A-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 District’s Fiscal Year 2010-11 Debt Report.

TABLE A-13

LOS ANGELES UNIFIED SCHOOL DISTRICT
Debt Management Policy – Debt Factors
(as of June 30, 2011)

Debt Factor	Target⁽¹⁾	Ceiling⁽²⁾	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	0.95%	(1.55)%
Maximum COPs Gross Debt Service Limit ⁽²⁾	Not applicable	\$105.0 million	\$58.7 million	(\$46.2 million)
Unhedged Variable Rate Debt as % of total COPs Debt	Not applicable	20.0%	0.0%	(20.0)%

⁽¹⁾ “District General Fund Expenditures” includes said amounts based upon the District’s Fiscal Year 2009-10 Final Adopted Budget.

⁽²⁾ May increase with each approved execution of COPs.

Source: Los Angeles Unified School District.

The following Table A-14 sets forth the benchmark debt burden ratios that recognize the combined direct debt and overall debt of the District. Table A-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 A-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 benchmark 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 A-14

**LOS ANGELES UNIFIED SCHOOL DISTRICT
Debt Management Policy Benchmarks for District's Direct and Overall Debt
(As of June 30, 2011)⁽¹⁾**

Debt Burden Ratio	Benchmark	Benchmark's Value	LAUSD Actual⁽¹⁾
Direct Debt to Assessed Value	Moody's Median for "Aa"-Rated School Districts With Student Population Above 200,000	1.10%	2.60%
	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%	4.22%
	Standard & Poor's Mean for "AA"-Rated School Districts With Student Population Above 150,000	3.20%	
Direct Debt Per Capita ⁽²⁾	Standard & Poor's Median for "AA"-Rated School Districts With Student Population Above 150,000	\$ 736	\$2,639
	Standard & Poor's Mean for "AA"-Rated School Districts With Student Population Above 150,000	\$ 847	
Overall Debt Per Capita ⁽²⁾	Standard & Poor's Median for "AA"-Rated School Districts With Student Population Above 150,000	\$1,665	\$4,291
	Standard & Poor's Mean for "AA"-Rated School Districts With Student Population Above 150,000	\$2,639	

⁽¹⁾ Benchmark Value information in Table A-14 is as set forth in the District's Debt Report for Fiscal Year 2010-11. The District's CAFRs report these calculations differently by adjusting for outstanding bond and COP unamortized premiums and discounts.

⁽²⁾ Per capita debt calculations are based upon the estimated District population of 4.6 million as of June 30, 2011.

Source: Los Angeles Unified School District.

Budget and Finance Policy. The District's Budget and Finance Policy became effective 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 Fiscal Year 2011-12 Second Interim Report, the Reserve for Economic Uncertainties is projected to be funded at the current legally mandated minimum of 1.0% of the District's General Fund expenditures, or approximately \$65.4 million at the end of Fiscal Year 2011-12. For Fiscal Year 2012-13, the statutory required minimum Reserve for Economic Uncertainties is projected to be budgeted at \$65.4 million. The District's other operating 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 State 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 2011-12 is \$469.1 billion, which results in a total current bonding capacity of approximately \$11.7 billion. The District currently has approximately \$434.84 million of unused bonding capacity for the issuance of additional general obligation bonds. The District does not presently expect to issue additional general obligation bonds other than general obligation refunding bonds in the near future.

The District may not issue general obligation bonds without voter approval and may not issue general obligation bonds in an amount greater than its bonding capacity. 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 \$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 \$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 October 2011, the District received updated estimates of projected assessed valuation from a private econometrics firm. The econometrics model projected small annual increases in the District's assessed valuation base over the foreseeable future. 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. Based upon the aggregate assessed valuation of taxable property within the District for Fiscal Year 2011-12, the District has approximately \$416.33 million of bonding capacity for new issuances of general obligation bonds. See "California Constitutional and Statutory Provisions relating to *Ad Valorem* Property Taxes, District Revenues and Appropriations—Article XIII A of the State Constitution" herein.

Williams Settlement Agreement and Legislation; Funding for the New School Construction Program. In 2004, 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") relating to equal access to instructional materials, safe and decent school facilities, and qualified teachers was settled. One component of the settlement agreement and subsequent legislation was the requirement that school districts eliminate the use of the multi-track, year-round school calendar (known as the "Concept 6 calendar"), by July 1, 2012. 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 funding pursuant to the Measure Q Authorization to ensure all schools are removed from the Concept 6 calendar by July 1, 2012.

Citizens' Bond Oversight Committee. 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 State Education Code, as amended, and other applicable law (collectively, the "Act"), the District Board has appointed a Citizens' Bond Oversight Committee. The Citizens' 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 Citizens' 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. 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 "California Constitutional and Statutory Provisions relating to *Ad Valorem* Property Taxes, District Revenues and Appropriations—Proposition 39" herein. The District's OIG 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 required 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 April 1, 2012)**

Member	Community Group Represented
Elizabeth Bar-El, Chair	LAUSD Parent Representative
Stephen English, Vice-Chair	Office of the Controller, City of Los Angeles
John Naimo, Secretary	Office of the Auditor-Controller, County of Los Angeles
Ilene Ashcraft	Tenth District Parent Teacher Student Association
Maria Cabildo	LAUSD Parent Representative
Paul Escala	California Charter Schools Association
Eva S. Hain	American Association of Retired Persons
John Hakel	Associated General Contractors of California
Robbie Hunter	Los Angeles County Federation of Labor AFL-CIO
Lynda Levitan	Thirty-First District Parent Teacher Student Association
Pamela Schmidt	Early Education Coalition
Joan Sullivan	Office of the Mayor, City of Los Angeles
Barry Waite	LAUSD Parent Representative
Wendy Watanabe	County of Los Angeles Auditor-Controller
Chester A. Widom	American Institute of Architects

Outstanding General Obligation Bonds. The following Tables A-15, A-16, A-17 and A-18 set forth the outstanding bonds issued under the Proposition BB, Measure K, Measure R and Measure Y Authorizations, respectively, as of May 1, 2012. The District issued \$156,000,000 of its Los Angeles Unified School District (County of Los Angeles, California) 2012 General Obligation Refunding Bonds, Series A (the “Series 2012A Refunding Bonds”) on May 8, 2012, which refunded a portion of the District’s outstanding bonds issued under the Proposition BB, Measure K and Measure Y Authorizations. The amounts set forth in the following Tables A-15, A-16 and A-17 reflect the outstanding principal amounts prior to the issuance of the Series 2012A Refunding Bonds.

TABLE A-15
LOS ANGELES UNIFIED SCHOOL DISTRICT
Proposition BB (Election of 1997) Bonds
(\$ in thousands)

Bonds Issued	Aggregate Principal Amount	Outstanding Amount as of May 1, 2012	Date of Issue
Series A Bonds	\$ 356,000 ⁽¹⁾⁽²⁾	\$ 64,120	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⁾⁽⁴⁾⁽⁵⁾⁽⁸⁾⁽⁹⁾	15,665	April 11, 2002
2002 Refunding Bonds ⁽¹¹⁾	258,375	210,440	April 17, 2002
Series F Bonds ⁽¹²⁾	507,345 ⁽⁴⁾⁽⁶⁾⁽⁸⁾⁽¹⁰⁾	36,000	March 13, 2003
2004 Refunding Bonds ⁽¹¹⁾	219,125	217,245	December 21, 2004
2005 Refunding Bonds ⁽¹¹⁾	467,675	467,675	July 20, 2005
2006 Refunding Bonds, Series B ⁽¹¹⁾	254,544	247,846	November 15, 2006
2007 Refunding Bonds, Series A-2 ⁽¹¹⁾	136,055	136,005	January 31, 2007
2007 Refunding Bonds, Series B ⁽¹¹⁾	24,845	24,650	February 22, 2007
2009 Refunding Bonds, Series A ⁽¹¹⁾	51,090	38,550	October 15, 2009
2010 Refunding Bonds, Series A ⁽¹¹⁾	20,810	20,130	March 4, 2010
2011 Refunding Bonds, Series A-1 ⁽¹¹⁾	206,735	206,735	November 1, 2011
TOTAL	\$4,039,254	\$1,620,941	

⁽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⁾ \$215.1 million of the Series F Bonds were refunded with proceeds of the 2011 Refunding Bonds, Series A.

⁽⁸⁾ \$25.79 million principal amount of the Series E Bonds were refunded with proceeds of the 2007 Refunding Bonds, Series B.

⁽⁹⁾ \$19.785 million principal amount of the Series E Bonds were refunded with proceeds of the 2010 Refunding Bonds, Series A.

⁽¹⁰⁾ \$215.070 million principal amount of the Series F Bonds were refunded with proceeds of the 2011 Refunding Bonds, Series A-1.

⁽¹¹⁾ Refunding bonds are not counted against the bond authorization limit at the time of the refunding, but are counted against it going forward.

⁽¹²⁾ The District issued its Series 2012A Refunding Bonds on May 8, 2012, a portion of the proceeds of which refunded \$1 million principal amount of the Series F Bonds.

Source: Los Angeles Unified School District.

TABLE A-16

**LOS ANGELES UNIFIED SCHOOL DISTRICT
Measure K (Election of 2002) Bonds
(\$ in thousands)**

Bonds Issued	Aggregate Principal Amount	Outstanding Amount as of May 1, 2012	Date of Issue
Series A Bonds ⁽¹⁾	\$2,100,000 ⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾⁽¹¹⁾	\$ 190,627	March 5, 2003
2006 Refunding Bonds, Series A ⁽⁷⁾	132,325	132,325	February 22, 2006
2006 Refunding Bonds, Series B ⁽⁷⁾	320,361	310,494	November 15, 2006
2007 Refunding Bonds, Series A-1 ⁽⁷⁾	1,153,195	1,133,525	January 31, 2007
Series B Bonds	500,000	449,130	February 22, 2007
Series C Bonds	150,000	134,765	August 16, 2007
Series D Bonds	250,000	234,740	February 19, 2009
Series KRY Bonds (2009) (Federally Taxable Build America Bonds) ⁽⁸⁾	200,000	200,000	October 15, 2009
2010 Refunding Bonds, Series A ⁽⁷⁾	54,185	53,205	March 4, 2010
Series KRY Bonds (2010) (Tax-Exempt) ⁽⁹⁾	149,140	145,250	March 4, 2010
Series KY (2010) (Tax Exempt) ⁽¹⁰⁾	860	860	May 6, 2010
2011 Refunding Bonds, Series A-2 ⁽⁷⁾	201,070	206,735	November 1, 2011
TOTAL	\$5,211,136	\$3,147,814	

⁽¹⁾ The District issued its Series 2012A Refunding Bonds on May 8, 2012, a portion of the proceeds of which refunded \$63.855 million principal amount of the Series A Bonds.

⁽²⁾ \$210.5 million principal amount of the Series A Bonds were refunded with proceeds of the 2011 Refunding Bonds, Series A.

⁽³⁾ \$131.94 million principal amount of the Series A Bonds were refunded with proceeds of the 2006 Refunding Bonds, Series A.

⁽⁴⁾ \$330.15 million principal amount of the Series A Bonds were refunded with proceeds of the 2006 Refunding Bonds, Series B.

⁽⁵⁾ \$1,120.81 million principal amount of the Series A Bonds were refunded with proceeds of the 2007 Refunding Bonds, Series A-1.

⁽⁶⁾ \$53.06 million principal amount of the Series A Bonds were refunded with proceeds of the 2010 Refunding Bonds, Series A.

⁽⁷⁾ Refunding bonds are not counted against the bond authorization limit at the time of the refunding, but are counted against it going forward.

⁽⁸⁾ \$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.

⁽⁹⁾ \$149.14 million principal amount of the District's \$478.6 million Series KRY (2010)(Tax-Exempt) are allocable to the Measure K Authorization.

⁽¹⁰⁾ \$860,000 principal amount of the District's \$159.495 million Series KY (2010)(Tax-Exempt) are allocable to the Measure K Authorization.

⁽¹¹⁾ \$210.485 million principal amount of the Series A Bonds were refunded with proceeds of the 2011 Refunding Bonds, Series A-1.

Source: Los Angeles Unified School District.

TABLE A-17

LOS ANGELES UNIFIED SCHOOL DISTRICT
Measure R (Election of 2004) Bonds
(\$ in thousands)

Bonds Issued	Aggregate Principal Amount	Outstanding Amount as of May 1, 2012	Date of Issue
Series C Bonds ⁽¹⁾	\$ 50,000	\$ 40,355	September 23, 2004
Series E Bonds ⁽²⁾	400,000	319,720	August 10, 2005
Series F Bonds	500,000	436,035	February 16, 2006
Series G Bonds ⁽³⁾	400,000	334,290	August 17, 2006
Series H Bonds ⁽³⁾	550,000	476,705	August 16, 2007
Series I Bonds	550,000	518,525	February 19, 2009
2009 Refunding Bonds, Series A ⁽³⁾⁽⁴⁾	23,675	17,020	October 15, 2009
Series KRY Bonds (2009)			
(Federally Taxable Build America Bonds) ⁽⁵⁾	363,005	363,005	October 15, 2009
Series KRY Bonds (2009) (Tax-Exempt) ⁽⁶⁾	36,995	29,680	October 15, 2009
Series RY Bonds (2010)			
(Federally Taxable Build America Bonds) ⁽⁷⁾	477,630	477,630	March 4, 2010
Series KRY Bonds (2010) (Tax-Exempt) ⁽⁸⁾	157,165	157,165	March 4, 2010
TOTAL	\$3,508,470	\$3,170,130	

⁽¹⁾ The District issued its Series 2012A Refunding Bonds on May 8, 2012, a portion of the proceeds of which refunded \$3.45 million principal amount of the Series C Bonds.

⁽²⁾ The District issued its Series 2012A Refunding Bonds on May 8, 2012, a portion of the proceeds of which refunded \$90.51 million principal amount of the Series E Bonds.

⁽³⁾ \$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.

⁽⁴⁾ Refunding bonds are not counted against the bond authorization limit.

⁽⁵⁾ \$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.

⁽⁶⁾ \$36.995 million principal amount of the District's \$205.8 million Series KRY (2009) (Tax-Exempt) are allocable to the Measure R Authorization.

⁽⁷⁾ \$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.

⁽⁸⁾ \$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 A-18

LOS ANGELES UNIFIED SCHOOL DISTRICT
Measure Y (Election of 2005) Bonds
(\$ in thousands)

Bonds Issued	Aggregate Principal Amount	Outstanding Amount as of May 1, 2012	Date of Issue
Series A Bonds	\$ 56,785	\$ 23,750	February 22, 2006
Series B Bonds	80,200	31,615	February 22, 2006
Series C Bonds	210,000	177,500	February 22, 2006
Series D Bonds	47,400	22,345	February 22, 2006
Series E Bonds	300,000	271,065	August 16, 2007
Series F Bonds	150,000	141,145	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	806,745	October 15, 2009
Series KRY Bonds (2009) (Tax-Exempt) ⁽²⁾	168,790	141,250	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)	290,195	290,195	May 6, 2010
TOTAL	\$3,542,235	\$3,295,860	

⁽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 May 1, 2012, the District had outstanding lease obligations issued in the form of COPs in the aggregate principal amount of \$464.4 million, excluding COPs that are economically defeased. Outstanding lease obligations represent approximately \$620.9 million in total debt service, based upon certain assumed interest rates for the District's variable rate lease obligations and the receipt of a direct cash subsidy payment from the United States Department of the Treasury equal to 35% of the interest evidenced by the District's Certificates of Participation 2010 Series B-1 (Federally Taxable Direct Pay Build America Bonds) (Capital Projects I). The following Table A-19 sets forth the District's lease obligations paid from the District General Fund, developer fees, and the Cafeteria Fund with respect to its outstanding COPs as of May 1, 2012 and prior to the execution and delivery of the Certificates described in the forepart of this Official Statement.

TABLE A-19

LOS ANGELES UNIFIED SCHOOL DISTRICT
Certificates of Participation Lease Obligations Debt Service Schedule⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾
(as of May 1, 2012)
(\$ in thousands)

Fiscal Year Ending (June 30)	Paid from General Fund	Paid from Cafeteria Fund	Paid From Developer Fees⁽⁶⁾	Fiscal Year Total Debt Service
2012	\$35,555	\$ 786	\$ 9,577	\$ 45,918
2013	35,829	786	9,576	46,192
2014	35,798	786	9,577	46,161
2015	39,829	4,963	9,574	54,367
2016	37,400	4,963	9,574	51,938
2017	36,875	4,963	9,575	51,413
2018	36,872	4,963	16,886	58,722
2019	24,375	4,963	--	29,339
2020	24,367	2,482	--	26,849
2021	24,357	--	--	24,357
2022	17,129	--	--	17,129
2023	17,136	--	--	17,136
2024	16,494	--	--	16,494
2025	16,425	--	--	16,425
2026	16,673	--	--	16,673
2027	16,662	--	--	16,662
2028	16,651	--	--	16,651
2029	16,629	--	--	16,629
2030	14,504	--	--	14,504
2031	14,487	--	--	14,487
2032	14,479	--	--	14,479
2033	2,088	--	--	2,088
2034	2,083	--	--	2,083
2035	2,084	--	--	2,084
2036	<u>2,079</u>	<u>--</u>	<u>--</u>	<u>2,079</u>
	<u>\$516,861</u>	<u>\$29,658</u>	<u>\$74,340</u>	<u>\$620,858</u>

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

⁽²⁾ The District has assumed an interest rate of 2.75% per annum, remarketing fees of 0.08% and letter of credit fees of 1.00% 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) (the "Series 2008 COPs"). The District expects to prepay the Series 2008 COPs with a portion of the proceeds of the Certificates on or about June 12, 2012.

⁽³⁾ The lease payments stated above reflect the net obligations of the District, due to the defeasance of certain COPs.

⁽⁴⁾ The District has timely deposited the portion of the principal and interest evidenced by its outstanding COPs due during Fiscal Year 2011-12 prior to the date hereof.

⁽⁵⁾ The District expects to execute and deliver the Certificates described in the forepart of this Official Statement on or about June 12, 2012 to refinance a portion of its outstanding COPs. Table A-19 includes the COPs to be refinanced with the Certificates.

⁽⁶⁾ 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. However, such fees have been sufficient to date to pay these lease obligations. Debt service payments for the Fiscal Year 2017-18 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 A-20 summarizes the District's other long-term obligations, which exclude outstanding general obligation bonds and COPs, as of June 30, 2011.

TABLE A-20

**LOS ANGELES UNIFIED SCHOOL DISTRICT
Other Outstanding Long-Term Obligations
(\$ in thousands)**

	Balance as of June 30, 2011
Self-Insurance Claims ⁽¹⁾	\$ 503,305
Net Pension Obligation – OPEB ⁽²⁾⁽³⁾	3,175,742
Liability for Employee Benefits	202,032
Revolving loan and other loans ⁽⁴⁾	1,009
Capital lease/obligations	2,359
Arbitrage payable	5,470
Legal Settlements	<u>--</u>
TOTAL	<u>\$3,889,917</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 postemployment 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 2010-11.

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 2011, the District issued its 2011-2012 Tax and Revenue Anticipation Notes, Series A (the "2011-2012 Tax and Revenue Anticipation Notes, Series A") in a principal amount of \$550,000,000. The 2011-2012 Tax and Revenue Anticipation Notes, Series A are scheduled to mature and be paid on August 1, 2012. The District has set aside funds in a repayment account held by the County in an amount sufficient to repay the 2011-2012 Tax and Revenue Anticipation Notes when due.

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. Based upon the aggregate assessed valuation of taxable property within the District for Fiscal Year 2011-12, the District has approximately \$416.33 million of bonding capacity for new issuances of general obligation bonds. The District does not presently expect to issue additional general obligation bonds other than general obligation refunding bonds.

The District may issue additional general obligation 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. 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 COPs.

Tax and Revenue Anticipation Notes. In April 2012, the District Board approved the issuance of the District's 2012-13 Tax and Revenue Anticipation Notes in the principal amount not to exceed \$1.5 billion in one or more series. The District expects to issue its 2012-2013 Tax and Revenue Anticipation Notes on or about July 2, 2012.

Overlapping Debt Obligations

Set forth on Table A-21 on the following page is the Debt Report prepared by California Municipal Statistics Inc., which provides information with respect to direct and overlapping debt within the District as of March 1, 2012 (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 A-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 A-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 A-21

LOS ANGELES UNIFIED SCHOOL DISTRICT
Schedule of Direct and Overlapping Bonded Debt
(As of March 1, 2012)

2011-12 Assessed Valuation: \$469,095,224,956
 Redevelopment Incremental Valuation: 42,029,977,919
 Adjusted Assessed Valuation: \$427,065,247,037

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 3/1/12</u>
Los Angeles County Flood Control District	46.608%	\$ 17,335,846
The Metropolitan Water District of Southern California	23.994	47,159,007
Los Angeles Community College District	81.431	2,854,083,262
Pasadena Area Community College District	0.001	1,101
Los Angeles Unified School District	100.009	11,282,720,000
City of Los Angeles	99.922	1,232,492,905
Other Cities	Various	45,688,176
Palos Verdes Library District	4.890	272,618
City Community Facilities Districts	100.000	135,400,000
City of Los Angeles Landscaping and Special Tax Assessment Districts	99.922	61,501,991
Other City and Special District 1915 Act Bonds	99.832-100.000	23,964,686
Los Angeles County Regional Park & Open Space Assessment District	46.022	78,571,060
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		<u>\$15,779,190,652</u>
<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>		
Los Angeles County General Fund Obligations	46.022%	\$ 689,675,456
Los Angeles County Superintendent of Schools Certificates of Participation	46.022	5,186,531
Pasadena Area Community College District Certificates of Participation	0.001	12
Los Angeles Unified School District Certificates of Participation	100.000	464,440,935⁽¹⁾⁽²⁾
City of Los Angeles General Fund and Judgment Obligations	99.922	1,862,176,369
Other City General Fund and Pension Obligations	Various	192,162,218
Los Angeles County Sanitation District Nos. 1,2,3,4,5,8,9,16 & 23 Authorities	Various	43,713,260
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		<u>\$3,257,354,781⁽¹⁾</u>
Less: Los Angeles County General Fund Obligations supported by landfill revenues		8,194,447
Los Angeles Unified School District Qualified Zone Academy Bonds:		
Amount set-aside in Building Fund to make payments on 2000 Series A QZAB		1,804,529
Amount set-aside in Building Fund to make payments on 2005 QZAB		542,407
Amount accumulated in Sinking Fund for repayment of 2000 Series A QZAB		27,909,320
Amount accumulated in Sinking Fund for repayment of 2005 QZAB		3,866,180
City self-supporting bonds		10,490,124
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT		<u>\$3,204,547,774⁽¹⁾⁽²⁾</u>
GROSS COMBINED TOTAL DEBT		\$19,036,545,433⁽¹⁾⁽²⁾
NET COMBINED TOTAL DEBT		\$18,983,738,426⁽¹⁾⁽²⁾

(1) Includes the Prior Certificates (as defined in the forepart of this Official Statement) and the general obligation bonds refunded by the District's 2012 General Obligation Refunding Bonds, Series A. Excludes the Certificates described in the forepart of this Official Statement and the District's 2012 General Obligation Refunding Bonds, Series A.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2011-12 Assessed Valuation:

Direct Debt (\$11,282,720,000)	2.41%
Total Overlapping Tax and Assessment Debt	3.36%

Ratios to Adjusted Assessed Valuation:

Gross Combined Direct Debt (\$11,747,160,935)	2.75%
Net Combined Direct Debt (\$11,713,038,499)	2.74%
Gross Combined Total Debt	4.46%
Net Combined Total Debt	4.45%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/11: \$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 the County, the City of Los Angeles 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, including the District, 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 or decreases 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 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. Such allocations are to be from amounts remaining after allocations to each redevelopment agency in the County in connection with the 1% *ad valorem* property tax levy.

Under State law, property is subject to annual reviews that are initiated by the related county's assessor relating to decline-in-value in addition to Proposition 8 Reassessment reviews initiated by property owners. See "- Legislation Implementing Article XIII A" herein. In calendar year 2010, the Officer of the Assessor of the County of Los Angeles received 36,400 assessment appeals, which was a decrease from the 41,800 assessment appeals received in calendar year 2009. In 2011, the Office of the Assessor conducted proactive decline-in-value reviews of 446,000 single-family residences and condominiums in the County that resulted in lower assessments on 393,000 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, 2011. Decline-in-value changes and other adjustments reduced the County's total assessed valuation by approximately \$4.9 billion for Fiscal Year 2011-12. The decline-in-value changes and other adjustments for 2011-12 for the County were offset by increases of \$12.8 billion attributable to properties sold and transferred, \$6.1 billion attributable to Proposition 13 inflation adjustments and \$3.9 billion attributable to new construction. Foreclosures in the County declined by approximately 13.1% in 2010 relative to 2009, from 36,500 to 31,700.

In December 2011, the County Assessor projected that the gross assessed valuation of property within the boundaries of the County for Fiscal Year 2012-13 would increase by approximately \$18.7 billion compared to the gross assessed valuation in Fiscal Year 2011-12. In April 2012, the County Assessor issued an updated projection which stated that the gross assessed valuation of property within the boundaries of the County for Fiscal Year 2012-13 would increase by approximately \$5.1 billion compared to the gross assessed valuation in Fiscal Year 2011-12. The County Board estimated that the reduced assessed valuation projection represents a reduction of approximately \$50 million in property tax receipts for the County and will also impact cities, school districts, community college districts and other special districts. The County Assessor's projected growth in assessed valuation within the County declined from 1.77% to 0.68%. The County Board has requested that the County Auditor conduct a comprehensive audit of the County Assessor's operations and retain an outside consultant to conduct an independent review of the County Assessor and its projections.

The District cannot predict the results of the reviews and audits of the County Assessor. Further, the District cannot predict the extent to which the County Assessor's projections will reflect the actual assessed valuation of property within the County for Fiscal Year 2012-13. Accordingly, the District cannot project the amount by which the assessed valuation of property within the County will increase or decrease the portion of the revenue limit revenues derived from the local property tax revenues for Fiscal Year 2012-13. However, to the extent that the portion of the District's revenue limit revenues derived from local property tax revenues is reduced, the State would be required to increase the State Aid portion of the revenue limit to ensure that the District continued to receive the required level of revenue limit funding under State law. Notwithstanding the revised projections of the County Assessor with respect to assessed valuation of property within the County, the District does not expect tax rates for Fiscal Year 2012-13 to be materially different than those currently estimated by the District.

The following Table A-22 sets forth the gross assessed valuation of taxable property within the boundaries of the District in Fiscal Years 2002-03 through 2011-12.

TABLE A-22
LOS ANGELES UNIFIED SCHOOL DISTRICT
Historical Gross Assessed Valuation of Taxable Property⁽¹⁾
Fiscal Years 2002-03 through 2011-12
(\$ in thousands)

Fiscal Year	Secured⁽²⁾	Unsecured	Total⁽²⁾	Change From Prior Year	Percent Change
2002-03	\$266,383,265	\$21,142,670	\$287,525,935	\$16,011,009	5.90%
2003-04	287,673,344	20,855,436	308,528,780	21,002,845	7.30
2004-05	311,419,822	20,505,315	331,925,137	23,396,357	7.58
2005-06	343,302,944	20,566,535	363,869,479	31,944,342	9.62
2006-07	382,212,502	20,396,335	402,608,837	38,739,358	10.65
2007-08	419,052,509	21,861,881	440,914,390	38,305,553	9.51
2008-09	451,191,875	23,597,923	474,789,798	33,875,408	7.68
2009-10	451,127,882	23,849,408	474,977,290	187,493	0.04
2010-11	442,092,473	21,753,078	463,845,551	(11,131,739)	(2.34)
2011-12	447,830,204	21,265,021	469,095,225	5,249,674	1.13

⁽¹⁾ Full cash value.

⁽²⁾ Includes utility valuations.

Sources: Los Angeles Unified School District Comprehensive Annual Financial Report for Fiscal Years 2002-03 through 2009-10;
Los Angeles County Auditor-Controller for Fiscal Years 2010-11 and 2011-12.

The following Table A-23 sets forth the assessed valuation by land use of property within the District in Fiscal Year 2011-12.

TABLE A-23
LOS ANGELES UNIFIED SCHOOL DISTRICT
Assessed Valuation and Parcels by Land Use
Fiscal Year 2011-12

	2011-12 Assessed Valuation ⁽¹⁾	% of Total	No. of Parcels	% of Total
Non-Residential:				
Commercial/Office Building	\$ 79,997,040,682	17.87%	49,620	5.35%
Industrial	46,990,353,899	10.50	24,012	2.59
Recreational	1,926,327,813	0.43	916	0.10
Government/Social/Institutional	3,387,312,148	0.76	5,454	0.59
Miscellaneous	<u>356,376,420</u>	<u>0.08</u>	<u>769</u>	<u>0.08</u>
Subtotal Non-Residential	<u>\$132,657,410,962</u>	<u>29.63%</u>	<u>80,771</u>	<u>8.70%</u>
Residential:				
Single Family Residence	\$188,920,940,474	42.20%	554,327	59.74%
Condominium/Townhouse	39,673,448,451	8.86	129,600	13.97
Mobile Home Related	369,725,353	0.08	312	0.03
2-4 Residential Units	28,867,786,878	6.45	96,240	10.37
5+ Residential Units/Apartments	49,786,868,887	11.12	40,012	4.31
Miscellaneous Residential	<u>36,450,584</u>	<u>0.01</u>	<u>162</u>	<u>0.02</u>
Subtotal Residential	<u>\$307,655,220,627</u>	<u>68.73%</u>	<u>820,653</u>	<u>88.44%</u>
Vacant Parcels	<u>\$ 7,346,734,672</u>	<u>1.64%</u>	<u>26,539</u>	<u>2.86%</u>
Total	<u>\$447,659,366,261</u>	<u>100.00%</u>	<u>927,963</u>	<u>100.00%</u>

⁽¹⁾ Local Secured Assessed Valuation for Fiscal Year 2011-12, excluding tax-exempt property, local utility and non-unitary valuations.

Source: California Municipal Statistics, Inc.

The following Table A-24 sets forth the distribution of single-family homes within the District within various assessed valuation ranges in Fiscal Year 2011-12.

TABLE A-24
LOS ANGELES UNIFIED SCHOOL DISTRICT
Assessed Valuations of Single Family Homes Per Parcel
Fiscal Year 2011-12

	No. of Parcels	2011-12 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single-Family Residential	554,327	\$188,920,940,474	\$340,811	\$247,000

2011-12 Assessed Valuation	No. of Parcels ⁽¹⁾	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
\$0 - \$49,999	5,308	0.958%	0.958%	\$79,388,207	0.042%	0.042%
\$50,000 - \$99,999	61,848	11.157	16.478	4,522,181,774	2.394	2.935
\$100,000 - \$149,999	54,557	9.842	26.320	6,866,414,096	3.635	6.569
\$150,000 - \$199,999	68,715	12.396	38.716	12,044,709,807	6.376	12.945
\$200,000 - \$249,999	65,964	11.900	50.616	14,781,617,826	7.824	20.769
\$250,000 - \$299,999	54,455	9.824	60.439	14,919,869,963	7.897	28.666
\$300,000 - \$349,999	42,704	7.704	68.143	13,825,151,484	7.318	35.984
\$350,000 - \$399,999	32,154	5.801	73.944	12,000,928,561	6.352	42.337
\$400,000 - \$449,999	23,942	4.319	78.263	10,142,143,362	5.368	47.705
\$450,000 - \$499,999	17,520	3.161	81.423	8,291,477,528	4.389	52.094
\$500,000 - \$549,999	15,722	2.836	84.260	8,231,551,818	4.357	56.451
\$550,000 - \$599,999	13,195	2.380	86.640	7,546,669,130	3.995	60.446
\$600,000 - \$649,999	10,914	1.969	88.609	6,835,656,480	3.618	64.064
\$650,000 - \$699,999	9,283	1.675	90.284	6,205,685,500	3.285	67.349
\$700,000 - \$749,999	7,982	1.440	91.723	5,803,201,352	3.072	70.421
\$750,000 - \$799,999	6,714	1.211	92.935	5,189,995,854	2.747	73.168
\$800,000 - \$849,999	5,744	1.036	93.971	4,721,200,384	2.499	75.667
\$850,000 - \$899,999	5,302	0.956	94.927	4,624,547,554	2.448	78.115
\$900,000 - \$949,999	4,614	0.832	95.760	4,268,305,278	2.259	80.374
\$950,000 - \$999,999	4,167	0.752	96.511	4,048,544,691	2.143	82.517
\$1,000,000 and greater	19,338	3.489	100.000	33,029,040,013	17.483	100.000
Total	554,327	100.000%		\$188,920,940,474	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: (i) a civil action against the taxpayer; (ii) 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; (iii) 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 (iv) 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 the District's general obligation bonds, approved by the voters.

The County levies a 1% *ad valorem* 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.

State 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 the Authorizations and any related general obligation refunding bonds. *Ad valorem* property taxes levied for general obligation bonds are deposited with the County and may only be applied to pay the principal of, redemption premium, if any, and interest on the District's general obligation bonds and general obligation refunding 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, State 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 obligation bonds and general obligation refunding 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 A-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 Years 2001-02 through 2011-12.

TABLE A-25
LOS ANGELES UNIFIED SCHOOL DISTRICT
Property Tax Rates⁽¹⁾
Fiscal Years 2001-02 through 2011-12

Fiscal Year	District Tax Rate for District's State School Loan Repayment	Tax Rate for District's General Obligation Bonds⁽²⁾	General <i>Ad Valorem</i> Tax Rate Levied on District Property Owners⁽³⁾	Total Overlapping Tax Rate Levied on District Property Owners⁽⁴⁾	Total Tax Rate Levied on District Property Owners
2001-02	--%	0.048129%	1.000000%	0.049952%	1.098081%
2002-03	0.000107	0.036866	1.000000	0.050926	1.087899
2003-04	0.000160	0.076985	1.000000	0.058128	1.135273
2004-05	0.000143	0.088696	1.000000	0.062701	1.151540
2005-06	0.000107	0.084239	1.000000	0.057333	1.141679
2006-07	0.000079	0.106735	1.000000	0.050769	1.157583
2007-08	0.000040	0.123302	1.000000	0.042551	1.165893
2008-09	0.000058	0.124724	1.000000	0.042841	1.167623
2009-10	--	0.151809	1.000000	0.045520	1.197329
2010-11	--	0.186954	1.000000	0.042595	1.229549
2011-12	--	0.168187	1.000000	N/A	N/A

⁽¹⁾ Per \$100 of Assessed Value.

⁽²⁾ Reflects tax rate for general obligation bonds.

⁽³⁾ The District receives a portion of this District-wide tax with other overlapping agencies receiving their respective portions.

⁽⁴⁾ Total Overlapping Tax Rate Levied on District Property Owners includes taxes levied upon property owners within the District's boundaries relating to, among others things, general fund obligations of the County, the Metropolitan Water District, the Los Angeles County Flood Control District, and the City of Los Angeles Landscaping and Special Tax Assessment District.

Sources: Los Angeles Unified School District Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2011; Los Angeles County Auditor-Controller for the Fiscal Year ending June 30, 2012.

The following Table A-26 sets forth real property taxes in the District from Fiscal Years 2001-02 through 2010-11.

TABLE A-26
LOS ANGELES UNIFIED SCHOOL DISTRICT
Property Tax Levies and Collections
Fiscal Years 2001-02 through 2010-11
(\$ in thousands)

Fiscal Year	Total Tax Levy	ERAF Funds⁽¹⁾	Current Tax Collections
2001-02	\$ 652,455	\$493,649	\$1,125,788
2002-03	656,436	536,530	1,190,192
2003-04	821,820	576,038	1,386,560
2004-05	929,248	171,052	1,091,325
2005-06	991,275	76,068	1,026,351
2006-07	1,173,752	--	1,134,757
2007-08	1,345,503	(42,753)	1,241,733
2008-09	1,481,739	(2,660)	1,372,078
2009-10	1,597,579	41,685	1,505,933
2010-11	1,711,575	29,419	1,602,345

⁽¹⁾ Educational Revenue Augmentation Funds ("ERAF") have been added or deducted, as applicable as provided under then applicable State law, 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.

Source: Los Angeles Unified School District Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2011.

Largest Taxpayers in the District

The following Table A-27 sets forth the 20 largest secured taxpayers in the District for Fiscal Year 2011-12.

TABLE A-27
LOS ANGELES UNIFIED SCHOOL DISTRICT
Largest Local Secured Taxpayers
Fiscal Year 2011-12

	Property Owner	Primary Land Use	2011-12 Assessed Valuation	% of Total⁽²⁾
1.	Douglas Emmett Realty Funds	Office Building	\$ 2,298,099,106	0.51%
2.	Universal Studios LLC	Motion Picture Studio	1,212,699,279	0.27
3.	Anheuser Busch Inc.	Industrial	779,369,442	0.17
4.	One Hundred Towers LLC	Office Building	583,508,500	0.13
5.	Donald T. Sterling	Apartments	552,749,713	0.12
6.	Tishman Speyer Archstone Smith Oakwood	Apartments	499,685,502	0.11
7.	Duesenberg Investment Company	Office Building	489,048,444	0.11
8.	Paramount Pictures Corp.	Motion Picture Studio	473,288,626	0.11
9.	Century City Mall LLC	Shopping Center/Mall	459,585,261	0.10
10.	Taubman Beverly Center	Shopping Center/Mall	458,763,245	0.10
11.	Casden Park La Brea LLC	Apartments	455,876,723	0.10
12.	BRE Properties Inc.	Apartments	454,392,324	0.10
13.	Westfield Topanga Owner LP	Shopping Center/Mall	447,374,793	0.10
14.	Trizec 333 LA LLC	Office Building	383,700,000	0.09
15.	Twentieth Century Fox Film Corp.	Motion Picture Studio	378,866,266	0.08
16.	LA Live Properties LLC	Commercial/Recreational	375,554,570	0.08
17.	Next Century Associates LLC	Hotel	367,049,334	0.08
18.	1999 Stars LLC	Office Building	350,305,194	0.08
19.	BP West Coast Products LLC	Industrial	347,702,462	0.08
20.	AP Properties Ltd.	Office Building	338,255,141	0.08
			<u>\$11,705,873,925</u>	<u>2.61%</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 are based upon total Fiscal Year 2011-12 Local Secured Assessed Valuation of \$447,659,366,261, 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 annual 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 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 2010-11 Fiscal Year, approximately 48.3% of the District’s General Fund revenues were derived from the revenue limit. See “California Constitutional and Statutory Provisions relating to *Ad Valorem* Property Taxes, District Revenues and Appropriations” herein.

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 (as defined herein) 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 A-28 sets forth the District's revenue limit per unit of ADA from Fiscal Years 2002-03 through 2010-11 and the estimated revenue limit per unit of ADA for Fiscal Year 2011-12.

TABLE A-28

**LOS ANGELES UNIFIED SCHOOL DISTRICT
K-12 Base Revenue Limit Per Unit of Average Daily Attendance
Fiscal Years 2002-03 through 2011-12**

Fiscal Year	K-12 Base Revenue Limit⁽¹⁾
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	5,264.22
2011-12	5,209.38 ⁽²⁾

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

⁽²⁾ Estimated.

Source: Los Angeles Unified School District Comprehensive Annual Financial Report for Fiscal Years 2002-03 through 2010-11; Fiscal Year 2011-12 Second Interim Financial Report.

The following Table A-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 2011-12 State Budget Act, the COLA for school districts is 2.24%.

TABLE A-29

LOS ANGELES UNIFIED SCHOOL DISTRICT
Deficit Factor and Cost of Living Adjustment
Fiscal Years 2002-03 through 2011-12

Fiscal Year	Deficit Factor	Cost of Living Adjustment
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	17.963	(0.39)
2011-12	20.602 ⁽²⁾	2.24

⁽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⁾ Pursuant to SB 81, the deficit factor for Fiscal Year 2011-12 was increased to 20.602% from 19.754% which was set forth in the 2011-12 State Budget Act.

Source: Los Angeles Unified School District.

As of June 30, 2011, the District projected enrollment declines of 4.50% for Fiscal Year 2011-12, 2.98% for Fiscal Year 2012-13 and 2.49% for Fiscal Year 2013-14 as compared to each prior fiscal year. The District projects that such enrollment declines are due to, among other things, lower birth rates in the County, migration of students outside of the District's boundaries, and increases in charter school enrollment. Accordingly, funded Average Daily Attendance is expected to decline for Fiscal Years 2011-12 through 2013-14. The following Table A-30 sets forth the District's annual ADA record for Fiscal Year 2002-03 through 2011-12.

TABLE A-30

**LOS ANGELES UNIFIED SCHOOL DISTRICT
Annual Average Daily Attendance
Fiscal Years 2002-03 through 2011-12**

Fiscal Year	K-12⁽¹⁾⁽²⁾	Affiliated Charter Schools⁽³⁾⁽⁴⁾	Total
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	557,584	7,866	565,450
2011-12 ⁽⁵⁾	534,563	N/A	N/A
2012-13 ⁽⁶⁾	514,262	N/A	N/A

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

⁽²⁾ With declining enrollment, the District's K-12 revenue limit funds in Fiscal Year 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⁾ Estimated.

⁽⁶⁾ Projected.

Source: Los Angeles Unified School District Comprehensive Annual Financial Report for Fiscal Years 2002-03 through 2010-11; Fiscal Year 2011-12 Second Interim Financial Report.

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 general fund of the State (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 Table A-26 herein which sets forth real property tax levies and collections for the District's last ten Fiscal Years, in the Section entitled "District Financial Information - Tax Rates, Levies and Collections" herein.

Proposition 1A (defined herein) 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. Proposition 1A provided, however, that beginning in Fiscal Year 2008-09, the State could 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 1A" and " - Proposition 22" and "State Funding of Education - Litigation Regarding Redevelopment Agency Revenues and Education Expenditures" herein.

Charter School Funding

A charter school is a public school authorized by a school district, county office of education or the State Board of Education. 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, 2011, there were 11 affiliated charter schools operated by the District and 171 fiscally independent charter schools within the District's boundaries. In Fiscal Years 2009-10 and 2010-11, the revenue limit ADA for the District's affiliated charter schools was estimated to be 6,906 and 7,866, respectively.

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. The District does not presently expect to issue tax and revenue anticipation notes on behalf of any fiscally independent charter school in Fiscal Year 2012-13.

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 Relating to *Ad Valorem* Property Taxes, 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 and 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 Budget Act for Fiscal Year 2010-11 suspended the Proposition 98 minimum guarantee in Fiscal Year 2010-11. The Fiscal Year 2011-12 State Budget Act proposes to fully fund the Proposition 98 minimum guarantee.

Assembly Bill No. 6 (“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 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 Director of Finance will not adversely affect Proposition 98 revenues. See “ - State Budget—State Budget for Fiscal Year 2010-11” and “California Constitutional and Statutory Provisions relating to *Ad Valorem* Property Taxes, District Revenues and Appropriations—Proposition 98,” and “ - Proposition 22” herein.

In addition to traditional calculations based upon General Fund revenues, the Proposition 98 guarantee set forth in the 2011-12 State Budget Act reflects: (i) an increase of \$578.1 million to ensure that the Proposition 98 minimum guarantee does not decrease with the shift in motor vehicle fuel revenues; (ii) an increase of \$221.8 million to reflect the inclusion of mental health and out-of-home care services within the Proposition 98 guarantee; (iii) a decrease of \$1.134 billion to reflect the exclusion of child care programs, with the exception of part-day preschool programs from Proposition 98; and (iv) a decrease of \$1.7 billion to ensure that the total Proposition 98 guarantee remains unchanged as a result of new local revenue related to redevelopment agencies. See “ - State Budget - Fiscal Year 2011-12 State Budget” 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. The District was not listed as a party 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 alleged, among other things, that the State violated its constitutional duties by failing to provide the individual plaintiffs’ school districts with sufficient funds and that the State 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 alleged that the State 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 requested that the court issue a declaratory judgment that the State 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. The District was not listed as a party in the CQE Complaint.

The District cannot predict whether the plaintiffs listed in the Robles Complaint or the CQE 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, as the nature of any court’s remedy and the responses of the State Legislature and the Governor are unknown.

On September 28, 2011, the District and four other petitioners filed a complaint for declaratory and injunctive relief, entitled *California School Boards Association, et. al v. State of California, et. al* (the “Proposition 98 Complaint”) in the Superior Court of the State of California located in the County of San Francisco. The Proposition 98 Complaint alleged, among other things, that the 2011-12 State Budget Act violated the State’s constitutional obligation to fund public education. Pursuant to the 2011-12 State Budget Act, the State diverted a portion of the State’s Sales and Use tax revenues from the State General Fund to counties and cities and thereby excluded such revenues from the calculation of the required Proposition 98 minimum funding guarantee. See “State Funding of Education - State Budget - Fiscal Year 2011-12 State Budget” herein. The petitioners alleged that the State improperly lowered the Proposition 98 minimum funding guarantee by redefining these revenues, which were expected to total approximately \$5.1 billion in Fiscal Year 2011-12 as “not General Fund revenues”. Accordingly, the aggregate amount of General Fund

revenues used to calculate the minimum guarantee under Test 1 of Proposition 98 was reduced. Due to this action, among other things, the petitioners alleged that the minimum funding requirement set forth in the 2011-12 State Budget Act was at least \$2.1 billion less than the amount required by Proposition 98. See “California Constitutional and Statutory Provisions relating to *Ad Valorem* Property Taxes, District Revenues and Appropriations - Proposition 98” herein. The 2011-12 State Budget Act provided that the modified calculation may be terminated if voters approve certain ballot measures at or prior to the statewide election in November 2012. In the alternative, the State could adopt a five year repayment plan. The petitioners alleged that neither option would satisfy the minimum guarantee under Proposition 98 and requested a judicial declaration directing the State to recalculate the minimum guarantee under Proposition 98 and implement such recalculation in a manner to ensure that school and community college districts do not receive less than the constitutionally required minimum level of funding. In March 2012, the Superior Court for the County of San Francisco tentatively ruled that the State can reduce funding to education by diverting State revenues into different funds rather than the State’s General Fund without violating the minimum funding requirement of Proposition 98. The District cannot predict whether any of the parties listed in the Proposition 98 Complaint will appeal the ruling, and if so, how any final court decision with respect to the Proposition 98 Complaint would affect the financial status of the District, as the nature of any court’s remedy and the responses of the State Legislature, the State Attorney General and the Governor are unknown.

Litigation Regarding Redevelopment Agency Revenues and Education Expenditures

In connection with Assembly Bill 26 and Assembly Bill 27 of the 2010-11 First Extraordinary Session (“ABx1 26”), the State required redevelopment agencies to cease operations and provided an alternative for communities to continue certain redevelopment practices. Upon the dissolution of such redevelopment agencies, the State required any property taxes that would have been allocated to redevelopment agencies to be allocated to successor agencies to make payments on the indebtedness incurred by the dissolved redevelopment agencies, with remaining balances to be allocated in accordance with applicable constitutional and statutory provisions.

On December 29, 2011, the Supreme Court of the State, in a case entitled *California Redevelopment Association v. Matosantos*, held that the dissolution provisions set forth in ABx1 26 were constitutional. Revenues that would have been directed to the redevelopment agencies will be used to make pass-through payments (*i.e.*, payments that such entities would have received under prior law) to local agencies and to successor agencies for retirement of the debts and certain administrative costs of the redevelopment agencies. The Fiscal Year 2012-13 Proposed State Budget projects that the elimination of redevelopment agencies will provide additional property tax revenue in the amount of \$1.05 billion for K-14 schools, \$340 million for counties, \$220 million for cities and \$170 million for special districts. The State plans to reduce State Aid to school and community college districts in the approximate amount of the redevelopment agency revenues. The District cannot predict the amount, if any, of revenues that will be reallocated to the District as a result of the dissolution of redevelopment agencies operating within the boundaries of the District during Fiscal Year 2011-12 and the extent to which the District’s revenue limit apportionment could be offset by any redevelopment revenues received.

State Budget

General. The District’s operating income consists primarily of two 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 funding for certain State and federal programs. Currently, the District receives approximately 78% of 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, none of the District, its counsel (including Disclosure Counsel), the Financial Advisor or the Underwriters guarantees 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 none of the District, its counsel (including Disclosure Counsel), the Financial Advisor or the Underwriters 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. State law requires the Governor to update the Governor's Budget projections and budgetary proposals by May 14 of each year (the "May Revision"). 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 (the "Budget Act").

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" herein for a description of payments of appropriations during a budget impasse.

Fiscal Year 2011-12 State Budget. On June 30, 2011, the Governor signed the 2011 State Budget Act for Fiscal Year 2011-12 (the "2011-12 State Budget Act") to address a then-projected \$26.6 billion deficit through June 30, 2012. After accounting for budgetary actions adopted by the State Legislature, higher than expected revenues and updated expenditure projections, the 2011-12 State Budget Act projected that the State's structural deficit had been reduced to less than \$5 billion annually. The 2011-12 State Budget Act estimates Fiscal Year 2011-12 revenues and transfers of \$88.5 billion, total expenditures of \$85.9 billion and a year-end surplus of \$1.3 billion (net of the negative \$1.2 billion prior-year State General Fund balance). The 2011-12 State Budget Act allocated the projected surplus to the reserve for the liquidation of encumbrances (\$770 million) and the special fund for economic uncertainties (\$543 million).

The 2011-12 State Budget Act authorized approximately \$601.0 million in funding reductions in the areas of higher education, health and human services and public safety, beginning in January 2012, if the State's Director of Finance estimated that the State's General Fund revenues for Fiscal Year 2011-12 would be less than \$87.5 billion, but would be at least \$86.5 billion. If the State's Director of Finance estimated that the State's General Fund revenues for Fiscal Year 2011-12 would be less than \$86.5 billion, the 2011-12

State Budget Act authorized an additional \$1.86 billion in education reductions including, among other things, the reductions described in paragraph (5) below. See “District Financial Information - District Budget - Reductions to Fiscal Year 2011-12 Education Expenditures and District Contingency Plan” herein.

Certain of the features of the 2011-12 State Budget Act which could affect school districts in the State included the following:

1. The 2011-12 State Budget Act proposed to fund Proposition 98 for Fiscal Year 2011-12 at approximately \$48.7 billion, which reflected a decrease of \$1.1 billion from the estimated Fiscal Year 2010-11 funding level.

2. In addition to traditional calculations based upon General Fund revenues, the Proposition 98 guarantee set forth in the 2011-12 State Budget Act reflected: (i) an increase of \$578.1 million to ensure that the Proposition 98 minimum guarantee does not decrease with the shift in motor vehicle fuel revenues; (ii) an increase of \$221.8 million to reflect the inclusion of mental health and out-of-home care services within the Proposition 98 guarantee; (iii) a decrease of \$1.134 billion to reflect the exclusion of child care programs, with the exception of part-day preschool programs from Proposition 98; and (iv) a decrease of \$1.7 billion to ensure that the total Proposition 98 guarantee remains unchanged as a result of new local revenue related to redevelopment agencies. See “State Funding of Education - Litigation Regarding State Budgetary and Fiscal Actions” herein.

3. In connection with the 2011-12 State Budget Act, Assembly Bill 114 directed school districts to budget based upon the same level of revenue per unit of average daily attendance as it received in Fiscal Year 2010-11 and to maintain staffing and program levels commensurate with that level. Pursuant to AB 114, the State reduced funding beginning in February 2012 because the State’s revenues were below the projections set forth in the 2011-12 State Budget Act. In addition, for the 2011-12 fiscal year, each school district is not required to demonstrate that it is able to meet its financial obligations for the two subsequent fiscal years as part of the interim report process. AB 114 also provided schools with the authority to reduce the minimum number of instructional days and minutes by up to seven days during Fiscal Year 2011-12, which is in addition to the authority to reduce the number of instructional days by up to five days under previous law.

4. Pursuant to the 2011-12 State Budget Act, certain sales and use tax revenues transferred in accordance with the Governor’s realignment plan would not be General Fund revenues for the purposes of calculating the Proposition 98 guarantee. The State’s treatment of such revenues will be operative for Fiscal Year 2011-12 and subsequent years only if one or more ballot measures, which must be approved before November 17, 2012, authorize such revenues to be so treated and provide funding for school districts and community college districts in an amount equal to that which would have been provided if such tax revenues were General Fund revenues for purposes of Proposition 98. See “State Funding of Education - Litigation Regarding State Budgetary and Fiscal Actions” herein.

5. The 2011-12 State Budget Act authorized trigger reductions to certain Proposition 98 allocations in the event the State’s Director of Finance determined that the State’s revenues for Fiscal Year 2011-12 would not meet or exceed projected levels. In such event, the 2011-12 State Budget Act authorized a reduction of up to \$1.5 billion from K-12 education relating to the aforementioned seven day reduction in the school year and a reduction of up to \$248 million relating to the elimination of funding for home-to-school transportation. See “District Financial Information - District Budget - Reductions to Fiscal Year 2011-12 Education Expenditures and District Contingency Plan” herein.

6. The 2011-12 State Budget Act included the deferral of \$2.1 billion in State Aid to Fiscal Year 2012-13 from Fiscal Year 2011-12 which was proposed in the 2011-12 Proposed State Budget and withdrawn in the May Revision to the 2011-12 Proposed State Budget.

7. The 2011-12 State Budget Act imposed a deficit factor of 19.754% on the revenue limit for Fiscal Year 2011-12, which reflected an increase from the deficit factor of 19.608% previously authorized for Fiscal Year 2011-12 under the Education Code.

8. In connection with the Governor's realignment plan, the 2011-12 State Budget Act approved a Voluntary Alternative Redevelopment Program ("VARP"), pursuant to which redevelopment agencies may continue operating provided that their respective establishing cities or counties agree to provide \$1.7 billion in payments to K-12 schools. If the establishing cities or counties did not agree to make payments to K-12 schools, the related redevelopment agency would be required to cease operations pursuant to Assembly Bill X1 26 and any property tax revenues that remained after payment of such redevelopment agency's outstanding debt service obligations and allowable administrative costs would be distributed to cities, counties, special districts, and K-14 schools.

9. The 2011-12 State Budget Act provided \$98.6 million from the Mental Health Services Fund to county mental health services on a one-time basis for mental health services to special education students. On-going responsibility for these services, including out-of-home residential services, is realigned to school districts. The Governor stated that schools districts may contract with counties to provide services using Proposition 63 funds, but school districts would be responsible for any costs exceeding this amount.

10. The 2011-12 State Budget Act allocated \$6.6 million in federal funding for the California Longitudinal Pupil Achievement Data System. The Governor vetoed the provision of \$2.1 million in federal funds that the State Legislature had provided for the California Longitudinal Teacher Integrated Data Education System in Fiscal Year 2011-12.

11. The 2011-12 State Budget Act allocated \$3.2 million to support the Clean Technology and Renewable Energy Job Training, Career Technical Education, and Dropout Prevention Program. The program is designed to create partnerships between schools and businesses to provide occupational training for at-risk high school students in areas such as conservation, renewable energy, and pollution reduction.

12. The 2011-12 State Budget Act authorized flexibility to school districts for an additional two years for categorical programs, routine and deferred maintenance expenditure requirements, class size requirements, instructional time requirements, sale of surplus property, instructional materials purchase requirements, and local budget reserve requirements.

State Budget for Fiscal Year 2012-13

Fiscal Year 2012-13 Proposed State Budget. On January 5, 2012, Governor Brown released his 2012-13 Proposed Budget (the "Fiscal Year 2012-13 Proposed State Budget"), which estimates that, without corrective action, the State will end Fiscal Year 2012-13 with a \$9.2 billion deficit consisting of a \$4.1 billion State General Fund deficit through the end of Fiscal Year 2011-12 (rather than the \$1.5 billion reserve balance assumed in the 2011-12 State Budget Act) and a \$5.1 billion excess of expenditures over revenues for Fiscal Year 2012-13. The Fiscal Year 2012-13 Proposed State Budget proposes \$10.3 billion in expenditure reductions and increased revenues (including a temporary increase in income and sales taxes proposed for the November 2012 ballot (the "Governor's 2012 Tax Initiative")) to balance the State's budget for Fiscal Year 2012-13 and to rebuild a reserve. Subsequent to the release of the Governor's 2012 Tax Initiative, the Governor released the Governor's Revised 2012 Tax Initiative (defined herein). See "- Governor's Revised 2012 Tax Initiative" herein. Assuming the passage of the Governor's 2012 Tax Initiative, the Fiscal Year 2012-13 Proposed State Budget estimated Fiscal Year 2012-13 revenues and transfers of \$95.4 billion, total expenditures of \$92.6 billion and a year-end surplus of \$1.9 billion (net of the negative \$985 million prior-year State General Fund balance). The Fiscal Year 2012-13 Proposed State Budget allocates the projected surplus to the reserve for the liquidation of encumbrances (\$719 million) and the special fund for economic uncertainties (\$1.1 billion).

The Fiscal Year 2011-12 Proposed State Budget relied in part on passage of the Governor's 2012 Tax Initiative, pursuant to which the personal income tax rates for certain high income earners would increase for five years (2012 through 2016) and State sales and use tax would increase by one-half percent for four years (2013 through 2016). The Fiscal Year 2012-13 Proposed State Budget projected that Governor's 2012 Tax Initiative, if approved, would generate approximately \$6.9 billion through Fiscal Year 2012-13 and generate billions of dollars per year until its expiration. The taxes would be deposited into the State's General Fund to pay for Proposition 98 school funding obligations and certain State programs. In the event the Governor's 2012 Tax Initiative failed to pass, the Fiscal Year 2012-13 Proposed State Budget specified approximately \$5.4 billion in expenditure reductions in, among other things, education (accounting for 90% of the targeted reductions) and judicial branch appropriations. The Governor noted that the implementation of many of the proposals contained in the Fiscal Year 2012-13 Proposed State Budget would require additional time before savings are accrued and additional expenditure reductions would be needed. Subsequent to the release of the 2012 Tax Initiative and the Fiscal Year 2012-13 Proposed State Budget, the Governor released the Governor's Revised 2012 Tax Initiative (defined herein). See " - Governor's Revised 2012 Tax Initiative" herein.

Certain of the features of the Fiscal Year 2012-13 Proposed State Budget which could affect school districts in the State include the following:

1. The Fiscal Year 2012-13 Proposed State Budget proposes State General Fund expenditures for Proposition 98 of approximately \$37.5 billion during Fiscal Year 2012-13 which reflects an increase from the projected \$32.6 billion General Fund expenditures for Proposition 98 during Fiscal Year 2011-12. Such increase includes a proposal to increase General Fund expenditures for Proposition 98 by \$2.2 billion during Fiscal Year 2012-13 to reduce inter-year budgetary deferrals. The proposed Proposition 98 expenditures assumed approval of the Governor's 2012 Tax Initiative.

2. The Fiscal Year 2012-13 Proposed State Budget proposes a zero percent COLA for Fiscal Year 2012-13 rather than the projected statutory COLA of 3.17% (which would have provided a \$1.8 billion increase in expenditures from the State to the extent Proposition 98 resources were sufficient). Due to the absence of a COLA, the Fiscal Year 2012-13 Proposed State Budget proposes to establish a deficit factor for school district and county office of education revenue limit apportionments.

3. The Fiscal Year 2012-13 Proposed State Budget proposes to eliminate the mandate that local education agencies provide transitional kindergarten instruction, which is the first year of a two-year kindergarten program that uses a modified kindergarten curriculum for children not eligible for kindergarten based on their age. Such proposal, if enacted, would reduce the State's General Fund expenditures by \$223.7 million. Local education agencies would have the option to enroll children not meeting kindergarten age on a case-by-case basis.

4. The Fiscal Year 2012-13 Proposed State Budget proposes to increase General Fund expenditures for Proposition 98 for special education by approximately \$190 million, inclusive of \$98.6 million for students with exceptional needs supported with Mental Health Services Act funds for Fiscal Year 2011-12, \$91.4 million to backfill budgetary adjustments in Fiscal Year 2011-12 and \$12.3 million for increases in ADA.

5. The Fiscal Year 2012-13 Proposed State Budget proposes to provide to charter schools additional access to funds by specifying that local educational agencies may include charter schools in their issues of County Treasury Revenue Anticipation Notes. Local education agencies that issue County Treasury Revenue Anticipation Notes would be statutorily identified as senior creditors for the purposes of the repayment of the County Treasury Revenue Anticipation Notes issued on behalf of a charter school.

6. The Fiscal Year 2012-13 Proposed State Budget proposes to modify the mandate reimbursement system for K-14 schools and provide an increase of \$110.1 million in General Fund expenditures to fund the new system. If approved, the proposal would eliminate certain mandates beginning and consolidate the remaining mandates in a block grant commencing Fiscal Year 2013-14. The Fiscal Year 2012-13 Proposed State Budget proposes to allow local education agencies the option to receive block grant funding for all mandates in the block grant or claim reimbursement separately for each individual program.

7. In *California Redevelopment Association et al. v. Matosantos et al.*, the California Supreme Court upheld Assembly Bill 26 of the 2010-11 First Extraordinary Session, which will lead to the dissolution of all redevelopment agencies within the State on February 1, 2012. Revenues that would have been directed to the redevelopment agencies will be used to make pass-through payments (*i.e.*, payments that such entities would have received under prior law) to local agencies and to successor agencies for retirement of the debts and certain administrative costs of the redevelopment agencies. The Fiscal Year 2012-13 Proposed State Budget projects that the elimination of redevelopment agencies will provide additional property tax revenue in the amount of \$1.05 billion for K-14 schools, \$340 million for counties, \$220 million for cities and \$170 million for special districts. See “State Funding of Education - Litigation Regarding Redevelopment Agency Revenues and Education Expenditures” herein.

8. The Fiscal Year 2012-13 Proposed State Budget proposes to implement a weighted pupil funding formula which would consolidate funding for the majority of categorical programs (excluding federally required programs such as special education) and revenue limit funding into a single source of funding. If approved, the formula would allocate funds based on the costs of educating specific student populations, including among others, economically disadvantage students and English language learners. The Fiscal Year 2012-13 Proposed State Budget proposes to phase in the formula over a period of five years. During such period, funding for the programs to be replaced by the formula would be made flexible for use in supporting any locally determined educational purpose.

9. The Fiscal Year 2012-13 Proposed State Budget proposes a decrease of \$694 million in Fiscal Year 2011-12 for school district and county office of education revenue limits as a result of a decrease in projected ADA from the 2011 Budget Act. The Fiscal Year 2012-13 Proposed State Budget proposes an increase of \$158 million in 2012-13 for school district and county office of education revenue limits as a result of projected growth in ADA for Fiscal Year 2012-13.

LAO Analysis of the 2012-13 Proposed State Budget. On January 11, 2012, the LAO released a report entitled “The 2012-13 Budget: Overview of the Governor’s Budget” (the “2012 LAO Budget Overview”), which provides an analysis by the LAO of the Fiscal Year 2012-13 Proposed State Budget. The 2012 LAO Budget Overview states that the Governor has made a good-faith effort in revenue and economic forecasting despite the many uncertainties involved in projecting the State’s recovery from the current economic downturn. Nevertheless, the LAO’s revenue estimates for Fiscal Years 2011-12, 2012-13, and subsequent years currently are lower than the Governor’s estimates and the LAO’s estimates of revenues from the Governor’s 2012 Tax Initiative are significantly lower than those of the Governor’s. In reviewing the Governor’s major proposals, the 2012 LAO Budget Overview states that the Governor’s proposals for restructuring the school finance system, community college categorical funding and education mandates and his proposals for reducing social services and child care program funding merit consideration. The 2012 LAO Budget Overview also stated that the Governor’s 2012 Tax Initiative would increase the State budget’s dependence on the volatile income tax payments by the State’s wealthiest individuals and the trigger reductions proposed therein would create significant uncertainty for schools, community colleges, and universities in Fiscal Year 2012-13 if implemented. The 2012 LAO Budget Overview concludes that if the State chooses either of the Governor’s two paths (*i.e.*, the multiyear tax increases and significant reductions in social services and subsidized child care programs or the trigger reductions largely relating to schools), the State budget would come closer to being balanced over the next several years.

LAO Economic and Revenue Update. On February 27, 2012, the LAO released a report entitled “The 2012-13 Budget: Economic and Revenue Update” (the “Economic and Revenue Update”), which provides analysis and projections by the LAO of the trends in the economy and State revenues. The LAO notes that the economic recovery in the State and in the United States is continuing. However, the LAO cautions that such recovery is limited by an unemployment rate within the State that remains significantly high compared to other states, a growth in long-term unemployment, and a labor force participation rate in the State is lower than the United States as a whole. Nevertheless, the Economic and Revenue Update projects that employment and personal income will continue to increase during Fiscal Year 2012-13. The Economic and Revenue Update notes that recovery is generally on track with expectations but has been limited by lingering foreclosure activity and declining home values, weak growth in disposable income, and constrained spending by federal, State and local governments. The LAO cautions that certain economic risks and uncertainties, including among others, future federal policies, spikes in oil prices, a prolonged slump in the housing market that reduces growth of building permits and the State’s construction industry, and significant and persistent economic problems in Europe limit the certainty within the forecasts set forth in the Economic and Revenue Update.

The Economic and Revenue Update projects that the State’s revenues for Fiscal Years 2011-12 and 2012-13, including consideration of federal tax policy assumptions, estimates relating to the Governor’s 2012 Tax Initiative, and estimates of revenues due to the public stock offerings of technology companies located in the State, will be \$6.5 billion less than the Governor’s projections. The Economic and Revenue Update indicates that the State will have to identify additional budgetary measures to balance the State’s budget for Fiscal Year 2012-13 in the event the LAO’s revenue projections are more accurate than those set forth in the Fiscal Year 2012-13 Proposed State Budget.

Governor’s Revised 2012 Tax Initiative. On March 14, 2012, the Governor announced that he would combine the Governor’s 2012 Tax Initiative with an initiative proposed by the California Federation of Teachers to place the “California Sales and Income Tax Increase Initiative” (the “Governor’s Revised 2012 Tax Initiative”) on the November 2012 ballot. If approved in its current form, the Governor’s Revised 2012 Tax Initiative would temporarily increase maximum marginal personal income tax rates for individuals, heads of households and joint filers above 9.3 percent by creating three additional tax brackets of 10.3 percent, 11.3 percent and 12.3 percent. The LAO projects that the increased personal income tax rates would affect approximately 1 percent of personal income tax filers in the State due to the high income threshold. If approved, the Governor’s Revised 2012 Tax Initiative would be in effect from the 2012 tax year to the 2018 tax year. In addition, the Governor’s Revised 2012 Tax Initiative would temporarily increase the State’s sales and use tax rate by 0.25 percent from 2013 to 2016. On March 16, 2012, the LAO released its review of the Governor’s Revised 2012 Tax Initiative. The LAO projects that revenues attributable to the Governor’s 2012 Tax Initiative will be less than the Governor’s \$9 billion estimate.

Additional Information. 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 “California 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.

Future State Budgets. 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 and cash management practices. 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, deferred revenues or increased expenses for the District, the District will be required to make adjustments to its budget and cash management practices. In the event current or 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 budget for the State by June 15 of the prior Fiscal Year and that the Governor sign a budget by June 30, this deadline has been missed from time to time. Delays in the adoption of a Budget Act 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 California 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 State 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

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 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. (See “ - Proposition 39” below). Article XIII A limits the amount of any *ad valorem* property tax 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 *ad valorem* property tax (except to pay voter-approved indebtedness). The 1% *ad valorem* property tax is automatically levied by the County and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1989.

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 “situs.” 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.

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 2010-11 was approximately \$3.97 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 2010-11, the funds subject to limitation totaled approximately \$3.77 billion and are approximately \$201.3 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 (“Article XIII C” and “Article XIII D”), 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, State 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 (i) in general, a fixed percent of the State General Fund's revenues ("Test 1"), (ii) 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 (iii) 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 0.05% 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 that implemented 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 and 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.

The Fiscal Year 2011-12 Proposed State Budget proposes to increase Proposition 98 expenditures for Fiscal Year 2012-13 to \$52.5 billion (inclusive of local property tax revenues), which reflects an increase of \$4.9 billion compared to the projected Proposition 98 expenditures for Fiscal Year 2011-12. For further information concerning the impact of State Budgets on Proposition 98 funding, see "District Financial Information—State Budget" herein.

Proposition 39

Proposition 39, which was approved by California voters in November 2000 ("Proposition 39"), 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 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. See "District Financial Information - District Debt - General Obligation Bonds" herein. The District is in full compliance with all Proposition 39 requirements.

Proposition 1A

Proposition 1A (“Proposition 1A”), proposed by the Legislature as a Senate Constitutional Amendment in connection with the 2004-05 Budget Act and approved by California 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 Legislature. Proposition 1A provided, however, that beginning in fiscal year 2008-09, the State could 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 of the State Legislature 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 VLF rate below 0.65 percent of vehicle 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 pursuant to Proposition 1A and used such funds to offset State General Fund spending for education and other programs. The State is required to repay this obligation by June 15, 2013. The State’s ability to initiate future exchanges and shifts of funds will be limited by Proposition 22. See “ - Proposition 22” below.

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. 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 of 2004. See “ - Proposition 1A” herein. In addition, Proposition 22 generally eliminated the State’s authority to temporarily shift property taxes from cities, counties, and special districts to schools, temporarily increased school and community college district’s share of property tax revenues, prohibited the State from borrowing or redirecting redevelopment property tax revenues or requiring increased pass-through payments thereof, and prohibited 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 stated that Proposition 22 would prohibit the State from enacting new laws that require redevelopment agencies to shift funds to schools or other agencies. However, the California Supreme Court, in *California Redevelopment Association v. Matosantos*, held that the dissolution provisions set forth in ABx1 26 were constitutional and permitted the State to allocate revenues that would have been directed to the redevelopment agencies to make pass-through payments (*i.e.*, payments that such entities would have received under prior law) to local agencies and to successor agencies for retirement of the debts and certain administrative costs of the redevelopment agencies. See “District Financial Information - Litigation Regarding Redevelopment Agency Revenues and Education Expenditures” herein.

Proposition 22 prohibits the State 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. In addition, Proposition 22 requires that the State apply the formula setting forth the allocation of State fuel tax revenues to local agencies revert to the formula in effect on June 30, 2009. The LAO stated that Proposition 22 would require the State to adopt alternative actions to address its fiscal and policy objectives, particularly with respect to short-term cash flow needs. The District does not believe that the adoption of Proposition 22 will have a significant impact on their respective revenues and expenditures during Fiscal Year 2011-12.

State School Facilities Bonds

Proposition 47 and Proposition 1A of 1998. The Class Size Reduction Kindergarten - University Public Education Facilities Bond Act of 2002 appeared on the November 5, 2002 ballot as Proposition 47 and was approved by State voters ("Proposition 47"). 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 1A of 1998").

Proposition 55. The Kindergarten-University Public Education Facilities Bond Act of 2004 appeared on the March 2, 2004 ballot as Proposition 55 and was approved by State voters ("Proposition 55"). 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 the State'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 select specific projects to be funded by the bond proceeds.

Proposition 1D. The Kindergarten-University Public Education Facilities Bond Act of 2006 appeared on the November 7, 2006 ballot as Proposition 1D and was approved by State voters (“Proposition 1D”). 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. Pursuant to Proposition 1D, the Governor and the State Legislature select specific projects to be funded by the bond proceeds. See “District General Information—*Williams* Settlement Agreement and Legislation; Funding for 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.

REGIONAL ECONOMIC AND DEMOGRAPHIC INFORMATION

The District is located in the City of Los Angeles and portions of the County of Los Angeles. This Appendix A includes economic and demographic information pertaining to the City of Los Angeles and the County of Los Angeles. The Certificates are general obligations of the District, but they are not general obligations of the City or the County.

Population

The following Table A-31 sets forth the estimates of the population of the City, the County and the State in calendar years 2007 through 2011.

**TABLE A-31
POPULATION ESTIMATES
2007 through 2011**

Year (as of January 1)	City of Los Angeles	County of Los Angeles	State of California
2007	3,764,062	9,780,808	36,399,676
2008	3,774,497	9,785,474	36,704,375
2009	3,781,951	9,801,096	36,966,713
2010	3,793,106	9,822,121	37,223,900
2011	3,810,129	9,858,989	37,510,766

Source: State of California Department of Finance Demographic Research Unit.

Income

The following Table A-32 summarizes the median household income for the City, the County, the State and the United States for calendar years 2006 through 2010.

**TABLE A-32
Median Household Income⁽¹⁾
2006 through 2010**

Year	City of Los Angeles	County of Los Angeles	State of California	United States
2006	\$44,445	\$51,315	\$56,645	\$48,451
2007	46,292	52,628	58,361	50,007
2008	48,882	55,499	61,021	52,029
2009	48,570	54,828	60,392	51,425
2010	47,031	52,684	57,708	50,046

⁽¹⁾ Estimated. In inflation-adjusted dollars.

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

Set forth in Table A-33 below is the distribution of income by certain income groupings per household for the City, the County, the State and the United States for calendar year 2010.

TABLE A-33

**Income Groupings 2010⁽¹⁾
(Percent of Households)**

Income Per Household	City of Los Angeles	County of Los Angeles	State of California	United States
\$24,999 & Under	27.95%	24.06%	21.52%	24.96%
\$25,000-49,999	24.26	23.19	22.33	24.99
\$50,000 & Over	47.79	52.75	56.15	50.05

⁽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-34 below summarizes wage and salary employment in the County from calendar years 2007 through 2011.

TABLE A-34

Labor Force and Employment in Los Angeles County⁽¹⁾

	2007	2008	2009	2010	2011
Civilian Labor Force ⁽²⁾	4,874,600	4,930,900	4,900,100	4,879,500	4,924,400
Employment	4,626,900	4,563,200	4,336,600	4,262,300	4,318,900
Unemployment	247,600	367,600	563,500	617,200	605,500
Unemployment Rate	5.1%	7.5%	11.5%	12.6%	12.3%
Wage and Salary Employment ⁽³⁾					
Farm	7,500	6,900	6,200	6,400	5,500
Mining and Logging	4,400	4,400	4,100	4,200	4,000
Construction	157,600	145,200	117,300	104,300	103,500
Manufacturing	449,200	434,500	389,200	374,200	365,400
Trade, Transportation and Utilities	818,500	803,300	742,700	738,400	748,000
Information	209,800	210,300	191,200	192,400	195,600
Financial Activities	243,800	233,300	216,000	209,200	209,400
Professional and Business Services	605,400	582,600	529,800	526,100	540,400
Educational and Health Services	492,700	505,800	514,600	522,700	534,800
Leisure and Hospitality	397,900	401,600	385,600	384,600	392,800
Other Services	147,100	146,100	137,900	136,300	135,000
Government	<u>595,800</u>	<u>603,800</u>	<u>595,900</u>	<u>576,700</u>	<u>565,200</u>
Total ⁽¹⁾	<u>4,129,600</u>	<u>4,077,600</u>	<u>3,830,300</u>	<u>3,775,400</u>	<u>3,799,600</u>

⁽¹⁾ Totals may not equal sum of component parts due to rounding. All information updated per March 2010 Benchmark.

⁽²⁾ Based on place of residence.

⁽³⁾ The State Employment Development Department has reported a seasonally adjusted unemployment rate within the County of 11.8% for February 2012.

⁽⁴⁾ Based on place of work.

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

Commercial Activity

Table A-35 below sets forth taxable sales in the County for calendar years 2006 through 2008. In 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 (“NAICS”) codes. The California State Board of Equalization completed the process of converting business codes of sales and use tax permit holders to NAICS codes for 2009 data. As a result of the coding change process, industry data for 2006, 2007 and 2008 is not comparable with data from 2009 and 2010 as set forth in Table A-36. Table A-36 reflects implementation of the NAICS codes and new industry categories.

TABLE A-35

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

Type of Business	2006 Annual	2007 Annual	2008 Annual
Apparel Stores	\$ 5,526,656	\$ 5,829,390	\$ 6,290,994
General Merchandise	13,729,150	13,825,538	12,861,677
Specialty Stores ⁽³⁾	14,332,982	--	--
Food Stores	4,680,320	4,911,939	4,921,329
Eating and Drinking Establishments	13,751,189	14,473,199	14,607,067
Home Furnishings/Appliances	4,307,020	4,287,090	4,482,776
Building Materials	7,871,880	7,494,731	6,388,930
Automotive ⁽⁴⁾	29,161,994	17,156,218	13,282,539
Service Stations ⁽⁴⁾	--	12,230,800	13,437,380
Other Retail Stores ⁽³⁾	2,193,002	15,886,806	13,537,617
Business and Personal Services	5,390,537	5,408,543	5,196,651
All Other Outlets	35,217,822	36,316,164	36,874,784
TOTAL ALL OUTLETS	\$136,162,552	\$137,820,418	\$131,881,744

⁽¹⁾ Totals may not equal sum of component parts due to 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-36 below sets forth taxable sales in the County for the calendar years 2009 and 2010.

TABLE A-36

**County of Los Angeles
Taxable Transactions⁽¹⁾
2009 and 2010
(\$ in thousands)**

Type of Business	2009 Annual	2010 Annual
Motor Vehicle and Parts Dealers	\$ 10,801,444	\$ 11,285,457
Furniture and Home Furnishings Stores	2,058,460	2,158,334
Electronics and Appliance Stores	3,406,513	3,454,412
Building Materials and Garden Equipment and Supplies	5,754,600	6,129,586
Food and Beverage Stores	5,410,953	5,405,254
Health and Personal Care Stores	2,735,112	2,773,004
Gasoline Stations	9,629,797	11,012,642
Clothing and Clothing Accessories Stores	7,145,713	7,607,711
Sporting Goods, Hobby, Book & Music Stores	2,434,950	2,448,246
General Merchandise Stores	10,059,028	10,369,383
Miscellaneous Store Retailers	4,319,761	4,449,560
Nonstore Retailers	810,972	790,565
Food Services and Drinking Places	<u>13,876,812</u>	<u>14,291,264</u>
Total Retail and Food Services	<u>\$ 78,444,115</u>	<u>\$ 82,175,416</u>
All Other Outlets	<u>\$ 34,300,613</u>	<u>\$ 34,766,918</u>
TOTAL ALL OUTLETS	<u>\$112,744,727</u>	<u>\$116,942,334</u>

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

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

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-37.

TABLE A-37

**County of Los Angeles
Major Non-Governmental Employers⁽¹⁾⁽²⁾**

Employer	Product/Service	Employees
Kaiser Permanente	Healthcare	32,700
Northrop Grumman Corp.	Defense contractor	19,000
University of Southern California	Private university	15,121
Boeing Co.	Aerospace and defense systems	13,623
Ralphs/Food 4 Less (A Division of Kroger Co.)	Grocery retailer	13,500 ⁽¹⁾
Target Corp.	Retailer	13,000
Bank of America Corp.	Banking and financial services	12,000 ⁽¹⁾
Cedars-Sinai Medical Center	Medical centers	10,467
Home Depot	Home improvement retailer	10,000
Providence Health & Services California	Medical center	9,960
Wells Fargo Bank, N.A.	Diversified financial services	9,900
The Vons Companies, Inc.	Grocery retailer	9,176
ABM Industries Inc.	Facility services, janitorial, parking, security, engineering and lighting	8,800
AT&T Inc.	Telecommunications	8,505
California Institute of Technology	Private university; operator of Jet Propulsion Laboratory	8,400
FedEx Corp.	Shipping and logistics	7,700
Catholic Healthcare West	Healthcare	7,200
Amgen Inc.	Biotechnology	6,700
JP Morgan Chase	Banking and financial services	6,000
Long Beach Memorial Medical Center	Healthcare	5,200
United Parcel Service	Transportation and freight	5,000
Children's Hospital Los Angeles	Healthcare	4,200
Toyota Motor Sales U.S.A. Inc.	Automobile sales, distribution and customer service	4,100
Adventist Health	Healthcare	3,700
Huntington Memorial Hospital	Healthcare	3,251

⁽¹⁾ Estimated as of September 2010.

⁽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-38 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 2007 through 2010 and for the period from January 2011 through August 2011.

TABLE A-38
City of Los Angeles
Permit Valuations and Units of Construction
2007 to 2011⁽¹⁾
(\$ in thousands)

Year	New Residential Valuation	New Single Family Dwelling Units	New Multi-Family Dwelling Units	Total New Units
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	1,282,731	681	3,576	4,257
2011	1,038,022	360	3,594	3,954

⁽¹⁾ Total may not equal sum of component parts due to rounding.

Source: Construction Industry Research Board.

GLOSSARY OF CERTAIN TERMS AND ABBREVIATIONS

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

“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.

“CAFR” means comprehensive annual financial report.

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

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

“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 CalSTRS, 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.

“PSAA” means the State of California’s Public Schools Accountability Act of 1999.

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

“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 B

**SELECTED INFORMATION FROM AUDITED FINANCIAL STATEMENTS
OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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LOS ANGELES UNIFIED SCHOOL DISTRICT

Comprehensive Annual Financial Report

FOR FISCAL YEAR ENDED JUNE 30, 2011



Los Angeles, CA

2010-2011

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

**COMPREHENSIVE
ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2011**

MR. JOHN E. DEASY
SUPERINTENDENT OF SCHOOLS
(EFFECTIVE APRIL 18, 2011)

MR. RAMON C. CORTINES
SUPERINTENDENT OF SCHOOLS
(RETIRED EFFECTIVE APRIL 17, 2011)

MS. MEGAN K. REILLY
CHIEF FINANCIAL OFFICER

MS. YUMI TAKAHASHI
CONTROLLER
(EFFECTIVE JULY 1, 2011)

MR. TIMOTHY S. ROSNICK
CONTROLLER
(JUNE 9, 2008 – JUNE 12, 2011)



**PREPARED BY
ACCOUNTING AND DISBURSEMENTS DIVISION**

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

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LOS ANGELES UNIFIED SCHOOL DISTRICT

Comprehensive Annual Financial Report

Year Ended June 30, 2011

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INTRODUCTORY SECTION

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MEMBERS OF THE BOARD

MONICA GARCIA, PRESIDENT
TAMAR GALATZAN
BENNETT KAYSER
MARGUERITE POINDEXTER LAMOTTE
NURY MARTINEZ
RICHARD A. VLADOVIC, Ed.D.
STEVEN ZIMMER



LOS ANGELES UNIFIED SCHOOL DISTRICT

JOHN E. DEASY, Ph.D.
Superintendent of Schools

MICHELLE KING
Senior Deputy Superintendent School Operations

MEGAN K. REILLY
Chief Financial Officer

YUMI TAKAHASHI
Controller

December 14, 2011

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, 2011, 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 2010-11 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.

Management 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.

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, 2011, the District is operating 448 elementary schools, 83 middle/junior high schools, 81 senior high schools, 56 options schools, 15 multi level schools, 16 special education schools, 26 magnet schools and 145 magnet centers, 24 community adult schools, 5 regional occupational centers, 5 skills centers, 1 regional occupational program center, 102 early education centers, 4 infant centers, and 20 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, 2011, the District employed 43,702 certificated, 29,226 classified, and 20,992 unclassified employees. Enrollment as of October 2010 was 601,713 students in K-12 schools, 136,400 students in adult schools and centers, and 12,139 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

Diminished revenues resulting from the sluggish California economy, along with declining enrollment and rising costs have continued to be a challenging fiscal reality for the District.

As of October 2011, California’s unemployment rate is the second highest in the nation with Nevada ranking first at 13.4%. The table below shows slightly improving unemployment percentages for both the US and California from January through October 2011, but also accentuates how high California’s unemployment rate is in relation to the rest of the country.

Month (2011)	U.S.	California
January	9.0%	12.4%
February	8.9%	12.1%
March	8.8%	12.0%
April	9.0%	11.8%
May	9.1%	11.7%
June	9.2%	11.8%
July	9.1%	12.0%
August	9.1%	12.1%
September	9.1%	11.9%
October	9.0%	11.7% (P)
November	8.6%	(not available)

P – Preliminary estimate

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

Per the UCLA Anderson forecast in December 2011, California employment growth of 1.4% and 2.1% is expected in 2012 and 2013, respectively; and the unemployment rate will hover around 11.6% through 2012. On the national level, the economy will be sustained by modest increases in consumption and business investment along with the beginnings of a housing recovery in 2013.

On December 13, 2011 Governor Brown announced mid-year “trigger reduction” that were contingent upon actual revenue falling below estimated revenues. The reductions included a decrease of \$248 million to the Home to School Transportation program and \$79.6 million to Revenue Limit funding.

Before the mid-year reductions, the District was already facing reduced funding. Revenue limit sources, the largest source for unrestricted funding, is projected to be deficated by 19.754% for 2011-12, 2012-13, and 2013-14 after Cost of Living Adjustments (COLA) of 2.24% (zero % effective COLA), 3.20%, and 2.70%, respectively, have been applied. The District has taken a cautious approach in the event that funded COLAs do not materialize in the out-years.

In addition to State revenue reductions, the District is impacted by declining enrollment. For 2011-12, 2012-13, and 2013-14, the District has projected a 4.50%, 2.98%, and 2.49% enrollment declines. This is largely due to lower county birth rates, migration out of the District’s boundaries, and increase in charter school enrollment. As a result, funded Average Daily Attendance, the basis for the majority of operating revenues, for 2011-12, 2012-13, and 2013-14 is expected to decline.

The District has assumed increased costs associated with opening new schools and step and column pay advances. In addition, the District assumes a Consumer Price Index of 3.1%, 2.7%, and 3.1% for fiscal years 2011-12, 2012-13, and 2013-14, respectively on non-salary related expenses. The exception is the expenditure for utilities which is projected to increase by 7% in each of these three fiscal years. Funding for health and welfare benefits is expected to increase annually.

The District continues 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.

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 2010-11, the Statement of Changes in Net Assets shows that the District's Net Assets increased \$239.1 million during the year. The Unrestricted Net Assets, which are negative, declined from (\$1,959.6 million) to (\$2,472.9 million). The negative Unrestricted Net Assets are largely the result of the District's retiree health benefit liability (OPEB liability). The liability reflected, which represents the previous year's liability increased by the current year's unfunded expense, is \$2,393.8 million, an increase of \$782 million from 2009-10. The latest actuarial report estimates the present value of the entire 30-year liability to be \$10.3 billion. Unless the District begins to fund or reduce its OPEB liability, the District's Total Liabilities will eventually exceed its Total Assets.

In 2010-11, the fund balance of the General Fund increased \$235.6 million from \$668.0 million to \$903.5 million. This increase was due to lower deficit factor, combined with the elimination of a one-time per ADA revenue limit reduction applied in prior year.

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, 28 programs received an Unqualified audit and 3 programs were Qualified. The District received an Unqualified state compliance audit.

The District is pleased that the number of findings declined from 32 in 2009-10 to 26 in 2010-11. In addition, the amount of the questioned costs declined 58%, from \$2.0 million in 2009-10 to \$0.8 million in 2010-11. 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.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Los Angeles Unified School District for its comprehensive annual financial report for the fiscal year ended June 30, 2010. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently

organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

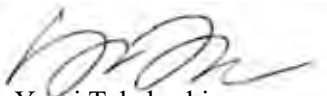
Acknowledgments

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,

John E. Deasy
Superintendent of Schools

Prepared by:



Yumi Takahashi
Controller



Megan K. Reilly
Chief Financial Officer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Los Angeles Unified School
District, California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2010

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



President

Executive Director

BOARD OF EDUCATION
Mónica García
PRESIDENT

Marguerite Poindexter LaMotte

Yolie Flores
(July 1, 2007 – June 30, 2011)

Tamar Galatzan

Bennett Kayser
(Effective July 1, 2011)

Steve Zimmer

Nury Martinez

Richard Vladovic

PRINCIPAL SCHOOL DISTRICT OFFICIALS

John E. Deasy
Superintendent of Schools
(Effective April 18, 2011)

Ramon C. Cortines
Superintendent of Schools
(Retired effective April 17, 2011)

Megan K. Reilly
Chief Financial Officer

Yumi Takahashi
Controller
(Effective July 1, 2011)

Timothy S. Rosnick
Controller
(June 9, 2008 – June 12, 2011)

LOCAL DISTRICT (LD) SUPERINTENDENTS

Linda Del Cueto – LD 1

Roberto A. Martinez – LD 5

Alma Pena-Sanchez – LD 2

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

Gay Havard – LD 3 (Interim)
(July 1, 2010 – May 8, 2011)

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

Brenda Manuel – LD 3 (Interim)
(Effective May 9, 2011)

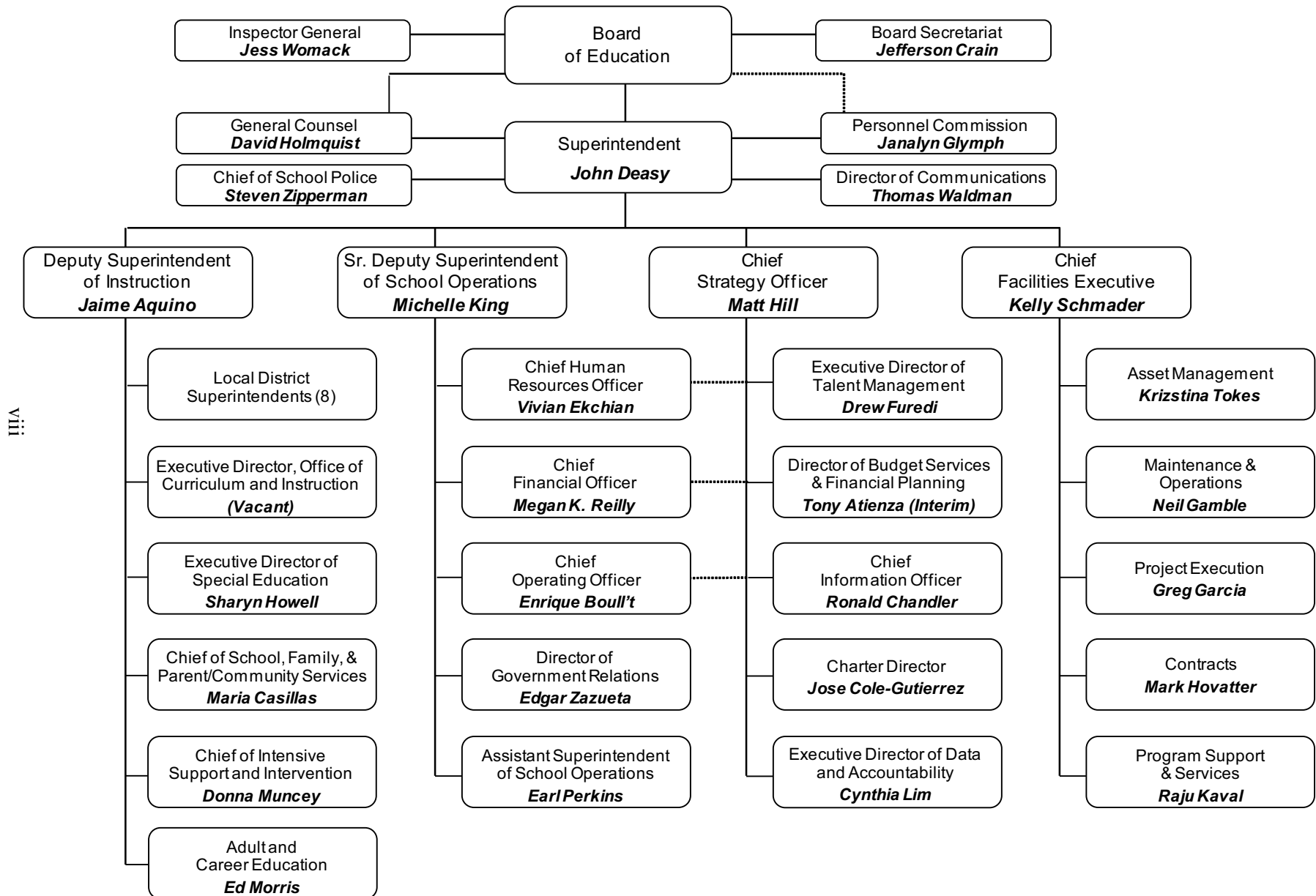
George McKenna – LD 7

Dale Vigil – LD 4 (Interim)

Michael Romero – LD 8

Los Angeles Unified School District Organization of Central Support System

(Effective July 1, 2011)



FINANCIAL SECTION

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SIMPSON & SIMPSON
CERTIFIED PUBLIC ACCOUNTANTS

FOUNDING PARTNERS
BRAINARD C. SIMPSON, CPA
MELBA W. SIMPSON, CPA

3600 WILSHIRE BOULEVARD, SUITE 1710
LOS ANGELES, CA 90010
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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, 2011, 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of the *California Code of Regulations* (CCR), Title 5, Education, Section 19810 et seq. 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, 2011, and the respective changes in financial position, and where applicable, cash flows, thereof and the 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 Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* for the year ended June 30, 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2011, 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 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.





Management's discussion and analysis on pages 3 to 13, and the required supplementary information on page 68 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 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 69 to 110, the schedule of expenditures of federal awards on pages 210 to 214, and the information on pages 189 to 204 and page 209 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 159 to 188 and pages 205 to 208 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 do not express an opinion on them.

A handwritten signature in dark ink, appearing to read 'Simpson E. Simpson'. The signature is written in a cursive, flowing style.

Los Angeles, California
December 14, 2011

LOS ANGELES UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis

June 30, 2011

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, 2011. 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-v of this report.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$4.5 billion (net assets). This amount is net of a \$2.5 billion deficit in unrestricted net assets resulting from the recognition of unfunded liabilities for other postemployment benefits (OPEB).
- The District's total net assets increased by \$239.1 million from prior year total, primarily due to higher revenues.
- As of the close of the 2011 fiscal year, the District's governmental funds reported combined ending fund balances of \$5.4 billion, a decrease of \$0.2 billion from June 30, 2010.
- At the end of the current fiscal year, committed, assigned and unassigned fund balances for the General Fund, including reserve for economic uncertainties, was \$626.7 million, or 10.2% of total General Fund expenditures.
- The District's total long-term obligations increased by \$443.6 million (2.8%) during the current fiscal year. The increase resulted primarily from additional net OPEB obligation.

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, 2011

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 22 individual governmental funds, one less than last year after close-out of the Deferred Maintenance Fund at the end of the fiscal year. 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, County school facilities bonds fund, Bond interest and redemption fund, and all other funds. Individual account data for 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 page 24 of this report.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis

June 30, 2011

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 25-67 of this report.

Combining and individual fund schedules and statements. Combining schedules and statements consisting of the budget to actual comparisons for district bonds fund, county school facilities bonds fund, and bond interest and redemption fund, the individual accounts within the nonmajor governmental funds, the internal service funds and the fiduciary funds are presented immediately following the required supplementary information. Combining and individual fund schedules and statements can be found on pages 69-99 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 \$4.5 billion at the close of the most recent year.

By far the largest portion of the District's net assets (\$5.5 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 (\$1.5 billion) represent resources that are subject to external restrictions on how they may be used. The remaining negative balance in unrestricted net assets (-\$2.5 billion) resulted from the recognition of \$3.2 billion of net OPEB obligation.

At the end of the 2011 fiscal year, the District is able to report positive balances in all categories of net assets except for unrestricted net assets.

The \$0.9 billion increase in capital assets primarily relates to the continuing school construction and modernization projects throughout the District.

Long-term liabilities increased by \$443.6 million primarily due to additional net OPEB obligation.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis

June 30, 2011

Summary Statement of Net Assets (in thousands)

As of June 30, 2011 and 2010:

	Governmental Activities	
	2011	2010
Current Assets	\$ 7,342,384	\$ 8,148,995
Capital Assets, net	14,627,248	13,735,339
Total Assets	21,969,632	21,884,334
Current Liabilities	1,300,967	1,898,322
Long-term Liabilities	16,195,638	15,752,067
Total Liabilities	17,496,605	17,650,389
Net Assets:		
Invested in capital assets, net of related debt	5,450,860	4,910,954
Restricted for:		
Debt service	442,118	354,884
Program activities	1,052,904	927,669
Unrestricted	(2,472,855)	(1,959,562)
Total Net Assets	\$ 4,473,027	\$ 4,233,945

LOS ANGELES UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis

June 30, 2011

Summary Statement of Changes in Net Assets (in thousands)

As of June 30, 2011 and 2010:

	Governmental Activities	
	2011	2010
Revenues:		
Program Revenues:		
Charges for services	\$ 88,626	\$ 69,125
Operating grants and contributions	3,269,560	3,177,683
Capital grants and contributions	780,344	300,172
Total Program Revenues	<u>4,138,530</u>	<u>3,546,980</u>
General Revenues:		
Property taxes levied for general purposes	909,484	938,189
Property taxes levied for debt service	935,428	740,719
Property taxes levied for community redevelopment	5,320	6,054
State aid – formula grants	2,146,870	2,039,028
Grants, entitlements, and contributions not restricted to specific programs	402,110	393,192
Unrestricted investment earnings	66,795	58,323
Miscellaneous	76,852	27,470
Total General Revenues	<u>4,542,859</u>	<u>4,202,975</u>
Total Revenues	<u>8,681,389</u>	<u>7,749,955</u>
Expenses:		
Instruction	3,986,263	3,900,813
Support services:		
Support services – students	320,787	317,859
Support services – instructional staff	432,202	428,734
Support services – general administration	43,448	43,561
Support services – school administration	426,288	466,481
Support services – business	145,401	204,002
Operation and maintenance of plant services	581,731	660,647
Student transportation services	151,286	155,813
Data processing services	54,205	68,949
Operation of noninstructional services	404,211	403,956
Facilities acquisition and construction services	175,584	115,474
Other uses	181	615
Interest expense	623,044	495,266
Depreciation – unallocated	315,745	245,712
Unfunded OPEB expense – unallocated	781,931	739,885
Total Expenses	<u>8,442,307</u>	<u>8,247,767</u>
Changes in Net Assets	239,082	(497,812)
Net assets – beginning	<u>4,233,945</u>	<u>4,731,757</u>
Net assets – ending	<u>\$ 4,473,027</u>	<u>\$ 4,233,945</u>

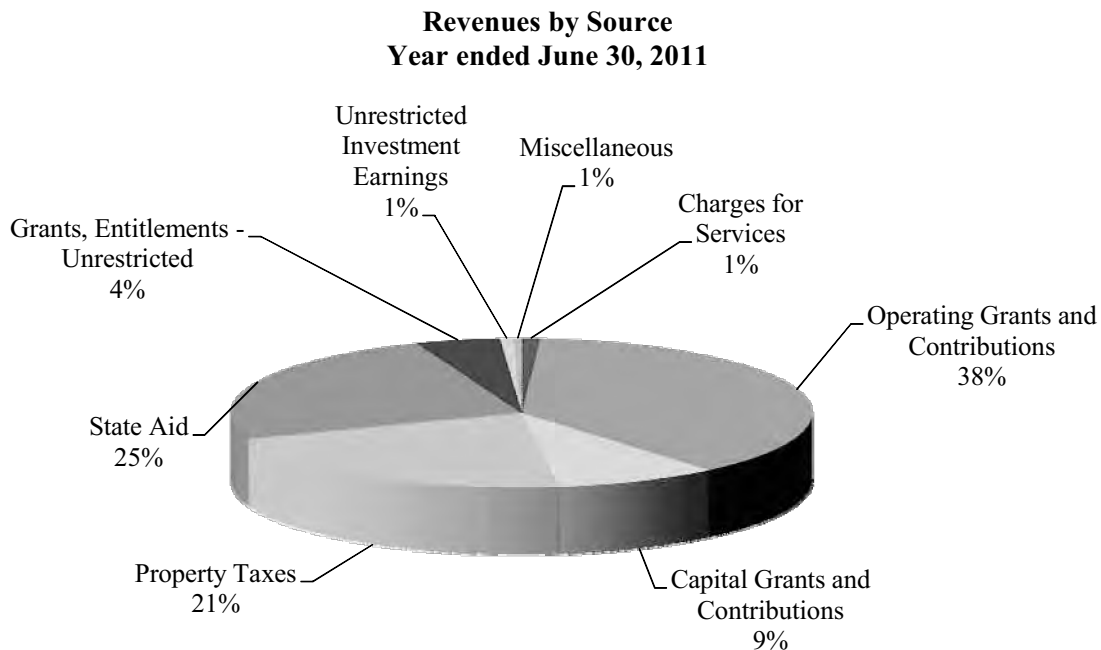
LOS ANGELES UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis

June 30, 2011

The District's net assets increased by \$239.1 million in the current fiscal year. The major components of this increase are in capital grants and contributions (\$480.2 million) due to increased funding from the State bond funds, and in total general revenues (\$339.9 million). The increase in general revenues is due to higher property taxes levied for debt service, elimination of the one-time \$250 per ADA reduction applied in the prior fiscal year, lower deficit factor on revenue limit sources, and higher unemployment insurance revenue. The State reimbursement is offset by higher unemployment insurance contributions resulting from higher unemployment claims.

The following graph shows that operating grants and contributions and state aid are the main revenue sources of the District.



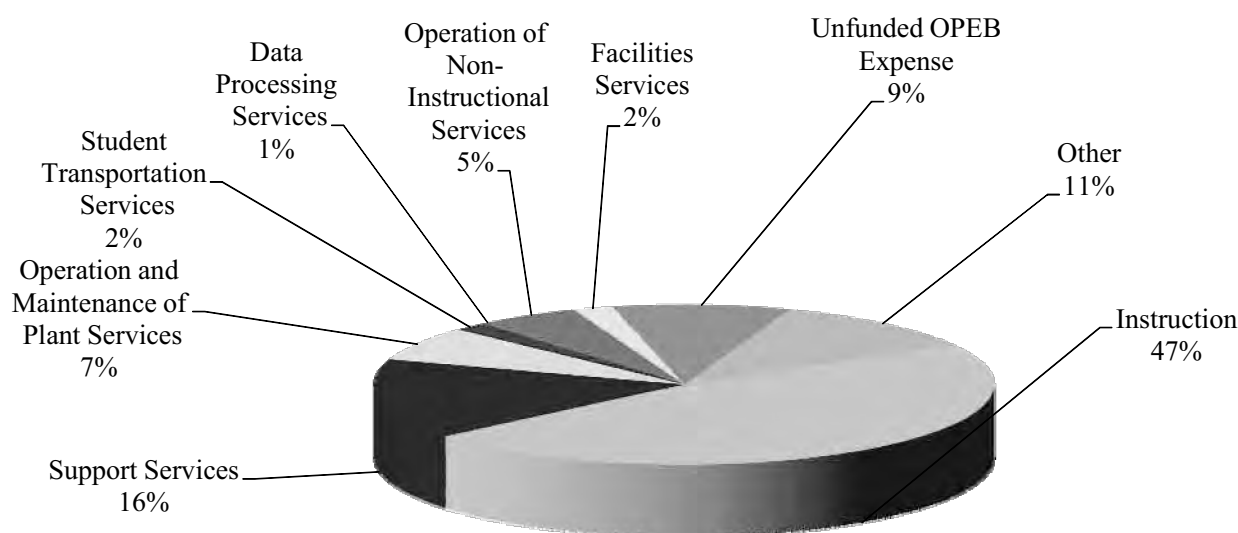
LOS ANGELES UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis

June 30, 2011

The following graph shows that instruction and support services are the main expenditures of the District.

Expenses
Year ended June 30, 2011



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. Committed, assigned, and unassigned balances comprise the unrestricted fund balances and 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 \$5.4 billion, a decrease of \$0.2 billion in comparison with the prior year. Approximately 12.3% (\$0.7 billion) of this total combined ending fund balance constitutes unrestricted fund balance, which is available for spending at the District's discretion. The remaining 87.7% are either restricted or nonspendable and are not available for new spending: restricted balances (\$4.7 billion), nonspendable inventories (\$12.5 million), and nonspendable revolving cash (\$6.8 million).

The General Fund is the primary operating fund of the District. At the end of the 2011 fiscal year, the unrestricted fund balance of the General Fund was \$626.7 million, while the total fund balance is \$903.5 million. As a measure of the General Fund's liquidity, it may be useful to compare both the unrestricted fund balance and the total fund balance to the total fund expenditures. The unrestricted fund balance represents 10.2% of the total General Fund expenditures, while the total fund balance represents 14.8% of that same amount.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis

June 30, 2011

The fund balance of the District's General Fund increased by \$235.6 million during the current fiscal year primarily from higher revenues. Revenue limit sources, federal revenues, and local revenues are all higher compared to last fiscal year. Other State revenues are also higher after eliminating the effects of a State-recommended change in accounting treatment for Adult Education apportionments.

Other changes in fund balances in the governmental funds are detailed as follows (in thousands):

	Other Governmental Funds						
	District Bonds	County School Facilities Bond	Bond Interest and Redemption	Special Revenue	Debt Service	Other Capital Projects	Total
Fund balance, June 30, 2011:							
Nonspendable							
Revolving cash and imprest funds	\$ 3,800	\$ —	\$ —	\$ 115	\$ —	\$ —	\$ 115
Inventories	—	—	—	4,935	—	—	4,935
Restricted	2,816,528	712,540	724,608	3,843	82,138	132,449	218,430
Committed	—	—	—	11,391	—	—	11,391
Assigned	—	—	—	51	—	29,731	29,782
Total	2,820,328	712,540	724,608	20,335	82,138	162,180	264,653
Fund balance, July 1, 2010	3,492,603	501,615	630,810	127,817	72,643	166,949	367,409
Increase (decrease) in fund balance	\$ (672,275)	\$ 210,925	\$ 93,798	\$ (107,482)	\$ 9,495	\$ (4,769)	\$ (102,756)

The fund balance increased during the current year: for the County School Facilities Bonds, due to higher apportionments from the State bond proceeds, and for the Bond and Interest Redemption, primarily from higher property taxes levied to pay principal and interest on bond issues. The fund balance decreased for the District Bonds, due to spending for continuing school construction and renovation; for the Special Revenue, due to lower transfers of adult education apportionments from General Fund in accordance with State flexibility provisions and the transfer of all remaining balance in the Deferred Maintenance Fund to the General Fund; and for Other Capital Projects, primarily due to the use of developer fees towards debt service payments on certain Certificate of Participation issues.

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 \$250.5 million. The net increase of \$90.8 million in the current year can be attributed to lower premiums and claims expense due to changes in health and medical plans.

General Fund Budgetary Highlights

The District closely monitors and 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.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis

June 30, 2011

Final Budget vs. Original Budget

The District's *original budget* is based on assumptions from the State's May Revise Budget. The *final budget* adds all other known State budgetary changes and changes to the District's priority of program implementations and/or planned expenditures. Differences between the 2010-11 General Fund original budget (adopted by the Board of Education in June 2010) and the final budget as of June 30, 2011 resulted in an overall increase in the ending balance by \$71.4 million. Adjustments to the adopted budget were made to reflect additional revenues in categorical programs and a corresponding increase in related expenditures based on actual grant award notifications received. Technical adjustments were also made to increase revenues and related expenditures as a result of a change in accounting treatment to record special education revenue gross of fiscally independent charter schools' share and to record information technology project costs in the General Fund from resources provided by the capital projects funds. After eliminating the effects of these offsetting adjustments, the increase in ending balance is primarily from higher beginning balance by \$199.5 million realized after the books were closed, less additional expenditure appropriations, mostly in salaries.

Actual vs. Final Budget

The General Fund ending balance increased by \$475.2 million compared to the Final Budget, primarily due to under-expenditure in all objects of expenditure, but mainly in services and other operating expenditures (\$201.1 million) and other transfers out (\$97.7 million). The under-expenditure is due to budget reductions, furlough, and expenditure freeze implemented during the year, delay in information technology projects, and reduced support to the adult education program.

Capital Assets and Debt Administration

Capital assets. The District's investment in capital assets for its governmental activities as of June 30, 2011 amounts to \$14.6 billion (net of accumulated depreciation), a 6.5% 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 \$1.1 billion.
- A total of 9 new schools were completed in the 2010-11 fiscal year.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis

June 30, 2011

Capital Assets (net of accumulated depreciation)

As of June 30, 2011 and 2010 (in thousands):

	Governmental Activities	
	2011	2010
Sites	\$ 3,136,630	\$ 3,069,920
Improvement of sites	206,963	215,635
Buildings and improvements	7,512,289	6,724,488
Equipment	199,663	145,397
Construction in progress	3,571,703	3,579,899
Total	<u>\$ 14,627,248</u>	<u>\$ 13,735,339</u>

Additional information on the District's capital assets can be found in Note 7 on pages 42-43 of this report.

Long-term obligations. At the end of the current fiscal year, the District had total long-term obligations of \$16.2 billion. Of this amount, \$11.8 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	
	2011	2010
General Obligation Bonds	\$ 11,810,881	\$ 12,114,504
Certificates of Participation (COPs)	494,840	459,019
Capital Lease Obligations	2,359	2,628
Children's Center Facilities Revolving Loan	792	792
California Energy Commission Loan	217	439
Liability for Employee Benefits	202,032	224,884
Self-insurance Claims	503,305	528,345
Other Postemployment Benefits (OPEB)	3,175,742	2,393,811
Arbitrage Payable	5,470	12,445
Legal Settlements	—	15,200
Total	<u>\$ 16,195,638</u>	<u>\$ 15,752,067</u>

The District's total long-term obligations increased by \$443.6 million (2.8%) during the current fiscal year. The key factor in this increase was the recognition of additional net OPEB obligation.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis

June 30, 2011

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, 2011 is \$11.6 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 53-62 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, 2011
(in thousands)

	<u>Governmental Activities</u>
Assets:	
Cash and cash equivalents	\$ 5,905,632
Investments	22,835
Property taxes receivable	92,125
Accounts receivable, net	1,212,902
Accrued interest receivable	20,300
Prepaid expense	12,478
Deferred charges	63,653
Inventories	12,459
Capital assets:	
Sites	3,136,630
Improvement of sites	528,607
Buildings and improvements	10,069,170
Equipment	1,228,062
Construction in progress	3,571,703
Less accumulated depreciation	<u>(3,906,924)</u>
Total Capital Assets, Net of Depreciation	<u>14,627,248</u>
Total Assets	<u>21,969,632</u>
Liabilities:	
Vouchers and accounts payable	488,599
Contracts payable	30,249
Accrued payroll	205,323
Accrued interest	297,901
Other payables	155,502
Unearned revenue	123,393
Long-term liabilities:	
Portion due within one year	526,853
Portion due after one year	<u>15,668,785</u>
Total Liabilities	<u>17,496,605</u>
Net Assets:	
Invested in capital assets, net of related debt	5,450,860
Restricted for:	
Debt service	442,118
Program activities	1,052,904
Unrestricted	<u>(2,472,855)</u>
Total Net Assets	<u><u>\$ 4,473,027</u></u>

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Statement of Activities
Year Ended June 30, 2011
(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	\$ 3,986,263	\$ 20,741	\$ 1,815,305	\$ —	\$ (2,150,217)
Support services – students	320,787	—	234,844	—	(85,943)
Support services – instructional staff	432,202	156	353,459	—	(78,587)
Support services – general administration	43,448	—	9,141	—	(34,307)
Support services – school administration	426,288	—	132,805	—	(293,483)
Support services – business	145,401	7,814	46,629	—	(90,958)
Operation and maintenance of plant services	581,731	16,378	135,826	2,354	(427,173)
Student transportation services	151,286	—	157,528	—	6,242
Data processing services	54,205	—	8,753	—	(45,452)
Operation of non-instructional services	404,211	9,727	369,578	—	(24,906)
Facilities acquisition and construction services*	175,584	33,810	5,692	777,990	641,908
Other uses	181	—	—	—	(181)
Interest expense	623,044	—	—	—	(623,044)
Depreciation - unallocated**	315,745	—	—	—	(315,745)
Unfunded OPEB expense – unallocated	781,931	—	—	—	(781,931)
Total Governmental Activities	<u>\$ 8,442,307</u>	<u>\$ 88,626</u>	<u>\$ 3,269,560</u>	<u>\$ 780,344</u>	<u>(4,303,777)</u>
General revenues:					
Taxes:					
Property taxes, levied for general purposes					909,484
Property taxes, levied for debt service					935,428
Property taxes, levied for community redevelopment					5,320
State aid – formula grants					2,146,870
Grants, entitlements, and contributions not restricted to specific programs					402,110
Unrestricted investment earnings					66,795
Miscellaneous					76,852
Total General Revenues					<u>4,542,859</u>
Change in Net Assets					239,082
Net Assets – Beginning of Year					<u>4,233,945</u>
Net Assets – End of Year					<u>\$ 4,473,027</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, 2011
(in thousands)

	General	District Bonds	County School Facilities Bonds	Bond Interest and Redemption	Other Governmental Funds	Total Governmental Funds
Assets:						
Cash in county treasury, in banks, and on hand	\$ 335,222	\$ 2,971,494	\$ 736,870	\$ 724,608	\$ 178,096	\$ 4,946,290
Cash held by trustee	64,903	—	—	—	72,163	137,066
Investments	—	—	—	—	22,835	22,835
Taxes receivable	—	—	—	92,125	—	92,125
Accounts receivable – net	1,151,482	5,529	—	—	53,175	1,210,186
Accrued interest receivable	5,434	8,649	2,718	—	588	17,389
Due from other funds	30,000	—	—	—	—	30,000
Inventories	7,524	—	—	—	4,935	12,459
Total Assets	\$ 1,594,565	\$ 2,985,672	\$ 739,588	\$ 816,733	\$ 331,792	\$ 6,468,350
Liabilities and Fund Balances:						
Vouchers and accounts payable	\$ 288,438	\$ 84,070	\$ 19,255	\$ —	\$ 14,240	\$ 406,003
Contracts payable	3,785	18,899	6,972	—	593	30,249
Accrued payroll	206,530	5	—	—	—	206,535
Other payables	72,743	62,370	821	—	18,451	154,385
Due to other funds	—	—	—	—	30,000	30,000
Deferred revenue	119,538	—	—	92,125	3,855	215,518
Total Liabilities	691,034	165,344	27,048	92,125	67,139	1,042,690
Fund Balances:						
Nonspendable	10,417	3,800	—	—	5,050	19,267
Restricted	266,418	2,816,528	712,540	724,608	—	4,520,094
Restricted, reported in:						
Special revenue funds	—	—	—	—	3,843	3,843
Debt service funds	—	—	—	—	82,138	82,138
Capital projects funds	—	—	—	—	132,449	132,449
Committed, reported in:						
Special revenue funds	—	—	—	—	11,391	11,391
Assigned	147,035	—	—	—	—	147,035
Assigned, reported in:						
Special revenue funds	—	—	—	—	51	51
Capital projects funds	—	—	—	—	29,731	29,731
Unassigned						
Reserved for economic uncertainties	65,376	—	—	—	—	65,376
Unassigned	414,285	—	—	—	—	414,285
Total Fund Balances	903,531	2,820,328	712,540	724,608	264,653	5,425,660
Total Liabilities and Fund Balances	\$ 1,594,565	\$ 2,985,672	\$ 739,588	\$ 816,733	\$ 331,792	\$ 6,468,350

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, 2011
(in thousands)

Total Fund Balances – Governmental Funds	\$ 5,425,660
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 \$18,534,172 and the accumulated depreciation is \$3,906,924.	14,627,248
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.	92,125
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.	250,466
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.	(15,986,125)
Other assets – deferred charges are not reflected in the fund financials.	<u>63,653</u>
Total Net Assets – Governmental Activities	<u><u>\$ 4,473,027</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, 2011
(in thousands)

	General	District Bonds	County School Facilities Bonds	Bond Interest and Redemption	Other Governmental Funds	Total Governmental Funds
Revenues:						
Revenue limit sources	\$ 3,056,350	\$ —	\$ —	\$ —	\$ —	\$ 3,056,350
Federal revenues	1,066,484	—	—	76,289	321,126	1,463,899
Other state revenues	2,031,812	—	768,583	5,885	160,081	2,966,361
Other local revenues	173,886	78,628	10,270	857,477	78,128	1,198,389
Total Revenues	6,328,532	78,628	778,853	939,651	559,335	8,684,999
Expenditures:						
Current:						
Certificated salaries	2,816,348	—	—	—	132,458	2,948,806
Classified salaries	855,838	41,593	132	—	160,521	1,058,084
Employee benefits	1,338,785	19,040	52	—	150,735	1,508,612
Books and supplies	349,322	3,642	141	—	142,893	495,998
Services and other operating expenditures	683,825	107,615	62	—	35,012	826,514
Capital outlay	71,580	868,442	232,875	—	68,352	1,241,249
Debt service – principal	1,541	—	—	278,180	23,608	303,329
Debt service – bond, COPs, and capital leases interest	184	—	—	567,673	14,473	582,330
Other outgo	181	—	—	—	—	181
Total Expenditures	6,117,604	1,040,332	233,262	845,853	728,052	8,965,103
Excess (Deficiency) of Revenues Over (Under) Expenditures	210,928	(961,704)	545,591	93,798	(168,717)	(280,104)
Other Financing Sources (Uses):						
Transfers in	88,138	399,094	26,954	—	90,060	604,246
Transfers – support costs	9,234	—	—	—	(9,234)	—
Transfers out	(75,765)	(77,117)	(361,620)	—	(100,700)	(615,202)
Issuance of COPs	—	—	—	—	83,345	83,345
Payment to refunded COPs escrow agent	—	(32,548)	—	—	—	(32,548)
Premium on COPs issued	—	—	—	—	3,034	3,034
Discount on issuance of COPs	—	—	—	—	(596)	(596)
Insurance proceeds – fire damage	1,987	—	—	—	—	1,987
Capital leases	1,043	—	—	—	—	1,043
Land and building sale	—	—	—	—	52	52
Total Other Financing Sources (Uses)	24,637	289,429	(334,666)	—	65,961	45,361
Net Changes in Fund Balances	235,565	(672,275)	210,925	93,798	(102,756)	(234,743)
Fund Balances, July 1, 2010, restated	667,966	3,492,603	501,615	630,810	367,409	5,660,403
Fund Balances, June 30, 2011	<u>\$ 903,531</u>	<u>\$ 2,820,328</u>	<u>\$ 712,540</u>	<u>\$ 724,608</u>	<u>\$ 264,653</u>	<u>\$ 5,425,660</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
For the Fiscal Year Ended June 30, 2011
(in thousands)

Total Net Changes in Fund Balances – Governmental Funds	\$ (234,743)
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 (\$1,241,249) exceeds loss on disposal of capital assets (\$16) and depreciation (\$335,224) in the period.	906,009
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	(1,043)
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.	245,744
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.	1,151
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.	5,323
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).	23,570
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.	(23,824)
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.	8,075
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.	(781,931)
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.	90,751
Changes in Net Assets of Governmental Activities	<u>\$ 239,082</u>

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, 2011
(in thousands)

	Budget		Actual	Variance with Final Budget – Favorable (Unfavorable)
	Original	Final		
Revenues:				
Revenue limit sources	\$ 2,877,186	\$ 2,896,310	\$ 3,056,350	\$ 160,040
Federal revenues	1,160,079	1,199,573	1,066,484	(133,089)
Other state revenues	2,055,274	2,075,997	2,031,812	(44,185)
Other local revenues	132,282	185,257	173,886	(11,371)
Total Revenues	6,224,821	6,357,137	6,328,532	(28,605)
Expenditures:				
Current:				
Certificated salaries	2,826,279	2,858,264	2,816,348	41,916
Classified salaries	863,111	884,104	855,838	28,266
Employee benefits	1,391,237	1,382,759	1,338,785	43,974
Books and supplies	366,876	427,068	349,322	77,746
Services and other operating expenditures	677,062	884,928	683,825	201,103
Capital outlay	30,732	97,542	71,580	25,962
Debt service – principal	1,485	1,628	1,541	87
Debt service – bond, COPs, and capital leases interest	384	384	184	200
Other outgo	199	650	181	469
Total Expenditures	6,157,365	6,537,327	6,117,604	419,723
Excess (Deficiency) of Revenues Over (Under) Expenditures	67,456	(180,190)	210,928	391,118
Other Financing Sources (Uses):				
Transfers in	4,781	105,155	88,138	(17,017)
Transfers – support costs	11,428	10,245	9,234	(1,011)
Transfers out	(193,898)	(173,503)	(75,765)	97,738
Insurance proceeds – fire damage	2,619	2,619	1,987	(632)
Capital leases	1,135	1,135	1,043	(92)
Total Other Financing Sources (Uses)	(173,935)	(54,349)	24,637	78,986
Net Changes in Fund Balances	(106,479)	(234,539)	235,565	470,104
Fund Balances, July 1, 2010, restated	463,434	662,907	667,966	5,059
Fund Balances, June 30, 2011	\$ 356,955	\$ 428,368	\$ 903,531	\$ 475,163

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, 2011
(in thousands)

Assets:

Cash in county treasury, in banks, and on hand	\$ 822,276
Accounts receivable – net	2,716
Accrued interest and dividends receivable	2,911
Prepaid expenses	<u>12,478</u>
Total Assets	<u>840,381</u>

Liabilities:

Current:

Vouchers and accounts payable	84,882
Accrued payroll	611
Other payables	1,117
Estimated liability for self-insurance claims	<u>146,669</u>
Total Current Liabilities	233,279

Noncurrent:

Estimated liability for self-insurance claims	<u>356,636</u>
Total Liabilities	<u>589,915</u>
Total Net Assets – Unrestricted	<u><u>\$ 250,466</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, 2011
(in thousands)

Operating Revenues:	
In-district premiums	\$ 992,778
Others	<u>3,505</u>
Total Operating Revenues	<u>996,283</u>
Operating Expenses:	
Certificated salaries	159
Classified salaries	5,966
Employee benefits	2,831
Supplies	244
Premiums and claims expenses	904,250
Claims administration	12,060
Other contracted services	<u>1,162</u>
Total Operating Expenses	<u>926,672</u>
Operating Income	<u>69,611</u>
Nonoperating Revenues (Expenses):	
Interest income	10,205
Miscellaneous expense	<u>(21)</u>
Total Nonoperating Revenues	<u>10,184</u>
Income before transfers	79,795
Transfers in	<u>10,956</u>
Change in Net Assets	90,751
Total Net Assets, July 1, 2010, restated	<u>159,715</u>
Total Net Assets June 30, 2011	<u><u>\$ 250,466</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, 2011
(in thousands)

Cash Flows from Operating Activities:	
Cash payments to employees for services	\$ (8,863)
Cash payments for goods and services	(908,457)
Receipts from assessment to other funds	987,787
Other operating revenue	<u>2,872</u>
Net Cash Provided by Operating Activities	<u>73,339</u>
Cash Flows from Non-Capital Financing Activities	
Transfer from other funds	<u>10,956</u>
Net Cash Provided by Non-Capital Financing Activities	<u>10,956</u>
Cash Flows from Investing Activities:	
Earnings on investments	<u>9,977</u>
Net Cash Provided by Investing Activities	<u>9,977</u>
Net Increase in Cash and Cash Equivalents	94,272
Cash and Cash Equivalents, July 1	<u>728,004</u>
Cash and Cash Equivalents, June 30	<u><u>\$ 822,276</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating income	\$ 69,611
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in operating assets and liabilities:	
Increase in accounts receivable	(565)
Decrease in prepaid expense	388
Increase in vouchers and accounts payable	28,787
Increase in accrued payroll	104
Increase in other payables	53
Decrease in estimated liability for self-insurance claims – current	(13,050)
Decrease in estimated liability for self-insurance claims – noncurrent	<u>(11,989)</u>
Total Adjustments	<u>3,728</u>
Net Cash Provided by Operating Activities	<u><u>\$ 73,339</u></u>

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Statement of Changes in Assets and Liabilities
Fiduciary Funds – Agency Funds
June 30, 2011
(in thousands)

Assets	
Cash in county treasury, in banks, and on hand	\$ 40,252
Total Assets	<u>\$ 40,252</u>
Liabilities	
Other payables	\$ 40,252
Total Liabilities	<u>\$ 40,252</u>

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2011

(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, 2011

(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, 2011

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 2010-11:

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, 2011

County School Facilities Bonds Fund – This fund is established to account for apportionments received from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), the 2004 State School Facilities Fund (Proposition 55), and the 2006 State School Facilities Fund (Proposition 1D).

Bond Interest and Redemption Fund – This Debt Service fund is used to account for the payment of principal and interest on the general obligation bond issues (Proposition BB, Measure K, Measure R, and Measure Y. Revenues are derived from ad valorem taxes levied upon all property subject to tax by the District.

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 that are restricted or committed to expenditures for the specific purpose (other than debt service or capital projects) of the individual funds. The District maintains the following Special Revenue Funds: Adult Education, Cafeteria, and Child Development. The Deferred Maintenance fund was closed out at the end of the fiscal year and all remaining balance was transferred to the General Fund since the District does not expect to continue to receive revenue sources restricted or committed to the purposes of the fund.

Debt Service Funds – Debt Service Funds are used to account for all financial resources that are restricted, committed, or assigned to expenditures for the repayment of general long-term debt principal and interest. The District maintains the following nonmajor Debt Service Funds: Tax Override and Capital Services. The Bond Interest and Redemption Fund is reported separately as a major fund in fiscal year 2010-11.

Capital Projects Funds – Capital Projects Funds are used to account for all financial resources that are restricted, committed, or assigned to expenditures for 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, and Capital Facilities Account. The District Bonds Fund (BB Bonds, Measure K, Measure R, and Measure Y) and the County School Facilities Bonds Fund (Prop 1A, Prop 47, Prop 55, and Prop 1D) are reported separately as a major fund in fiscal year 2010-11.

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

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Notes to Basic Financial Statements

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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.

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:

Agency Funds – Agency Funds are used to report resources held by the reporting government in a purely custodial capacity. Accordingly, all assets reported are offset by a liability to the party on whose behalf they are held. Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations or other governments. The District maintains the following agency funds:

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.

Student Body Fund – The Student Body Fund is used to account 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 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).

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Notes to Basic Financial Statements

Year Ended June 30, 2011

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.

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, and Internal Service 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. 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.

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Notes to Basic Financial Statements

Year Ended June 30, 2011

(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. 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.

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Notes to Basic Financial Statements

Year Ended June 30, 2011

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

(k) Contracts Payable

Contracts payable includes only the portion applicable to work completed and unpaid as of June 30, 2011.

(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.

Liability is accrued in the government-wide statements for all unpaid balances. A liability is reported in the governmental funds only for employees who have separated from the District as of June 30.

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Notes to Basic Financial Statements

Year Ended June 30, 2011

(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 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 2010-11, the District received local property taxes amounting to \$909.5 million and State aid amounting to \$2,146.9 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.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2011

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

Effective for the year ended June 30, 2011, the District adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The adoption resulted in changes to the categories and terminology used to describe the components of ending balance as presented in the Governmental Funds balance sheet. In addition, as a result of clarification in definitions of certain governmental funds, \$18.5 million of remaining balance in the Deferred Maintenance Fund was closed out at the end of the fiscal year and transferred to General Fund. The Deferred Maintenance Fund no longer meets the definition of special revenue fund as the new standard specifies that there must be committed or restricted revenue source that is expected to continue for the purposes of the fund to justify its continued use.

(p) Restatement

In February 2009, an agreement was entered into between the District and its bargaining units that changed required contributions to the Health and Welfare Fund. Under the agreement, the amount of contribution is no longer based on the fund's actual expenses but rather, on a flat rate per participant. With the change, the Health & Welfare Fund should have assumed responsibility for the opt-out costs paid to employees who elected to be compensated for not enrolling in a medical plan; however General Fund continued to pay for these costs. An adjustment was made to correct the error, as a result of which, the fund balance in General Fund and net assets in the Health and Welfare Fund, as of June 30, 2010 have been restated as follows (in thousands):

	General Fund	Health and Welfare Fund
Fund Balance/Net Assets at June 30, 2010, as previously reported	\$ 662,907	\$ 96,189
Expenditures for Opt-Out Costs	<u>5,059</u>	<u>(5,059)</u>
Fund Balance/Net Assets at June 30, 2010, as restated	<u>\$ 667,966</u>	<u>\$ 91,130</u>

In the past, the District reported the Attendance Incentive Reserve Fund as a pension trust fund. Because the assets of the fund are not held in a formal trust agreement, an adjustment was made to report it as an agency fund, in conformity with generally accepted accounting principles. As a result of the adjustment, the net assets as of June 30, 2010 have been restated as follows (in thousands):

Net Assets at June 30, 2010, as previously reported	\$ 399
Transfer Investment Income to Other Payables	<u>(399)</u>
Net Assets at June 30, 2010, as restated	<u>\$ —</u>

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2011

(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 August 13, 2009, the District issued \$750.0 million of 2009-10 Tax and Revenue Anticipation Notes (TRANs) with an overall weighted true interest cost of 1.62% and total premium of \$9.8 million. These notes were retired on their due date of August 12, 2010.

On July 1, 2010, the District issued a total of \$540.0 million of 2010-11 TRANs with an overall weighted true interest cost of 0.67% and total premium of \$6.8 million. The principal and interest on the notes were retired on their due date of June 30, 2011.

TRANs – Short-Term Notes Payable
(in thousands)

	Principal	Interest	Total
Beginning balance, July 1, 2010	\$ 750,000	\$ 14,355	\$ 764,355
Additions	540,000	6,756	546,756
Deductions	(1,290,000)	(21,111)	(1,311,111)
Ending balance, June 30, 2011	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2011

(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 \$15,986,125 difference are as follows (in thousands):

Bonds payable and related accrued interest	\$ (11,810,881)
Certificates of participation (COPs)	(494,840)
Capital lease obligations	(2,359)
Children center facilities revolving loan	(792)
California energy commission loan	(217)
Liability for compensated absences	(68,902)
Retirement bonus	(91,032)
Early retirement incentive	(37,989)
Other Post Employment Benefits (OPEB)	(3,175,742)
Arbitrage payable	(5,470)
Accrued interest	(297,901)
Net adjustment to reduce <i>total fund balances – governmental funds</i> to arrive at <i>net assets – governmental activities</i>	<u>\$ (15,986,125)</u>

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2011

**(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 \$906,009 difference are as follows (in thousands):

Capital related expenditures	\$ 1,241,249
Depreciation expense	(335,224)
Loss on disposal of capital assets	<u>(16)</u>
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>\$ 906,009</u>

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 \$245,744 difference are as follows (in thousands):

Debt issued or incurred:	
Certificates of participation	\$ (83,345)
Principal repayments:	
General obligation bonds	278,180
Certificates of participation	23,608
Refunding COPs	25,767
Capital leases	1,312
California Energy Commission loan	<u>222</u>
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>\$ 245,744</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 \$360.8 million. The additional expenditure appropriations were funded from higher beginning fund balance and higher other financing sources from interfund transfers in.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2011

(5) Cash and Investments

Cash and investments as of June 30, 2011 are classified in the accompanying basic financial statements as follows (in thousands):

Statement of net assets:	
Cash and investments	\$ 5,791,401
Cash and investments held by trustee	<u>137,066</u>
Subtotal	5,928,467
Fiduciary funds:	
Cash and investments	<u>40,252</u>
Total cash and investments	<u><u>\$ 5,968,719</u></u>

Cash and investments as of June 30, 2011 consist of the following (in thousands):

Cash on hand (cafeteria change funds)	\$ 6
Deposits with financial institutions and LA County Pool (a)	5,945,878
Investments (b)	<u>22,835</u>
Total cash and investments	<u><u>\$ 5,968,719</u></u>

- (a) Deposits with financial institutions include cash in the Los Angeles County Pooled Surplus Investment Fund (\$5,778,610), cash held by fiscal agents or trustees (\$137,066), and cash deposited with various other financial institutions, including imprest funds in schools and offices (\$30,202).

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) Sinking funds invested by trustees of COPs (\$22,835).

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:

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	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, 2011

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, 2011, 61.89% of district funds in the County PSI Fund does not exceed one year. In addition, variable-rate notes that comprised 1.3% 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, 2011, 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, 2011

(6) Receivables/Payables

Receivables by Fund at June 30, 2011 consist of the following (in thousands):

	General	District Bonds	County School Facilities Bonds	Bond Interest and Redemption	Other Governmental	Internal Service Funds	Total
Taxes	\$ —	\$ —	\$ —	\$ 92,125	\$ —	\$ —	\$ 92,125
Accrued grants and entitlements	1,110,142	—	—	—	43,000	—	1,153,142
Other	41,340	5,529	—	—	10,175	2,716	59,760
Interest and dividends	5,434	8,649	2,718	—	588	2,911	20,300
Total Receivables	<u>\$ 1,156,916</u>	<u>\$ 14,178</u>	<u>\$ 2,718</u>	<u>\$ 92,125</u>	<u>\$ 53,763</u>	<u>\$ 5,627</u>	<u>\$ 1,325,327</u>

Payables by Fund at June 30, 2011 consist of the following (in thousands):

	General	District Bonds	County School Facilities Bonds	Bond Interest and Redemption	Other Governmental	Internal Service Funds	Total
Vouchers and accounts	\$ 288,438	\$ 84,070	\$ 19,255	\$ —	\$ 14,240	\$ 84,882	\$ 490,885
Contracts	3,785	18,899	6,972	—	593	—	30,249
Accrued payroll	206,530	5	—	—	—	611	207,146
Other	72,743	62,370	821	—	18,451	1,117	155,502
Total payables	<u>\$ 571,496</u>	<u>\$ 165,344</u>	<u>\$ 27,048</u>	<u>\$ —</u>	<u>\$ 33,284</u>	<u>\$ 86,610</u>	<u>\$ 883,782</u>

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2011

(7) Capital Assets

A summary of changes in capital asset activities follows (in thousands):

	Balance, June 30, 2010	Increases	Decreases	Balance, June 30, 2011
Governmental activities:				
Capital assets, not being depreciated:				
Sites	\$ 3,069,920	\$ 66,710	\$ –	\$ 3,136,630
Construction in progress	3,579,899	1,095,185	(1,103,381)	3,571,703
Total capital assets, not being depreciated	<u>6,649,819</u>	<u>1,161,895</u>	<u>(1,103,381)</u>	<u>6,708,333</u>
Capital assets, being depreciated:				
Improvement of sites	523,083	5,524	–	528,607
Buildings and improvements	8,992,789	1,076,381	–	10,069,170
Equipment	1,169,506	86,730	(28,174)	1,228,062
Total capital assets, being depreciated	<u>10,685,378</u>	<u>1,168,635</u>	<u>(28,174)</u>	<u>11,825,839</u>
Less accumulated depreciation for:				
Improvement of sites	(307,448)	(14,196)	–	(321,644)
Buildings and improvements	(2,268,301)	(288,580)	–	(2,556,881)
Equipment	(1,024,109)	(32,448)	28,158	(1,028,399)
Total accumulated depreciation	<u>(3,599,858)</u>	<u>(335,224)</u>	<u>28,158</u>	<u>(3,906,924)</u>
Total capital assets, being depreciated, net	<u>7,085,520</u>	<u>833,411</u>	<u>(16)</u>	<u>7,918,915</u>
Governmental activities capital assets, net	<u>\$ 13,735,339</u>	<u>\$ 1,995,306</u>	<u>\$ (1,103,397)</u>	<u>\$ 14,627,248</u>

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2011

Depreciation expense was charged to the following functions (in thousands):

Governmental activities:

Instruction	\$ 3,410
Support services – students	131
Support services – instructional staff	1,995
Support services – general administration	211
Support services – school administration	2,304
Support services – business	1,607
Operation and maintenance of plant services	4,633
Student transportation services	3,053
Data processing services	1,112
Operation of noninstructional services	1,023
Depreciation – unallocated	315,745
Total depreciation expense – governmental activities	<u>\$ 335,224</u>

(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, 2011

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 2010-11 were 10.707% for miscellaneous and 29.049% 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, 2011, 2010, and 2009.

Schedule of Employer Contributions:

	2011		2010	2009
	Safety	Miscellaneous	Safety and Miscellaneous	Safety and Miscellaneous
District contributions:				
Regular	\$ 7,181,763	\$ 105,689,441	\$ 113,584,467	\$ 114,068,905
Annual Savings Recapture – AB 702 Credits	(3,970,773)	13,742,500	19,356,571	24,377,960
Total district contributions	3,210,990	119,431,941	132,941,038	138,446,865
Employee contributions:				
Paid by Employees	379,601	52,040,481	53,932,089	56,282,794
Paid by District	1,940,174	18,025,840	23,040,331	25,176,871
Total employee contributions	2,319,775	70,066,321	76,972,420	81,459,665
Total CalPERS contributions	\$ 5,530,765	\$ 189,498,262	\$ 209,913,458	\$ 219,906,530
Percentage of required contributions made	100%	100%	100%	100%

The District's contributions for all members for the fiscal years ended June 30, 2011, 2010, and 2009 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, 2011, 2010, and 2009.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2011

A summary of principal assumptions and methods used to determine the ARC for the Safety plan is shown below:

Valuation Date	June 30, 2008
Actuarial Cost Method	Entry Age Normal 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, 2010, the most recent actuarial valuation date, the actuarial value of plan assets was \$201,793,549 and the actuarial accrued liability for benefits was \$249,235,744. The unfunded actuarial liability was \$47,442,195. The actuarial value of assets as a percentage of the actuarial accrued liability was 81.0% (funded ratio). The covered payroll (annual payroll of active employees covered by the plan) was \$23,550,230, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 201.5%.

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 68 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, 2011

(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, 2010, there were 1,604 contributing employers (charter schools, 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 2010-11 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, 2011, 2010, and 2009 are as follows:

	Percentage of applicable member earnings	2011	2010	2009
District contributions	8.25%	\$ 236,729,522	\$ 233,091,634	\$ 270,178,492
Employee contributions (including adjustments)	8.00%	233,207,320	239,430,919	278,131,825
Total STRS contributions	16.25%	\$ 469,936,842	\$ 472,522,553	\$ 548,310,317
Percentage of required contributions made		100%	100%	100%

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Notes to Basic Financial Statements

Year Ended June 30, 2011

The District's contributions for all members for the fiscal years ended June 30, 2011, 2010, and 2009 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 51,539 as of June 30, 2011. District and employee contributions to the plan for the last three fiscal years are as follows: 2010-11 - \$10,486,286, 2009-10 - \$11,476,230, and 2008-09 - \$10,191,238.

The District's contributions for all members for the fiscal years ended June 30, 2011, 2010, and 2009 were in accordance with the required contributions.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2011

Termination Benefits

To lessen the impact of anticipated reductions in work force, the District offered early retirement incentive programs in fiscal years 2008-09, 2009-10, and 2010-11 to certificated and classified employees. 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 \$63.6 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 \$3.6 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.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2011

- 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.
- g. 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, 2011, approximately 37,000 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 2011, the District contributed \$240,099,820 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.

Healthcare Reform Act

The Patient Protection and Affordable Care Act, and the Health Care and Education Reconciliation Act of 2010, collectively referred to as "the Health Care Reform Act of 2010" was signed into law in March 2010. This Act imposes a 40% excise tax on employers that carry "Cadillac healthcare plans" beginning in 2018. The tax is applied to the amount of premium in excess of stated single (\$10,200) and family (\$27,500) thresholds. As the June 30, 2009 actuarial valuation came out before the enactment of the new law, the District's actuary estimated the impact of the excise tax using the assumptions and calculations from that valuation. Amounts provided in the ensuing paragraphs include the effects of the new legislation.

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.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2011

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). It reflects an additional \$43.9 million of excise tax in the ARC, in accordance with the Healthcare Reform Act of 2010 described above.

Annual required contribution	\$ 1,050,646
Interest on net OPEB obligation	119,691
Adjustment to annual required contribution	<u>(148,306)</u>
Annual OPEB cost (expense)	1,022,031
Contributions made	<u>(240,100)</u>
Increase in net OPEB obligation	781,931
Net OPEB obligation – beginning of year	<u>2,393,811</u>
Net OPEB obligation – end of year	<u><u>\$ 3,175,742</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2011, 2010, and 2009 were as follows (in thousands):

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2011	\$ 1,022,031	23 %	\$ 3,175,742
6/30/2010	977,150	24	2,393,811
6/30/2009	1,088,523	25	1,653,926

Funded Status and Funding Progress

As of June 30, 2009, the most recent actuarial valuation date, updated for the effects of new legislation, the plan was substantially unfunded. The actuarial accrued liability for benefits was \$10.3 billion, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$10.3 billion, of which \$0.4 billion is attributable to the new excise tax on "Cadillac healthcare plans". 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 223%.

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

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Notes to Basic Financial Statements

Year Ended June 30, 2011

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 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, 2011 was twenty-eight 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, 2011.

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.

LOS ANGELES UNIFIED SCHOOL DISTRICT

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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, 2011, the amount of the total claims liabilities recorded for health and welfare, liability self-insurance, and workers' compensation was \$503.3 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. In the current fiscal year, there were no large claim payments from the Liability Self-Insurance Fund, causing the estimated liability to be lower. Changes in the reported liabilities since July 1, 2009 are summarized as follows:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	End of Fiscal Year Liability
2010-2011				
Health and welfare benefits	\$ 37,827,000	\$ 231,338,688	\$ (231,401,688)	\$ 37,764,000
Workers' compensation	452,398,503	66,514,174	(88,072,949)	430,839,728
Liability self-insurance	38,118,771	6,656,956	(10,073,911)	34,701,816
Total	<u>\$ 528,344,274</u>	<u>\$ 304,509,818</u>	<u>\$ (329,548,548)</u>	<u>\$ 503,305,544</u>
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>

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2011

(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 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 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 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.

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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 installation of the information technology systems of the District. A portion of this issue is being 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 0.05% to 7.30% over the life of the COPs. The interest rate on June 30, 2011 was 0.05%. 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 0.05% to 8.00% over the life of the COPs. The interest rate on June 30, 2011 was 0.05%. 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 is being 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.

On December 17, 2010, the District issued COPs 2010 Series B-1 and B-2 (Capital Projects I) in the amount of \$83,345,000. Of this amount, \$21.62 million were issued as Build America Bonds (BABs). These are taxable bonds for which the federal government subsidizes 35% of the interest cost. Interest is payable semiannually ranging from 7.663% to 8.525% before the federal subsidy for Series B-1 and from 3.000% to 5.75% for Series B-2. Principal payments are due annually through 2035 for Series B-1 and 2020 for Series B-2. The proceeds are used to fund the Integrated Financial System Replacement, Automation of Seniority Calculation, the utilization of vacant space at the Roybal Learning Center and to fund a reserve account for each series.

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

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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, 2011, \$88.01 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 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, 2011, a total of \$31.19 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 80 years. Some leases are month to month and a few are year to year. The leases expire over the next 72 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 4 years.

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The total expenditure for all operating leases amounted to \$21,881,046 in 2010-11. The future minimum commitments for noncancelable operating lease of the District as of June 30, 2011 are as follows (in thousands):

	Amount (in thousands)
Fiscal year ending:	
2012	\$ 13,937
2013	11,470
2014	7,112
2015	5,766
2016	4,481
2017-2021	19,329
2022-2026	15,644
2027-2031	19,001
2032-2036	24,250
2037-2041	28,785
2042-2046	25,266
2047-2051	31,821
2052-2056	40,613
2057-2061	51,834
2062-2066	66,154
2067-2071	84,431
2072-2076	107,758
2077-2081	137,530
2082-2083	63,730
	<u>\$ 758,912</u>

(11) Long-Term Obligations

The following is a summary of changes in long-term obligations for the year ended June 30, 2011 (in thousands):

	Balance, July 1, 2010	Additions	Deductions	Balance, June 30, 2011	Due Within One Year	Interest Expense
General Obligation Bonds*	\$ 12,114,504	\$ 7,647	\$ 311,270	\$ 11,810,881	\$ 303,332	\$ 591,872
Certificates of Participation (Note 10)**	459,019	85,783	49,962	494,840	54,694	14,098
Capital Lease Obligations	2,628	1,043	1,312	2,359	967	184
Children Center Facilities Revolving Loan	792	—	—	792	—	—
California Energy Commission Loan	439	—	222	217	217	14
Liability for Employee Benefits	224,884	68,034	90,886	202,032	16,314	—
Self-Insurance Claims (Note 9)	528,345	304,510	329,550	503,305	146,669	—
Other Postemployment Benefits (OPEB)	2,393,811	1,022,031	240,100	3,175,742	—	—
Arbitrage Payable	12,445	—	6,975	5,470	4,660	—
Legal Settlements	15,200	—	15,200	—	—	—
Total	<u>\$ 15,752,067</u>	<u>\$ 1,489,048</u>	<u>\$ 1,045,477</u>	<u>\$ 16,195,638</u>	<u>\$ 526,853</u>	<u>\$ 606,168</u>

* Net of unamortized premiums and discounts.

** Including unamortized premium.

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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
2012	\$ 285,200	\$ 18,132	\$ 577,429	\$ 54,228	\$ 1,418	\$ 17,350	\$ 217	\$ 6	\$ 339,645	\$ 19,550	\$ 594,785
2013	326,910	17,873	562,233	30,120	1,429	16,274	79	—	357,109	19,302	578,507
2014	326,440	19,444	547,324	31,038	1,381	15,055	79	—	357,557	20,825	562,379
2015	335,245	18,980	530,836	38,858	1,342	15,188	79	—	374,182	20,322	546,024
2016	339,365	18,611	514,403	37,911	1,093	13,540	79	—	377,355	19,704	527,943
2017-2021	1,932,725	68,768	2,293,943	153,581	1,471	44,385	397	—	2,086,703	70,239	2,338,328
2022-2026	2,740,825	33,288	1,741,981	56,595	(124)	27,262	79	—	2,797,499	33,164	1,769,243
2027-2031	2,876,500	16,440	1,014,168	65,730	(95)	13,204	0	—	2,942,230	16,345	1,027,372
2032-2035	2,433,040	3,095	236,816	21,264	(41)	1,547	0	—	2,454,304	3,054	238,363
	<u>\$ 11,596,250</u>	<u>\$ 214,631</u>	<u>\$ 8,019,133</u>	<u>\$ 489,325</u>	<u>\$ 7,874</u>	<u>\$ 163,805</u>	<u>\$ 1,009</u>	<u>\$ 6</u>	<u>\$ 12,086,584</u>	<u>\$ 222,505</u>	<u>\$ 8,182,944</u>

The General Obligation Bonds balance of \$11,810.9 million, which includes unamortized bond premiums (net of unamortized discount and refunding charges) of \$214.6 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. Interest is due semi-annually at rates ranging from 4.0% to 6.0%. These bonds mature in 2015. As of June 30, 2011, outstanding obligation was \$77.89 million;
2. 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. Interest is due semi-annually at rates ranging from 3.0% to 5.5%. These bonds mature in 2012. As of June 30, 2011, outstanding obligation was \$30.61 million; and
3. 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. Interest is due semi-annually at rates ranging from 2.0% to 5%. These bonds mature in 2024. As of June 30, 2011, outstanding obligation was \$267.47 million.

(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. Interest is due semi-annually at rates ranging from 1.65% to 5.375%. These bonds mature in 2028. As of June 30, 2011, outstanding obligation was \$388.44 million;

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2. Series “B” bonds, sold in February 2007 at \$500.00 million par value. Interest is due semi-annually at rates ranging from 4.0% to 5.0%. These bonds mature in 2031. As of June 30, 2011, outstanding obligation was \$462.61 million;
3. Series “C” bonds, sold in August 2007 at \$150.00 million par value. Interest is due semi-annually at rates ranging from 3.625% to 5.0%. These bonds mature in 2032. As of June 30, 2011, outstanding obligation was \$138.54 million;
4. Series “D” bonds, sold in February 2009 at \$250.00 million par value. Interest is due semi-annually at rates ranging from 2.5% to 5.25%. These bonds mature in 2034. As of June 30, 2011, outstanding obligation was \$240.89 million;
5. Series “KRY” Federally Taxable, sold in October 2009 at \$200.00 million par value. Interest is due semi-annually at rates ranging from 5.75% to 5.755%. These bonds mature in 2034. No payment was due as of June 30, 2011;
6. Series “KRY” Tax Exempt, sold in March 2010 at \$149.14 million par value. Interest is due semi-annually at rates ranging from 1.5% to 5.25%. These bonds mature in 2034. As of June 30, 2011, outstanding obligation was \$145.25 million; and
7. Series “KY” bonds, sold in May 2010 at \$0.86 million par value. Interest is due semi-annually at 5.0%. These bonds mature in 2015. No payment was due as of June 30, 2011.

(c) Eleven issuances of Measure R bonds:

1. Series “C” bonds, sold in September 2004 at \$50.0 million par value. Interest is due semi-annually at rates ranging from 3.60% to 5.0%. These bonds mature in 2029. As of June 30, 2011, outstanding obligation was \$41.84 million;
2. Series “E” bonds, sold in August 2005 at \$400.0 million par value. Interest is due semi-annually at rates ranging from 3.0% to 5.75%. These bonds mature in 2030. As of June 30, 2011, outstanding obligation was \$329.68 million;
3. Series “F”, sold in February 2006 at \$500.0 million par value. Interest is due semi-annually at rates ranging from 3.5% to 5.0%. These bonds mature in 2030. As of June 30, 2011, outstanding obligation for Series “F” was \$449.88 million;
4. Series “G” bonds, sold in August 2006 at \$400.00 million par value, was refunded in October 2009 for \$6.27 million. Interest is due semi-annually at rates ranging from 4.0% to 5.0%. These bonds mature in 2031. As of June 30, 2011, outstanding obligation for Series “G” was \$344.18 million;
5. Series “H” bonds, sold in August 2007 at \$550.00 million par value. This was refunded in October 2009 for \$15.17 million. Interest is due semi-annually at rates ranging from 3.75% to 5.0%. These bonds mature in 2032. As of June 30, 2011, outstanding obligation was \$490.03 million;

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6. Series “I” bonds, sold in February 2009 at \$550.00 million par value. Interest is due semi-annually at rates ranging from 2.5% to 5.25%. These bonds mature in 2034. As of June 30, 2011, outstanding obligation was \$531.25 million;
 7. 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. Interest is due semi-annually at rates ranging from 3% to 5.755%. These bonds mature in 2034. No payment was due as of June 30, 2011; and
 8. 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. Interest is due semi-annually at rates ranging from 1.5% to 6.758%. These bonds mature in 2034. No payment was due as of June 30, 2011.
- (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. Interest is due semi-annually at rates ranging from 3.125% to 6.0%. These bonds mature in 2030. As of June 30, 2011, outstanding obligations for Series “A”, Series “B”, Series “C”, and Series “D” were \$31.15 million, \$43.81 million, \$186.23 million, and \$28.91 million, respectively;
 2. Series “E”, sold in August 2007 for \$300.00 million par value. Interest is due semi-annually at rates ranging from 4.0% to 5.0%. These bonds mature in 2032. As of June 30, 2011, outstanding obligation was \$278.34 million after payment of \$6.93 million on July 1, 2010;
 3. Series “F”, sold in February 2009 at \$150.00 million par value. Interest is due semi-annually at rates ranging from 2.5% to 5.25%. These bonds mature in 2034. As of June 30, 2011, outstanding obligation was \$144.76 million;
 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. Interest is due quarterly for Series H and semi-annually for the rest at rates ranging from 1.54% to 5.755%. These bonds mature in 2034. No payment was due as of June 30, 2011;
 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. Interest is due semi-annually at rates ranging from 1.5% to 6.758%. These bonds mature in 2034. No payment was due as of June 30, 2011 except for

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Series “KRY” Measure Y Tax Exempt of which \$41.82 payment was made on July 1, 2010 bringing its outstanding balance to \$130.45 million; and

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. Interest is due semi-annually at rates ranging from 1.1% to 5.981%. These bonds mature in 2027. No payment was due as of June 30, 2011.

(e) General obligation refunding bonds:

In fiscal year 2010-11, there was no new General Obligation Bond Refundings done. However, the following are the prior year refunding and the outstanding balances:

1. 2002 General Obligation Refunding issued on April 17, 2002 for \$258.38 million. Interest is due semi-annually at rates ranging from 3.0% to 5.75%. These bonds mature in 2017. As of June 30, 2011, outstanding balance was \$244.12 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. Interest is due semi-annually at rates ranging from 3% to 5.0%. These bonds mature in 2022. As of June 30, 2011, outstanding obligation was \$217.59 million. 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, 2011. Interest is due semi-annually at rates ranging from 3.5% to 5.5%. These bonds mature in 2025. 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. Interest is due semi-annually at rates ranging from 3.5% to 5.0%. These bonds mature in 2027. As of June 30, 2011, outstanding obligation was \$559.59 million. 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. Interest is due semi-annually at rates ranging from 4.0% to 5.0%. These bonds mature in 2028. As of June 30, 2011, outstanding obligation was \$1.27 billion. 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;

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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. Interest is due semi-annually at rates ranging from 4.0% to 5.0%. These bonds mature in 2019. As of June 30, 2011, 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 Refunding Bonds Series "A" sold in October 2009 for \$74.77 million par value. Interest is due semi-annually at rates ranging from 2.0% to 5.0%. These bonds mature in 2019. As of June 30, 2011, the outstanding obligation was \$59.93 million. 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; and
8. 2010 Refunding Bonds Series "A" sold in March 2010 for \$74.99 million par value. Interest is due semi-annually at rates ranging from 2.0% to 5.0%. These bonds mature in 2015. As of June 30, 2011, outstanding obligation was \$74.08 million. 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 refunding bonds in an irrevocable escrow fund to provide for all future debt service payments on the refunded and defeased 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, 2011, \$2.604 billion of outstanding general obligation bonds 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.

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Debt Liquidation

Payments on the General Obligation Bonds and Certificates of Participation are made by the debt service funds. The employee benefits liability for retirement bonus and early retirement incentive are all paid out of the General Fund, while the compensated absences portion will be liquidated from different governmental funds. In the past, approximately 81% has been paid by the General Fund, 6% by the Child Development Fund, 6% by the Cafeteria Fund, 5% by the District Bonds Fund, and 2% by the Adult Education Fund.

The self-insurance claims and other postemployment benefits will generally be liquidated through the internal service funds which will finance the payment of those claims and benefits by charging user funds. The General Fund assumes 100% of liability self-insurance claims. For workers' compensation and health benefit claims, including retiree health benefits, the General Fund currently bears approximately 88% of the cost, while the Cafeteria Fund carries 5%; no other individual fund is charged more than 5% of the total amount.

(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, 2011 (in thousands) are as follows:

<u>Fund Group</u>	<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General:	Unrestricted	\$ 30,000	\$ —
	Total General	30,000	—
Special Revenue:	Cafeteria	—	12,000
	Child development	—	18,000
	Total Special Revenue	—	30,000
	Total Interfund Receivables/Payables	<u>\$ 30,000</u>	<u>\$ 30,000</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, 2011 were as follows (in thousands):

From	To	Purpose	
General	Cafeteria	Cafeteria repayment per MOU dated March 18, 2011	\$ 32,000
General	Cafeteria	Reimbursement of expenditures	61
General	Child Development	Child Development support	7,996
General	Capital Services	Debt service	23,849
General	Special Reserve	Debt service	903
General	Health & Welfare	Medicare Part D subsidy	10,956
Cafeteria	Capital Services	Debt service	786
Deferred Maintenance	General	Tier III flexibility transfer	18,501
SSBldg Lease/Purchase	Building – Bond Proceeds	Reimbursement of capital expenditures	62
Special Reserve	General	Funding for new financial system	49,704
Special Reserve	General	Funding for reduction in force project	2,100
Special Reserve	General	Funding for capital expenditures	357
Special Reserve	Capital Services	Debt service	8,579
Special Reserve	Building – Measure K	Reimbursement of capital expenditures	364
Special Reserve	Building – Measure R	Reimbursement of capital expenditures	3
Special Reserve	Building – Measure Y	Reimbursement of capital expenditures	11
Special Reserve	County School Facilities (CSF) – Prop 55	Reimbursement of capital expenditures	5,427
Special Reserve – Community Redevelopment Agency (CRA)	General	Reimbursement of major maintenance expenditures	4,002
Capital Facilities	Capital Services	Debt service	10,695
Capital Facilities	Building – Measure Y	Reimbursement of capital expenditures	109
Building – Bond Proceeds	SSBldg Lease/Purchase	Reimbursement of capital expenditures	881
Building – Bond Proceeds	Building – Measure K	Reimbursement of capital expenditures	4,488
Building – Bond Proceeds	Building – Measure R	Reimbursement of capital expenditures	12,329
Building – Bond Proceeds	Building – Measure Y	Reimbursement of capital expenditures	4
Building – Bond Proceeds	County School Facilities	Reimbursement of capital expenditures	124
Building – Bond Proceeds	CSF – Prop 47	Reimbursement of capital expenditures	3,036
Building – Bond Proceeds	CSF – Prop 55	Reimbursement of capital expenditures	4,175
Building – Measure K	Building – Measure R	Reimbursement of capital expenditures	1,349
Building – Measure K	Building – Measure Y	Reimbursement of capital expenditures	375
Building – Measure K	CSF – Prop 55	Reimbursement of capital expenditures	3,405
Building – Measure R	SSBldg Lease/Purchase	Reimbursement of capital expenditures	177
Building – Measure R	Special Reserve	Reimbursement of capital expenditures	116
Building – Measure R	Building – Bond Proceeds	Reimbursement of capital expenditures	119
Building – Measure R	Building – Measure K	Reimbursement of capital expenditures	1,591
Building – Measure R	Building – Measure Y	Reimbursement of capital expenditures	1,862
Building – Measure R	County School Facilities	Reimbursement of capital expenditures	417
Building – Measure R	CSF – Prop 47	Reimbursement of capital expenditures	533
Building – Measure R	CSF – Prop 55	Reimbursement of capital expenditures	4,840
Building – Measure R	CSF – Prop 1D	Reimbursement of capital expenditures	44

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Year Ended June 30, 2011

Transfers between funds for the year ended June 30, 2011 (continued) (in thousands):

<u>From</u>	<u>To</u>	<u>Purpose</u>	
Building – Measure Y	General	Reimbursement of capital expenditures	\$ 13,474
Building – Measure Y	Cafeteria	Reimbursement of capital expenditures	867
Building – Measure Y	Capital Services	Debt service	2,446
Building – Measure Y	Building – Bond Proceeds	Reimbursement of capital expenditures	114
Building – Measure Y	Building – Measure K	Reimbursement of capital expenditures	23
Building – Measure Y	Building – Measure R	Reimbursement of capital expenditures	18,729
Building – Measure Y	County School Facilities	Reimbursement of capital expenditures	669
Building – Measure Y	CSF – Prop 47	Reimbursement of capital expenditures	73
Building – Measure Y	CSF – Prop 1D	Reimbursement of capital expenditures	857
County School Facilities	Deferred Maintenance	Reimbursement of capital expenditures	349
County School Facilities	Building – Bond Proceeds	Reimbursement of capital expenditures	5,972
County School Facilities	Building – Measure R	Reimbursement of capital expenditures	2,919
County School Facilities	Building – Measure Y	Reimbursement of capital expenditures	52
CSF – Prop 47	Building – Bond Proceeds	Reimbursement of capital expenditures	2,873
CSF – Prop 47	Building – Measure K	Reimbursement of capital expenditures	1
CSF – Prop 47	Building – Measure R	Reimbursement of capital expenditures	76
CSF – Prop 47	Building – Measure Y	Reimbursement of capital expenditures	404
CSF – Prop 47	CSF – Prop 55	Reimbursement of capital expenditures	87
CSF – Prop 55	SSBldg Lease/Purchase	Reimbursement of capital expenditures	135
CSF – Prop 55	Building – Bond Proceeds	Reimbursement of capital expenditures	5,844
CSF – Prop 55	Building – Measure K	Reimbursement of capital expenditures	27,986
CSF – Prop 55	Building – Measure R	Reimbursement of capital expenditures	54,810
CSF – Prop 55	Building – Measure Y	Reimbursement of capital expenditures	234,223
CSF – Prop 55	CSF – Prop 47	Reimbursement of capital expenditures	45
CSF – Prop 1D	Capital Facilities	Reimbursement of capital expenditures	220
CSF – Prop 1D	Building – Bond Proceeds	Reimbursement of capital expenditures	1,638
CSF – Prop 1D	Building – Measure K	Reimbursement of capital expenditures	1,800
CSF – Prop 1D	Building – Measure R	Reimbursement of capital expenditures	15,963
CSF – Prop 1D	Building – Measure Y	Reimbursement of capital expenditures	3,001
CSF – Prop 1D	County School Facilities	Reimbursement of capital expenditures	1,943
CSF – Prop 1D	CSF – Prop 55	Reimbursement of capital expenditures	1,279
Sub-total			615,202
Adult Education	General	Transfer of support costs	2,897
Cafeteria	General	Transfer of support costs	5,995
Child Development	General	Transfer of support costs	342
Total			<u>\$ 624,436</u>

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2011

(13) Fund Equity

The following is a summary of fund balances at June 30, 2011 (in thousands):

	General Fund	District Bonds	County School Facilities Bonds	Bond Interest and Redemption	Other Governmental Funds
Nonspendable:					
Revolving cash and imprest funds	\$ 2,893	\$ 3,800	\$ —	\$ —	\$ 115
Inventories	7,524	—	—	—	4,935
Total Nonspendable Balances	10,417	3,800	—	—	5,050
Restricted for:					
Child Nutrition: School Programs	—	—	—	—	3,843
Medi-Cal Billing Options	22,068	—	—	—	—
FEMA Public Assistance Funds	91	—	—	—	240
Cops More Program	35	—	—	—	—
School Mental Health Medi-Cal Rehabilitation	2,365	—	—	—	28,670
Class Size Reduction Facilities Funds	—	—	—	—	—
Teacher Recruitment and Retention	4,870	—	—	—	—
English Language Acquisition Program, Teacher Training & Student Assistance	4,178	—	—	—	—
ROC/P: Training & Certification for Community Care	48	—	—	—	—
Special Education	13,994	—	—	—	—
Special Ed: Early Ed Individuals with Exceptional Needs (Infant Program)	208	—	—	—	—
Economic Impact Aid (EIA)	1,442	—	—	—	—
Economic Impact Aid: Limited English Proficiency (LEP)	60,119	—	—	—	—
Quality Education Investment Act (QEIA)	87,622	—	—	—	—
State School Facilities Projects	—	—	712,540	—	3,869
California Energy Commission Loan Expenditures	397	—	—	—	—
CDE Grant Olive Vista Middle School	—	—	—	—	45
Ongoing & Major Maintenance Account	3,640	—	—	—	—
Capital Projects	—	—	—	—	99,625
Certificates of Participation (Acquisition Accounts) Proceeds	64,635	—	—	—	—
Clean Cities Grant	250	—	—	—	—
Cognitive Behavioral Intervention Therapy	456	—	—	—	—
Debt Service Reserve	—	—	—	724,608	82,138
District Bonds	—	2,816,528	—	—	—
Total Restricted Balances	266,418	2,816,528	712,540	724,608	218,430
Committed to:					
Adult Education	—	—	—	—	11,391
Assigned to:					
Subsequent year expenditures	147,035	—	—	—	29,782
Unassigned					
Reserved for economic uncertainties	65,376	—	—	—	—
Unassigned	414,285	—	—	—	—
Total Fund Balances	\$ 903,531	\$ 2,820,328	\$ 712,540	\$ 724,608	\$ 264,653

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2011

Nonspendable fund balances represent amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted fund balances represent amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed fund balances represent amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitment of funds can be made through the adoption of the budget as long as the intent to commit the funds is specifically stated. These committed amounts cannot be used for any other purpose unless the governing board removes or changes the specific use through formal action. Governing board action to commit fund balance needs to occur within the fiscal reporting period, no later than June 30. The amount which will be committed can be determined subsequently but prior to the release of the District's financial statements.

Assigned fund balances represent amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The District's adopted policy delegates the authority to assign amounts for specific purposes to the Superintendent, or designee.

Unassigned fund balances represent all other spendable amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which amounts in any of the unrestricted classifications of fund balance could be used, the District considers committed amounts to be reduced first, followed by assigned amounts, and then unassigned amounts.

Minimum Fund Balance Policy

Effective beginning 2010-11, the governing board adopted a minimum fund balance policy for the General Fund in order to avoid the need for service level reductions in the event that an economic downturn causes revenues to be substantially lower than budgeted. The policy requires the District to maintain an economic uncertainty reserve consisting of unassigned amounts equal to at least 1% of total General Fund operating expenditures. In the event that the District must expend all or part of this reserve, the District will identify and implement a budgetary plan to replenish this reserve the following year. This reserve may be increased based on legal requirement.

(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

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2011

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 2010-11 the District entered into approximately 105 contracts with a combined value of \$303.0 million. The durations of the contracts range from four weeks to three years.

(15) Subsequent Events

On July 1, 2011 the District issued \$550 million of Tax and Revenue Anticipation Notes. The District will make the required deposits of \$275.0 million on January 31, 2012 and \$286.9 million on March 31, 2012 in anticipation of repayment of TRANS on June 30, 2012. The TRANS carried a coupon of 2.00% and had an All-In True Interest Cost of 0.32%.

On November 1, 2011, the District issued \$407,805,000 in General Obligation Refunding Bonds to refund a portion of Proposition BB Series F and Measure K 2003 Series A Bonds. The refunding resulted in \$31.8 million in present value savings or 7.5% of the refunded bonds.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Required Supplementary Information
Year Ended June 30, 2011
(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		
06/30/08	\$ 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
06/30/10	249,236	201,794	158,890	47,442	81.0	63.8	23,550	201.5

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	—	10,339,628	10,339,628	0	4,628,914	223

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.

LOS ANGELES UNIFIED SCHOOL DISTRICT
District Bonds Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2011
(in thousands)

	Budget		Actual	Variance with Final Budget – Favorable (Unfavorable)
	Original	Final		
Revenues:				
Other local revenues	\$ 39,750	\$ 39,750	\$ 78,628	\$ 38,878
Total Revenues	39,750	39,750	78,628	38,878
Expenditures:				
Current:				
Classified salaries	64,761	71,714	41,593	30,121
Employee benefits	24,085	27,399	19,040	8,359
Books and supplies	1,794	72,357	3,642	68,715
Services and other operating expenditures	3,159	122,184	107,615	14,569
Capital outlay	1,340,634	1,919,830	868,442	1,051,388
Total Expenditures	1,434,433	2,213,484	1,040,332	1,173,152
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,394,683)	(2,173,734)	(961,704)	1,212,030
Other Financing Sources (Uses):				
Transfers in	—	399,094	399,094	—
Transfers out	(10,148)	(97,684)	(77,117)	20,567
Payment to refunded COPs escrow agent	—	(32,548)	(32,548)	—
Total Other Financing Sources (Uses)	(10,148)	268,862	289,429	20,567
Net Changes in Fund Balances	(1,404,831)	(1,904,872)	(672,275)	1,232,597
Fund Balances, July 1, 2010	3,519,331	3,492,603	3,492,603	—
Fund Balances, June 30, 2011	\$ 2,114,500	\$ 1,587,731	\$ 2,820,328	\$ 1,232,597

See accompanying independent auditor's report.

Los Angeles Unified School District
County School Facilities Bonds Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2011
(in thousands)

	Budget		Actual	Variance with Final Budget – Favorable (Unfavorable)
	Original	Final		
Revenues:				
Other state revenues	\$ 490,251	\$ 662,101	\$ 768,583	\$ 106,482
Other local revenues	6,170	6,170	10,270	4,100
Total Revenues	<u>496,421</u>	<u>668,271</u>	<u>778,853</u>	<u>110,582</u>
Expenditures:				
Current:				
Classified salaries	—	164	132	32
Employee benefits	—	65	52	13
Books and supplies	—	3,600	141	3,459
Services and other operating expenditures	—	170	62	108
Capital outlay	699,266	481,429	232,875	248,554
Total Expenditures	<u>699,266</u>	<u>485,428</u>	<u>233,262</u>	<u>252,166</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(202,845)</u>	<u>182,843</u>	<u>545,591</u>	<u>362,748</u>
Other Financing Sources (Uses):				
Transfers in	—	26,954	26,954	—
Transfers out	—	(361,620)	(361,620)	—
Total Other Financing Sources (Uses)	<u>—</u>	<u>(334,666)</u>	<u>(334,666)</u>	<u>—</u>
Net Changes in Fund Balances	<u>(202,845)</u>	<u>(151,823)</u>	<u>210,925</u>	<u>362,748</u>
Fund Balances, July 1, 2010	<u>658,845</u>	<u>501,615</u>	<u>501,615</u>	<u>—</u>
Fund Balances, June 30, 2011	<u>\$ 456,000</u>	<u>\$ 349,792</u>	<u>\$ 712,540</u>	<u>\$ 362,748</u>

LOS ANGELES UNIFIED SCHOOL DISTRICT
Bond Interest and Redemption Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2011
(in thousands)

	Budget		Actual	Variance with Final Budget – Favorable (Unfavorable)
	Original	Final		
Revenues:				
Federal revenues	\$ —	\$ —	\$ 76,289	\$ 76,289
Other state revenues	6,337	—	5,885	5,885
Other local revenues	974,050	795,375	857,477	62,102
Total Revenues	980,387	795,375	939,651	144,276
Expenditures:				
Debt service – principal	1,148,045	620,185	278,180	342,005
Debt service – bond and COPs interest	—	806,000	567,673	238,327
Total Expenditures	1,148,045	1,426,185	845,853	580,332
Excess (Deficiency) of Revenues Over (Under) Expenditures	(167,658)	(630,810)	93,798	724,608
Other Financing Sources:				
Transfers in	—	—	—	—
Total Other Financing Sources	—	—	—	—
Net Changes in Fund Balances	(167,658)	(630,810)	93,798	724,608
Fund Balances, July 1, 2010	550,258	630,810	630,810	—
Fund Balances, June 30, 2011	<u>\$ 382,600</u>	<u>\$ —</u>	<u>\$ 724,608</u>	<u>\$ 724,608</u>

See accompanying independent auditor's report.



LOS ANGELES UNIFIED SCHOOL DISTRICT

Nonmajor Governmental Funds

Special Revenue Funds

The Adult Education Fund is used to account for resources committed to the operation of Community Adult Schools including educational programs funded by other government agencies. This Fund was established as authorized by State Education Code Section 42238. Revenues are primarily derived from State apportionments, federal subventions, investment income, and adult education fees.

The Cafeteria Fund is used to account for resources designated for the operation of the District's food services programs. Revenues are primarily derived from federal and state subsidies, food sales, and investment income. Since the primary source of revenues is from federal and state subsidies rather than food sales, this fund is classified as a Special Revenue Fund rather than as an Enterprise Fund.

The Child Development Fund is used to account for resources committed to the operation of the District's child development programs. Revenues are primarily derived from federal and state grants and apportionments, early education center fees, and investment income.

The Deferred Maintenance Fund was used to account for resources designated for the major repair or replacement of District property under the plan approved by the State Allocation Board. Revenues were derived from State apportionments, District matching funds, and investment income. However, with the District exercising the State's flexibility provisions, no revenue source restricted or committed to the purposes of the fund is expected to continue. As a result, the fund was closed out at the end of the fiscal year and all remaining balance was transferred to the General Fund.

Debt Service Funds

The Tax Override Fund is used to account for the accumulation of resources from ad valorem tax levies for the repayment of State School Building Aid Fund apportionments. The loan was paid in full in May 2010.

The Capital Services Fund is used to account for the accumulation of resources for the repayment of principal and interest on Certificates of Participation and long-term capital lease agreements. Revenues are derived primarily from operating transfers from user funds and investment income.

Capital Projects Funds

The Building Fund is used to account for revenue from rentals and leases of real property and other resources designated for facility expansion.

The State School Building Lease - Purchase Fund is used to account for State apportionments received in accordance with State Education Code Sections 17700-17780. Projects are funded by the State subject to appropriation of funds in the State Budget. The District may be required to transfer to this fund any available moneys from other funds as the District's contribution to a particular project.

The Special Reserve Fund is used to account for District resources designated for capital outlay purposes such as land purchases, ground improvements, facilities construction and improvements, new acquisitions, and related expenditures.

The Special Reserve Fund – FEMA-Earthquake is used to account for funds received from the Federal Emergency Management Agency (FEMA) for capital outlay projects resulting from the January 17, 1994 Northridge Earthquake.

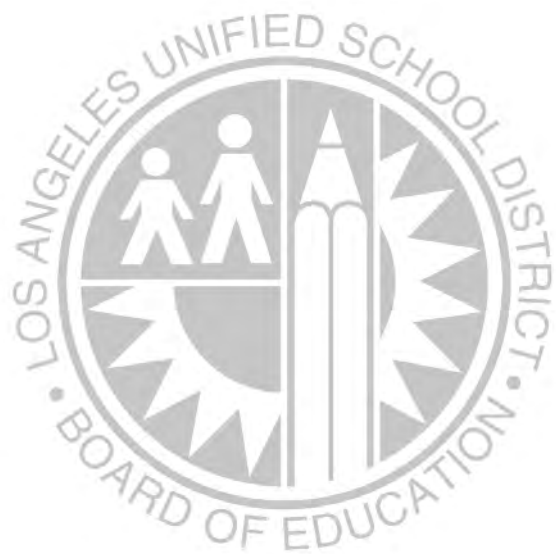
LOS ANGELES UNIFIED SCHOOL DISTRICT

Nonmajor Governmental Funds

The Special Reserve Fund – FEMA-Hazard Mitigation was established on April 15, 1996 to account for funds received from FEMA and for the 25% District-matching funds for the retrofit/replacement of pendant lighting and suspended ceilings in selected buildings at schools, offices, and children's centers.

The Special Reserve Fund – Community Redevelopment Agency is used to account for reimbursements of tax increment revenues from certain community redevelopment agencies based on agreements between the District and the agencies. These reimbursements are to be used for capital projects within the respective redevelopment areas covered in the agreements.

The Capital Facilities Account Fund was established on January 1, 1987 in accordance with Section 53080 of the California Government Code and is used to account for resources received from fees levied upon new residential, commercial, or industrial development projects within the District's boundaries in order to obtain funds for the construction or acquisition of school facilities to relieve overcrowding.



LOS ANGELES UNIFIED SCHOOL DISTRICT
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2011
(in thousands)

	Special Revenue				
	Adult Education	Cafeteria	Child Development	Deferred Maintenance	Total
Assets:					
Cash in county treasury, in banks, and on hand	\$ 9,068	\$ 141	\$ 6,609	\$ —	\$ 15,818
Cash held by trustee	—	—	—	—	—
Investments	—	—	—	—	—
Accounts receivable – net	7,144	22,967	14,402	—	44,513
Accrued interest receivable	155	5	—	—	160
Inventories	—	4,935	—	—	4,935
Total Assets	<u>\$ 16,367</u>	<u>\$ 28,048</u>	<u>\$ 21,011</u>	<u>\$ —</u>	<u>\$ 65,426</u>
Liabilities and Fund Balances:					
Vouchers and accounts payable	\$ 4,783	\$ 6,713	\$ 1,337	\$ —	\$ 12,833
Contracts payable	1	—	—	—	1
Other payables	1	459	1,342	—	1,802
Due to other funds	—	12,000	18,000	—	30,000
Deferred revenue	96	98	261	—	455
Total Liabilities	<u>4,881</u>	<u>19,270</u>	<u>20,940</u>	<u>—</u>	<u>45,091</u>
Fund Balances:					
Nonspendable	95	4,935	20	—	5,050
Restricted	—	3,843	—	—	3,843
Committed	11,391	—	—	—	11,391
Assigned	—	—	51	—	51
Total Fund Balances	<u>11,486</u>	<u>8,778</u>	<u>71</u>	<u>—</u>	<u>20,335</u>
Total Liabilities and Fund Balances	<u>\$ 16,367</u>	<u>\$ 28,048</u>	<u>\$ 21,011</u>	<u>\$ —</u>	<u>\$ 65,426</u>

See accompanying independent auditors' report.

Debt Service

Tax Override	Capital Services	Total
\$ 293	\$ 15,039	\$ 15,332
—	43,309	43,309
—	22,835	22,835
—	960	960
1	43	44
—	—	—
\$ 294	\$ 82,186	\$ 82,480
\$ —	\$ 334	\$ 334
—	—	—
—	8	8
—	—	—
—	—	—
—	342	342
—	—	—
294	81,844	82,138
—	—	—
—	—	—
294	81,844	82,138
\$ 294	\$ 82,186	\$ 82,480

(Continued)

LOS ANGELES UNIFIED SCHOOL DISTRICT
Nonmajor Governmental Funds
Combining Balance Sheet (Continued)
June 30, 2011
(in thousands)

	Capital Projects				
	Building	State School Building Lease – Purchase	Special Reserve	Special Reserve – FEMA – Earthquake	Special Reserve – FEMA- Hazard Mitigation
Assets:					
Cash in county treasury, in banks, and on hand	\$ 2,355	\$ 15,759	\$ 97,630	\$ 240	\$ 2,034
Cash held by trustee	—	—	28,854	—	—
Investments	—	—	—	—	—
Accounts receivable – net	—	—	—	—	—
Accrued interest receivable	7	48	277	—	9
Inventories	—	—	—	—	—
Total Assets	<u>\$ 2,362</u>	<u>\$ 15,807</u>	<u>\$ 126,761</u>	<u>\$ 240</u>	<u>\$ 2,043</u>
Liabilities and Fund Balances:					
Vouchers and accounts payable	\$ 72	\$ 136	\$ 520	\$ —	\$ —
Contracts payable	356	174	39	—	—
Other payables	171	11,203	5,135	—	—
Due to other funds	—	—	—	—	—
Deferred revenue	—	—	3,400	—	—
Total Liabilities	<u>599</u>	<u>11,513</u>	<u>9,094</u>	<u>—</u>	<u>—</u>
Fund Balances:					
Nonspendable	—	—	—	—	—
Restricted	—	3,869	117,667	240	—
Committed	—	—	—	—	—
Assigned	1,763	425	—	—	2,043
Total Fund Balances	<u>1,763</u>	<u>4,294</u>	<u>117,667</u>	<u>240</u>	<u>2,043</u>
Total Liabilities and Fund Balances	<u>\$ 2,362</u>	<u>\$ 15,807</u>	<u>\$ 126,761</u>	<u>\$ 240</u>	<u>\$ 2,043</u>

See accompanying independent auditors' report.

Special Reserve – Community Redevelopment Agency	Capital Facilities Account	Total	Total Nonmajor Governmental Funds
\$ 10,630	\$ 18,298	\$ 146,946	\$ 178,096
—	—	28,854	72,163
—	—	—	22,835
—	7,702	7,702	53,175
43	—	384	588
—	—	—	4,935
<u>\$ 10,673</u>	<u>\$ 26,000</u>	<u>\$ 183,886</u>	<u>\$ 331,792</u>
\$ —	\$ 345	\$ 1,073	\$ 14,240
—	23	592	593
—	132	16,641	18,451
—	—	—	30,000
—	—	3,400	3,855
<u>—</u>	<u>500</u>	<u>21,706</u>	<u>67,139</u>
—	—	—	5,050
10,673	—	132,449	218,430
—	—	—	11,391
—	25,500	29,731	29,782
<u>10,673</u>	<u>25,500</u>	<u>162,180</u>	<u>264,653</u>
<u>\$ 10,673</u>	<u>\$ 26,000</u>	<u>\$ 183,886</u>	<u>\$ 331,792</u>

LOS ANGELES UNIFIED SCHOOL DISTRICT
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2011
(in thousands)

	Special		
	Adult Education	Cafeteria	Child Development
Revenues:			
Federal revenues	\$ 19,888	\$ 237,099	\$ 64,139
Other state revenues	75,546	19,341	59,981
Other local revenues	2,372	9,504	12,997
Total Revenues	<u>97,806</u>	<u>265,944</u>	<u>137,117</u>
Expenditures:			
Current:			
Certificated salaries	82,696	—	49,762
Classified salaries	21,869	87,904	44,844
Employee benefits	37,431	69,758	40,841
Books and supplies	11,300	126,122	3,531
Services and other operating expenditures	6,277	3,816	5,507
Capital outlay	775	908	273
Debt service – principal	—	—	—
Debt service – bond and COPs interest	—	—	—
Total Expenditures	<u>160,348</u>	<u>288,508</u>	<u>144,758</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(62,542)</u>	<u>(22,564)</u>	<u>(7,641)</u>
Other Financing Sources (Uses):			
Transfers in	—	32,928	7,996
Transfers – support costs	(2,897)	(5,995)	(342)
Transfers out	—	(786)	—
Issuance of COPs	—	—	—
Premium on COPs issued	—	—	—
Discount on issuance of COPs	—	—	—
Land and building sale	—	—	—
Total Other Financing Sources (Uses)	<u>(2,897)</u>	<u>26,147</u>	<u>7,654</u>
Net Changes in Fund Balances	<u>(65,439)</u>	<u>3,583</u>	<u>13</u>
Fund Balances, July 1, 2010	<u>76,925</u>	<u>5,195</u>	<u>58</u>
Fund Balances, June 30, 2011	<u>\$ 11,486</u>	<u>\$ 8,778</u>	<u>\$ 71</u>

See accompanying independent auditor's report.

Revenue		Debt Service		
Deferred Maintenance	Total	Tax Override	Capital Services	Total
\$ —	\$ 321,126	\$ —	\$ —	\$ —
—	154,868	14	—	14
438	25,311	5	1,202	1,207
438	501,305	19	1,202	1,221
—	132,458	—	—	—
5,215	159,832	—	—	—
2,418	150,448	—	—	—
1,702	142,655	—	—	—
15,914	31,514	—	—	—
2,676	4,632	—	—	—
—	—	—	23,608	23,608
—	—	—	14,473	14,473
27,925	621,539	—	38,081	38,081
(27,487)	(120,234)	19	(36,879)	(36,860)
349	41,273	—	46,355	46,355
—	(9,234)	—	—	—
(18,501)	(19,287)	—	—	—
—	—	—	—	—
—	—	—	—	—
—	—	—	—	—
(18,152)	12,752	—	46,355	46,355
(45,639)	(107,482)	19	9,476	9,495
45,639	127,817	275	72,368	72,643
\$ —	\$ 20,335	\$ 294	\$ 81,844	\$ 82,138

(Continued)

LOS ANGELES UNIFIED SCHOOL DISTRICT
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Continued)
Year Ended June 30, 2011
(in thousands)

	Capital			
	Building	State School Building Lease – Purchase	Special Reserve	Special Reserve – FEMA – Earthquake
Revenues:				
Federal revenues	\$ —	\$ —	\$ —	\$ —
Other state revenues	—	—	5,199	—
Other local revenues	292	308	11,293	—
Total Revenues	<u>292</u>	<u>308</u>	<u>16,492</u>	<u>—</u>
Expenditures:				
Current:				
Certificated salaries	—	—	—	—
Classified salaries	1	—	432	—
Employee benefits	1	—	167	—
Books and supplies	—	—	230	—
Services and other operating expenditures	—	—	2,922	8
Capital outlay	522	116	15,772	—
Debt service – principal	—	—	—	—
Debt service – bond and COPs interest	—	—	—	—
Total Expenditures	<u>524</u>	<u>116</u>	<u>19,523</u>	<u>8</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(232)</u>	<u>192</u>	<u>(3,031)</u>	<u>(8)</u>
Other Financing Sources (Uses):				
Transfers in	—	1,193	1,019	—
Transfers – support costs	—	—	—	—
Transfers out	—	(62)	(66,545)	—
Issuance of COPs	—	—	83,345	—
Premium on COPs issued	—	—	3,034	—
Discount on issuance of COPs	—	—	(596)	—
Land and building sale	—	—	52	—
Total Other Financing Sources (Uses)	<u>—</u>	<u>1,131</u>	<u>20,309</u>	<u>—</u>
Net Changes in Fund Balances	<u>(232)</u>	<u>1,323</u>	<u>17,278</u>	<u>(8)</u>
Fund Balances, July 1, 2010	<u>1,995</u>	<u>2,971</u>	<u>100,389</u>	<u>248</u>
Fund Balances, June 30, 2011	<u>\$ 1,763</u>	<u>\$ 4,294</u>	<u>\$ 117,667</u>	<u>\$ 240</u>

See accompanying independent auditor's report.

Projects

Special Reserve – FEMA – Hazard Mitigation	Special Reserve – Community Redevelopment Agency	Capital Facilities Account	Total	Total Nonmajor Governmental Funds
\$ —	\$ —	\$ —	\$ —	\$ 321,126
—	—	—	5,199	160,081
—	5,469	34,248	51,610	78,128
—	5,469	34,248	56,809	559,335
—	—	—	—	132,458
—	—	256	689	160,521
—	—	119	287	150,735
—	—	8	238	142,893
—	105	463	3,498	35,012
—	998	46,312	63,720	68,352
—	—	—	—	23,608
—	—	—	—	14,473
—	1,103	47,158	68,432	728,052
—	4,366	(12,910)	(11,623)	(168,717)
—	—	220	2,432	90,060
—	—	—	—	(9,234)
—	(4,002)	(10,804)	(81,413)	(100,700)
—	—	—	83,345	83,345
—	—	—	3,034	3,034
—	—	—	(596)	(596)
—	—	—	52	52
—	(4,002)	(10,584)	6,854	65,961
—	364	(23,494)	(4,769)	(102,756)
2,043	10,309	48,994	166,949	367,409
<u>\$ 2,043</u>	<u>\$ 10,673</u>	<u>\$ 25,500</u>	<u>\$ 162,180</u>	<u>\$ 264,653</u>

LOS ANGELES UNIFIED SCHOOL DISTRICT
Special Revenue Funds
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2011
(in thousands)

	Adult Education			Variance with Final Budget – Favorable (Unfavorable)
	Budget			
	Original	Final	Actual	
Revenues:				
Federal revenues	\$ 21,558	\$ 20,850	\$ 19,888	\$ (962)
Other state revenues	8,770	6,191	75,546	69,355
Other local revenues	1,791	1,904	2,372	468
Total Revenues	32,119	28,945	97,806	68,861
Expenditures:				
Current:				
Certificated salaries	95,799	95,481	82,696	12,785
Classified salaries	22,917	23,850	21,869	1,981
Employee benefits	38,181	42,514	37,431	5,083
Books and supplies	26,756	21,674	11,300	10,374
Services and other operating expenditures	4,772	8,018	6,277	1,741
Capital outlay	13,617	2,492	775	1,717
Total Expenditures	202,042	194,029	160,348	33,681
Excess (Deficiency) of Revenues Over (Under) Expenditures	(169,923)	(165,084)	(62,542)	102,542
Other Financing Sources (Uses):				
Transfers in	135,690	95,774	—	(95,774)
Transfers – support costs	(2,235)	(3,522)	(2,897)	625
Transfers out	—	—	—	—
Total Other Financing Sources (Uses)	133,455	92,252	(2,897)	(95,149)
Net Changes in Fund Balances	(36,468)	(72,832)	(65,439)	7,393
Fund Balances, July 1, 2010	49,661	76,925	76,925	—
Fund Balances, June 30, 2011	\$ 13,193	\$ 4,093	\$ 11,486	\$ 7,393

See accompanying independent auditor's report.

Cafeteria				Child Development			
Budget		Actual	Variance with Final Budget – Favorable (Unfavorable)	Budget		Actual	Variance with Final Budget – Favorable (Unfavorable)
Original	Final			Original	Final		
\$ 259,488	\$ 248,280	\$ 237,099	\$ (11,181)	\$ 35,973	\$ 40,694	\$ 64,139	\$ 23,445
17,711	17,711	19,341	1,630	100,149	85,268	59,981	(25,287)
14,466	12,792	9,504	(3,288)	24,490	15,759	12,997	(2,762)
291,665	278,783	265,944	(12,839)	160,612	141,721	137,117	(4,604)
—	—	—	—	44,681	50,679	49,762	917
89,467	94,143	87,904	6,239	42,520	45,566	44,844	722
80,909	73,543	69,758	3,785	45,920	41,779	40,841	938
122,237	130,929	126,122	4,807	21,651	5,080	3,531	1,549
9,178	4,938	3,816	1,122	5,239	5,776	5,507	269
34	5,039	908	4,131	744	533	273	260
301,825	308,592	288,508	20,084	160,755	149,413	144,758	4,655
(10,160)	(29,809)	(22,564)	7,245	(143)	(7,692)	(7,641)	51
17,418	36,803	32,928	(3,875)	2,806	8,172	7,996	(176)
(6,471)	(6,207)	(5,995)	212	(2,722)	(516)	(342)	174
(787)	(787)	(786)	1	—	—	—	—
10,160	29,809	26,147	(3,662)	84	7,656	7,654	(2)
—	—	3,583	3,583	(59)	(36)	13	49
5,000	5,195	5,195	—	157	58	58	—
\$ 5,000	\$ 5,195	\$ 8,778	\$ 3,583	\$ 98	\$ 22	\$ 71	\$ 49

(Continued)

LOS ANGELES UNIFIED SCHOOL DISTRICT
Special Revenue Funds
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Continued)
Year Ended June 30, 2011
(in thousands)

	Deferred Maintenance			Variance with Final Budget – Favorable (Unfavorable)
	Budget		Actual	
	Original	Final		
Revenues:				
Federal revenues	\$ —	\$ —	\$ —	\$ —
Other state revenues	—	—	—	—
Other local revenues	—	438	438	—
Total Revenues	—	438	438	—
Expenditures:				
Current:				
Certificated salaries	—	—	—	—
Classified salaries	12,964	5,215	5,215	—
Employee benefits	9,355	2,418	2,418	—
Books and supplies	240	1,702	1,702	—
Services and other operating expenditures	18,490	15,914	15,914	—
Capital outlay	1,000	2,676	2,676	—
Total Expenditures	42,049	27,925	27,925	—
Excess (Deficiency) of Revenues Over (Under) Expenditures	(42,049)	(27,487)	(27,487)	—
Other Financing Sources (Uses):				
Transfers in	—	349	349	—
Transfers – support costs	—	—	—	—
Transfers out	—	(18,501)	(18,501)	—
Total Other Financing Sources (Uses)	—	(18,152)	(18,152)	—
Net Changes in Fund Balances	(42,049)	(45,639)	(45,639)	—
Fund Balances, July 1, 2010	42,049	45,639	45,639	—
Fund Balances, June 30, 2011	\$ —	\$ —	\$ —	\$ —

See accompanying independent auditor's report.

Total			
Budget		Actual	Variance with Final Budget – Favorable (Unfavorable)
Original	Final		
\$ 317,019	\$ 309,824	\$ 321,126	\$ 11,302
126,630	109,170	154,868	45,698
40,747	30,893	25,311	(5,582)
484,396	449,887	501,305	51,418
140,480	146,160	132,458	13,702
167,868	168,774	159,832	8,942
174,365	160,254	150,448	9,806
170,884	159,385	142,655	16,730
37,679	34,646	31,514	3,132
15,395	10,740	4,632	6,108
706,671	679,959	621,539	58,420
(222,275)	(230,072)	(120,234)	109,838
155,914	141,098	41,273	(99,825)
(11,428)	(10,245)	(9,234)	1,011
(787)	(19,288)	(19,287)	1
143,699	111,565	12,752	(98,813)
(78,576)	(118,507)	(107,482)	11,025
96,867	127,817	127,817	—
\$ 18,291	\$ 9,310	\$ 20,335	\$ 11,025

LOS ANGELES UNIFIED SCHOOL DISTRICT
Debt Service Fund
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2011
(in thousands)

	Tax Override			Variance with Final Budget – Favorable (Unfavorable)
	Budget		Actual	
	Original	Final		
Revenues:				
Other state revenues	\$ —	\$ —	\$ 14	\$ 14
Other local revenues	—	—	5	5
Total Revenues	—	—	19	19
Expenditures:				
Debt service – principal	229	275	—	275
Debt service – bond and COPs interest	—	—	—	—
Total Expenditures	229	275	—	275
Excess (Deficiency) of Revenues Over (Under) Expenditures	(229)	(275)	19	294
Other Financing Sources (Uses):				
Transfers in	—	—	—	—
Total Other Financing Sources	—	—	—	—
Net Changes in Fund Balances	(229)	(275)	19	294
Fund Balances, July 1, 2010	229	275	275	—
Fund Balances, June 30, 2011	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 294</u>	<u>\$ 294</u>

See accompanying independent auditor's report.

Capital Services				Total			
Budget		Actual	Variance with Final Budget – Favorable (Unfavorable)	Budget		Actual	Variance with Final Budget – Favorable (Unfavorable)
Original	Final			Original	Final		
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 14	\$ 14
879	844	1,202	358	879	844	1,207	363
879	844	1,202	358	879	844	1,221	377
31,893	26,687	23,608	3,079	32,122	26,962	23,608	3,354
18,014	16,039	14,473	1,566	18,014	16,039	14,473	1,566
49,907	42,726	38,081	4,645	50,136	43,001	38,081	4,920
(49,028)	(41,882)	(36,879)	5,003	(49,257)	(42,157)	(36,860)	5,297
49,028	48,773	46,355	(2,418)	49,028	48,773	46,355	(2,418)
49,028	48,773	46,355	(2,418)	49,028	48,773	46,355	(2,418)
—	6,891	9,476	2,585	(229)	6,616	9,495	2,879
72,924	72,368	72,368	—	73,153	72,643	72,643	—
\$ 72,924	\$ 79,259	\$ 81,844	\$ 2,585	\$ 72,924	\$ 79,259	\$ 82,138	\$ 2,879

Los Angeles Unified School District
Capital Projects Funds
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2011
(in thousands)

	Building			Variance with Final Budget – Favorable (Unfavorable)
	Budget		Actual	
	Original	Final		
Revenues:				
Federal revenues	\$ —	\$ —	\$ —	\$ —
Other state revenues	—	—	—	—
Other local revenues	300	300	292	(8)
Total Revenues	300	300	292	(8)
Expenditures:				
Current:				
Classified salaries	—	5	1	4
Employee benefits	—	2	1	1
Books and supplies	—	—	—	—
Services and other operating expenditures	51	51	—	51
Capital outlay	987	883	522	361
Total Expenditures	1,038	941	524	417
Excess (Deficiency) of Revenues Over (Under) Expenditures	(738)	(641)	(232)	409
Other Financing Sources (Uses):				
Transfers in	—	—	—	—
Transfers out	—	—	—	—
Issuance of COPs	—	—	—	—
Premium on COPs issued	—	—	—	—
Discount on issuance of COPs	—	—	—	—
Land and building sale	—	—	—	—
Total Other Financing Sources (Uses)	—	—	—	—
Net Changes in Fund Balances	(738)	(641)	(232)	409
Fund Balances, July 1, 2010	2,238	1,995	1,995	—
Fund Balances, June 30, 2011	\$ 1,500	\$ 1,354	\$ 1,763	\$ 409

See accompanying independent auditor's report.

State School Building – Lease Purchase				Special Reserve			
Budget		Actual	Variance with Final Budget – Favorable (Unfavorable)	Budget		Actual	Variance with Final Budget – Favorable (Unfavorable)
Original	Final			Original	Final		
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
—	—	—	—	16,711	8,599	5,199	(3,400)
275	275	308	33	19,550	19,683	11,293	(8,390)
275	275	308	33	36,261	28,282	16,492	(11,790)
—	—	—	—	—	600	432	168
—	—	—	—	—	200	167	33
—	—	—	—	—	21,600	230	21,370
—	—	—	—	14,464	25,850	2,922	22,928
285	4,377	116	4,261	383,575	294,292	15,772	278,520
285	4,377	116	4,261	398,039	342,542	19,523	323,019
(10)	(4,102)	192	4,294	(361,778)	(314,260)	(3,031)	311,229
—	1,193	1,193	—	—	1,019	1,019	—
—	(62)	(62)	—	(4,781)	(67,128)	(66,545)	583
—	—	—	—	296,050	419,730	83,345	(336,385)
—	—	—	—	—	3,034	3,034	—
—	—	—	—	—	(596)	(596)	—
—	—	—	—	—	—	52	52
—	1,131	1,131	—	291,269	356,059	20,309	(335,750)
(10)	(2,971)	1,323	4,294	(70,509)	41,799	17,278	(24,521)
10	2,971	2,971	—	243,109	100,389	100,389	—
\$ —	\$ —	\$ 4,294	\$ 4,294	\$ 172,600	\$ 142,188	\$ 117,667	\$ (24,521)

(Continued)

LOS ANGELES UNIFIED SCHOOL DISTRICT
Capital Projects Funds
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Continued)
Year Ended June 30, 2011
(in thousands)

	Special Reserve – FEMA – Earthquake			
	Budget		Actual	Variance with Final Budget – Favorable (Unfavorable)
	Original	Final		
Revenues:				
Federal revenues	\$ 5,708	\$ 5,708	\$ —	\$ (5,708)
Other state revenues	568	568	—	(568)
Other local revenues	—	—	—	—
Total Revenues	6,276	6,276	—	(6,276)
Expenditures:				
Current:				
Classified salaries	—	—	—	—
Employee benefits	—	—	—	—
Books and supplies	—	—	—	—
Services and other operating expenditures	—	20	8	12
Capital outlay	—	—	—	—
Total Expenditures	—	20	8	12
Excess (Deficiency) of Revenues Over (Under) Expenditures	6,276	6,256	(8)	(6,264)
Other Financing Sources (Uses):				
Transfers in	—	—	—	—
Transfers out	—	—	—	—
Issuance of COPs	—	—	—	—
Premium on COPs issued	—	—	—	—
Discount on issuance of COPs	—	—	—	—
Land and building sale	—	—	—	—
Total Other Financing Sources (Uses)	—	—	—	—
Net Changes in Fund Balances	6,276	6,256	(8)	(6,264)
Fund Balances, July 1, 2010	248	248	248	—
Fund Balances, June 30, 2011	\$ 6,524	\$ 6,504	\$ 240	\$ (6,264)

See accompanying independent auditors' report.

Special Reserve – FEMA – Hazard Mitigation				Special Reserve – Community Redevelopment Agency			
Budget		Actual	Variance with Final Budget – Favorable (Unfavorable)	Budget		Actual	Variance with Final Budget – Favorable (Unfavorable)
Original	Final			Original	Final		
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
—	—	—	—	—	—	—	—
—	—	—	—	6,027	6,027	5,469	(558)
—	—	—	—	6,027	6,027	5,469	(558)
—	—	—	—	—	—	—	—
—	—	—	—	2	2	—	2
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	99	109	105	4
—	—	—	—	9,454	5,730	998	4,732
—	—	—	—	9,555	5,841	1,103	4,738
—	—	—	—	(3,528)	186	4,366	4,180
—	—	—	—	—	—	—	—
—	—	—	—	—	(4,002)	(4,002)	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	(4,002)	(4,002)	—
—	—	—	—	(3,528)	(3,816)	364	4,180
2,043	2,043	2,043	—	9,828	10,309	10,309	—
\$ 2,043	\$ 2,043	\$ 2,043	\$ —	\$ 6,300	\$ 6,493	\$ 10,673	\$ 4,180

(Continued)

LOS ANGELES UNIFIED SCHOOL DISTRICT
Capital Projects Funds
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Continued)
Year Ended June 30, 2011
(in thousands)

	Capital Facilities Account			Variance with Final Budget – Favorable (Unfavorable)
	Budget		Actual	
	Original	Final		
Revenues:				
Federal revenues	\$ —	\$ —	\$ —	\$ —
Other state revenues	—	—	—	—
Other local revenues	18,886	18,886	34,248	15,362
Total Revenues	18,886	18,886	34,248	15,362
Expenditures:				
Current:				
Classified salaries	315	306	256	50
Employee benefits	137	134	119	15
Books and supplies	34	34	8	26
Services and other operating expenditures	14,957	1,017	463	554
Capital outlay	16,709	53,283	46,312	6,971
Total Expenditures	32,152	54,774	47,158	7,616
Excess (Deficiency) of Revenues Over (Under) Expenditures	(13,266)	(35,888)	(12,910)	22,978
Other Financing Sources (Uses):				
Transfers in	—	220	220	—
Transfers out	(10,710)	(10,819)	(10,804)	15
Issuance of COPs	—	—	—	—
Premium on COPs issued	—	—	—	—
Discount on issuance of COPs	—	—	—	—
Land and building sale	—	—	—	—
Total Other Financing Sources (Uses)	(10,710)	(10,599)	(10,584)	15
Net Changes in Fund Balances	(23,976)	(46,487)	(23,494)	22,993
Fund Balances, July 1, 2010	52,476	48,994	48,994	—
Fund Balances, June 30, 2011	\$ 28,500	\$ 2,507	\$ 25,500	\$ 22,993

See accompanying independent auditors' report.

Total			
Budget		Actual	Variance with Final Budget – Favorable (Unfavorable)
Original	Final		
\$ 5,708	\$ 5,708	\$ —	\$ (5,708)
17,279	9,167	5,199	(3,968)
45,038	45,171	51,610	6,439
68,025	60,046	56,809	(3,237)
317	913	689	224
137	336	287	49
34	21,634	238	21,396
29,571	27,047	3,498	23,549
411,010	358,565	63,720	294,845
441,069	408,495	68,432	340,063
(373,044)	(348,449)	(11,623)	336,826
—	2,432	2,432	—
(15,491)	(82,011)	(81,413)	598
296,050	419,730	83,345	(336,385)
—	3,034	3,034	—
—	(596)	(596)	—
—	—	52	52
280,559	342,589	6,854	(335,735)
(92,485)	(5,860)	(4,769)	1,091
309,952	166,949	166,949	—
\$ 217,467	\$ 161,089	\$ 162,180	\$ 1,091



LOS ANGELES UNIFIED SCHOOL DISTRICT

Internal Service Funds

The Health and Welfare Benefits Fund was established pursuant to Education Code 39602 to pay for claims, administrative costs, insurance premiums, and related expenditures for the District's Health and Welfare Benefits program. Medical and dental claims for the self-insured portion of the Fund are administered by outside claims administrators. Premium payments to health maintenance organizations for medical benefits and to outside carriers for vision services, dental services, and optional life insurance are also paid out of this Fund.

The Workers' Compensation Self-Insurance Fund was established pursuant to Education Code 39602 to pay for claims, excess insurance coverage, administrative costs, and related expenditures. Workers' compensation claims are administered for the District by an outside claims administrator.

The Liability Self-Insurance Fund was established pursuant to Education Code 39602 to pay claims, excess insurance coverage, administrative costs and related expenditures, and to provide funds for insurance deductible amounts. Liability claims are administered for the District by an outside claims administrator.

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LOS ANGELES UNIFIED SCHOOL DISTRICT
Internal Service Funds
Combining Statement of Net Assets
June 30, 2011
(in thousands)

	Health and Welfare Benefits	Workers' Compensation	Liability	Total
Assets:				
Cash in county treasury, in banks, and on hand	\$ 317,406	\$ 468,628	\$ 36,242	\$ 822,276
Accounts receivable – net	2,590	126	—	2,716
Accrued interest and dividends receivable	846	1,989	76	2,911
Prepaid expense	9,378	—	3,100	12,478
Total Assets	<u>330,220</u>	<u>470,743</u>	<u>39,418</u>	<u>840,381</u>
Liabilities:				
Current:				
Vouchers and accounts payable	80,740	3,377	765	84,882
Accrued payroll	143	301	167	611
Other payables	—	932	185	1,117
Estimated liability for self-insurance claims	37,764	74,204	34,701	146,669
Noncurrent:				
Estimated liability for self-insurance claims	—	356,636	—	356,636
Total Liabilities	<u>118,647</u>	<u>435,450</u>	<u>35,818</u>	<u>589,915</u>
Total Net Assets – Unrestricted	<u>\$ 211,573</u>	<u>\$ 35,293</u>	<u>\$ 3,600</u>	<u>\$ 250,466</u>

See accompanying independent auditor's report.

Los Angeles Unified School District
Internal Service Funds
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Year Ended June 30, 2011
(in thousands)

	Health and Welfare Benefits	Workers' Compensation	Liability	Total
Operating Revenues:				
In-district premiums	\$ 934,101	\$ 47,062	\$ 11,615	\$ 992,778
Others	3,505	—	—	3,505
Total Operating Revenues	<u>937,606</u>	<u>47,062</u>	<u>11,615</u>	<u>996,283</u>
Operating Expenses:				
Certificated salaries	—	—	159	159
Classified salaries	1,619	3,257	1,090	5,966
Employee benefits	836	1,469	526	2,831
Supplies	188	20	36	244
Premiums and claims expenses	827,970	66,514	9,766	904,250
Claims administration	—	11,192	868	12,060
Other contracted services	773	439	(50)	1,162
Total Operating Expenses	<u>831,386</u>	<u>82,891</u>	<u>12,395</u>	<u>926,672</u>
Operating Income (Loss)	<u>106,220</u>	<u>(35,829)</u>	<u>(780)</u>	<u>69,611</u>
Nonoperating Revenues (Expenses):				
Investment income	3,267	6,546	392	10,205
Miscellaneous expense	—	(21)	—	(21)
Total Nonoperating Revenues	<u>3,267</u>	<u>6,525</u>	<u>392</u>	<u>10,184</u>
Income before transfers	<u>109,487</u>	<u>(29,304)</u>	<u>(388)</u>	<u>79,795</u>
Transfers in	<u>10,956</u>	<u>—</u>	<u>—</u>	<u>10,956</u>
Changes in Net Assets	<u>120,443</u>	<u>(29,304)</u>	<u>(388)</u>	<u>90,751</u>
Total Net Assets, July 1, 2010, restated	<u>91,130</u>	<u>64,597</u>	<u>3,988</u>	<u>159,715</u>
Total Net Assets, June 30, 2011	<u>\$ 211,573</u>	<u>\$ 35,293</u>	<u>\$ 3,600</u>	<u>\$ 250,466</u>

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Internal Service Funds
Combining Statement of Cash Flows
Year Ended June 30, 2011
(in thousands)

	Health and Welfare Benefits	Workers' Compensation	Liability	Total
Cash Flows from Operating Activities:				
Cash payments to employees for services	\$ (2,418)	\$ (4,685)	\$ (1,760)	\$ (8,863)
Cash payments for goods and services	(796,793)	(98,238)	(13,426)	(908,457)
Receipts from assessment to other funds	929,042	47,130	11,615	987,787
Other operating revenue	2,872	—	—	2,872
Net Cash Provided (Used) by Operating Activities	<u>132,703</u>	<u>(55,793)</u>	<u>(3,571)</u>	<u>73,339</u>
Cash Flows from Non-Capital Financing Activities:				
Transfer from other funds	10,956	—	—	10,956
Net Cash Provided by Non-Capital Financing Activities	<u>10,956</u>	<u>—</u>	<u>—</u>	<u>10,956</u>
Cash Flows from Investing Activities:				
Earnings on investments	2,872	6,724	381	9,977
Net Cash Provided by Investing Activities	<u>2,872</u>	<u>6,724</u>	<u>381</u>	<u>9,977</u>
Net Increase (Decrease) in Cash and Cash Equivalents	146,531	(49,069)	(3,190)	94,272
Cash and Cash Equivalents, July 1	<u>170,875</u>	<u>517,697</u>	<u>39,432</u>	<u>728,004</u>
Cash and Cash Equivalents, June 30	<u>\$ 317,406</u>	<u>\$ 468,628</u>	<u>\$ 36,242</u>	<u>\$ 822,276</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating income (loss)	\$ 106,220	\$ (35,829)	\$ (780)	\$ 69,611
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Changes in operating assets and liabilities:				
(Increase) decrease in accounts receivable	(633)	68	—	(565)
Decrease in prepaid expense	—	—	388	388
Increase in vouchers and accounts payable	27,142	1,585	60	28,787
Increase in accrued payroll	37	52	15	104
Increase (decrease) in other payables	—	(110)	163	53
(Decrease) in estimated liability for self-insurance claims – current	(63)	(9,570)	(3,417)	(13,050)
(Decrease) in estimated liability for self-insurance claims – noncurrent	—	(11,989)	—	(11,989)
Total Adjustments	<u>26,483</u>	<u>(19,964)</u>	<u>(2,791)</u>	<u>3,728</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 132,703</u>	<u>\$ (55,793)</u>	<u>\$ (3,571)</u>	<u>\$ 73,339</u>

See accompanying independent auditor's report.



LOS ANGELES UNIFIED SCHOOL DISTRICT

Fiduciary Funds

Agency Funds:

The Attendance Incentive Reserve Fund was established on November 21, 1994 to account for 50% of the salary savings from substitute teachers' accounts resulting from reduced costs of absenteeism of UTLA represented employees. The intent was to reward regular attendance of teachers in order to improve the instructional program. The accumulated savings in the account plus interest earnings is disbursed in a lump-sum distribution as participants retire or terminate employment with the District.

The Student Body Fund was established to account for cash held by the District on behalf of the student bodies at various school sites.

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LOS ANGELES UNIFIED SCHOOL DISTRICT
Fiduciary Funds – Agency Funds
Combining Statement of Changes in Assets and Liabilities
June 30, 2011
(in thousands)

	Balance June 30, 2010 restated	Additions	Deductions	Balance June 30, 2011
<u>Student Body Fund</u>				
Assets				
Cash in county treasury, in banks, and on hand	\$ 20,532	\$ 61,890	\$ 62,799	\$ 19,623
Total Assets	<u>\$ 20,532</u>	<u>\$ 61,890</u>	<u>\$ 62,799</u>	<u>\$ 19,623</u>
Liabilities				
Other payables	\$ 20,532	\$ 61,890	\$ 62,799	\$ 19,623
Total Liabilities	<u>\$ 20,532</u>	<u>\$ 61,890</u>	<u>\$ 62,799</u>	<u>\$ 19,623</u>
<u>Attendance Incentive Reserve Fund</u>				
Assets				
Cash in county treasury, in banks, and on hand	\$ 20,558	\$ 71	\$ —	\$ 20,629
Accrued interest receivable	70	—	70	—
Total Assets	<u>\$ 20,628</u>	<u>\$ 71</u>	<u>\$ 70</u>	<u>\$ 20,629</u>
Liabilities				
Other payables	\$ 20,628	\$ 400	\$ 399	\$ 20,629
Total Liabilities	<u>\$ 20,628</u>	<u>\$ 400</u>	<u>\$ 399</u>	<u>\$ 20,629</u>

See accompanying independent auditor's report.



**CAPITAL ASSETS USED IN THE OPERATION
OF GOVERNMENTAL FUNDS**

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LOS ANGELES UNIFIED SCHOOL DISTRICT
Capital Assets Used in the Operation of Governmental Funds
Comparative Schedule by Source
June 30, 2011 and 2010
(in thousands)

	<u>2010-2011</u>	<u>2009-2010</u>
Governmental Funds Capital Assets:		
Sites	\$ 3,136,630	\$ 3,069,920
Improvement of sites	528,607	523,083
Building and improvements	10,069,170	8,992,789
Equipment	1,228,062	1,169,506
Construction in progress	3,571,703	3,579,899
Total Governmental Funds Capital Assets	<u>\$ 18,534,172</u>	<u>\$ 17,335,197</u>
Investments in Governmental Funds Capital Assets by Source:		
From revenues of:		
General Fund	\$ 1,314,835	\$ 1,271,429
Special Revenue Funds:		
Adult Education Fund	50,192	49,417
Cafeteria Fund	38,353	37,445
Child Development Fund	17,804	17,531
Deferred Maintenance Fund	26,005	23,395
Capital Projects Funds:		
Building Fund	36,475	36,203
Building Fund – Bond Proceeds	1,745,023	1,734,194
Building Fund – Measure K	2,994,651	2,943,382
Building Fund – Measure R	2,582,850	2,489,920
Building Fund – Measure Y	1,320,460	966,428
State School Building Lease – Purchase Fund	1,026,665	1,027,676
Special Reserve Fund	1,367,661	1,349,296
Special Reserve Fund – FEMA – Earthquake	20,594	20,594
Special Reserve Fund – FEMA – Hazard Mitigation	8,129	8,129
Special Reserve Fund – CRA	8,672	7,674
Capital Facilities Fund	489,673	443,268
County School Facilities Fund	827,821	821,350
County School Facilities Fund – Prop 47	834,233	804,560
County School Facilities Fund – Prop 55	1,814,960	1,344,593
County School Facilities Fund – Prop 1D	268,742	198,339
Contributions from outside source – MTA	6,018	6,018
Investment in general capital assets prior to July 1, 1983*	1,734,356	1,734,356
Total Governmental Funds Capital Assets	<u>\$ 18,534,172</u>	<u>\$ 17,335,197</u>

* Source information not available for capital assets acquired prior to July 1, 1983.

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Capital Assets Used in the Operation of Governmental Funds
Schedule of Changes in Capital Assets by Source
Year Ended June 30, 2011
(in thousands)

	<u>Sites</u>	<u>Improvement of Sites</u>
Balances, July 1, 2010	\$ 3,069,920	\$ 523,083
Additions:		
Capital outlay from:		
General Fund	4	2,224
Adult Education Fund	—	47
Cafeteria Fund	—	—
Child Development Fund	—	111
Deferred Maintenance Fund	—	—
Building Fund	—	—
Building Fund – Bond Proceeds	(3)	—
Building Fund – Measure K	(2,680)	—
Building Fund – Measure R	(8,207)	—
Building Fund – Measure Y	(119,814)	(206)
State School Building Lease – Purchase Fund	—	—
Special Reserve Fund	5,445	485
Special Reserve Fund – CRA	—	—
Capital Facilities Fund	100	—
County School Facilities Fund	23	—
County School Facilities Fund – Prop 47	393	—
County School Facilities Fund – Prop 55	186,044	—
County School Facilities Fund – Prop 1D	5,405	—
Completed Projects	—	2,863
Sub-totals	<u>66,710</u>	<u>5,524</u>
Deductions:		
Vehicle disposal	—	—
Return to salvage	—	—
Total Deductions	<u>—</u>	<u>—</u>
Net Increase	<u>66,710</u>	<u>5,524</u>
Balances, June 30, 2011	<u>\$ 3,136,630</u>	<u>\$ 528,607</u>

See accompanying independent auditor's report.

Building and Improvements	Equipment	Construction in Progress	Total
\$ 8,992,789	\$ 1,169,506	\$ 3,579,899	\$ 17,335,197
3,869	51,074	14,409	71,580
393	78	257	775
—	908	—	908
162	—	—	273
—	—	2,610	2,610
107	—	165	272
(151)	—	10,983	10,829
1,888	(11)	52,072	51,269
(555)	(20)	101,712	92,930
3,282	(7)	470,777	354,032
—	—	(1,011)	(1,011)
(1,804)	616	13,623	18,365
—	—	998	998
65	—	46,240	46,405
78	—	6,370	6,471
(329)	—	29,609	29,673
3,021	(1)	281,303	470,367
(70)	—	65,068	70,403
1,066,425	34,093	(1,103,381)	—
1,076,381	86,730	(8,196)	1,227,149
—	15,412	—	15,412
—	12,762	—	12,762
—	28,174	—	28,174
1,076,381	58,556	(8,196)	1,198,975
\$ 10,069,170	\$ 1,228,062	\$ 3,571,703	\$ 18,534,172

LOS ANGELES UNIFIED SCHOOL DISTRICT
Long-Term Obligations
Schedule of Changes in Long-Term Obligations
Year Ended June 30, 2011
(in thousands)

	General Obligation Bonds	Certificates of Participation	Capital Leases	Children Centers Facilities Revolving Loan	CA Energy Commission Loan	Liability for Employee Benefits
Balances, July 1, 2010	\$ 12,114,504	\$ 459,019	\$ 2,628	\$ 792	\$ 439	\$ 224,884
Additions:						
Debt issuance	—	83,345	1,043	—	—	—
Premium on debt issue	—	2,438	—	—	—	—
Refund charges amortization	7,599	—	—	—	—	—
Discount amortization	48	—	—	—	—	—
Vacation earned	—	—	—	—	—	68,034
Early retirement incentive	—	—	—	—	—	—
Self-insurance claims	—	—	—	—	—	—
Annual required contribution	—	—	—	—	—	—
Arbitrage accrual	—	—	—	—	—	—
Total Additions	7,647	85,783	1,043	—	—	68,034
Deductions:						
Principal repayments	278,180	48,083	1,312	—	222	—
Refunding charges	6,781	—	—	—	—	—
Premium amortization	26,309	1,879	—	—	—	—
Vacation used	—	—	—	—	—	73,892
Retirement bonus paid	—	—	—	—	—	6,421
Early retirement incentive paid	—	—	—	—	—	10,573
Self-insurance claims paid	—	—	—	—	—	—
OPEB contributions	—	—	—	—	—	—
Arbitrage adjustment	—	—	—	—	—	—
Legal settlements	—	—	—	—	—	—
Total Deductions	311,270	49,962	1,312	—	222	90,886
Balances, June 30, 2011	\$ 11,810,881	\$ 494,840	\$ 2,359	\$ 792	\$ 217	\$ 202,032

See accompanying independent auditor's report.

Self-Insurance Claims	Other Postemployment Benefits (OPEB)	Arbitrage Payable	Legal Settlements	Total
\$ 528,345	\$ 2,393,811	\$ 12,445	\$ 15,200	\$ 15,752,067
—	—	—	—	84,388
—	—	—	—	2,438
—	—	—	—	7,599
—	—	—	—	48
—	—	—	—	68,034
—	—	—	—	—
304,510	—	—	—	304,510
—	1,022,031	—	—	1,022,031
—	—	—	—	—
304,510	1,022,031	—	—	1,489,048
—	—	7,294	—	335,091
—	—	—	—	6,781
—	—	—	—	28,188
—	—	—	—	73,892
—	—	—	—	6,421
—	—	—	—	10,573
329,550	—	—	—	329,550
—	240,100	—	—	240,100
—	—	(319)	—	(319)
—	—	—	15,200	15,200
329,550	240,100	6,975	15,200	1,045,477
\$ 503,305	\$ 3,175,742	\$ 5,470	\$ —	16,195,638

LOS ANGELES UNIFIED SCHOOL DISTRICT

Long-Term Obligations
Schedule of Certificates of Participation
Year Ended June 30, 2011
(in thousands)

<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance Original Issue</u>	<u>Outstanding* July 1, 2010</u>	<u>Issued* This Year</u>	<u>Redeemed** Current Year</u>	<u>Outstanding* June 30, 2011</u>
2000A Certificates of Participation (Qualified Zone Academy Bonds Project):							
05/23/00	—%	05/23/12	\$ 25,372	\$ 25,372	\$ —	\$ —	\$ 25,372
2000A Certificates of Participation			<u>\$ 25,372</u>	<u>\$ 25,372</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 25,372</u>
2000B Certificates of Participation (Multiple Properties Project):							
10/04/00	4.250%	10/01/10	\$ 1,105	\$ 1,105	\$ —	\$ 1,105	\$ —
2000B Certificates of Participation			<u>\$ 1,105</u>	<u>\$ 1,105</u>	<u>\$ —</u>	<u>\$ 1,105</u>	<u>\$ —</u>
2001B Certificates of Participation (Administration Building Project):							
11/06/01	5.000%	10/01/24	\$ 6,810	\$ 6,810	\$ —	\$ —	\$ 6,810
11/06/01	5.000	10/01/25	7,625	7,625	—	—	7,625
11/06/01	5.000	10/01/26	8,005	8,005	—	—	8,005
11/06/01	5.000	10/01/27	8,405	8,405	—	—	8,405
11/06/01	5.000	10/01/28	8,825	8,825	—	—	8,825
11/06/01	5.000	10/01/29	9,270	9,270	—	—	9,270
11/06/01	5.000	10/01/30	9,730	9,730	—	—	9,730
11/06/01	5.000	10/01/31	10,220	10,220	—	—	10,220
2001B Certificates of Participation			<u>\$ 68,890</u>	<u>\$ 68,890</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 68,890</u>
2002C Certificates of Participation (Administration Building Project II):							
12/19/02	3.750%	10/01/10	\$ 225	\$ 225	\$ —	\$ 225	\$ —
12/19/02	4.000	10/01/11	235	235	—	—	235
12/19/02	4.000	10/01/12	245	245	—	—	245
12/19/02	4.000	10/01/13	255	255	—	—	255
12/19/02	4.125	10/01/14	265	265	—	—	265
12/19/02	4.250	10/01/15	275	275	—	—	275
12/19/02	4.380	10/01/16	285	285	—	—	285
12/19/02	4.500	10/01/17	300	300	—	—	300
12/19/02	4.500	10/01/18	310	310	—	—	310
12/19/02	4.750	10/01/19	325	325	—	—	325
12/19/02	4.750	10/01/20	340	340	—	—	340
12/19/02	4.750	10/01/21	360	360	—	—	360
12/19/02	4.750	10/01/22	375	375	—	—	375
12/19/02	4.750	10/01/23	395	395	—	—	395
12/19/02	5.000	10/01/24	410	410	—	—	410
12/19/02	5.000	10/01/25	430	430	—	—	430
12/19/02	5.000	10/01/26	455	455	—	—	455
12/19/02	5.000	10/01/27	475	475	—	—	475
12/19/02	5.000	10/01/28	500	500	—	—	500
12/19/02	5.000	10/01/29	525	525	—	—	525
12/19/02	5.000	10/01/30	550	550	—	—	550
12/19/02	5.000	10/01/31	580	580	—	—	580
2002C Certificates of Participation			<u>\$ 8,115</u>	<u>\$ 8,115</u>	<u>\$ —</u>	<u>\$ 225</u>	<u>\$ 7,890</u>

* Includes Premium and Discount

** Principal Payment and Premium/Discount Amortization

(Continued)

LOS ANGELES UNIFIED SCHOOL DISTRICT
Long-Term Obligations
Schedule of Certificates of Participation (Continued)
Year Ended June 30, 2011
(in thousands)

<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance Original Issue</u>	<u>Outstanding* July 1, 2010</u>	<u>Issued* This Year</u>	<u>Redeemed** Current Year</u>	<u>Outstanding* June 30, 2011</u>
2003B Certificates of Participation (Capital Project I):							
06/26/03	3.000%	08/01/10	\$ 940	\$ 940	\$ —	\$ 940	\$ —
06/26/03	3.000	08/01/11	970	970	—	—	970
06/26/03	3.000	08/01/12	1,000	1,000	—	—	1,000
06/26/03	3.125	08/01/13	1,030	1,030	—	—	1,030
06/26/03	3.250	08/01/14	1,060	1,060	—	—	1,060
06/26/03	5.000	08/01/15	1,095	1,095	—	—	1,095
06/26/03	5.000	08/01/16	1,150	1,150	—	—	1,150
06/26/03	5.000	08/01/17	1,210	1,210	—	—	1,210
06/26/03	5.000	08/01/18	1,270	1,270	—	—	1,270
06/26/03	5.000	08/01/19	1,335	1,335	—	—	1,335
06/26/03	5.000	08/01/20	1,400	1,400	—	—	1,400
06/26/03	5.000	08/01/21	1,470	1,470	—	—	1,470
06/26/03	5.000	08/01/22	1,540	1,540	—	—	1,540
06/26/03	5.000	08/01/23	1,620	1,620	—	—	1,620
06/26/03	5.000	08/01/24	1,700	1,700	—	—	1,700
06/26/03	5.000	08/01/25	1,785	1,785	—	—	1,785
06/26/03	5.000	08/01/26	1,875	1,875	—	—	1,875
06/26/03	5.000	08/01/27	1,970	1,970	—	—	1,970
06/26/03	5.000	08/01/28	2,065	2,065	—	—	2,065
2003B Certificates of Participation			\$ 26,485	\$ 26,485	\$ —	\$ 940	\$ 25,545
2004A Certificates of Participation (Refinancing Project I):							
07/28/04	3.000%	10/01/10	\$ 2,000	\$ 2,000	\$ —	\$ 2,000	\$ —
07/28/04	3.125	10/01/11	2,065	2,065	—	—	2,065
07/28/04	5.000	10/01/12	2,150	2,150	—	—	2,150
07/28/04	4.000	10/01/13	2,250	2,250	—	—	2,250
07/28/04	4.000	10/01/14	2,340	2,340	—	—	2,340
2004A Certificates of Participation			\$ 10,805	\$ 10,805	\$ —	\$ 2,000	\$ 8,805
2005 Certificates of Participation (2004-05 Qualified Zone Academy Bonds Project):							
12/13/05	—%	12/13/20	\$ 10,000	\$ 10,000	\$ —	\$ —	\$ 10,000
2005 Certificates of Participation			\$ 10,000	\$ 10,000	\$ —	\$ —	\$ 10,000
2007A Certificates of Participation (Information Technology Projects):							
11/15/07	4.000%	10/01/10	\$ 6,775	\$ 7,536	\$ —	\$ 7,536	\$ —
11/15/07	5.000	10/01/10	1,975	1,975	—	1,975	—
11/15/07	4.000	10/01/11	5,995	6,731	—	3,189	3,542
11/15/07	5.000	10/01/11	3,125	3,125	—	—	3,125
11/15/07	5.000	10/01/12	9,515	10,173	—	3,292	6,881
11/15/07	5.000	10/01/13	9,995	10,551	—	3,371	7,180
11/15/07	5.000	10/01/14	10,495	10,939	—	—	10,939
11/15/07	5.000	10/01/15	11,015	11,335	—	—	11,335
11/15/07	5.000	10/01/16	11,570	11,755	—	—	11,755
11/15/07	5.000	10/01/17	12,145	12,183	—	—	12,183
2007A Certificates of Participation			\$ 82,605	\$ 86,303	\$ —	\$ 19,363	\$ 66,940

* Includes Premium and Discount

** Principal Payment and Premium/Discount Amortization

(Continued)

LOS ANGELES UNIFIED SCHOOL DISTRICT
Long-Term Obligations
Schedule of Certificates of Participation (Continued)
Year Ended June 30, 2011
(in thousands)

Date of Issue	Interest Rate	Maturity Date	Balance Original Issue	Outstanding* July 1, 2010	Issued* This Year	Redeemed** Current Year	Outstanding* June 30, 2011
2008A Refunding Certificates of Participation (Administration Building Project-2005A Refunding):							
08/06/08	Variable	10/01/10	\$ 5,230	\$ 5,230	\$ —	\$ 5,230	\$ —
08/06/08	Variable	10/01/11	5,370	5,370	—	—	5,370
08/06/08	Variable	10/01/12	5,530	5,530	—	—	5,530
08/06/08	Variable	10/01/13	5,680	5,680	—	—	5,680
08/06/08	Variable	10/01/14	5,840	5,840	—	—	5,840
08/06/08	Variable	10/01/15	6,000	6,000	—	—	6,000
08/06/08	Variable	10/01/16	6,175	6,175	—	—	6,175
08/06/08	Variable	10/01/17	6,345	6,345	—	—	6,345
08/06/08	Variable	10/01/18	6,520	6,520	—	—	6,520
08/06/08	Variable	10/01/19	6,705	6,705	—	—	6,705
08/06/08	Variable	10/01/20	6,895	6,895	—	—	6,895
08/06/08	Variable	10/01/21	7,085	7,085	—	—	7,085
08/06/08	Variable	10/01/22	7,285	7,285	—	—	7,285
08/06/08	Variable	10/01/23	6,835	6,835	—	—	6,835
08/06/08	Variable	10/01/24	200	200	—	—	200
2008A Refunding Certificates of Participation			<u>\$ 87,695</u>	<u>\$ 87,695</u>	<u>\$ —</u>	<u>\$ 5,230</u>	<u>\$ 82,465</u>
2008B Refunding Certificates of Participation (Administration Building Project III-2005B Refunding):							
08/06/08	Variable	10/01/10	\$ 735	\$ 735	\$ —	\$ 735	\$ —
08/06/08	Variable	10/01/11	755	755	—	—	755
08/06/08	Variable	10/01/12	775	775	—	—	775
08/06/08	Variable	10/01/13	795	795	—	—	795
08/06/08	Variable	10/01/14	820	820	—	—	820
08/06/08	Variable	10/01/15	840	840	—	—	840
08/06/08	Variable	10/01/16	865	865	—	—	865
08/06/08	Variable	10/01/17	890	890	—	—	890
08/06/08	Variable	10/01/18	915	915	—	—	915
08/06/08	Variable	10/01/19	940	940	—	—	940
08/06/08	Variable	10/01/20	965	965	—	—	965
08/06/08	Variable	10/01/21	995	995	—	—	995
08/06/08	Variable	10/01/22	1,020	1,020	—	—	1,020
08/06/08	Variable	10/01/23	1,050	1,050	—	—	1,050
08/06/08	Variable	10/01/24	1,080	1,080	—	—	1,080
08/06/08	Variable	10/01/25	1,110	1,110	—	—	1,110
08/06/08	Variable	10/01/26	1,140	1,140	—	—	1,140
08/06/08	Variable	10/01/27	1,175	1,175	—	—	1,175
08/06/08	Variable	10/01/28	1,205	1,205	—	—	1,205
08/06/08	Variable	10/01/29	1,240	1,240	—	—	1,240
08/06/08	Variable	10/01/30	1,275	1,275	—	—	1,275
08/06/08	Variable	10/01/31	1,310	1,310	—	—	1,310
2008B Refunding Certificates of Participation			<u>\$ 21,895</u>	<u>\$ 21,895</u>	<u>\$ —</u>	<u>\$ 735</u>	<u>\$ 21,160</u>

* Includes Premium and Discount

** Principal Payment and Premium/Discount Amortization

(Continued)

LOS ANGELES UNIFIED SCHOOL DISTRICT
Long-Term Obligations
Schedule of Certificates of Participation (Continued)
Year Ended June 30, 2011
(in thousands)

Date of Issue	Interest Rate	Maturity Date	Balance Original Issue	Outstanding* July 1, 2010	Issued* This Year	Redeemed** Current Year	Outstanding* June 30, 2011
2009A Certificates of Participation (Food Services Project):							
09/29/09	3.920%	10/01/10	\$ 1,716	\$ 1,716	\$ —	\$ 1,716	\$ —
09/29/09	3.920	04/01/11	1,750	1,750	—	1,750	—
09/29/09	3.920	10/01/11	1,784	1,784	—	1,502	282
09/29/09	3.920	04/01/12	1,819	1,819	—	1,531	288
09/29/09	3.920	10/01/12	1,855	1,855	—	1,561	294
09/29/09	3.920	04/01/13	1,891	1,891	—	1,592	299
09/29/09	3.920	10/01/13	1,928	1,928	—	1,623	305
09/29/09	3.920	04/01/14	1,966	1,966	—	1,654	312
09/29/09	3.920	10/01/14	2,005	2,005	—	—	2,005
09/29/09	3.920	04/01/15	2,044	2,044	—	—	2,044
09/29/09	3.920	10/01/15	2,084	2,084	—	—	2,084
09/29/09	3.920	04/01/16	2,125	2,125	—	—	2,125
09/29/09	3.920	10/01/16	2,167	2,167	—	—	2,167
09/29/09	3.920	04/01/17	2,209	2,209	—	—	2,209
09/29/09	3.920	10/01/17	2,252	2,252	—	—	2,252
09/29/09	3.920	04/01/18	2,296	2,296	—	—	2,296
09/29/09	3.920	10/01/18	2,341	2,341	—	—	2,341
09/29/09	3.920	04/01/19	2,387	2,387	—	—	2,387
09/29/09	3.920	10/01/19	2,434	2,434	—	—	2,434
2009A Certificates of Participation			\$ 39,053	\$ 39,053	\$ —	\$ 12,929	\$ 26,124
2010A Refunding Certificates of Participation (Multiple Properties Project):							
01/27/10	1.000%	12/01/10	\$ 6,905	\$ 7,361	\$ —	\$ 7,361	\$ —
01/27/10	3.000	12/01/11	7,045	7,588	—	—	7,588
01/27/10	2.000	12/01/12	650	1,228	—	—	1,228
01/27/10	3.000	12/01/12	6,605	6,605	—	—	6,605
01/27/10	3.000	12/01/13	1,300	1,878	—	—	1,878
01/27/10	4.000	12/01/13	6,205	6,205	—	—	6,205
01/27/10	3.000	12/01/14	1,385	1,933	—	—	1,933
01/27/10	4.000	12/01/14	6,410	6,410	—	—	6,410
01/27/10	3.250	12/01/15	300	762	—	—	762
01/27/10	5.000	12/01/15	7,845	7,845	—	—	7,845
01/27/10	4.000	12/01/16	1,125	1,459	—	—	1,459
01/27/10	5.000	12/01/16	7,430	7,430	—	—	7,430
01/27/10	4.000	12/01/17	1,215	1,332	—	—	1,332
01/27/10	5.000	12/01/17	15,265	15,265	—	—	15,265
2010A Refunding Certificates of Participation			\$ 69,685	\$ 73,301	\$ —	\$ 7,361	\$ 65,940

* Includes Premium and Discount

** Principal Payment and Premium/Discount Amortization

(Continued)

LOS ANGELES UNIFIED SCHOOL DISTRICT
Long-Term Obligations
Schedule of Certificates of Participation (Continued)
Year Ended June 30, 2011
(in thousands)

Date of Issue	Interest Rate	Maturity Date	Balance Original Issue	Outstanding* July 1, 2010	Issued* This Year	Redeemed** Current Year	Outstanding* June 30, 2011
2010B-1 Certificates of Participation (Capital Projects I):							
12/21/10	7.663%	12/01/21	\$ 965	\$ —	\$ 599	\$ (111)	\$ 710
12/21/10	7.663	12/01/22	1,030	—	1,004	—	1,004
12/21/10	8.163	12/01/23	1,080	—	1,057	—	1,057
12/21/10	8.163	12/01/24	1,140	—	1,117	—	1,117
12/21/10	8.163	12/01/25	1,200	—	1,178	—	1,178
12/21/10	8.000	12/01/26	540	—	519	—	519
12/21/10	8.250	12/01/26	610	—	610	—	610
12/21/10	8.525	12/01/26	115	—	115	—	115
12/21/10	8.000	12/01/27	570	—	550	—	550
12/21/10	8.250	12/01/27	640	—	640	—	640
12/21/10	8.525	12/01/27	125	—	125	—	125
12/21/10	8.000	12/01/28	605	—	586	—	586
12/21/10	8.250	12/01/28	670	—	670	—	670
12/21/10	8.525	12/01/28	130	—	130	—	130
12/21/10	8.000	12/01/29	640	—	622	—	622
12/21/10	8.250	12/01/29	705	—	705	—	705
12/21/10	8.525	12/01/29	135	—	135	—	135
12/21/10	8.000	12/01/30	675	—	659	—	659
12/21/10	8.250	12/01/30	740	—	740	—	740
12/21/10	8.525	12/01/30	145	—	145	—	145
12/21/10	8.000	12/01/31	710	—	696	—	696
12/21/10	8.250	12/01/31	785	—	785	—	785
12/21/10	8.525	12/01/31	150	—	150	—	150
12/21/10	8.000	12/01/32	750	—	738	—	738
12/21/10	8.250	12/01/32	825	—	825	—	825
12/21/10	8.525	12/01/32	160	—	160	—	160
12/21/10	8.000	12/01/33	790	—	781	—	781
12/21/10	8.250	12/01/33	865	—	865	—	865
12/21/10	8.525	12/01/33	170	—	170	—	170
12/21/10	8.000	12/01/34	835	—	830	—	830
12/21/10	8.250	12/01/34	910	—	910	—	910
12/21/10	8.525	12/01/34	180	—	180	—	180
12/21/10	8.000	12/01/35	885	—	883	—	883
12/21/10	8.250	12/01/35	950	—	950	—	950
12/21/10	8.525	12/01/35	190	—	190	—	190
2010B-1 Certificates of Participation			\$ 21,615	\$ —	\$ 21,019	\$ (111)	\$ 21,130
2010B-2 Certificates of Participation (Capital Projects I):							
12/21/10	3.000%	12/01/11	\$ 4,710	\$ —	\$ 5,287	\$ 185	\$ 5,102
12/21/10	3.000	12/01/12	1,455	—	1,876	—	1,876
12/21/10	5.000	12/01/12	4,000	—	4,000	—	4,000
12/21/10	5.000	12/01/13	5,695	—	6,098	—	6,098
12/21/10	4.000	12/01/14	150	—	519	—	519
12/21/10	5.000	12/01/14	5,835	—	5,835	—	5,835
12/21/10	5.000	12/01/15	6,280	—	6,612	—	6,612
12/21/10	5.000	12/01/16	6,075	—	6,367	—	6,367
12/21/10	4.000	12/01/17	2,585	—	2,851	—	2,851
12/21/10	5.000	12/01/17	3,800	—	3,800	—	3,800
12/21/10	5.500	12/01/18	6,675	—	6,886	—	6,886
12/21/10	5.500	12/01/19	7,040	—	7,166	—	7,166
12/21/10	5.000	12/01/20	3,830	—	3,867	—	3,867
12/21/10	5.750	12/01/20	3,600	—	3,600	—	3,600
2010B-2 Certificates of Participation			\$ 61,730	\$ —	\$ 64,764	\$ 185	\$ 64,579
Grand Total			\$ 535,050	\$ 459,019	\$ 85,783	\$ 49,962	\$ 494,840

* Includes Premium and Discount

** Principal Payment and Premium/Discount Amortization

See accompanying independent auditors' report.

STATISTICAL SECTION

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LOS ANGELES UNIFIED SCHOOL DISTRICT

Statistical Information

The Statistical Section of the District's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures and required supplementary information says about the District's overall financial health.

Contents

Financial trends

These schedules contain information to help the reader understand how the District's financial performance and well-being have changed over time.

Revenue capacity

These schedules contain information to help the reader assess the District's most significant local revenue sources.

Debt capacity

These schedules contain information to help the reader assess the affordability of the District's current levels of outstanding debt and the District's ability to issue additional debt in the future.

Demographic and economic information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place.

Operating information

These schedules contain service and infrastructure data to help the reader understand how the information in the District's financial report relates to the services the District provides and activities it performs.

Source: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The District implemented GASB Statement No. 34 in 2002; schedules presenting government-wide information include information beginning in that year.

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LOS ANGELES UNIFIED SCHOOL DISTRICT
Statement of Net Assets
Last Ten Fiscal Years
(in thousands)
(Unaudited)

	<u>2001-2002</u>	<u>2002-2003</u>	<u>2003-2004</u>	<u>2004-2005</u>
Assets:				
Cash and cash equivalents	\$ 2,823,036	\$ 3,934,357	\$ 3,490,108	\$ 3,180,396
Investments	468,949	2,010,864	1,618,239	826,235
Property taxes receivable	133,894	127,991	137,575	156,065
Accounts receivable, net	791,073	679,616	614,630	685,059
Accrued interest receivable	19,600	12,661	10,819	24,799
Prepaid expense	27,235	25,521	24,959	20,718
Due from other funds	53	197	—	—
Deferred charges	—	—	—	4,858
Inventories	18,603	19,291	24,647	31,007
Other current assets	—	79	—	—
Capital assets:				
Sites	891,481	1,094,733	1,671,373	1,805,711
Improvement of sites	262,948	267,569	344,671	345,725
Buildings and improvements	2,289,343	2,652,277	2,725,055	3,104,384
Equipment	1,088,015	1,094,284	1,087,143	1,094,832
Construction in progress	1,415,986	1,519,076	1,745,176	2,600,475
Less accumulated depreciation	<u>(1,698,450)</u>	<u>(1,923,886)</u>	<u>(2,201,018)</u>	<u>(2,491,969)</u>
Total Capital Assets, Net of Depreciation	<u>4,249,323</u>	<u>4,704,053</u>	<u>5,372,400</u>	<u>6,459,158</u>
Total Assets	<u>8,531,766</u>	<u>11,514,630</u>	<u>11,293,377</u>	<u>11,388,295</u>
Liabilities:				
Vouchers and accounts payable	305,827	363,308	390,008	387,872
Contracts payable	19,138	64,530	123,225	162,187
Accrued payroll	219,392	220,390	230,559	264,240
Accrued interest	—	—	—	—
Other payables	432,471	406,612	141,080	171,813
Unearned revenue	252,440	301,190	180,047	229,702
Tax and revenue anticipation notes and related interest payable	438,897	515,582	682,668	520,789
Long-term liabilities:				
Portion due within one year	240,666	262,427	311,191	338,635
Portion due after one year	<u>2,686,060</u>	<u>5,509,814</u>	<u>5,443,889</u>	<u>5,596,973</u>
Total Liabilities	<u>4,594,891</u>	<u>7,643,853</u>	<u>7,502,667</u>	<u>7,672,211</u>
Net Assets:				
Invested in capital assets, net of related debt	1,815,366	2,634,387	2,682,203	2,704,302
Restricted	1,804,397	932,298	1,034,896	701,779
Unrestricted	<u>317,112</u>	<u>304,092</u>	<u>73,611</u>	<u>310,003</u>
Total Governmental Activities				
Net Assets	<u>\$ 3,936,875</u>	<u>\$ 3,870,777</u>	<u>\$ 3,790,710</u>	<u>\$ 3,716,084</u>

See accompanying independent auditor's report.

<u>2005-2006</u>	<u>2006-2007</u>	<u>2007-2008</u>	<u>2008-2009</u>	<u>2009-2010</u>	<u>2010-2011</u>
\$ 3,151,386	\$ 3,487,080	\$ 4,112,750	\$ 3,559,297	\$ 6,231,489	\$ 5,905,632
819,660	923,425	825,398	592,741	785,256	22,835
41,360	46,689	67,899	80,453	86,802	92,125
817,504	786,845	854,789	1,097,781	928,327	1,212,902
47,476	70,901	44,461	21,031	24,247	20,300
21,257	15,597	16,101	13,354	12,866	12,478
—	—	—	—	—	—
17,398	32,730	37,349	40,479	66,845	12,459
15,268	15,823	18,920	14,861	13,163	63,653
—	—	—	—	—	—
2,105,429	2,373,208	2,700,727	2,969,404	3,069,920	3,136,630
386,968	430,979	468,039	507,963	523,083	528,607
4,298,752	5,803,185	6,722,084	8,243,000	8,992,789	10,069,170
1,124,779	1,145,089	1,143,953	1,156,042	1,169,506	1,228,062
2,545,892	2,180,218	2,547,219	2,815,518	3,579,899	3,571,703
(2,664,067)	(2,847,681)	(3,064,058)	(3,361,521)	(3,599,858)	(3,906,924)
<u>7,797,753</u>	<u>9,084,998</u>	<u>10,517,964</u>	<u>12,330,406</u>	<u>13,735,339</u>	<u>14,627,248</u>
<u>12,729,062</u>	<u>14,464,088</u>	<u>16,495,631</u>	<u>17,750,403</u>	<u>21,884,334</u>	<u>21,969,632</u>
395,174	374,553	534,898	489,547	439,134	488,599
125,522	155,901	129,704	121,150	92,473	30,249
246,401	586,384	397,407	243,458	207,437	205,323
—	—	—	171,868	254,828	297,901
163,066	6,099	126,880	117,802	74,677	155,502
138,135	60,986	103,611	212,159	65,418	123,393
429,382	360,998	615,599	514,343	764,355	—
329,152	373,698	529,970	478,203	485,669	526,853
<u>6,724,029</u>	<u>7,341,060</u>	<u>9,075,723</u>	<u>10,670,116</u>	<u>15,266,398</u>	<u>15,668,785</u>
<u>8,550,861</u>	<u>9,259,679</u>	<u>11,513,792</u>	<u>13,018,646</u>	<u>17,650,389</u>	<u>17,496,605</u>
2,866,293	3,267,458	3,694,054	4,584,300	4,910,954	5,450,860
1,089,165	1,540,422	1,893,302	1,639,962	1,282,553	1,495,022
<u>222,743</u>	<u>396,529</u>	<u>(605,517)</u>	<u>(1,492,505)</u>	<u>(1,959,562)</u>	<u>(2,472,855)</u>
<u>\$ 4,178,201</u>	<u>\$ 5,204,409</u>	<u>\$ 4,981,839</u>	<u>\$ 4,731,757</u>	<u>\$ 4,233,945</u>	<u>\$ 4,473,027</u>

LOS ANGELES UNIFIED SCHOOL DISTRICT

Changes in Net Assets

Last Ten Fiscal Years

(in thousands)

(Unaudited)

	2001-2002	2002-2003	2003-2004	2004-2005
Expenses:				
Governmental activities:				
Instruction	\$ 3,576,824	\$ 3,673,900	\$ 3,762,124	\$ 3,996,454
Support services – students	283,613	303,961	292,578	311,449
Support services – instructional staff	561,321	725,684	725,187	647,207
Support services – general administration	54,854	50,147	48,074	46,195
Support services – school administration	407,163	408,278	418,022	444,656
Support services – business	308,375	178,623	156,713	138,800
Operation and maintenance of plant services	596,729	598,680	631,941	588,588
Student transportation services	160,391	165,658	177,416	161,845
Data processing services	214,216	229,931	251,850	230,434
Operation of noninstructional services	281,764	270,570	254,493	273,236
Facilities acquisition and construction services	106,590	191,848	243,099	160,224
Other uses	6,505	460	661	778
Interest expense	115,280	92,250	233,585	256,372
Interagency disbursements	—	—	32,996	28,927
Depreciation – unallocated	70,078	53,054	101,156	105,026
Unfunded OPEB expense - unallocated	—	—	—	—
Total Governmental Activities	6,743,703	6,943,044	7,329,895	7,390,191
Program Revenues:				
Charges for services				
Instruction	2,318	2,413	2,603	2,611
Support services – instructional staff	249	386	350	449
Support services – school administration	65	61	—	—
Support services – business	408	651	323	2,754
Operation and maintenance of plant services	2,961	4,306	12,051	4,336
Operation of non-instructional services	36,144	32,921	25,106	21,251
Facilities acquisition and construction services	37,175	43,217	69,723	77,480
Total Charges for Services	79,320	83,955	110,156	108,881
Operating grants and contributions:				
Instruction	1,172,207	1,131,218	1,128,068	1,393,191
Support services – students	125,070	160,893	149,282	160,625
Support services – instructional staff	342,755	561,732	578,661	507,369
Support services – general administration	2,783	1,526	26	32
Support services – school administration	93,865	95,732	105,859	102,449
Support services – business	90,761	105,572	114,992	115,938
Operation and maintenance of plant services	93,567	71,839	77,355	117,736
Student transportation services	136,590	150,701	163,879	158,174
Data processing services	873	2,607	2,832	5,973
Operation of noninstructional services	190,044	199,193	205,688	227,186
Facilities acquisition and construction services	519	11,714	30,753	6,619
Other uses	15,414	240	249	273
Interest expense	—	—	—	—
Total Operating Grants and Contributions	2,264,448	2,492,967	2,557,644	2,795,565
Capital grants and contributions:				
Support services – instructional staff	126	268	—	—
Operation and maintenance of plant services	47,930	64,494	26,636	5,454
Facilities acquisition and construction services	58,302	187,777	593,818	88,246
Total Capital Grants and Contributions	106,358	252,539	620,454	93,700
Total Program Revenues	2,450,126	2,829,461	3,288,254	2,998,146
Net Expenses	(4,293,577)	(4,113,583)	(4,041,641)	(4,392,045)
General Revenues:				
Taxes:				
Property taxes, levied for general purposes	1,038,777	1,098,628	1,199,891	850,516
Property taxes, levied for debt service	138,144	112,310	236,121	308,537
Property taxes, levied for community redevelopment	—	—	3,756	3,394
State aid – formula grants	2,189,402	2,196,960	2,094,751	2,582,322
Grants, entitlements and contributions not restricted to specific programs	502,878	514,667	415,325	489,060
Unrestricted investment earnings	74,023	28,378	60,898	70,589
Miscellaneous	8,336	96,542	8,519	13,001
Special item – gain on sales of capital assets	—	—	11,705	—
Total General Revenues	3,951,560	4,047,485	4,030,966	4,317,419
Change in Net Assets	\$ (342,017)	\$ (66,098)	\$ (10,675)	\$ (74,626)

See accompanying independent auditor's report.

<u>2005-2006</u>	<u>2006-2007</u>	<u>2007-2008</u>	<u>2008-2009</u>	<u>2009-2010</u>	<u>2010-2011</u>
\$ 4,032,673	\$ 4,142,927	\$ 4,416,790	\$ 4,291,864	\$ 3,900,813	\$ 3,986,263
298,911	310,786	366,514	359,087	317,859	320,787
650,551	589,566	731,016	623,621	428,734	432,202
46,913	56,323	51,873	60,395	43,561	43,448
466,862	477,168	502,506	518,838	466,481	426,288
106,523	123,791	136,540	134,008	204,002	145,401
599,899	638,201	727,090	758,813	660,647	581,731
161,395	168,121	173,167	168,837	155,813	151,286
115,311	114,630	108,451	98,013	68,949	54,205
282,992	288,736	324,348	370,016	403,956	404,211
135,827	92,799	89,029	119,137	115,474	175,584
799	418	882	240	615	181
285,051	278,053	350,420	551,163	495,266	623,044
33,678	39,371	—	—	—	—
130,561	180,328	217,052	302,298	245,712	315,745
—	—	832,665	821,261	739,885	781,931
<u>7,347,946</u>	<u>7,501,218</u>	<u>9,028,343</u>	<u>9,177,591</u>	<u>8,247,767</u>	<u>8,442,307</u>
2,968	3,357	5,482	6,497	6,440	20,741
290	184	251	183	211	156
—	—	—	—	—	—
5,769	10,592	8,337	8,694	18,002	7,814
4,154	4,496	5,206	6,999	13,496	16,378
21,024	18,886	16,979	15,777	12,229	9,727
85,122	95,222	65,426	24,259	18,747	33,810
<u>119,327</u>	<u>132,737</u>	<u>101,681</u>	<u>62,409</u>	<u>69,125</u>	<u>88,626</u>
1,473,164	1,707,841	1,662,599	1,538,356	1,705,758	1,815,305
178,438	205,621	223,250	243,391	240,346	234,844
526,379	472,633	532,258	641,554	348,196	353,459
23	1	87	133	852	9,141
143,761	145,581	139,550	131,204	143,125	132,805
99,041	85,947	72,513	121,542	70,894	46,629
131,411	150,877	151,932	162,386	168,318	135,826
170,604	163,325	170,100	156,509	154,069	157,528
7,404	10,135	7,326	10,986	3,369	8,753
236,391	236,113	249,817	269,543	342,381	369,578
5,220	893	14,609	1,287	375	5,692
—	—	—	—	—	—
—	—	559	1,591	—	—
<u>2,971,836</u>	<u>3,178,967</u>	<u>3,224,600</u>	<u>3,278,482</u>	<u>3,177,683</u>	<u>3,269,560</u>
—	—	—	—	—	—
7,719	137,763	11,216	48,382	4,293	2,354
366,473	298,645	653,191	876,570	295,879	777,990
<u>374,192</u>	<u>436,408</u>	<u>664,407</u>	<u>924,952</u>	<u>300,172</u>	<u>780,344</u>
<u>3,465,355</u>	<u>3,748,112</u>	<u>3,990,688</u>	<u>4,265,843</u>	<u>3,546,980</u>	<u>4,138,530</u>
<u>(3,882,591)</u>	<u>(3,753,106)</u>	<u>(5,037,655)</u>	<u>(4,911,748)</u>	<u>(4,700,787)</u>	<u>(4,303,777)</u>
644,637	811,282	806,413	927,441	938,189	909,484
331,097	444,951	539,735	598,980	740,719	935,428
1,713	4,479	5,775	1,295	6,054	5,320
2,781,133	2,901,720	2,817,720	2,517,499	2,039,028	2,146,870
441,396	531,067	505,638	453,643	393,192	402,110
138,346	149,311	156,817	74,859	58,323	66,795
6,386	12,456	85,547	87,949	27,470	76,852
—	—	—	—	—	—
<u>4,344,708</u>	<u>4,855,266</u>	<u>4,917,645</u>	<u>4,661,666</u>	<u>4,202,975</u>	<u>4,542,859</u>
<u>\$ 462,117</u>	<u>\$ 1,102,160</u>	<u>\$ (120,010)</u>	<u>\$ (250,082)</u>	<u>\$ (497,812)</u>	<u>\$ 239,082</u>

LOS ANGELES UNIFIED SCHOOL DISTRICT
Governmental Activities Tax Revenues by Source
Last Ten Fiscal Years
(in thousands)
(Unaudited)

	<u>2001-2002</u>	<u>2002-2003</u>	<u>2003-2004</u>	<u>2004-2005</u>
Property Taxes, Levied for:				
General purposes	\$ 1,038,777	\$ 1,098,628	\$ 1,199,891	\$ 850,516
Debt service	138,144	112,310	236,121	308,537
Community redevelopment	—	—	3,756	3,394
Total	<u>\$ 1,176,921</u>	<u>\$ 1,210,938</u>	<u>\$ 1,439,768</u>	<u>\$ 1,162,447</u>

See accompanying independent auditor's report.

<u>2005-2006</u>	<u>2006-2007</u>	<u>2007-2008</u>	<u>2008-2009</u>	<u>2009-2010</u>	<u>2010-2011</u>
\$ 644,637	\$ 811,282	\$ 806,413	\$ 927,441	\$ 938,189	\$ 909,484
331,097	444,951	539,735	598,980	740,719	935,428
1,713	4,479	5,775	1,295	6,054	5,320
<u>\$ 977,447</u>	<u>\$ 1,260,712</u>	<u>\$ 1,351,923</u>	<u>\$ 1,527,716</u>	<u>\$ 1,684,962</u>	<u>\$ 1,850,232</u>

LOS ANGELES UNIFIED SCHOOL DISTRICT
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(in thousands)
(Unaudited)

	<u>2001-2002</u>	<u>2002-2003</u>	<u>2003-2004</u>	<u>2004-2005</u>
General Fund:				
Nonspendable	\$ —	\$ —	\$ —	\$ —
Restricted	—	—	—	—
Assigned	—	—	—	—
Unassigned	—	—	—	—
Reserved	202,674	236,766	171,216	96,540
Unreserved	<u>379,690</u>	<u>342,273</u>	<u>152,766</u>	<u>253,029</u>
Total General Fund	<u>\$ 582,364</u>	<u>\$ 579,039</u>	<u>\$ 323,982</u>	<u>\$ 349,569</u>
District Bonds:				
Nonspendable	\$ —	\$ —	\$ —	\$ —
Restricted	—	—	—	—
Reserved	20,404	17,545	—	7,328
Unreserved	<u>667,432</u>	<u>2,917,720</u>	<u>1,676,001</u>	<u>1,123,595</u>
Total District Bonds	<u>\$ 687,836</u>	<u>\$ 2,935,265</u>	<u>\$ 1,676,001</u>	<u>\$ 1,130,923</u>
County School Facilities Bonds:				
Restricted	\$ —	\$ —	\$ —	\$ —
Unreserved	<u>46,756</u>	<u>57,117</u>	<u>406,191</u>	<u>246,432</u>
Total County School Facilities Bonds	<u>\$ 46,756</u>	<u>\$ 57,117</u>	<u>\$ 406,191</u>	<u>\$ 246,432</u>
Bond Interest and Redemption Fund				
Restricted	\$ —	\$ —	\$ —	\$ —
Reserved	103,214	164,978	165,837	211,449
Unreserved	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total Debt Service	<u>\$ 103,214</u>	<u>\$ 164,978</u>	<u>\$ 165,837</u>	<u>\$ 211,449</u>
All Other Governmental Funds:				
Nonspendable	\$ —	\$ —	\$ —	\$ —
Restricted, reported in:				
Special revenue funds	—	—	—	—
Debt service funds	—	—	—	—
Capital projects funds	—	—	—	—
Committed in:				
Special revenue funds	—	—	—	—
Assigned, reported in:				
Special revenue funds	—	—	—	—
Capital projects funds	—	—	—	—
Reserved	19,318	18,246	21,397	7,871
Unreserved, reported in:				
Special revenue funds	129,544	98,068	44,013	101,059
Debt service funds	54,815	44,674	39,982	12,949
Capital projects funds	<u>568,952</u>	<u>529,112</u>	<u>924,768</u>	<u>489,976</u>
Total All Other Governmental Funds	<u>\$ 772,629</u>	<u>\$ 690,100</u>	<u>\$ 1,030,160</u>	<u>\$ 611,855</u>

*Effective 2010-11, fund balances are presented to conform with GASB statement 54.

See accompanying independent auditor's report.

2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011*
\$ —	\$ —	\$ —	\$ —	\$ —	\$ 10,417
—	—	—	—	—	266,418
—	—	—	—	—	147,035
—	—	—	—	—	479,661
144,673	333,103	403,518	565,333	304,762	—
289,839	362,132	253,718	184,629	358,145	—
<u>\$ 434,512</u>	<u>\$ 695,235</u>	<u>\$ 657,236</u>	<u>\$ 749,962</u>	<u>\$ 662,907</u>	<u>\$ 903,531</u>
\$ —	\$ —	\$ —	\$ —	\$ —	\$ 3,800
—	—	—	—	—	2,816,528
3,300	3,300	3,800	3,800	3,800	—
1,096,859	949,738	957,677	729,284	3,488,803	—
<u>\$ 1,100,159</u>	<u>\$ 953,038</u>	<u>\$ 961,477</u>	<u>\$ 733,084</u>	<u>\$ 3,492,603</u>	<u>\$ 2,820,328</u>
\$ —	\$ —	\$ —	\$ —	\$ —	\$ 712,540
344,922	435,541	532,895	534,745	501,615	—
<u>\$ 344,922</u>	<u>\$ 435,541</u>	<u>\$ 532,895</u>	<u>\$ 534,745</u>	<u>\$ 501,615</u>	<u>\$ 712,540</u>
\$ —	\$ —	\$ —	\$ —	\$ —	\$ 724,608
282,984	360,140	—	—	—	—
—	—	447,880	489,381	630,810	—
<u>\$ 282,984</u>	<u>\$ 360,140</u>	<u>\$ 447,880</u>	<u>\$ 489,381</u>	<u>\$ 630,810</u>	<u>\$ 724,608</u>
\$ —	\$ —	\$ —	\$ —	\$ —	\$ 5,050
—	—	—	—	—	3,843
—	—	—	—	—	82,138
—	—	—	—	—	132,449
—	—	—	—	—	11,391
—	—	—	—	—	51
—	—	—	—	—	29,731
7,867	7,871	7,391	6,280	5,309	—
187,178	245,129	236,369	159,720	122,508	—
19,498	23,135	49,213	65,372	72,643	—
428,119	369,299	382,514	268,577	166,949	—
<u>\$ 642,662</u>	<u>\$ 645,434</u>	<u>\$ 675,487</u>	<u>\$ 499,949</u>	<u>\$ 367,409</u>	<u>\$ 264,653</u>

LOS ANGELES UNIFIED SCHOOL DISTRICT
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(in thousands)
(Unaudited)

	<u>2001-2002</u>	<u>2002-2003</u>	<u>2003-2004</u>
Revenues:			
Revenue limit sources	\$ 3,407,354	\$ 3,483,050	\$ 3,436,839
Federal revenues	691,622	824,684	984,482
Other state revenues	1,936,512	2,137,919	2,434,073
Other local revenues	349,889	419,927	451,220
Total Revenues	<u>6,385,377</u>	<u>6,865,580</u>	<u>7,306,614</u>
Expenditures:			
Current:			
Certificated salaries	2,969,537	3,066,319	3,055,482
Classified salaries	1,050,980	1,066,527	1,065,409
Employee benefits	1,061,783	1,214,906	1,312,887
Books and supplies	496,524	495,117	468,036
Services and other operating expenditures	657,540	766,443	822,234
Capital outlay	760,784	704,931	1,003,568
Debt service – principal	105,321	93,608	114,150
Debt service – bond, COPs, and capital leases interest	91,526	105,687	225,574
Debt service – refunding bond issuance cost	—	—	—
Debt service – TRANS interest	20,231	2,487	6,472
Other outgo	—	(50)	40,529
Total Expenditures	<u>7,214,226</u>	<u>7,515,975</u>	<u>8,114,341</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(828,849)</u>	<u>(650,395)</u>	<u>(807,727)</u>
Other Financing Sources (Uses):			
Transfers in	360,338	264,190	172,148
Transfers out	(360,338)	(263,998)	(171,934)
Issuance of bonds	500,000	2,607,345	—
Premium on bonds issued	—	—	—
Issuance of refunding bonds	—	—	—
Premium on refunding bonds issued	—	—	—
Issuance of COPs	222,391	272,303	—
Premium on COPs issued	—	—	—
Discount on issuance of COPs	—	—	—
Discount on issuance of refunding bonds	—	—	—
Payment to refunded bonds escrow agent	—	—	—
Issuance of refunding COPs	—	—	—
Payment to refunded COPs escrow agent	—	—	—
CA Energy Commission loan	—	—	—
State school facilities apportionments	—	—	—
Special item – proceeds from Sullivan Canyon sale	—	—	11,918
Insurance proceeds – fire damage	—	—	—
Capital leases	5,975	3,888	7,630
Land and building sale/lease	—	—	—
Children center facilities revolving fund	441	518	—
Other financing sources	—	2,159	—
Other financing uses	—	(2,210)	—
Total Other Financing Sources	<u>728,807</u>	<u>2,884,195</u>	<u>19,762</u>
Net Change in Fund Balances	<u>\$ (100,042)</u>	<u>\$ 2,233,800</u>	<u>\$ (787,965)</u>
Debt Service as a Percentage of Noncapital Expenditures	3.4%	3.0%	4.9%

See accompanying independent auditor's report.

<u>2004-2005</u>	<u>2005-2006</u>	<u>2006-2007</u>	<u>2007-2008</u>	<u>2008-2009</u>	<u>2009-2010</u>	<u>2010-2011</u>
\$ 3,575,257	\$ 3,724,599	\$ 3,892,689	\$3,624,134	\$3,444,940	\$2,977,215	\$ 3,056,350
1,071,628	1,150,060	1,023,992	1,016,465	1,357,169	1,289,543	1,463,899
2,109,674	2,419,412	2,853,979	3,307,609	3,223,201	2,566,534	2,966,361
549,264	637,941	835,529	925,869	904,663	918,438	1,198,389
<u>7,305,823</u>	<u>7,932,012</u>	<u>8,606,189</u>	<u>8,874,077</u>	<u>8,929,973</u>	<u>7,751,730</u>	<u>8,684,999</u>
3,110,756	3,187,441	3,362,475	3,469,214	3,384,912	2,929,870	2,948,806
1,069,595	1,098,558	1,180,482	1,269,680	1,236,448	1,126,477	1,058,084
1,349,301	1,418,575	1,440,468	1,464,061	1,440,404	1,581,239	1,508,612
499,411	567,167	507,486	574,902	441,855	395,886	495,998
647,151	691,388	785,742	880,455	872,470	867,482	826,514
1,398,243	1,532,862	1,494,934	1,644,450	2,113,952	1,677,858	1,241,249
110,501	94,843	153,258	200,514	302,688	289,680	303,329
232,333	241,131	285,315	334,525	363,050	437,582	582,330
1,337	2,732	9,665	6,020	—	—	—
—	—	—	—	—	—	—
33,748	41,695	46,865	882	240	615	181
<u>8,452,376</u>	<u>8,876,392</u>	<u>9,266,690</u>	<u>9,844,703</u>	<u>10,156,019</u>	<u>9,306,689</u>	<u>8,965,103</u>
<u>(1,146,553)</u>	<u>(944,380)</u>	<u>(660,501)</u>	<u>(970,626)</u>	<u>(1,226,046)</u>	<u>(1,554,959)</u>	<u>(280,104)</u>
598,061	381,658	362,932	499,947	575,839	539,641	604,246
(598,061)	(381,658)	(366,926)	(512,061)	(588,821)	(552,270)	(615,202)
200,000	1,115,712	900,000	1,000,000	945,774	4,082,645	—
4,124	64,283	33,649	42,258	—	92,908	—
219,125	778,673	1,889,000	—	—	149,760	—
16,338	64,058	49,073	—	—	—	—
219,790	10,000	—	105,374	120,950	40,728	83,345
—	—	—	—	—	3,771	3,034
—	—	—	—	—	—	(596)
—	—	(1,324)	—	—	—	—
(234,126)	(656,098)	(1,927,084)	—	—	(163,199)	—
—	—	—	—	—	69,685	—
(333,958)	(178,618)	—	—	(107,795)	(65,328)	(32,548)
1,318	63	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	2,935	5,332	1,439	2,057	1,987
1,999	1,318	2,394	1,253	1,196	931	1,043
—	—	—	14,110	9,610	2,371	52
—	—	—	—	—	(518)	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
<u>94,610</u>	<u>1,199,391</u>	<u>944,649</u>	<u>1,156,213</u>	<u>958,192</u>	<u>4,203,182</u>	<u>45,361</u>
<u>\$ (1,051,943)</u>	<u>\$ 255,011</u>	<u>\$ 284,148</u>	<u>\$ 185,587</u>	<u>\$ (267,854)</u>	<u>\$2,648,223</u>	<u>\$ (234,743)</u>
4.9%	4.6%	5.8%	6.6%	8.3%	9.5%	11.5%

LOS ANGELES UNIFIED SCHOOL DISTRICT
Governmental Fund Types
Expenditures and Other Uses by State-Defined Object
Last Ten Fiscal Years
(in thousands)
(Unaudited)

Fiscal year	Certificated Salaries	Classified Salaries	Employee Benefits	Books and Supplies	Services and Other Oper. Exp.
2001-2002	\$ 2,949,992	\$ 1,044,050	\$ 1,056,848	\$ 492,982	\$ 650,543
2002-2003	3,036,964	1,056,274	1,207,073	490,211	757,868
2003-2004	3,055,482	1,065,409	1,312,887	468,036	821,490
2004-2005	3,110,756	1,069,595	1,349,301	499,411	646,373
2005-2006	3,187,441	1,098,558	1,418,575	567,167	691,388
2006-2007	3,362,475	1,180,482	1,440,468	507,486	785,742
2007-2008	3,469,214	1,269,680	1,464,061	574,902	880,455
2008-2009	3,384,912	1,236,448	1,440,404	441,855	872,470
2009-2010	2,929,870	1,126,477	1,581,239	395,886	867,482
2010-2011	2,948,806	1,058,084	1,508,612	495,998	826,514

Notes:

- ⁽¹⁾ "Other Outgo" includes Tuition for Handicapped Pupils, discount on debt issuance, and payments to refunded debt escrow agent. From fiscal year 2003-04 to fiscal year 2006-07, Charter Schools In-lieu of Taxes was included in total expenditures under object 7280 as Other transfers out. Starting with fiscal year 2007-08, this is presented as reduction of the revenues, like it was presented prior to 2003-04.

See accompanying independent auditor's report.

Capital Outlay	Debt Service	Other Outgo ⁽¹⁾	Operating Transfers Out	Total Expenditures and Other Uses
\$ 756,064	\$ 217,078	\$ (387)	\$ 360,338	\$ 7,527,508
691,793	201,782	(145)	263,998	7,705,818
1,003,568	346,196	41,273	171,934	8,286,275
1,398,243	344,171	602,610	598,061	9,618,521
1,532,862	338,706	876,411	381,658	10,092,766
1,494,934	448,238	1,975,273	366,926	11,562,024
1,644,450	541,059	882	512,061	10,356,764
2,113,952	665,738	108,035	588,821	10,852,635
1,677,858	727,262	229,142	552,270	10,087,486
1,241,249	885,659	33,325	615,202	9,613,449

LOS ANGELES UNIFIED SCHOOL DISTRICT
Governmental Fund Types
Expenditures and Other Uses by Goal and Function
Last Nine Fiscal Years
(in thousands)
(Unaudited)

	<u>2002-2003</u>	<u>2003-2004</u>	<u>2004-2005</u>	<u>2005-2006</u>
Instructional Goals:				
General education	\$ 3,673,054	\$ 3,741,979	\$ 3,935,655	\$ 4,145,863
Special education	1,166,539	1,214,874	1,195,855	1,252,592
Others	97,706	99,995	94,496	93,176
	<u>4,937,299</u>	<u>5,056,848</u>	<u>5,226,006</u>	<u>5,491,631</u>
Noninstructional Goals:				
Community services	25,371	24,258	26,423	27,165
Child care services	6,920	5,234	7,887	3,656
	<u>32,291</u>	<u>29,492</u>	<u>34,310</u>	<u>30,821</u>
Support Services	<u>1,195,756</u>	<u>1,207,134</u>	<u>1,058,764</u>	<u>1,083,003</u>
Facilities Acquisition	<u>853,255</u>	<u>1,219,838</u>	<u>1,522,494</u>	<u>1,635,060</u>
Food Services	<u>220,978</u>	<u>212,280</u>	<u>222,640</u>	<u>241,888</u>
Other Outgo:				
Debt service	201,782	346,196	344,171	517,324
All other outgo	264,457	214,487	1,210,136	1,093,039
	<u>466,239</u>	<u>560,683</u>	<u>1,554,307</u>	<u>1,610,363</u>
Total Expenditures and Other Uses	<u><u>\$ 7,705,818</u></u>	<u><u>\$ 8,286,275</u></u>	<u><u>\$ 9,618,521</u></u>	<u><u>\$ 10,092,766</u></u>

Trend data is available only with the District's implementation of SACS in Fiscal Year 2002-2003.

See accompanying independent auditor's report.

<u>2006-2007</u>	<u>2007-2008</u>	<u>2008-2009</u>	<u>2009-2010</u>	<u>2010-2011</u>
\$ 4,270,273	\$ 4,462,660	\$ 4,124,621	\$ 3,820,056	\$ 3,928,156
1,333,134	1,395,418	1,376,082	1,428,258	1,387,197
94,206	100,135	101,223	85,456	87,876
<u>5,697,613</u>	<u>5,958,213</u>	<u>5,601,926</u>	<u>5,333,770</u>	<u>5,403,229</u>
30,269	24,762	28,094	17,094	12,310
4,408	4,663	4,847	3,109	2,987
<u>34,677</u>	<u>29,425</u>	<u>32,941</u>	<u>20,203</u>	<u>15,297</u>
<u>1,182,086</u>	<u>1,273,056</u>	<u>1,270,702</u>	<u>1,131,009</u>	<u>988,664</u>
<u>1,581,955</u>	<u>1,734,161</u>	<u>2,234,066</u>	<u>1,789,389</u>	<u>1,362,715</u>
<u>253,798</u>	<u>286,769</u>	<u>323,009</u>	<u>288,760</u>	<u>288,691</u>
2,386,554	541,059	773,533	792,590	885,659
425,341	534,081	616,458	731,765	669,194
<u>2,811,895</u>	<u>1,075,140</u>	<u>1,389,991</u>	<u>1,524,355</u>	<u>1,554,853</u>
<u><u>\$ 11,562,024</u></u>	<u><u>\$ 10,356,764</u></u>	<u><u>\$ 10,852,635</u></u>	<u><u>\$ 10,087,486</u></u>	<u><u>\$ 9,613,449</u></u>

LOS ANGELES UNIFIED SCHOOL DISTRICT
Governmental Fund Types
Revenues by Source (SACS Report Categories)
Last Ten Fiscal Years
(in thousands)
(Unaudited)

Fiscal Year	Revenue Limit Sources	Federal	Other State	Other Local	Other Financing Sources	Total
2001-2002	\$ 3,388,475	\$ 686,278	\$ 1,922,377	\$ 325,743	\$ 1,067,900	\$ 7,390,773
2002-2003	3,456,958	814,681	2,118,662	401,287	3,148,244	9,939,832
2003-2004	3,436,839	984,482	2,434,073	451,220	191,696	7,498,310
2004-2005	3,575,257	1,071,628	2,109,674	549,264	1,260,755	8,566,578
2005-2006	3,724,599	1,150,060	2,419,412	637,941	2,415,765	10,347,777
2006-2007	3,892,689	1,023,992	2,853,979	835,529	3,239,983	11,846,172
2007-2008	3,624,134	1,016,465	3,307,609	925,869	1,668,274	10,542,351
2008-2009	3,444,940	1,357,169	3,223,201	904,663	1,654,808	10,584,781
2009-2010	2,977,215	1,289,543	2,566,534	918,438	4,983,979	12,735,709
2010-2011	3,056,350	1,463,899	2,966,361	1,198,389	693,707	9,378,706

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Assessed Value of Taxable Property
Last Ten Fiscal Years
(in thousands)
(Unaudited)

Fiscal Year	Secured*	Unsecured*	Total	Increase (Decrease) Over Preceding Year Amount	Rate	Total A.D.A.**	Assessed Value per Unit of A.D.A.
2001-2002	\$ 249,496,423	\$ 22,018,503	\$ 271,514,926	\$ 17,574,352	6.92 %	762,688 ***	\$ 356
2002-2003	266,383,265	21,142,670	287,525,935	16,011,009	5.90	766,137 ***	375
2003-2004	287,673,344	20,855,436	308,528,780	21,002,845	7.30	758,605 ***	407
2004-2005	311,419,822	20,505,315	331,925,137	23,396,357	7.58	746,605	445
2005-2006	343,302,944	20,566,535	363,869,479	31,944,342	9.62	722,564	504
2006-2007	382,212,502	20,396,335	402,608,837	38,739,358	10.65	710,770	566
2007-2008	419,052,509	21,861,881	440,914,390	38,305,553	9.51	700,073	630
2008-2009	451,191,875	23,597,923	474,789,798	33,875,408	7.68	693,633	684
2009-2010	451,127,882	23,849,409	474,977,291	187,493	0.04	576,963 ****	823
2010-2011	442,092,473	21,753,078	463,845,551	(11,131,740)	(2.34)	565,450 ****	820

* Source: 2010-11 Los Angeles County Auditor-Controller "Taxpayers' Guide"

** Source: A.D.A. – Average Daily Attendance, Annual Report

*** Adjusted to exclude fiscally independent charter schools

**** Adult and Summer School programs were not collected due to changes made by Education Code Section 42605.

For 2008-09 through 2012-13, Districts are not required to operate the program or follow program requirements. Revenue for these years will be based on the same relative proportion that the District received for these programs in fiscal year 2007-08.

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Property Tax Rates – All Direct and Overlapping Governments
(Per \$100 of assessed value)
Last Ten Fiscal Years
(Unaudited)

Fiscal Year	Unified General	Unified Bonds	Total Schools Tax	State-Wide for All Agencies	Total District Tax
2001-2002	—	0.048129	0.048129	1.000000	1.048129
2002-2003	0.000107	0.036866	0.036973	1.000000	1.036973
2003-2004	0.000160	0.076985	0.077145	1.000000	1.077145
2004-2005	0.000143	0.088696	0.088839	1.000000	1.088839
2005-2006	0.000107	0.084239	0.084346	1.000000	1.084346
2006-2007	0.000079	0.106735	0.106814	1.000000	1.106814
2007-2008	0.000040	0.123302	0.123342	1.000000	1.123342
2008-2009	0.000058	0.124724	0.124782	1.000000	1.124782
2009-2010	—	0.151809	0.151809	1.000000	1.151809
2010-2011	—	0.186954	0.186954	1.000000	1.186954

Source: 2010-11 Los Angeles County Auditor-Controller “Taxpayers’ Guide”

See accompanying independent auditor's report.

Metropolitan Water District	Los Angeles County General	City of Los Angeles District No.1	County Flood Control District
0.007700	0.001128	0.040051	0.001073
0.006700	0.001033	0.042312	0.000881
0.006100	0.000992	0.050574	0.000462
0.005800	0.000923	0.055733	0.000245
0.005200	0.000795	0.051289	0.000049
0.004700	0.000663	0.045354	0.000052
0.004500	—	0.038051	—
0.004300	—	0.038541	—
0.004300	—	0.041220	—
0.003700	—	0.038895	—

LOS ANGELES UNIFIED SCHOOL DISTRICT
Largest Local Secured Taxpayers
Year Ended June 30, 2011
(in thousands)
(Unaudited)

	Property Owner ⁽¹⁾	Primary Land Use	2010-2011 Assessed Valuation	% of Total ⁽¹⁾
1	Douglas Emmett Realty Funds	Office Building	\$ 2,455,202	0.56%
2	Universal Studios LLC	Motion Picture Studio	1,304,545	0.30
3	Anheuser Busch Inc.	Industrial	815,695	0.18
4	One Hundred Towers LLC	Office Building	579,803	0.13
5	Donald T. Sterling	Apartments	571,150	0.13
6	Tishman Speyer Archstone Smith	Apartments	517,308	0.12
7	Casden Park La Brea	Apartments	460,552	0.10
8	Paramount Pictures Corp.	Motion Picture Studio	460,510	0.10
9	Century City Mall LLC	Shopping Center/Mall	456,150	0.10
10	Taubman Beverly Center	Shopping Center/Mall	455,335	0.10
11	Duesenberg Investment Company	Office Building	442,176	0.10
12	Rreef America REIT II Corp.	Office Building	433,477	0.10
13	Trizec 333 LA LLC	Office Building	383,700	0.09
14	Next Century Associates LLC	Hotel	381,769	0.09
15	Twentieth Century Fox Film Corp.	Motion Picture Studio	376,035	0.09
16	BP West Coast Products LLC	Industrial	351,145	0.08
17	1999 Stars LLC	Office Building	347,687	0.08
18	Deutsche Bank National Trust Company	Residential Properties	334,970	0.08
19	AP Properties Ltd.	Office Building	331,003	0.07
20	Olympic and Georgia Partners LLC	Residential Development	327,967	0.07
			<u>\$ 11,786,179</u>	<u>2.67%</u>

⁽¹⁾ 2010-11 Assessed Valuation: \$441,967,669.

Source: California Municipal Statistics, Inc.

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Property Tax Levies and Collections
Last Ten Fiscal Years
(in thousands)
(Unaudited)

Fiscal Year	Total Tax Levy	ERAF Funds ⁽¹⁾	Current Tax Collections	Percent of Current Taxes Collected	Delinquent Tax Collections ⁽²⁾	Total Tax Collections	Ratio of Total Tax Collections to Total Tax Levy
2001-2002	\$ 652,455	\$ 493,649	\$ 1,125,788	98.23%	\$ 29,264	\$1,155,052	100.78%
2002-2003	656,436	536,530	1,190,192	99.77	13,881	1,204,073	100.93
2003-2004	821,820	576,038	1,386,560	99.19	34,987	1,421,547	101.69
2004-2005	929,248	171,052	1,091,325	99.18	34,128	1,125,453	102.29
2005-2006	991,275	76,068	1,026,351	96.16	30,963	1,057,314	99.06
2006-2007	1,173,752	—	1,134,757	96.68	101,640	1,236,397	105.34
2007-2008	1,345,503	(42,753)	1,241,733	95.32	76,816	1,318,549	101.21
2008-2009	1,481,739	(2,660)	1,372,078	92.77	114,292	1,486,370	100.49
2009-2010	1,597,579	41,685	1,505,933	91.87	112,277	1,618,210	98.72
2010-2011	1,711,575	29,419	1,602,345	92.04	102,970	1,705,315	97.95

⁽¹⁾ Educational Revenue Augmentation Funds (ERAF) are added to tax levies received by the District.

⁽²⁾ Includes prior years' delinquencies.

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Revenue Limit Per Unit of Average Daily Attendance
Last Ten Fiscal Years
(Unaudited)

Fiscal Year	K-12 Base Revenue Limit (Deficited)	Adult Base Revenue Limit
2001-2002	\$ 4,654.13	\$ 2,196.82
2002-2003	4,747.13	2,242.12
2003-2004	4,689.97	2,242.12
2004-2005	4,862.18	2,292.26
2005-2006	5,133.46	2,389.22
2006-2007	5,544.56	2,530.66
2007-2008	5,796.56	2,645.30 ^a
2008-2009	5,645.07	N/A ^b
2009-2010	4,962.13 ^c	N/A ^b
2010-2011	5,264.22 ^d	N/A ^b

^a Beginning with fiscal year 2007-08, the principal apportionment for Adult is no longer a revenue limit item. It was determined by the State to be more appropriately classified as other state apportionments.

^b Per SBX3 4 (Chapter 12, Statutes of 2009), funding for fiscal years 2008-09 through 2012-13 (extended through 2014-15 by SB70, SB70, Chapter 7, Statutes of 2011) is based on the District's 2007-08 proportionate share of funding to the State's total available funding for the program. CDE will revert back to the usual funding formula for this program in fiscal year 2015-16.

^c This rate is net of the additional revenue limit reduction of \$252.99 per 2008-09 funded revenue limit ADA.

^d Per Assembly Bill 851, beginning 2010-11, the base revenue limit rate per ADA includes the Beginning Teachers Salary and Meals for Needy.

See accompanying independent auditor's report.



LOS ANGELES UNIFIED SCHOOL DISTRICT
Governmental Fund Types
Schedule of Revenues and Other Sources, Expenditures and Other Uses
by State-Defined Object
Last Ten Fiscal Years
(in thousands)
(Unaudited)

	2001-2002		2002-2003	
	Amount	Percent	Amount	Percent
Revenues and other sources				
Revenue limit sources	\$ 3,388,475	45.84%	\$ 3,456,958	34.77%
Federal revenues	686,278	9.28	814,681	8.20
Other state revenues	1,922,377	26.01	2,118,662	21.31
Other local revenues	325,743	4.41	401,287	4.04
Operating transfers in	339,093	4.59	264,190	2.66
Proceeds from issuance of bonds	500,000	6.77	2,607,345	26.23
Premium on bonds issued	—	—	—	—
Proceeds from refunding bonds issued	—	—	—	—
Premium on refunding bonds issued	—	—	—	—
Proceeds from Certificates of Participation/ Long-term Capital Lease ⁽¹⁾	228,366	3.09	276,191	2.78
Issuance of refunding COPs	—	—	—	—
Premium on COPs issued	—	—	—	—
Proceeds from CA Energy Commission loan	—	—	—	—
Proceeds from Sullivan Canyon sale	—	—	—	—
Proceeds from Ramona HS	—	—	—	—
Proceeds from sale of surplus property	—	—	—	—
Insurance proceeds – fire damage	—	—	—	—
Children Center facilities fund	441	0.01	518	0.01
Total Revenues and Other Sources	<u>\$ 7,390,773</u>	<u>100.00%</u>	<u>\$ 9,939,832</u>	<u>100.00%</u>
Expenditures and other uses				
Current:				
Certificated salaries	\$ 2,949,992	39.20%	\$ 3,036,964	39.41%
Classified salaries	1,044,050	13.87	1,056,274	13.71
Employee benefits ⁽²⁾	1,056,848	14.04	1,207,073	15.66
Books and supplies	492,982	6.55	490,211	6.36
Services and other operating expenditures ⁽²⁾	650,543	8.64	757,868	9.83
Capital outlay	756,064	10.04	691,793	8.98
Debt service	217,078	2.88	201,782	2.62
Other outgo ⁽²⁾	(387)	(0.01)	(145)	—
Operating transfers out ⁽³⁾	360,338	4.79	263,998	3.43
Discount on issuance of refunding bonds	—	—	—	—
Discount on issuance of COPS	—	—	—	—
Payment to refunded bonds escrow agent	—	—	—	—
Payment to refunded COPs escrow agent	—	—	—	—
Total Expenditures and Other Uses	<u>\$ 7,527,508</u>	<u>100.00%</u>	<u>\$ 7,705,818</u>	<u>100.00%</u>

- ⁽¹⁾ The 2001-02 COPs proceeds were used to acquire and improve real properties, including the new Administration Building and the former Ambassador Hotel site, and the refunding of the 1991 COPs that refunded the 1988 COPS for the Bravo Medical Magnet Senior High School Project. The 2002-03 COPs proceeds were used for information technology systems, warehouse acquisition, administration building improvements and multiple school projects such as: air-conditioning, relocatable classrooms, gymnasium improvements, computer and telephone equipment, school police vehicles, sports and parking facilities, school museum and other projects. The 2004-05 COPs proceeds were used to refund a portion of prior year issuances and make administration building improvements. The 2005-06 COPs proceeds were used to modernize nine schools to accommodate existing or planned academy programs that address student career pathway/higher education interests. The 2007-08 COPs proceeds were used to finance certain acquisition, development and installation of information technology systems of the District.

See accompanying independent auditor's report.

2003-2004		2004-2005		2005-2006	
Amount	Percent	Amount	Percent	Amount	Percent
\$ 3,436,839	45.83%	\$ 3,575,257	41.73%	\$ 3,724,599	35.99%
984,482	13.13	1,071,628	12.51	1,150,060	11.11
2,434,073	32.46	2,109,674	24.63	2,419,412	23.38
451,220	6.02	549,264	6.41	637,941	6.17
172,148	2.30	598,061	6.98	381,658	3.69
—	—	200,000	2.33	1,115,712	10.78
—	—	4,124	0.05	64,283	0.62
—	—	219,125	2.56	778,673	7.53
—	—	16,338	0.19	64,058	0.62
7,630	0.10	221,789	2.59	11,318	0.11
—	—	—	—	—	—
—	—	—	—	—	—
—	—	1,318	0.02	63	—
11,918	0.16	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
<u>\$ 7,498,310</u>	<u>100.00%</u>	<u>\$ 8,566,578</u>	<u>100.00%</u>	<u>\$ 10,347,777</u>	<u>100.00%</u>
\$ 3,055,482	36.88%	\$ 3,110,756	32.34%	\$ 3,187,441	31.58%
1,065,409	12.86	1,069,595	11.12	1,098,558	10.88
1,312,887	15.84	1,349,301	14.03	1,418,575	14.06
468,036	5.65	499,411	5.19	567,167	5.62
821,490	9.91	646,373	6.72	691,388	6.85
1,003,568	12.11	1,398,243	14.54	1,532,862	15.19
346,196	4.18	344,171	3.58	338,706	3.36
41,273	0.50	34,526	0.36	41,695	0.41
171,934	2.07	598,061	6.22	381,658	3.78
—	—	—	—	—	—
—	—	—	—	—	—
—	—	234,126	2.43	656,098	6.50
—	—	333,958	3.47	178,618	1.77
<u>\$ 8,286,275</u>	<u>100.00%</u>	<u>\$ 9,618,521</u>	<u>100.00%</u>	<u>\$ 10,092,766</u>	<u>100.00%</u>

⁽²⁾ “Other outgo” includes Tuition for Handicapped Pupils. From fiscal year 2003-04 to fiscal year 2006-07, Charter Schools In-lieu of Taxes was included in total expenditures under object 7280 as Other transfers out. Starting with fiscal year 2007-08 this is presented as reduction of the revenues, like it was presented prior to 2003-04.

(Continued)

LOS ANGELES UNIFIED SCHOOL DISTRICT
Governmental Fund Types
Schedule of Revenues and Other Sources, Expenditures and Other Uses
by State-Defined Object (Continued)
Last Ten Fiscal Years
(in thousands)
(Unaudited)

	2006-2007		2007-2008	
	Amount	Percent	Amount	Percent
Revenues and other sources				
Revenue limit sources	\$ 3,892,689	32.86%	\$ 3,624,134	34.38%
Federal revenues	1,023,992	8.65	1,016,465	9.64
Other state revenues	2,853,979	24.10	3,307,609	31.38
Other local revenues	835,529	7.05	925,869	8.78
Operating transfers in	362,932	3.06	499,947	4.74
Proceeds from issuance of bonds	900,000	7.60	1,000,000	9.49
Premium on bonds issued	33,649	0.28	42,258	0.40
Proceeds from refunding bonds issued	1,889,000	15.95	—	—
Premium on refunding bonds issued	49,073	0.41	—	—
Proceeds from Certificates of Participation/ Long-term Capital Lease ⁽¹⁾	2,394	0.02	106,627	1.01
Issuance of refunding COPs	—	—	—	—
Premium on COPs issued	—	—	—	—
Proceeds from CA Energy Commission loan	—	—	—	—
Proceeds from Sullivan Canyon sale	—	—	—	—
Proceeds from Ramona HS	—	—	14,110	0.13
Proceeds from sale of surplus property	—	—	—	—
Insurance proceeds – fire damage	2,935	0.02	5,332	0.05
Children Center facilities fund	—	—	—	—
Total Revenues and Other Sources	<u>\$ 11,846,172</u>	<u>100.00%</u>	<u>\$ 10,542,351</u>	<u>100.00%</u>
Expenditures and other uses				
Current:				
Certificated salaries	\$ 3,362,475	29.07%	\$ 3,469,214	33.50%
Classified salaries	1,180,482	10.21	1,269,680	12.26
Employee benefits ⁽²⁾	1,440,468	12.46	1,464,061	14.14
Books and supplies	507,486	4.39	574,902	5.55
Services and other operating expenditures ⁽²⁾	785,742	6.80	880,455	8.50
Capital outlay	1,494,934	12.93	1,644,450	15.88
Debt service	448,238	3.88	541,059	5.22
Other outgo ⁽²⁾	46,865	0.41	882	0.01
Operating transfers out ⁽³⁾	366,926	3.17	512,061	4.94
Discount on issuance of refunding bonds	1,324	0.01	—	—
Discount on issuance of COPS	—	—	—	—
Payment to refunded bonds escrow agent	1,927,084	16.67	—	—
Payment to refunded COPs escrow agent	—	—	—	—
Total Expenditures and Other Uses	<u>\$ 11,562,024</u>	<u>100.00%</u>	<u>\$ 10,356,764</u>	<u>100.00%</u>

⁽¹⁾ The 2001-02 COPs proceeds were used to acquire and improve real properties, including the new Administration Building and the former Ambassador Hotel site, and the refunding of the 1991 COPs that refunded the 1988 COPS for the Bravo Medical Magnet Senior High School Project. The 2002-03 COPs proceeds were used for information technology systems, warehouse acquisition, administration building improvements and multiple school projects such as: air-conditioning, relocatable classrooms, gymnasium improvements, computer and telephone equipment, school police vehicles, sports and parking facilities, school museum and other projects. The 2004-05 COPs proceeds were used to refund a portion of prior year issuances and make administration building improvements. The 2005-06 COPs proceeds were used to modernize nine schools to accommodate existing or planned academy programs that address student career pathway/higher education interests. The 2007-08 COPs proceeds were used to finance certain acquisition, development and installation of information technology systems of the District.

See accompanying independent auditors' report.

2008-2009		2009-2010		2010-2011	
Amount	Percent	Amount	Percent	Amount	Percent
\$ 3,444,940	32.55%	\$ 2,977,215	23.37%	\$ 3,056,350	32.59%
1,357,169	12.82	1,289,543	10.12	1,463,899	15.61
3,223,201	30.45	2,566,534	20.15	2,966,361	31.63
904,663	8.55	918,438	7.21	1,198,389	12.78
575,839	5.44	539,641	4.24	604,246	6.44
945,774	8.94	4,082,645	32.06	—	—
—	—	92,908	0.73	—	—
—	—	149,760	1.18	—	—
—	—	—	—	—	—
122,146	1.15	41,659	0.33	84,388	0.90
—	—	69,685	0.55	—	—
—	—	3,771	0.03	3,034	0.03
—	—	—	—	—	—
—	—	—	—	—	—
9,610	0.09	2,371	0.02	—	—
—	—	—	—	52	—
1,439	0.01	2,057	0.01	1,987	0.02
—	—	(518)	—	—	—
<u>\$ 10,584,781</u>	<u>100.00%</u>	<u>\$ 12,735,709</u>	<u>100.00%</u>	<u>\$ 9,378,706</u>	<u>100.00%</u>
\$ 3,384,912	31.19%	\$ 2,929,870	29.04%	\$ 2,948,806	30.67%
1,236,448	11.39	1,126,477	11.17	1,058,084	11.01
1,440,404	13.27	1,581,239	15.68	1,508,612	15.69
441,855	4.07	395,886	3.92	495,998	5.16
872,470	8.04	867,482	8.60	826,514	8.60
2,113,952	19.48	1,677,858	16.63	1,241,249	12.91
665,738	6.14	727,262	7.21	885,659	9.21
240	—	615	0.01	181	—
588,821	5.43	552,270	5.47	615,202	6.40
—	—	—	—	—	—
—	—	—	—	596	0.01
—	—	163,199	1.62	—	—
107,795	0.99	65,328	0.65	32,548	0.34
<u>\$ 10,852,635</u>	<u>100.00%</u>	<u>\$ 10,087,486</u>	<u>100.00%</u>	<u>\$ 9,613,449</u>	<u>100.00%</u>

⁽²⁾ “Other outgo” includes Tuition for Handicapped Pupils. From fiscal year 2003-04 to fiscal year 2006-07, Charter Schools In-lieu of Taxes was included in total expenditures under object 7280 as Other transfers out. Starting with fiscal year 2007-08 this is presented as reduction of the revenues, like it was presented prior to 2003-04.

(Continued)

LOS ANGELES UNIFIED SCHOOL DISTRICT
Governmental Fund Types
Schedule of Revenues and Other Sources, Expenditures and Other Uses
by State-Defined Object (Continued)
Last Ten Fiscal Years (in thousands)
(Unaudited)

⁽³⁾ Table below shows Detail of Operating transfers out (in thousands):

From	To	2001-2002	2002-2003
General	Adult Education	\$ —	\$ —
General	Cafeteria	—	—
General	Child Development	8,947	8,475
General	Deferred Maintenance	24,191	2,134
General	Charter	20,240	—
General	Capital Services	76,132	37,655
General	Special Reserve	170,845	168,805
General	Special Reserve – FEMA – Earthquake	26,555	9,167
General	Special Reserve – FEMA – Hazard Mitigation	9,109	9,613
General	Special Reserve – Community Redevelopment Agency	1,662	1,419
General	Capital Facilities	—	—
General	Building – Measure R	—	—
General	Health & Welfare	—	—
Adult Education	General	—	2,421
Adult Education	Building – Measure R	—	—
Cafeteria	General	2,315	2,530
Cafeteria	Charter	1,005	—
Cafeteria	Capital Services	—	—
Child Development	General	—	2,068
Deferred Maintenance	General	—	—
Capital Services	General	—	—
Capital Services	State School Building Lease – Purchase	—	—
Capital Services	Special Reserve	—	—
Capital Services	Building – Measure Y	—	—
Capital Services	County School Facilities	—	—
Building	Special Reserve – FEMA	—	—
State School Building Lease – Purchase	Capital Services	—	—
State School Building Lease – Purchase	State School Building Lease – Purchase	—	—
State School Building Lease – Purchase	Special Reserve	—	—
State School Building Lease – Purchase	Capital Facilities	—	—
State School Building Lease – Purchase	Building – Bond Proceeds	—	—
State School Building Lease – Purchase	Building – Measure K	—	—
State School Building Lease – Purchase	County School Facilities	—	—
State School Building Lease – Purchase	County School Facilities – Prop 55	—	—
Special Reserve	General	—	—
Special Reserve	Cafeteria	—	—
Special Reserve	Capital Services	—	(5,866)
Special Reserve	State School Building Lease – Purchase	—	—
Special Reserve	Capital Facilities	—	—
Special Reserve	Building – Bond Proceeds	—	—
Special Reserve	Building – Measure K	—	—
Special Reserve	Building – Measure R	—	—
Special Reserve	Building – Measure Y	—	—
Special Reserve	County School Facilities	—	—
Special Reserve	County School Facilities – Prop 47	—	—
Special Reserve	County School Facilities – Prop 55	—	—
Special Reserve – FEMA – Earthquake	General	—	854
Special Reserve – FEMA – Earthquake	County School Facilities – Prop 55	—	—
Special Reserve – FEMA – Hazard Mitigation	General	—	725

2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011
\$ —	\$ —	\$ —	\$ 4,199	\$ —	\$ —	\$ 168,282	\$ —
—	—	11,140	288	8,214	16,587	12,210	32,061
8,412	8,065	8,764	7,133	—	—	165	7,996
8,140	23,300	30,000	30,188	31,048	30,000	—	—
—	—	—	—	—	—	—	—
51,430	198,026	4,169	9,758	12,514	26,356	30,993	23,849
12,970	110,540	27,403	109	—	3	—	903
3,806	—	2,225	—	—	—	—	—
25,681	2,225	—	—	—	—	—	—
3,757	—	—	—	—	—	—	—
—	—	—	—	—	260	83	—
—	59	—	—	—	—	—	—
—	—	—	3,994	12,114	12,982	12,629	10,956
2,583	—	—	—	10,600	10,600	10,600	—
—	—	—	—	—	3,197	—	—
2,642	1,251	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	2,482	786
1,980	2,100	2,000	2,000	—	—	853	—
—	—	—	—	—	—	—	18,501
—	7,370	—	—	—	231	904	—
—	—	—	—	—	—	2,975	—
—	17,155	—	—	—	—	1,424	—
—	—	1	—	—	—	—	—
—	—	—	—	—	—	3,593	—
—	—	—	—	—	229	—	—
—	—	2,629	—	—	—	—	—
—	—	—	—	—	—	(29)	—
—	—	—	—	259	1	—	—
—	—	—	—	90	—	—	—
—	—	—	—	11,944	60	118	62
—	—	—	—	8,651	221	—	—
—	—	—	—	—	8	104	—
—	—	—	—	—	—	7	—
—	17,155	57,312	28,900	88,200	34,117	62,437	52,161
—	—	—	—	—	—	11,803	—
20,633	28,800	—	1,265	23,484	123,595	73,100	8,578
—	—	—	—	260	100	—	—
—	—	—	—	—	11	—	—
—	—	—	—	—	1,034	1,557	—
—	—	—	61,228	47,288	6,269	629	364
—	—	—	2	—	1,383	14,298	3
—	—	—	—	—	1	—	11
—	—	—	—	—	—	100	—
—	—	—	—	—	355	—	—
—	—	—	—	169	3,657	2,232	5,428
628	213	520	—	—	—	—	—
—	—	—	120	—	—	—	—
298	149	2,225	—	—	—	—	—

(Continued)

LOS ANGELES UNIFIED SCHOOL DISTRICT
Governmental Fund Types
Schedule of Revenues and Other Sources, Expenditures and Other Uses
by State-Defined Object (Continued)
Last Ten Fiscal Years (in thousands)
(Unaudited)

From	To	2001-2002	2002-2003
Special Reserve – CRA	General	—	—
Special Reserve – CRA	Capital Services	—	—
Special Reserve – CRA	Building – Measure K	—	—
Special Reserve – CRA	Building – Measure R	—	—
Special Reserve – CRA	County School Facilities – Prop 47	—	—
Capital Facilities	Capital Services	18,034	17,928
Capital Facilities	State School Building Lease – Purchase	1,303	6,070
Capital Facilities	Special Reserve	—	—
Capital Facilities	Building – Bond Proceeds	—	—
Capital Facilities	Building – Measure K	—	—
Capital Facilities	Building – Measure R	—	—
Capital Facilities	Building – Measure Y	—	—
Building – Bond Proceeds	General	—	—
Building – Bond Proceeds	Deferred Maintenance	—	—
Building – Bond Proceeds	State School Building Lease – Purchase	—	—
Building – Bond Proceeds	Special Reserve	—	—
Building – Bond Proceeds	Capital Facilities	—	—
Building – Bond Proceeds	Building – Measure K	—	—
Building – Bond Proceeds	Building – Measure R	—	—
Building – Bond Proceeds	Building – Measure Y	—	—
Building – Bond Proceeds	County School Facilities	—	—
Building – Bond Proceeds	County School Facilities – Prop 47	—	—
Building – Bond Proceeds	County School Facilities – Prop 55	—	—
Building – Bond Proceeds	County School Facilities – Prop 1D	—	—
Building – Measure K	Adult Education	—	—
Building – Measure K	State School Building Lease – Purchase	—	—
Building – Measure K	Special Reserve	—	—
Building – Measure K	Capital Facilities	—	—
Building – Measure K	Building – Bond Proceeds	—	—
Building – Measure K	Building – Measure R	—	—
Building – Measure K	Building – Measure Y	—	—
Building – Measure K	County School Facilities	—	—
Building – Measure K	County School Facilities – Prop 47	—	—
Building – Measure K	County School Facilities – Prop 55	—	—
Building – Measure R	State School Building Lease – Purchase	—	—
Building – Measure R	Special Reserve	—	—
Building – Measure R	Capital Facilities	—	—
Building – Measure R	Building – Bond Proceeds	—	—
Building – Measure R	Building – Measure K	—	—
Building – Measure R	Building – Measure Y	—	—
Building – Measure R	County School Facilities	—	—
Building – Measure R	County School Facilities – Prop 47	—	—
Building – Measure R	County School Facilities – Prop 55	—	—
Building – Measure R	County School Facilities – Prop 1D	—	—
Building – Measure Y	General	—	—
Building – Measure Y	Adult Education	—	—
Building – Measure Y	Cafeteria	—	—
Building – Measure Y	Capital Services	—	—
Building – Measure Y	Special Reserve	—	—
Building – Measure Y	Building – Bond Proceeds	—	—
Building – Measure Y	Building – Measure K	—	—

2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011
—	—	—	—	4,293	4,069	4,003	4,002
—	—	—	—	—	—	325	—
—	—	—	—	—	3,571	—	—
—	—	—	—	—	1,129	—	—
—	—	—	—	—	1,300	—	—
23,260	24,045	21,606	22,215	20,537	56,461	12,158	10,695
5,714	7,613	—	2,601	90	—	—	—
—	—	—	—	219	12	—	—
—	—	—	—	—	2	—	—
—	—	—	—	11,409	151	4	—
—	—	—	—	3	24	—	—
—	—	—	—	—	—	—	109
—	—	—	—	—	—	76	—
—	—	—	—	—	—	84	—
—	—	—	—	3,307	84	82	881
—	—	—	—	—	139	68	—
—	—	—	—	—	3	195	—
—	—	—	—	943	31,010	5,484	4,488
—	—	—	9	3,795	23,563	36,480	12,330
—	—	—	—	—	114	15	4
—	—	—	—	13	2,742	7,689	124
—	—	—	—	1,252	183	814	3,036
—	—	—	—	3,287	21,142	2,432	4,174
—	—	—	—	—	617	417	—
—	—	—	—	—	4	—	—
—	—	—	—	1	—	—	—
—	—	—	27,907	7,819	15,123	94	—
—	—	—	—	71	—	—	—
—	—	—	146	839	124	751	—
—	—	—	173	9,956	5,433	175	1,349
—	—	—	—	8	236	415	375
—	—	—	6,105	658	—	50	—
—	—	—	—	—	116	—	—
—	—	—	—	1,562	419	—	3,405
—	—	—	—	2,970	—	33	177
—	—	—	—	1,151	161	1,587	116
—	—	—	—	33	—	—	—
—	149,995	—	1	15,368	40	4,714	119
—	—	—	1,563	22,560	3,528	158	1,591
—	—	—	—	8,901	50	787	1,862
—	—	—	1,475	666	160	7,229	417
—	—	—	—	94	—	—	533
—	—	—	—	1,767	957	520	4,840
—	—	—	—	—	—	2,480	44
—	—	30,000	30,000	30,000	30,000	—	13,474
—	—	—	—	—	3	2	—
—	—	—	—	—	—	—	867
—	—	178,618	1,904	1,904	1,904	4,073	2,447
—	—	—	—	61	651	—	—
—	—	—	—	—	4	1,452	114
—	—	—	8,864	364	550	3,798	22

(Continued)

LOS ANGELES UNIFIED SCHOOL DISTRICT
Governmental Fund Types
Schedule of Revenues and Other Sources, Expenditures and Other Uses
by State-Defined Object (Continued)
Last Ten Fiscal Years (in thousands)
(Unaudited)

From	To	2001-2002	2002-2003
Building – Measure Y	Building – Measure R	—	—
Building – Measure Y	County School Facilities	—	—
Building – Measure Y	County School Facilities – Prop 47	—	—
Building – Measure Y	County School Facilities – Prop 1D	—	—
County School Facilities	Deferred Maintenance	—	—
County School Facilities	Capital Services	—	—
County School Facilities	State School Building Lease – Purchase	—	—
County School Facilities	Special Reserve	—	—
County School Facilities	Capital Facilities	—	—
County School Facilities	Building – Bond Proceeds	—	—
County School Facilities	Building – Measure K	—	—
County School Facilities	Building – Measure R	—	—
County School Facilities	Building – Measure Y	—	—
County School Facilities	County School Facilities – Prop 47	—	—
County School Facilities	County School Facilities – Prop 55	—	—
County School Facilities – Prop 47	State School Building Lease – Purchase	—	—
County School Facilities – Prop 47	Special Reserve	—	—
County School Facilities – Prop 47	Capital Facilities	—	—
County School Facilities – Prop 47	Building – Bond Proceeds	—	—
County School Facilities – Prop 47	Building – Measure K	—	—
County School Facilities – Prop 47	Building – Measure R	—	—
County School Facilities – Prop 47	Building – Measure Y	—	—
County School Facilities – Prop 47	County School Facilities	—	—
County School Facilities – Prop 47	County School Facilities – Prop 55	—	—
County School Facilities – Prop 55	State School Building Lease – Purchase	—	—
County School Facilities – Prop 55	Special Reserve	—	—
County School Facilities – Prop 55	Special Reserve – FEMA	—	—
County School Facilities – Prop 55	Capital Facilities	—	—
County School Facilities – Prop 55	Building – Bond Proceeds	—	—
County School Facilities – Prop 55	Building – Measure K	—	—
County School Facilities – Prop 55	Building – Measure R	—	—
County School Facilities – Prop 55	Building – Measure Y	—	—
County School Facilities – Prop 55	County School Facilities	—	—
County School Facilities – Prop 55	County School Facilities – Prop 47	—	—
County School Facilities – Prop 1D	Capital Facilities	—	—
County School Facilities – Prop 1D	Building – Bond Proceeds	—	—
County School Facilities – Prop 1D	Building – Measure K	—	—
County School Facilities – Prop 1D	Building – Measure R	—	—
County School Facilities – Prop 1D	Building – Measure Y	—	—
County School Facilities – Prop 1D	County School Facilities	—	—
County School Facilities – Prop 1D	County School Facilities – Prop 47	—	—
County School Facilities – Prop 1D	County School Facilities – Prop 55	—	—
Annuity	General	—	154
Attendance Incentive	General	—	38
		<u>\$ 360,338</u>	<u>\$ 264,190</u>

See accompanying independent auditor's report.

<u>2003-2004</u>	<u>2004-2005</u>	<u>2005-2006</u>	<u>2006-2007</u>	<u>2007-2008</u>	<u>2008-2009</u>	<u>2009-2010</u>	<u>2010-2011</u>
—	—	—	—	—	4,446	1,675	18,729
—	—	—	—	—	—	512	669
—	—	—	—	—	—	—	73
—	—	—	—	—	—	807	857
—	—	—	—	—	—	857	349
—	—	3,046	—	—	—	—	—
—	—	—	—	—	2	45	—
—	—	—	3	—	—	129	—
—	—	—	—	—	—	53	—
—	—	—	—	—	9,480	4,998	5,972
—	—	—	1	106	1,364	1,691	—
—	—	—	—	24	1,265	3,086	2,919
—	—	—	—	—	2	—	52
—	—	—	—	—	360	734	—
—	—	—	—	—	30	419	—
—	—	—	—	—	40	—	—
—	—	—	—	47	—	—	—
—	—	—	—	1,801	—	—	—
—	—	—	1,006	7,375	5,924	261	2,873
—	—	—	15	2,471	1,429	1,126	1
—	—	—	—	4,089	62	—	77
—	—	—	—	—	5	—	403
—	—	—	—	734	59	—	—
—	—	—	—	1,170	2	—	87
—	—	—	—	15,084	—	—	135
—	—	—	42,457	13,610	44	—	—
—	—	—	—	618	241	—	—
—	—	—	—	90	—	—	—
—	—	—	—	21,358	19,251	1,753	5,844
—	—	—	68,910	8,055	4,169	4,637	27,986
—	—	—	2,387	17,077	33,151	4,753	54,810
—	—	—	—	—	26	—	234,223
—	—	—	—	1,987	259	293	—
—	—	—	—	—	219	—	45
—	—	—	—	—	—	—	220
—	—	—	—	1,721	9,291	6,277	1,638
—	—	—	—	1,045	642	—	1,800
—	—	—	—	1,791	19,543	4,524	15,963
—	—	—	—	—	—	551	3,001
—	—	—	—	—	65	526	1,943
—	—	—	—	—	398	—	—
—	—	—	—	1,072	16	370	1,279
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
<u>\$ 171,934</u>	<u>\$ 598,061</u>	<u>\$ 381,658</u>	<u>\$ 366,926</u>	<u>\$ 512,061</u>	<u>\$ 588,821</u>	<u>\$ 552,270</u>	<u>\$ 615,202</u>

LOS ANGELES UNIFIED SCHOOL DISTRICT
Ratio of Annual Debt Service for General Bonded Debt and Certificates of
Participation (COPs) to Total General Governmental Expenditures
Last Ten Fiscal Years
(in thousands)
(Unaudited)

Fiscal Year	Principal	Interest	Total Debt Service ⁽¹⁾	Total General Governmental Expenditures	Ratio of Debt Service to Total General Governmental Expenditures
2001-2002	\$ 97,935	\$ 91,386	\$ 189,321	\$ 7,527,508	2.52%
2002-2003	86,400	89,292	175,692	7,705,818	2.28
2003-2004	107,370	231,349	338,719	8,286,275	4.09
2004-2005	248,025	248,661	496,686	9,618,521	5.16
2005-2006	89,885	237,622	327,507	10,092,766	3.24
2006-2007	149,230	284,196	433,426	11,562,024	3.75
2007-2008	197,285	334,967	532,252	10,356,764	5.14
2008-2009	300,245	361,990	662,235	10,852,635	6.10
2009-2010	288,160	490,840	779,000	10,087,486	7.72
2010-2011	326,263	625,219	951,482	9,613,449	9.90

Notes:

⁽¹⁾ Payments for General Obligation Bonds and COPs, excluding fees paid in other cities, bond issuance, and other costs.

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Ratio of Net General Bonded Debt and Certificates of Participation (COPs) to
Assessed Value and Net Debt Per Capita
Last Ten Fiscal Years
(Dollars in thousands except Net Debt per Capita)
(Unaudited)

Fiscal Year	Population Los Angeles Unified *	Total Assessed Value	Gross Debt ⁽¹⁾	Debt Service Monies Available	Net Debt ⁽¹⁾	Ratio of Net Debt to Assessed Value	Net Debt per Capita
2001-2002	4,502,647	\$ 271,514,926	\$ 2,395,127	\$ 159,062	\$ 2,236,065	0.8236%	\$ 497
2002-2003	4,660,473	287,525,935	5,191,382	211,507	4,979,875	1.7320	1,069
2003-2004	4,718,101	308,528,780	5,085,570	208,215	4,877,355	1.5808	1,034
2004-2005	4,775,778	331,925,137	5,095,029	224,306	4,870,723	1.4674	1,020
2005-2006	4,784,682	363,869,479	6,233,663	302,401	5,931,262	1.6301	1,240
2006-2007	4,825,016	402,608,837	7,058,754	383,068	6,675,686	1.6581	1,384
2007-2008	4,839,918	440,914,390	8,002,427	497,001	7,505,426	1.7022	1,551
2008-2009	4,853,617	474,789,798	8,666,230	554,524	8,111,706	1.7085	1,671
2009-2010	4,875,984	474,977,291	12,573,523	703,178	11,870,345	2.4991	2,434
2010-2011	4,564,712	463,845,551	12,305,721	806,452	11,499,269	2.4791	2,519

* Estimate

⁽¹⁾ Includes bonded debts (General Obligation Bonds) and COPs.

Sources: 2010-11 Los Angeles County Auditor-Controller "Taxpayers' Guide"
Los Angeles County Department of Regional Research Section

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Schedule of Direct and Overlapping Bonded Debt
Year Ended June 30, 2011
(Dollars in thousands)
(Unaudited)

Government	Percentage Applicable	Amount Applicable
Direct:		
Los Angeles Unified School District		
General Obligation Bonds	100.000%	\$ 11,810,881
Certificates of Participation	100.000	494,840
		<u>12,305,721</u>
Overlapping:		
Los Angeles County General Fund Obligations	46.109	690,241
Los Angeles County Superintendent of Schools Certificates of Participation	46.109	5,628
Los Angeles County Flood Control District	46.749	25,149
Metropolitan Water District	23.541	53,028
Los Angeles Community College District	81.491	2,882,129
Pasadena Area Community College District	0.001	1
City of Los Angeles	99.923	1,254,863
City of Los Angeles General Fund and Judgment Obligations	99.923	1,949,503
Other City General Fund and Pension Obligations	Various	198,457
Los Angeles County Sanitation Districts		
Nos. 1, 2, 3, 4, 5, 8, 9, 16 and 23 Authorities	Various	47,511
Los Angeles County Regional Park & Open Space Assessment District	46.109	90,966
City Community Facilities Districts	100.000	138,270
City of Los Angeles Assessment District #1	100.000	4,534
City of Los Angeles Landscaping and Special Tax Assessment District	99.923	82,042
Other City and Special District 1915 Act Bonds	99.976-100.000	24,752
Other Cities	Various	46,633
Palos Verdes Library District	4.905	320
Total Overlapping		<u>7,494,027</u>
Total Gross Direct and Overlapping Bonded Debt		19,799,748 ⁽¹⁾
Less:		
Los Angeles County General Fund Obligations supported by landfill revenues		8,210
Los Angeles Unified School District (amount set-aside in Building Fund to make payments on 2000 Series A Qualified Zone Academic Bonds)		1,805
Los Angeles Unified School District (amount accumulated in Sinking Fund for repayment of 2000 Series A Qualified Zone Academic Bonds)		27,909
Los Angeles Unified School District (amount accumulated in Sinking Fund for repayment of 2005 Series A Qualified Zone Academic Bonds)		3,241
City self-supporting bonds		10,860
Total Net Direct and Overlapping Bonded Debt		<u>\$ 19,747,723</u>

⁽¹⁾ Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds, and nonbonded capital lease obligations.

Source: California Municipal Statistics, Inc. and District records.

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Legal Debt Margin Information
Last Ten Fiscal Years
(in thousands)
(Unaudited)

Fiscal Year	Debt Limit	Total Amount of Debt Applicable to Debt Limit	Legal Debt Margin	Total Amount of Debt Applicable to Debt Limit as a Percentage of Debt Limit
2001-2002	\$ 6,787,873	\$ 2,243,665	\$ 4,544,208 ⁽¹⁾	33.05 %
2002-2003	7,188,148	4,199,512	2,988,636	58.42
2003-2004	7,713,219	4,162,372	3,550,847	53.96
2004-2005	8,298,128	4,268,184	4,029,944	51.44
2005-2006	9,096,737	5,520,705	3,576,032	60.69
2006-2007	10,065,221	6,285,189	3,780,032	62.44
2007-2008	11,022,860	7,052,672	3,970,188	63.98
2008-2009	11,869,745	7,734,195	4,135,550	65.16
2009-2010	11,874,432	11,483,694	390,738	96.71
2010-2011	11,596,139	11,086,273	509,866	95.60

Computation of Legal Debt Margin for Fiscal Year Ended June 30, 2011

Assessed valuation (net taxable)	\$ 460,684,768
Plus exempt property	<u>3,160,783</u>
Total Assessed Valuation	\$ 463,845,551
Debt limit – 2.5% of Assessed Valuation per Education Code Section 15106 ⁽²⁾	\$ 11,596,139
Bonded Debt:	
General Obligation Bonds	11,810,881
Assets available for payment of principal:	
Bond Interest & Redemption Fund	<u>(724,608)</u>
Total Amount of Debt Applicable to Debt Limit	<u>11,086,273</u>
Legal Debt Margin (bonded debt) ⁽¹⁾	<u>\$ 509,866</u>

⁽¹⁾ The computation of legal debt margin prior to fiscal year 2002-03 includes Certificates of Participation.

⁽²⁾ Converted rate from 10% of 25% of full cash value (2.5%) to 2.5% of 100% of full cash value (2.5%).

Source: Los Angeles County Auditor-Controller "Taxpayers' Guide"

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Demographic Statistics
Last Ten Fiscal Years
(in thousands)
(Unaudited)

Fiscal Year	Population City of Los Angeles	Population Los Angeles Unified*	Population County of Los Angeles	School Enrollment County of Los Angeles	School Enrollment Los Angeles Unified	Unemployment Rate County of Los Angeles
2001-2002	3,695	4,503	9,519	1,711	907	6.8%
2002-2003	3,864	4,660	9,980	1,736	905	6.8
2003-2004	3,912	4,718	10,103	1,743	911	6.2
2004-2005	3,958	4,776	10,227	1,734	879	5.2
2005-2006	3,976	4,785	10,246	1,708	847	4.5
2006-2007	4,018	4,825	10,332	1,673	830	4.8
2007-2008	4,046	4,840	10,364	1,648	813	7.5
2008-2009	4,066	4,854	10,393	1,632	795	11.9
2009-2010	4,095	4,876	10,441	1,575	760	12.4
2010-2011	3,810	4,565	9,859	1,589	750	12.3

* Estimate

Sources: Los Angeles County Office of Regional Planning Research Section
California State Department of Finance
Los Angeles County Office of Education Information Services Unit
California State Department of Education, Educational Demographics Unit
District's Statistical Records – October Enrollment for Fiscal Year
California Employment Development Department

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Principal Employers
Current Year and Nine Years Ago
(Unaudited)

2011				2002			
Rank	Employer	Employees	Percentage of Total County Employment ⁽¹⁾	Employer	Employees	Percentage of Total County Employment ⁽²⁾	
1	Kaiser Permanente	33,600	0.79%	Kaiser Permanente	25,373	0.58%	
2	Northrop Grumman Corp.	21,000	0.49	The Boeing Co.	23,468	0.53	
3	University of Southern California	16,180	0.38	Ralph's Grocery Co.	17,211	0.39	
4	Target Corp.	15,000	0.35	Bank of America	11,943	0.27	
5	Ralph/Food 4 Less (Kroger Co. division)	13,500 *	0.32	Target	10,993	0.25	
6	Cedars-Sinai Medical Center	12,068	0.28	SBC Pacific Bell	10,670	0.24	
7	Bank of America Corp.	12,000 *	0.28	CPE	10,245	0.23	
8	Boeing Co.	11,520	0.27	Northrop Grumman Corp.	10,000	0.23	
9	Providence Health & Services California	10,616	0.25	University of Southern California	9,297	0.21	
10	Home Depot	10,250	0.24	ABM Industries Inc.	9,250	0.21	
Total		<u>155,734</u>	<u>3.65%</u>	Total	<u>138,450</u>	<u>3.14%</u>	

* Business Journal estimate

⁽¹⁾ Based on Los Angeles County Employment of 4,248,900

⁽²⁾ Based on Los Angeles County Employment of 4,401,200

Sources: Los Angeles Business Journal
California Employment Development Department

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Average Daily Attendance/Hours of Attendance
Annual Report
Last Ten Fiscal Years
(Unaudited)

	<u>2001-2002</u>	<u>2002-2003</u>	<u>2003-2004</u>	<u>2004-2005</u>
Elementary:				
Kindergarten	52,071	50,741	49,775	48,806
Grades 1-3	176,474	173,178	169,239	160,224
Grades 4-6	156,347	156,944	159,617	159,615
Grades 7-8	90,474	93,818	97,978	94,396
Special Education	23,130	23,302	23,585	22,107
County Special Education	4	6	8	—
Opportunity Schools	97	13	8	14
Home or Hospital	203	164	152	158
Community Day Schools	141	190	196	190
County Community Schools	12	17	10	19
Total Elementary	<u>498,953</u>	<u>498,373</u>	<u>500,568</u>	<u>485,529</u>
Secondary:				
Regular Classes	142,870	148,631	150,239	152,901
Special Education	10,219	10,393	11,026	11,274
County Special Education	17	17	21	1
Compulsory Continuation Education	2,858	2,866	3,031	3,171
Opportunity Schools	912	430	328	400
Home or Hospital	90	88	96	121
Community Day Schools	238	674	733	736
County Community Schools	149	143	127	175
Total Secondary	<u>157,353</u>	<u>163,242</u>	<u>165,601</u>	<u>168,779</u>
Block grant funded fiscally affiliated charters	<u>20,010</u>	<u>17,681</u>	<u>5,143</u>	<u>5,990</u>
Total Block Grant Funded Fiscally Affiliated Charters	<u>20,010</u>	<u>17,681</u>	<u>5,143</u>	<u>5,990</u>
Adult program:				
ROC/P Mandated	19,846	19,233	20,125	19,110
Classes for Adults – Mandated	63,355	63,590	62,570	61,748
Concurrently Enrolled Adults	3,170	4,015	4,592	5,446
Full-time Independent Study***	1	3	6	3
Total Adult Program	<u>86,372</u>	<u>86,841</u>	<u>87,293</u>	<u>86,307</u>
Total Average Daily Attendance	<u>762,688</u>	<u>766,137</u>	<u>758,605</u>	<u>746,605</u>
Summer School Hours of Attendance				
Elementary	6,978,428	7,645,522	8,855,212	12,526,699
Secondary	5,237,002	5,486,137	5,941,513	6,350,873
Dependent Charter	408,580	195,142	*****	*****
Total Hours	<u>12,624,010</u>	<u>13,326,801</u>	<u>14,796,725</u>	<u>18,877,572</u>

*** Students 21 years or older and students 19 or older not continuously enrolled since their 18th birthday, participating in full-time independent study.

**** Not collected due to changes made by Education Code Section 42605. For 2008-09 through 2012-13, Districts are not required to operate the program or follow program requirements. Revenue for these years will be based on the same relative proportion that the District received for these programs in fiscal year 2007-08.

***** Included with Elementary and Secondary hours.

See accompanying independent auditor's report.

2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011
47,876	46,131	44,705	44,393	43,906	43,364
151,592	145,181	141,266	138,384	134,001	130,846
152,341	143,384	136,245	131,692	127,455	124,800
91,576	92,832	90,769	86,871	82,465	78,704
20,435	19,740	19,427	19,897	19,204	19,250
—	—	—	—	1	1
10	12	11	10	7	7
159	159	170	123	118	127
172	148	122	122	126	85
16	19	26	22	21	11
464,177	447,606	432,741	421,514	407,304	397,195
152,848	151,323	151,852	151,451	146,707	143,979
11,350	11,253	11,030	10,905	10,960	11,252
—	—	—	—	1	—
3,198	2,972	2,837	3,085	3,339	3,507
407	399	433	455	492	494
120	125	130	109	99	98
757	716	692	772	915	911
156	93	84	81	240	148
168,836	166,881	167,058	166,858	162,753	160,389
5,958	5,936	6,482	6,655	6,906	7,866
5,958	5,936	6,482	6,655	6,906	7,866
14,395	18,857	20,309	23,379	****	****
63,305	64,867	65,684	66,905	****	****
5,886	6,594	7,756	8,297	****	****
7	29	43	25	****	****
83,593	90,347	93,792	98,606	—	—
722,564	710,770	700,073	693,633	576,963	565,450
12,061,970	9,974,314	10,195,908	8,567,366	****	****
8,929,199	8,357,150	8,336,362	7,203,657	****	****
*****	*****	*****	*****	*****	*****
20,991,169	18,331,464	18,532,270	15,771,023	—	—

LOS ANGELES UNIFIED SCHOOL DISTRICT
Full-Time Equivalent District Employees by Function
Last Nine Fiscal Years
(Unaudited)

	<u>2002-2003</u>	<u>2003-2004</u>	<u>2004-2005</u>	<u>2005-2006</u>
Governmental Activities:				
Instruction	53,905	54,151	53,601	52,608
Support services – students	3,043	2,954	3,074	3,091
Support services – instructional staff	5,290	5,079	5,327	5,560
Support services – general administration	204	173	193	209
Support services – school administration	5,685	5,720	5,780	5,870
Support services – business	1,605	1,748	1,441	1,119
Operation and maintenance of plant services	7,195	7,591	7,398	7,537
Student transportation services	1,314	1,279	1,229	1,174
Data processing services	476	515	519	557
Operation of noninstructional services	3,935	3,449	3,389	3,232
Facilities acquisition and construction services	538	545	884	937
Total Governmental Activities	<u>83,190</u>	<u>83,204</u>	<u>82,835</u>	<u>81,894</u>

Trend data is available only with the District's implementation of SACS in fiscal year 2002-2003.

See accompanying independent auditor's report.

<u>2006-2007</u>	<u>2007-2008</u>	<u>2008-2009</u>	<u>2009-2010</u>	<u>2010-2011</u>
52,769	51,839	52,317	46,896	45,115
3,060	3,459	3,455	3,226	3,057
5,280	5,883	5,332	4,105	3,970
222	220	219	193	187
6,045	6,097	6,047	5,470	4,741
1,154	1,217	1,121	1,134	880
7,835	7,830	8,016	6,842	6,137
1,236	1,346	1,354	1,290	1,178
722	680	571	384	357
3,394	3,685	3,976	4,604	4,702
994	1,093	1,090	1,077	700
<u>82,711</u>	<u>83,349</u>	<u>83,498</u>	<u>75,221</u>	<u>71,024</u>

LOS ANGELES UNIFIED SCHOOL DISTRICT
Capital Assets by Function
Last Nine Fiscal Years
(in thousands)
(Unaudited)

	<u>2002-2003</u>	<u>2003-2004</u>	<u>2004-2005</u>	<u>2005-2006</u>	<u>2006-2007</u>
Governmental Activities:					
Instruction	\$ 546,694	\$ 528,679	\$ 513,717	\$ 497,404	\$ 478,190
Support services – students	2,264	2,662	2,795	2,823	2,850
Support services – instructional staff	28,251	44,718	55,793	109,660	64,517
Support services – general administration	3,489	4,037	4,077	4,076	4,125
Support services – school administration	60,293	60,410	60,447	60,447	71,013
Support services – business	27,488	31,371	31,397	30,818	32,499
Operation and maintenance of plant services	129,770	140,029	165,668	177,094	139,831
Student transportation services	49,205	49,201	49,235	49,357	49,153
Data processing services	367,824	373,820	401,997	388,367	438,732
Operation of noninstructional services	9,475	9,712	9,750	9,977	11,806
Facilities acquisition and construction services	5,403,186	6,328,779	7,656,251	9,131,797	10,651,910
Total Governmental Activities	<u>\$ 6,627,939</u>	<u>\$ 7,573,418</u>	<u>\$ 8,951,127</u>	<u>\$ 10,461,820</u>	<u>\$ 11,944,626</u>

Trend data is available only with the District's implementation of SACS in Fiscal Year 2002-03.

See accompanying independent auditor's report.

<u>2007-2008</u>	<u>2008-2009</u>	<u>2009-2010</u>	<u>2010-2011</u>
\$ 462,230	\$ 445,482	\$ 441,818	\$ 430,887
2,902	2,902	2,902	3,820
63,334	111,596	111,842	112,492
4,124	4,125	4,125	4,126
71,875	72,027	73,901	73,973
39,700	46,924	46,924	53,672
198,985	201,531	201,826	213,453
46,317	45,033	54,060	87,166
445,150	398,032	402,311	406,813
15,574	22,463	23,777	25,381
<u>12,231,831</u>	<u>14,341,812</u>	<u>15,971,711</u>	<u>17,122,389</u>
<u>\$13,582,022</u>	<u>\$15,691,927</u>	<u>\$17,335,197</u>	<u>\$18,534,172</u>

LOS ANGELES UNIFIED SCHOOL DISTRICT
Miscellaneous Statistical Data
Last Five Fiscal Years
(Unaudited)

Fiscal Year:	July 1 – June 30	2006-2007
Enrollment by Level: (As of October)	Elementary Schools	308,000
	Middle/Junior High Schools	141,745
	Senior High Schools	167,113
	Magnet Schools/Centers	53,277
	Special Education Schools	3,673
	Total K-12 Enrollment	673,808
	Community Adult Schools	108,096
	Occupational Centers and Skills Centers	37,672
	Total Adult/ROC Enrollment	145,768
	Total Enrollment	819,576
	Early Education Centers	11,052
	Independent Charter Schools	34,961
Student-Teacher Ratio & Cost per Student:	Student Enrollment	830,320
	Teaching Staff	32,923
	Student-Teacher Ratio	25.22 : 1
	Total Primary Government Expense (in thousands)	\$ 7,577,170
	Cost Per Student (in thousands)	\$ 9,126
Percent of Free & Reduced Students in Lunch Program:	Elementary	86.97%
	Secondary	89.70
	Total	87.77
Number of Teachers ⁽¹⁾ by Education Level:	Bachelor's Degree	2,239
	Bachelor's Degree + 14 semester units	1,173
	Bachelor's Degree + 28 semester units	3,280
	Bachelor's Degree + 42 semester units	3,901
	Bachelor's Degree + 56 semester units	3,420
	Bachelor's Degree + 70 semester units	3,124
	Bachelor's Degree + 84 semester units	2,850
	Bachelor's Degree + 98 semester units	7,147
	Bachelor's Degree + 98 semester units + 15-19 years of service	2,398
	Bachelor's Degree + 98 semester units + 20-24 years of service	1,351
	Bachelor's Degree + 98 semester units + 25-29 years of service	1,215
	Bachelor's Degree + 98 semester units + 30 or more years of service	825
	Total	32,923
	Master's Degree	9,816
	Doctorate Degree	505
Average Teacher Pay by Education Level:	Bachelor's Degree	\$ 43,352
	Bachelor's Degree + 14 semester units	46,896
	Bachelor's Degree + 28 semester units	50,047
	Bachelor's Degree + 42 semester units	53,558
	Bachelor's Degree + 56 semester units	56,982
	Bachelor's Degree + 70 semester units	61,323
	Bachelor's Degree + 84 semester units	64,959
	Bachelor's Degree + 98 semester units	69,891
	Bachelor's Degree + 98 semester units + 15-19 years of service	75,024
	Bachelor's Degree + 98 semester units + 20-24 years of service	75,597
	Bachelor's Degree + 98 semester units + 25-29 years of service	77,598
	Bachelor's Degree + 98 semester units + 30 or more years of service	78,906
	Master's Degree ⁽²⁾	+584
	Doctorate Degree ⁽²⁾	+1,168

⁽¹⁾ Includes credentialed and non-credentialed employees.

⁽²⁾ Amount in addition to Bachelor's Degree pay.

Source: District's Records

Note: Beginning with Fiscal Year 2006-07, trend data is included per recommendation of Governmental Accounting, Auditing, and Financial Reporting

See accompanying independent auditor's report.

2007-2008	2008-2009	2009-2010	2010-2011
295,260	289,969	282,469	281,108
136,315	128,528	119,534	106,097
165,459	161,689	155,740	154,001
52,525	53,261	56,503	56,952
3,656	3,604	3,552	3,555
653,215	637,051	617,798	601,713
105,668	103,440	80,407	80,618
42,955	43,966	50,068	55,782
148,623	147,406	130,475	136,400
801,838	784,457	748,273	738,113
11,013	10,787	11,432	12,139
41,073	51,087	60,643	69,935
812,851	795,244	759,705	750,252
36,564	33,166	33,387	32,429
22.23 : 1	23.98 : 1	22.75 : 1	23.14 : 1
\$ 9,028,343	\$ 9,005,723	\$ 8,247,767	\$ 8,442,307
\$ 11,107	\$ 11,324	\$ 10,857	\$ 11,253
85.48%	86.12%	86.48%	85.79%
90.23	91.23	91.34	90.10
86.94	87.82	88.18	87.22
1,862	807	618	497
894	533	489	379
2,988	1,881	1,776	1,564
3,657	2,732	2,555	2,384
3,490	2,908	2,734	2,555
3,327	2,986	2,861	2,736
3,310	3,085	2,930	2,782
10,108	10,426	11,839	11,496
3,079	4,384	3,496	3,989
1,548	1,554	2,225	2,224
1,307	1,081	1,040	999
994	789	824	824
36,564	33,166	33,387	32,429
12,869	12,845	13,358	13,362
599	581	601	591
\$ 43,757	\$ 45,474	\$ 46,186	\$ 46,699
47,301	48,926	48,630	49,574
50,035	52,293	51,801	52,228
53,524	55,817	55,296	55,752
57,067	59,095	58,574	59,036
61,182	62,779	62,288	62,730
64,605	66,136	65,558	66,225
69,688	70,396	70,122	70,581
75,024	75,024	75,024	75,024
75,597	75,597	75,597	75,597
77,598	77,598	77,598	77,598
78,906	78,906	78,906	78,906
+584	+584	+584	+584
+1,168	+1,168	+1,168	+1,168



**STATE AND FEDERAL
COMPLIANCE
INFORMATION
SECTION**

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LOS ANGELES UNIFIED SCHOOL DISTRICT
General Fund
Schedule of Principal Apportionment From the State School Fund
Year Ended June 30, 2011

Base Revenue Limit per A.D.A.			
Base revenue limit per A.D.A. (PY)	\$	6,387.56	
Inflation increase		(25.00)	
Other Adjustments **		54.33	
Total Base Revenue Limit per A.D.A.	\$	<u>6,416.89</u>	
Revenue Limit ADA		<u>572,565.97</u>	
Total State Revenue Limit			
Base revenue limit	\$	6,416.89	x 572,565.97 A.D.A
Deficit (0.17963)			\$ 3,674,092,847
Unemployment insurance revenue			(659,977,298)
PERS reduction (including adjustment for safety members)			33,180,336
Total K-12 Revenue Limit			<u>(9,771,727)</u>
County office funds transfer			3,037,524,158
Property taxes and other local revenues			(881,822)
Charter schools in-lieu of taxes			(909,483,383)
Charter schools general purpose block grant offset			104,233,657
State Aid Portion of Revenue Limit - Current Year			<u>(36,268,661)</u>
Fiscally affiliated charter schools general purpose block grant			2,195,123,949
Fiscally affiliated charter schools in-lieu taxes			32,726,206
PERS reduction transfer			9,777,530
Prior year adjustments			9,771,727
Total State Aid K-12 Revenue Limit			<u>(6,629,506)</u>
			2,240,769,906
Principal apportionments-other state revenues			
Core academic program (Supplemental instruction, grades K-12) *			
Current year			3,074,856
California high school exit exam (Supplemental instruction, grades 7-12) *			
Current year			40,456,117
Retained and recommended for retention (Supplemental instruction, grades 2-9) *			
Current year			13,870,440
Apprenticeship Funding			
Current year			2,571,075
Prior year adjustments			436,420
Community day school additional funding *			
Current year			2,793,112
Community day additional for mandatory expelled pupils			235,328
Gifted and talented education (GATE)			
Current year			4,509,104
Prior year adjustments			(245)
Regional occupational center/program (ROC/P) *			
Current year			52,749,649
Prior year adjustments			(54,378)
ROC/P handicapped			
Current year			1,706,245
Special education			
Current year (net of charter schools)			389,738,661
Prior year adjustments			22,085,269
Total Principal Apportionment from State School Funds	\$	<u>2,774,941,559</u>	

* Pursuant to Senate Bill 4 of the 2009-10 Third Extraordinary Session (SBX3 4) (Chapter 12, Statutes of 2009), appropriations for fiscal years 2008-09 through 2012-13 for these programs which are normally ADA or hourly based, are based on the District's 2007-08 funding level.

** Revenue limit add-on funding adjustments for the changes made to Meals for Needy Pupils funding and Beginning Teachers Salary funding effective fiscal year 2010-11. (EC sections 42238(c)(1)(A) and 42238(c)(2))

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
General Fund
Schedule of Appropriations, Expenditures and Other Uses, and Unexpended Balances
by District Defined Program
Year Ended June 30, 2011
(in thousands)

	<u>Appropriations</u>	<u>Expenditures and Other Uses</u>	<u>Unexpended Balances</u>
Regular program:			
General Program – Schools	\$ 2,723,207	\$ 2,664,394	\$ 58,812
General Program – Support Services	677,450	344,541	332,909
General Program – Hourly Intervention/ Remediation	18,490	15,508	2,982
General Program – Interfund Transfers	153,829	55,910	97,919
General Program – Options Programs	67,468	67,944	(476)
Special Education – Schools	1,381,830	1,310,354	71,476
Special Education – Support Services	39,072	55,185	(16,113)
Special Education – Extended Session	26,824	18,702	8,122
Student Integration – Schools	353,419	292,655	60,764
Student Integration – Support Services	11,904	10,697	1,207
ROC/Skill Centers – Schools	61,383	59,498	1,885
ROC/Skill Centers – Support Services	4,795	3,766	1,029
Routine Repair & Gen Maintenance – Schools	117,920	122,780	(4,860)
Routine Repair & Gen Maintenance – Support Services	20,316	19,423	893
Community Services	10,079	10,705	(626)
Reserves and Resources Allocations	80,876	8,158	72,718
Total Regular Program	5,748,862	5,060,220	688,641
Specialty Funded Programs	1,380,092	1,123,915	256,177
Total General Fund	<u>\$ 7,128,954</u>	<u>\$ 6,184,135</u>	<u>\$ 944,818</u>

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
General Fund
Expenditures and Other Uses by Goal and Function
Year Ended June 30, 2011
(in thousands)

Instruction	<u>\$ 5,101,303</u>
Support Services	
Supervision of instruction	28,754
Library, media, technology and other instructional resources	3,958
School administration	196,210
Pupil support services	37,899
Pupil transportation	59,218
Data processing services	56,616
Plant maintenance and operations	365,807
Facilities rents and leases	11,642
Central administration	180,423
Total Support Services	<u>940,527</u>
Other Goals	
Community services	12,311
Child care and development services	964
Food services	2,561
Total Other Goals	<u>15,836</u>
Facilities Acquisition and Construction	<u>35,426</u>
Other Outgo	
Debt service	1,725
All other outgo	89,318
Total Other Outgo	<u>91,043</u>
Total Expenditures and Other Uses	<u><u>\$ 6,184,135</u></u>

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
General Fund
Schedule of Current Expense of Education
Year Ended June 30, 2011
(in thousands)

	Total Expense for the Year	Excluded Amounts*	Current Expense of Education	Current Expense of Education per Unit of A.D.A.**
Certificated salaries	\$ 2,813,064	\$ 6,397	\$ 2,806,667	\$ 4,989.44
Classified salaries	854,247	25,377	828,870	1,473.49
Employee benefits (excluding PERS reduction)	1,331,777	311,535	1,020,242	1,813.69
Books, supplies, and equipment replacement	357,329	4,961	352,368	626.41
Services and operating expense and direct support	672,196	9,759	662,437	1,177.62
Total	\$ 6,028,613	\$ 358,029	\$ 5,670,584	\$ 10,080.65
* Excluded amounts relate to:				
Community Services		\$ 12,068		
Facilities Acquisition & Construction		20,478		
Food Services		2,499		
Fringe Benefits to Retirees		302,662		
Nonagency		20,322		
Total		\$ 358,029		

** Annual A.D.A. (Average Daily Attendance) used is 562,521.45. Amounts rounded to nearest cent.

Note: Computation of current expense of education was prepared according to state guidelines.

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
General Fund
Schedule of Special Purpose Revenues, Expenditures, and Restricted Balances
Year Ended June 30, 2011
(in thousands)

	Balances July 1, 2010	Revenues	Expenditures	Contributions	Balances June 30, 2011
Continuation Education	\$ —	\$ 17,700	\$ 26,330	\$ 8,630	\$ —
Community Day Schools	—	5,474	12,374	6,900	—
ARRA: State Fiscal Stabilization Fund	48,904	28,354	77,258	—	—
Other ARRA Programs	—	600	600	—	—
Medi-Cal Billing Options	15,462	20,128	13,522	—	22,068
FEMA Public Assistance Funds	97	—	6	—	91
Cops More Program	35	—	—	—	35
School Mental Health Medi-cal Rehabilitation	4,218	26,889	29,800	1,058	2,365
Teacher Recruitment and Retention	5,385	—	515	—	4,870
English Language Acquisition Program, Teacher Training & Student Assistance	4,304	(3)	123	—	4,178
Lottery: Instructional Materials	—	12,359	12,359	—	—
ROC/P: Training & Certification for Community Care	103	313	368	—	48
Pupils with Disabilities Attending ROC/P	—	1,706	1,854	148	—
Special Education	5,803	565,273	1,142,708	585,626	13,994
Special Ed: Early Ed Individuals with Exceptional Needs (Infant Program)	—	2,989	2,781	—	208
Economic Impact Aid (EIA)	5,627	18,357	22,542	—	1,442
Economic Impact Aid: Limited English Proficiency (LEP)	64,998	117,679	122,558	—	60,119
Transportation: Home to School	—	35,585	43,052	7,467	—
Transportation: Special Education	—	40,267	51,658	11,391	—
Quality Education Investment Act	98,814	128,958	140,150	—	87,622
Other Restricted State	397	1,498	1,498	—	397
Ongoing and Major Maintenance Account	15,962	—	142,203	129,881	3,640
Certificates of Participation (Acquisition Accounts) Proceeds	23,413	55,718	13,522	(974)	64,635
Clean Cities Grant	—	953	—	(703)	250
Cognitive Behavioral Intervention Therapy	470	—	14	—	456
Other Restricted Local	—	62,743	58,490	(4,253)	—
Totals	\$ 293,992	\$ 1,143,540	\$ 1,916,285	\$ 745,171	\$ 266,418

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Adult Education Fund
Schedule of Revenues and Other Sources, Expenditures, and Other Uses
by Function, and Changes in Fund Balance
Year Ended June 30, 2011
(in thousands)

Revenues and Other Sources:	
Federal revenues	\$ 19,888
Other state revenues	75,546
Other local revenues	<u>2,372</u>
Total Revenues and Other Sources	<u>97,806</u>
Expenditures and Other Uses	
Instruction	97,232
Support Services	
Supervision of instruction	18,492
School administration	20,572
Guidance and counseling services	6,933
Other pupil services	99
General administration cost transfers	2,897
Plant maintenance and operations	13,688
Facilities acquisition and construction	811
Facilities rents and leases	<u>2,521</u>
Total Expenditures and Other Uses	<u>163,245</u>
Excess of Revenues and Other Sources Over Expenditures and Other Uses	(65,439)
Fund Balance, July 1, 2010	<u>76,925</u>
Fund Balance, June 30, 2011	<u>\$ 11,486</u>

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Child Development Fund
Schedule of Revenues and Other Sources, Expenditures, and Other Uses
by Function, and Changes in Fund Balance
Year Ended June 30, 2011
(in thousands)

Revenues and Other Sources:	
Federal revenues	\$ 64,139
Other state revenues	59,981
Other local revenues	12,997
Interfund transfers	<u>7,996</u>
Total Revenues and Other Sources	<u>145,113</u>
 Expenditures and Other Uses	
Instruction	108,606
Support Services	
Supervision of instruction	9,125
School administration	15,385
Guidance and counseling services	1,275
Health services	693
Food services	16
Community services	119
Other general administration	342
Plant maintenance and operations	9,206
Facilities acquisition and construction	331
Facilities rents and leases	<u>2</u>
Total Expenditures and Other Uses	<u>145,100</u>
Excess of Revenues and Other Sources Over Expenditures and Other Uses	13
 Fund Balance, July 1, 2010	<u>58</u>
 Fund Balance, June 30, 2011	<u><u>\$ 71</u></u>

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT

All Funds

Schedule of Fund Equity

Year Ended June 30, 2011

(in thousands)

	General Fund	Adult Education Fund	Cafeteria Fund	Child Development Fund	Deferred Maintenance Fund	Bond Interest & Redemption Fund
Nonspendable:						
Revolving and imprest funds	\$ 2,893	\$ 95	\$ —	\$ 20	\$ —	\$ —
Inventories	7,524	—	4,935	—	—	—
Total Nonspendable	10,417	95	4,935	20	—	—
Restricted	266,418	—	3,843	—	—	724,608
Committed	—	11,391	—	—	—	—
Assigned	147,035	—	—	51	—	—
Unassigned						
Reserved for economic uncertainties	65,376	—	—	—	—	—
Unassigned	414,285	—	—	—	—	—
Total Unassigned	479,661	—	—	—	—	—
Unrestricted net assets	—	—	—	—	—	—
Total Fund Equity/Net Assets	<u>\$ 903,531</u>	<u>\$ 11,486</u>	<u>\$ 8,778</u>	<u>\$ 71</u>	<u>\$ —</u>	<u>\$ 724,608</u>

See accompanying independent auditor's report.

Tax Override Fund	Capital Services Fund	Building Account – Bond Proceeds	Building Account – Measure K	Building Account – Measure R	Building Account – Measure Y	Building Fund	State School Building Lease – Purchase Fund	Special Reserve Fund
\$ —	\$ —	\$ 3,000	\$ —	\$ 300	\$ 500	\$ —	\$ —	\$ —
—	—	—	—	—	—	—	—	—
—	—	3,000	—	300	500	—	—	—
294	81,844	20,477	278,960	751,975	1,765,116	—	3,869	117,667
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	1,763	425	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
\$ 294	\$ 81,844	\$ 23,477	\$ 278,960	\$ 752,275	\$ 1,765,616	\$ 1,763	\$ 4,294	\$ 117,667

(Continued)

LOS ANGELES UNIFIED SCHOOL DISTRICT
All Funds
Schedule of Fund Equity (Continued)
Year Ended June 30, 2011
(In thousands)

	Special Reserve Fund – FEMA – Earthquake	Special Reserve Fund – FEMA – Hazard Mitigation	Special Reserve Fund – Community Redevelopment Agency	Capital Facilities Account Fund	County School Facilities Fund	County School Facilities Fund – Prop 47
Nonspendable:						
Revolving and imprest funds	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Inventories	—	—	—	—	—	—
Total Nonspendable	—	—	—	—	—	—
Restricted	240	—	10,673	—	19,040	116,148
Committed	—	—	—	—	—	—
Assigned	—	2,043	—	25,500	—	—
Unassigned						
Reserved for economic uncertainties	—	—	—	—	—	—
Unassigned	—	—	—	—	—	—
Total Unassigned	—	—	—	—	—	—
Unrestricted net assets	—	—	—	—	—	—
Total Fund Equity/Net Assets	<u>\$ 240</u>	<u>\$ 2,043</u>	<u>\$ 10,673</u>	<u>\$ 25,500</u>	<u>\$ 19,040</u>	<u>\$ 116,148</u>

See accompanying independent auditor's report.

County School Facilities Fund – Prop 55	County School Facilities Fund – Prop 1D	Health and Welfare Benefits Fund	Workers’ Compensation Self – Insurance Fund	Liability Self – Insurance Fund
\$ —	\$ —	\$ —	\$ —	\$ —
—	—	—	—	—
321,286	256,066	—	—	—
—	—	—	—	—
—	—	—	—	—
—	—	—	—	—
—	—	—	—	—
—	—	—	—	—
—	—	211,573	35,293	3,600
\$ 321,286	\$ 256,066	\$ 211,573	\$ 35,293	\$ 3,600

LOS ANGELES UNIFIED SCHOOL DISTRICT
All Funds
Schedule of Revenues and Other Financing Sources
Year Ended June 30, 2011
(in thousands)

	SACS Object Code	General Fund	Special Revenue		
			Adult Education	Cafeteria	Child Development
Revenue Limit Sources:					
Principal Apportionment:					
State Aid – Current Year	8011	\$ 2,195,124	\$ —	\$ —	\$ —
Charter School Gen Purpose Entitlement – State Aid	8015	32,726	—	—	—
State Aid – Prior Years	8019	(6,630)	—	—	—
Revenue Limit Transfers:					
PERS Reduction Transfer	8092	9,772	—	—	—
Transfer to Charter In Lieu Property Taxes	8096	(84,125)	—	—	—
Principal Apportionment Net of Transfers		<u>2,146,867</u>	<u>—</u>	<u>—</u>	<u>—</u>
Tax Relief Subventions:					
Homeowners' Exemptions	8021	7,362	—	—	—
Other Subventions/In-lieu of Taxes	8029	5,501	—	—	—
County & District Taxes:					
Secured Roll Taxes	8041	732,368	—	—	—
Unsecured Roll Taxes	8042	32,613	—	—	—
Prior Years' Taxes	8043	56,597	—	—	—
Supplemental Taxes	8044	8,823	—	—	—
Education Revenue Augmentation Fund (ERAF)	8045	29,419	—	—	—
Supplemental Educational Revenue Augmentation Fund (SERAF)	8046	32,172	—	—	—
Community Redevelopment Funds	8047	3,038	—	—	—
Penalties/Int. – Delinquent Revenue Limit Taxes	8048	1,590	—	—	—
Miscellaneous Funds (EC 41604):					
Royalties and Bonuses	8081	—	—	—	—
Less: Non-Revenue Limit (50%) Adjustment	8089	—	—	—	—
Local Revenue Limit Sources		<u>909,483</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total Revenue Limit Sources		<u>3,056,350</u>	<u>—</u>	<u>—</u>	<u>—</u>
Federal Revenues:					
Special Education Entitlement	8181	164,864	—	—	—
Special Education Discretionary Grant	8182	23,671	—	—	—
Child Nutrition Programs	8220	—	—	229,659	—
Forest Reserve Funds	8260	21	—	—	—
Flood Control Funds	8270	4	—	—	—
FEMA	8281	387	—	—	—
Interagency Contracts Between LEAs	8285	1,092	231	—	4,375
NCLB/IASA (Including ARRA)	8290	795,568	—	—	—
Vocational & Applied Technology Education	8290	6,443	3,337	—	—
Safe and Drug Free Schools	8290	1,335	—	—	—
Other Federal Revenue (Including ARRA)	8290	73,099	16,320	7,440	59,764
Total Federal Revenues		<u>1,066,484</u>	<u>19,888</u>	<u>237,099</u>	<u>64,139</u>

(Continued)

LOS ANGELES UNIFIED SCHOOL DISTRICT
All Funds
Schedule of Revenues and Other Financing Sources (Continued)
Year Ended June 30, 2011
(in thousands)

	SACS Object Code	Capital Projects			
		Capital Facilities Fund	State School Building Lease - Purchase	Special Reserve	Special Reserve CRA
Revenue Limit Sources:					
Principal Apportionment:					
State Aid – Current Year	8011	\$ —	\$ —	\$ —	\$ —
Charter School Gen Purpose Entitlement – State Aid	8015	—	—	—	—
State Aid – Prior Years	8019	—	—	—	—
Revenue Limit Transfers:					
PERS Reduction Transfer	8092	—	—	—	—
Transfer to Charter In Lieu Property Taxes	8096	—	—	—	—
Principal Apportionment Net of Transfers		—	—	—	—
Tax Relief Subventions:					
Homeowners' Exemptions	8021	—	—	—	—
Other Subventions/In-lieu of Taxes	8029	—	—	—	—
County & District Taxes:					
Secured Roll Taxes	8041	—	—	—	—
Unsecured Roll Taxes	8042	—	—	—	—
Prior Years' Taxes	8043	—	—	—	—
Supplemental Taxes	8044	—	—	—	—
Education Revenue Augmentation Fund (ERAF)	8045	—	—	—	—
Supplemental Educational Revenue Augmentation Fund (SERAF)	8046	—	—	—	—
Community Redevelopment Funds	8047	—	—	—	—
Penalties/Int. – Delinquent Revenue Limit Taxes	8048	—	—	—	—
Miscellaneous Funds (EC 41604):					
Royalties and Bonuses	8081	—	—	—	—
Less: Non-Revenue Limit (50%) Adjustment	8089	—	—	—	—
Local Revenue Limit Sources		—	—	—	—
Total Revenue Limit Sources		—	—	—	—
Federal Revenues:					
Special Education Entitlement	8181	—	—	—	—
Special Education Discretionary Grant	8182	—	—	—	—
Child Nutrition Programs	8220	—	—	—	—
Forest Reserve Funds	8260	—	—	—	—
Flood Control Funds	8270	—	—	—	—
FEMA	8281	—	—	—	—
Interagency Contracts Between LEAs	8285	—	—	—	—
NCLB/IASA (Including ARRA)	8290	—	—	—	—
Vocational & Applied Technology Education	8290	—	—	—	—
Safe and Drug Free Schools	8290	—	—	—	—
Other Federal Revenue (Including ARRA)	8290	—	—	—	—
Total Federal Revenues		—	—	—	—

(Continued)

LOS ANGELES UNIFIED SCHOOL DISTRICT
All Funds
Schedule of Revenues and Other Financing Sources (Continued)
Year Ended June 30, 2011
(in thousands)

				District Bond
	SACS Object Code	Building Account – Bond Proceeds	Building Account – Measure Y	Building Account – Measure R
Revenue Limit Sources:				
Principal Apportionment:				
State Aid – Current Year	8011	\$ —	\$ —	\$ —
Charter School Gen Purpose Entitlement – State Aid	8015	—	—	—
State Aid – Prior Years	8019	—	—	—
Revenue Limit Transfers:				
PERS Reduction Transfer	8092	—	—	—
Transfer to Charter In Lieu Property Taxes	8096	—	—	—
Principal Apportionment Net of Transfers		—	—	—
Tax Relief Subventions:				
Homeowners' Exemptions	8021	—	—	—
Other Subventions/In-lieu of Taxes	8029	—	—	—
County & District Taxes:				
Secured Roll Taxes	8041	—	—	—
Unsecured Roll Taxes	8042	—	—	—
Prior Years' Taxes	8043	—	—	—
Supplemental Taxes	8044	—	—	—
Education Revenue Augmentation Fund (ERAF)	8045	—	—	—
Supplemental Educational Revenue Augmentation Fund (SERAF)	8046	—	—	—
Community Redevelopment Funds	8047	—	—	—
Penalties/Int. – Delinquent Revenue Limit Taxes	8048	—	—	—
Miscellaneous Funds (EC 41604):				
Royalties and Bonuses	8081	—	—	—
Less: Non-Revenue Limit (50%) Adjustment	8089	—	—	—
Local Revenue Limit Sources		—	—	—
Total Revenue Limit Sources		—	—	—
Federal Revenues:				
Special Education Entitlement	8181	—	—	—
Special Education Discretionary Grant	8182	—	—	—
Child Nutrition Programs	8220	—	—	—
Forest Reserve Funds	8260	—	—	—
Flood Control Funds	8270	—	—	—
FEMA	8281	—	—	—
Interagency Contracts Between LEAs	8285	—	—	—
NCLB/IASA (Including ARRA)	8290	—	—	—
Vocational & Applied Technology Education	8290	—	—	—
Safe and Drug Free Schools	8290	—	—	—
Other Federal Revenue (Including ARRA)	8290	—	—	—
Total Federal Revenues		—	—	—

Funds		Internal Service Funds				
Building Account – Measure K	Total	Health and Welfare Benefits	Workers' Compensation	Liability	Total	Total
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 2,195,124
—	—	—	—	—	—	32,726
—	—	—	—	—	—	(6,630)
—	—	—	—	—	—	9,772
—	—	—	—	—	—	(84,125)
—	—	—	—	—	—	2,146,867
—	—	—	—	—	—	7,362
—	—	—	—	—	—	5,501
—	—	—	—	—	—	732,368
—	—	—	—	—	—	32,613
—	—	—	—	—	—	56,597
—	—	—	—	—	—	8,823
—	—	—	—	—	—	29,419
—	—	—	—	—	—	32,172
—	—	—	—	—	—	3,038
—	—	—	—	—	—	1,590
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	909,483
—	—	—	—	—	—	3,056,350
—	—	—	—	—	—	164,864
—	—	—	—	—	—	23,671
—	—	—	—	—	—	229,659
—	—	—	—	—	—	21
—	—	—	—	—	—	4
—	—	—	—	—	—	387
—	—	—	—	—	—	5,698
—	—	—	—	—	—	795,568
—	—	—	—	—	—	9,780
—	—	—	—	—	—	1,335
—	—	—	—	—	—	232,912
—	—	—	—	—	—	1,463,899

(Continued)

LOS ANGELES UNIFIED SCHOOL DISTRICT
All Funds
Schedule of Revenues and Other Financing Sources (Continued)
Year Ended June 30, 2011
(in thousands)

	SACS Object Code	General Fund	Special Revenue		
			Adult Education	Cafeteria	Child Development
Other State Revenues:					
Other State Apportionments:					
Community Day Schools Additional Funding					
Current Year	8311	\$ 235	\$ —	\$ —	\$ —
ROC/P Entitlement:					
Current Year	8311	1,706	—	—	—
Spec. Ed. Master Plan:					
Current Year	8311	386,750	—	—	—
Prior Years	8319	22,085	—	—	—
Home-to-School Transportation	8311	35,585	—	—	—
Economic Impact Aid	8311	136,037	—	—	—
Special Education Transportation	8311	40,267	—	—	—
All Other State Apportionments - Current Year	8311	5,560	—	—	—
All Other State Apportionments - Prior Year	8319	436	—	—	—
Year Round School Incentive	8425	28,464	—	—	—
Class Size Reduction, K-3	8434	150,374	—	—	—
Child Nutrition Programs	8520	—	—	19,341	—
Mandated Costs Reimbursements	8550	18,371	—	—	—
School Facilities Apportionments	8545	—	—	—	—
Lottery - Unrestricted and Instructional Materials	8560	90,436	—	—	—
Voted Indebtedness Levies Homeowners' Exemptions	8571	—	—	—	—
Other Subventions/In-Lieu Taxes	8572	—	—	—	—
Drug/Alcohol/Tobacco Funds	8590	837	—	—	—
Healthy Start	8590	232	—	—	—
Quality Education Investment Act	8590	128,958	—	—	—
State Preschool	8590	—	—	—	59,620
All Other State Revenue	8590	985,479	75,546	—	361
Total Other State Revenues		<u>2,031,812</u>	<u>75,546</u>	<u>19,341</u>	<u>59,981</u>
Other Local Revenues:					
County and District Taxes:					
Other Restricted & Voted Indebtedness Levies:					
Secured Roll	8611	—	—	—	—
Unsecured Roll	8612	—	—	—	—
Prior Years' Taxes	8613	—	—	—	—
Supplemental Taxes	8614	—	—	—	—
Community Redevelopment Funds not					
Subject to Revenue Limit Deduction	8625	—	—	—	—
Penalties and Interest from Delinquent Non-Revenue Limit Taxes	8629	—	—	—	—
Sales:					
Sale of Equipment/Supplies	8631	585	—	—	—
Food Service Sales	8634	—	—	9,503	—
Leases and Rentals	8650	10,834	—	—	—
Interest	8660	19,274	826	—	—
Fees and Contracts:					
Adult Education Fees	8671	—	884	—	—
Non-Resident Students	8672	264	—	—	—
Child Development Parent Fees	8673	—	—	—	2,867
In-District Premiums/Contributions	8674	—	—	—	—
Mitigation/Developer Fees	8681	—	—	—	—
All Other Fees and Contracts	8689	27,136	—	—	—
All Other Local Revenue	8699	115,750	662	1	10,130
Tuition	8710	43	—	—	—
Total Other Local Revenues		<u>173,886</u>	<u>2,372</u>	<u>9,504</u>	<u>12,997</u>
Subtotal – Revenues		<u>6,328,532</u>	<u>97,806</u>	<u>265,944</u>	<u>137,117</u>

(Continued)

LOS ANGELES UNIFIED SCHOOL DISTRICT
All Funds
Schedule of Revenues and Other Financing Sources (Continued)
Year Ended June 30, 2011
(in thousands)

	SACS Object Code	Capital Projects			
		Capital Facilities Fund	State School Building Lease - Purchase	Special Reserve	Special Reserve CRA
Other State Revenues:					
Other State Apportionments:					
Community Day Schools Additional Funding					
Current Year	8311	\$ —	\$ —	\$ —	\$ —
ROC/P Entitlement:					
Current Year	8311	—	—	—	—
Spec. Ed. Master Plan:					
Current Year	8311	—	—	—	—
Prior Years	8319	—	—	—	—
Home-to-School Transportation	8311	—	—	—	—
Economic Impact Aid	8311	—	—	—	—
Special Education Transportation	8311	—	—	—	—
All Other State Apportionments - Current Year	8311	—	—	—	—
All Other State Apportionments - Prior Year	8319	—	—	—	—
Year Round School Incentive	8425	—	—	—	—
Class Size Reduction, K-3	8434	—	—	—	—
Child Nutrition Programs	8520	—	—	—	—
Mandated Costs Reimbursements	8550	—	—	—	—
School Facilities Apportionments	8545	—	—	—	—
Lottery - Unrestricted and Instructional Materials	8560	—	—	—	—
Voted Indebtedness Levies Homeowners' Exemption:	8571	—	—	—	—
Other Subventions/In-Lieu Taxes	8572	—	—	—	—
Drug/Alcohol/Tobacco Funds	8590	—	—	—	—
Healthy Start	8590	—	—	—	—
Quality Education Investment Act	8590	—	—	—	—
State Preschool	8590	—	—	—	—
All Other State Revenue	8590	—	—	5,199	—
Total Other State Revenues		—	—	5,199	—
Other Local Revenues:					
County and District Taxes:					
Other Restricted & Voted Indebtedness Levies:					
Secured Roll	8611	—	—	—	—
Unsecured Roll	8612	—	—	—	—
Prior Years' Taxes	8613	—	—	—	—
Supplemental Taxes	8614	—	—	—	—
Community Redevelopment Funds not					
Subject to Revenue Limit Deduction	8625	—	—	—	5,320
Penalties and Interest from Delinquent Non-Revenue Limit Taxes:	8629	—	—	—	—
Sales:					
Sale of Equipment/Supplies	8631	—	—	—	—
Food Service Sales	8634	—	—	—	—
Leases and Rentals	8650	—	158	—	—
Interest	8660	438	147	1,347	149
Fees and Contracts:					
Adult Education Fees	8671	—	—	—	—
Non-Resident Students	8672	—	—	—	—
Child Development Parent Fees	8673	—	—	—	—
In-District Premiums/Contributions	8674	—	—	—	—
Mitigation/Developer Fees	8681	33,810	—	—	—
All Other Fees and Contracts	8689	—	—	—	—
All Other Local Revenue	8699	—	3	9,946	—
Tuition	8710	—	—	—	—
Total Other Local Revenues		34,248	308	11,293	5,469
Subtotal – Revenues		34,248	308	16,492	5,469

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LOS ANGELES UNIFIED SCHOOL DISTRICT
All Funds
Schedule of Revenues and Other Financing Sources (Continued)
Year Ended June 30, 2011
(in thousands)

		District Bond		
	SACS Object Code	Building Account – Bond Proceeds	Building Account – Measure Y	Building Account – Measure R
Other State Revenues:				
Other State Apportionments:				
Community Day Schools Additional Funding				
Current Year	8311	\$ —	\$ —	\$ —
ROC/P Entitlement:				
Current Year	8311	—	—	—
Spec. Ed. Master Plan:				
Current Year	8311	—	—	—
Prior Years	8319	—	—	—
Home-to-School Transportation	8311	—	—	—
Economic Impact Aid	8311	—	—	—
Special Education Transportation	8311	—	—	—
All Other State Apportionments - Current Year	8311	—	—	—
All Other State Apportionments - Prior Year	8319	—	—	—
Year Round School Incentive	8425	—	—	—
Class Size Reduction, K-3	8434	—	—	—
Child Nutrition Programs	8520	—	—	—
Mandated Costs Reimbursements	8550	—	—	—
School Facilities Apportionments	8545	—	—	—
Lottery - Unrestricted and Instructional Materials	8560	—	—	—
Voted Indebtedness Levies Homeowners' Exemption:	8571	—	—	—
Other Subventions/In-Lieu Taxes	8572	—	—	—
Drug/Alcohol/Tobacco Funds	8590	—	—	—
Healthy Start	8590	—	—	—
Quality Education Investment Act	8590	—	—	—
State Preschool	8590	—	—	—
All Other State Revenue	8590	—	—	—
Total Other State Revenues		—	—	—
Other Local Revenues:				
County and District Taxes:				
Other Restricted & Voted Indebtedness Levies:				
Secured Roll	8611	—	—	—
Unsecured Roll	8612	—	—	—
Prior Years' Taxes	8613	—	—	—
Supplemental Taxes	8614	—	—	—
Community Redevelopment Funds not				
Subject to Revenue Limit Deduction	8625	—	—	—
Penalties and Interest from Delinquent Non-Revenue Limit Taxes:	8629	—	—	—
Sales:				
Sale of Equipment/Supplies	8631	—	—	—
Food Service Sales	8634	—	—	—
Leases and Rentals	8650	—	—	—
Interest	8660	546	25,784	10,816
Fees and Contracts:				
Adult Education Fees	8671	—	—	—
Non-Resident Students	8672	—	—	—
Child Development Parent Fees	8673	—	—	—
In-District Premiums/Contributions	8674	—	—	—
Mitigation/Developer Fees	8681	—	—	—
All Other Fees and Contracts	8689	—	—	—
All Other Local Revenue	8699	—	5,566	31,027
Tuition	8710	—	—	—
Total Other Local Revenues		546	31,350	41,843
Subtotal – Revenues		546	31,350	41,843

Funds		Internal Service Funds				
Building						
Account –		Health and	Workers'	Liability	Total	Total
Measure		Welfare	Compensation			
K	Total	Benefits				
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 235
—	—	—	—	—	—	1,706
—	—	—	—	—	—	386,750
—	—	—	—	—	—	22,085
—	—	—	—	—	—	35,585
—	—	—	—	—	—	136,037
—	—	—	—	—	—	40,267
—	—	—	—	—	—	5,560
—	—	—	—	—	—	436
—	—	—	—	—	—	28,464
—	—	—	—	—	—	150,374
—	—	—	—	—	—	19,341
—	—	—	—	—	—	18,371
—	—	—	—	—	—	768,583
—	—	—	—	—	—	90,436
—	—	—	—	—	—	5,885
—	—	—	—	—	—	14
—	—	—	—	—	—	837
—	—	—	—	—	—	232
—	—	—	—	—	—	128,958
—	—	—	—	—	—	59,620
—	—	—	—	—	—	1,066,585
—	—	—	—	—	—	2,966,361
—	—	—	—	—	—	759,140
—	—	—	—	—	—	31,439
—	—	—	—	—	—	46,372
—	—	—	—	—	—	8,543
—	—	—	—	—	—	5,320
—	—	—	—	—	—	7,747
—	—	—	—	—	—	585
—	—	—	—	—	—	9,503
—	—	—	—	—	—	11,252
4,313	41,459	3,267	6,546	392	10,205	90,028
—	—	—	—	—	—	884
—	—	—	—	—	—	264
—	—	—	—	—	—	2,867
—	—	934,101	47,062	11,615	992,778	992,778
—	—	—	—	—	—	33,810
—	—	—	—	—	—	27,136
576	37,169	3,505	—	—	3,505	177,166
—	—	—	—	—	—	43
4,889	78,628	940,873	53,608	12,007	1,006,488	2,204,877
4,889	78,628	940,873	53,608	12,007	1,006,488	9,691,487

(Continued)

LOS ANGELES UNIFIED SCHOOL DISTRICT
All Funds
Schedule of Revenues and Other Financing Sources (Continued)
Year Ended June 30, 2011
(in thousands)

		Special Revenue			
	SACS Object Code	General Fund	Adult Education	Cafeteria	Child Development
Other Financing Sources:					
Interfund Transfers In:					
From General Fund to Child Development Fund	8911	\$ —	\$ —	\$ —	\$ 7,996
From Special Reserve Fund	8912	56,163	—	—	—
From All Other Funds to State School Building Fund/ County School Facilities Fund	8913	—	—	—	—
From General, Special Reserve & Building Funds	8915	—	—	—	—
From General Fund to Cafeteria Fund	8916	—	—	32,061	—
Other Authorized Interfund Transfer In	8919	31,975	—	867	—
Subtotal, Interfund Transfers In		<u>88,138</u>	<u>—</u>	<u>32,928</u>	<u>7,996</u>
Other Sources:					
Proceeds from Sale of Bonds	8951	—	—	—	—
Proceeds from Sale/Lease-Purchase of Lands/Buildings	8953	—	—	—	—
Proceeds from Certificates of Participation	8971	—	—	—	—
Proceeds from Capital Leases	8972	1,043	—	—	—
All Other Financing Sources	8979	1,987	—	—	—
Subtotal, Other Sources		<u>3,030</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total Other Financing Sources		<u>91,168</u>	<u>—</u>	<u>32,928</u>	<u>7,996</u>
Total Revenues and Other Financing Sources		<u>\$ 6,419,700</u>	<u>\$ 97,806</u>	<u>\$ 298,872</u>	<u>\$ 145,113</u>

Funds		Debt Service Funds			
Deferred Maintenance	Total	Bond Interest and Redemption	Tax Override	Capital Services	Total
\$ —	\$ 7,996	\$ —	\$ —	\$ —	\$ —
—	—	—	—	—	—
—	—	—	—	—	—
—	32,061	—	—	—	—
349	1,216	—	—	46,355	46,355
349	41,273	—	—	46,355	46,355
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
349	41,273	—	—	46,355	46,355
\$ 787	\$ 542,578	\$ 939,651	\$ 19	\$ 47,557	\$ 987,227

(Continued)

LOS ANGELES UNIFIED SCHOOL DISTRICT
All Funds
Schedule of Revenues and Other Financing Sources (Continued)
Year Ended June 30, 2011
(in thousands)

	SACS Object Code	Capital Projects			
		Capital Facilities Fund	State School Building Lease - Purchase	Special Reserve	Special Reserve CRA
Interfund Transfers In:					
From General Fund to Child Development Fund	8911	\$ —	\$ —	\$ —	\$ —
From Special Reserve Fund	8912	—	—	903	—
From All Other Funds to State School Building Fund/ County School Facilities Fund	8913	—	1,193	—	—
From General, Special Reserve & Building Funds	8915	—	—	—	—
From General Fund to Cafeteria Fund	8916	—	—	—	—
Other Authorized Interfund Transfer In	8919	220	—	116	—
Subtotal, Interfund Transfers In		<u>220</u>	<u>1,193</u>	<u>1,019</u>	<u>—</u>
Other Sources:					
Proceeds from Sale of Bonds	8951	—	—	—	—
Proceeds from Sale/Lease-Purchase of Lands/Buildings	8953	—	—	52	—
Proceeds from Certificates of Participation	8971	—	—	83,345	—
Proceeds from Capital Leases	8972	—	—	—	—
All Other Financing Sources	8979	—	—	3,034	—
Subtotal, Other Sources		<u>—</u>	<u>—</u>	<u>86,431</u>	<u>—</u>
Total Other Financing Sources		<u>220</u>	<u>1,193</u>	<u>87,450</u>	<u>—</u>
Total Revenues and Other Financing Sources		<u>\$ 34,468</u>	<u>\$ 1,501</u>	<u>\$ 103,942</u>	<u>\$ 5,469</u>

Funds		County School Facilities Funds				
Building Fund	Total	County School Facilities	County School Facilities Prop 47	County School Facilities Prop 55	County School Facilities Prop 1D	Total
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
—	903	—	—	—	—	—
—	1,193	3,153	3,687	19,213	901	26,954
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	336	—	—	—	—	—
—	2,432	3,153	3,687	19,213	901	26,954
—	—	—	—	—	—	—
—	52	—	—	—	—	—
—	83,345	—	—	—	—	—
—	—	—	—	—	—	—
—	3,034	—	—	—	—	—
—	86,431	—	—	—	—	—
—	88,863	3,153	3,687	19,213	901	26,954
\$ 292	\$ 145,672	\$ 3,982	\$ (186)	\$ 574,661	\$ 227,350	\$ 805,807

(Continued)

LOS ANGELES UNIFIED SCHOOL DISTRICT
All Funds
Schedule of Revenues and Other Financing Sources (Continued)
Year Ended June 30, 2011
(in thousands)

				District Bond
	SACS	Building	Building	Building
	Object	Account –	Account –	Account –
	Code	Bond	Measure	Measure
		Proceeds	Y	R
Interfund Transfers In:				
From General Fund to Child Development Fund	8911	\$ —	\$ —	\$ —
From Special Reserve Fund	8912	—	—	—
From All Other Funds to State School Building Fund/ County School Facilities Fund	8913	—	—	—
From General, Special Reserve & Building Funds	8915	—	—	—
From General Fund to Cafeteria Fund	8916	—	—	—
Other Authorized Interfund Transfer In	8919	16,622	240,040	106,180
Subtotal, Interfund Transfers In		<u>16,622</u>	<u>240,040</u>	<u>106,180</u>
Other Sources:				
Proceeds from Sale of Bonds	8951	—	—	—
Proceeds from Sale/Lease-Purchase of Lands/Buildings	8953	—	—	—
Proceeds from Certificates of Participation	8971	—	—	—
Proceeds from Capital Leases	8972	—	—	—
All Other Financing Sources	8979	—	—	—
Subtotal, Other Sources		<u>—</u>	<u>—</u>	<u>—</u>
Total Other Financing Sources		<u>16,622</u>	<u>240,040</u>	<u>106,180</u>
Total Revenues and Other Financing Sources		<u>\$ 17,168</u>	<u>\$ 271,390</u>	<u>\$ 148,023</u>

Funds		Internal Service Funds				
Building Account – Measure K	Total	Health and Welfare Benefits	Workers' Compensation	Liability	Total	Total
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 7,996
—	—	—	—	—	—	57,066
—	—	—	—	—	—	28,147
—	—	—	—	—	—	—
—	—	—	—	—	—	32,061
36,252	399,094	10,956	—	—	10,956	489,932
36,252	399,094	10,956	—	—	10,956	615,202
—	—	—	—	—	—	—
—	—	—	—	—	—	52
—	—	—	—	—	—	83,345
—	—	—	—	—	—	1,043
—	—	—	—	—	—	5,021
—	—	—	—	—	—	89,461
36,252	399,094	10,956	—	—	10,956	704,663
\$ 41,141	\$ 477,722	\$ 951,829	\$ 53,608	\$ 12,007	\$ 1,017,444	\$ 10,396,150

LOS ANGELES UNIFIED SCHOOL DISTRICT

Organization Structure

Year Ended June 30, 2011

Geographical Location: The Los Angeles Unified School District is a political subdivision of the State of California. It is located in the western section of Los Angeles County and includes virtually all 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.

Geographical Area: 710 square miles

Administrative Offices: 333 South Beaudry Avenue, Los Angeles, CA 90017

Form of Government: The District is governed by a seven-member Board of Education elected by district to serve alternating four-year terms

Name	Expiration of Term
Mónica García, President	June 30, 2013
Marguerite Poindexter LaMotte	June 30, 2015
Tamar Galatzan	June 30, 2015
Steve Zimmer	June 30, 2013
Bennett Kayser	June 30, 2015
Nury Martinez	June 30, 2013
Richard Vladovic	June 30, 2015

Principal School District Officials:	Name	Title
	John Deasy	Superintendent of Schools (Effective April 18, 2011)
	Ramon Cortines	Superintendent of Schools (Retired effective April 17, 2011)
	Jaime Aquino	Deputy Superintendent of Instruction
	Linda Del Cueto	Superintendent, Local District 1
	Alma Pena-Sanchez	Superintendent, Local District 2
	Brenda Manuel	Interim Superintendent, Local District 3
	Dale Vigil	Interim Superintendent, Local District 4
	Roberto A. Martinez	Superintendent, Local District 5
	Rowena Lagrosa	Superintendent, Local District 6
	George McKenna	Superintendent, Local District 7
	Michael Romero	Superintendent, Local District 8
	Michelle King	Senior Deputy Superintendent of School Operations
	Vivian Ekhian	Chief Human Resources Officer
	Megan Reilly	Chief Financial Officer
	Enrique Boullt	Chief Operating Officer
	Earl Perkins	Assistant Superintendent of School Operations
	Matt Hill	Chief Strategy Officer
	Ronald Chandler	Chief Information Officer
	Kelly Schmader	Chief Facilities Executive
	Jess Womack	Inspector General
	David Holmquist	General Counsel
	Steven Zipperman	Chief of School Police
	Janalyn Glymph	Personnel Director, Personnel Commission

Date of Establishment: 1854 as the Common Schools for the City of Los Angeles and became a unified school district in 1960.

Fiscal Year: July 1 – June 30

Number of Schools:	(As of October)	2007-2008	2008-2009	2009-2010	2010-2011
	Elementary Schools	436	437	437	448
	Middle/Junior High Schools	75	76	78	83
	Senior High Schools	64	68	70	81
	Options Schools	59	60	56	56
	Special Education Schools	17	17	16	16
	Magnet Schools	22	22	25	26
	Magnet Centers	138	138	145	145
	Community Adult Schools	24	24	24	24
	Regional Occupational Centers	5	5	5	5
	Skills Centers	5	5	5	5
	Regional Occupational Program	1	1	1	1
	Early Education Centers	100	100	100	102
	Infant Centers	4	4	4	4
	Primary School Centers	27	28	23	20
	Newcomer Schools	1	—	—	—
	Multi-level Schools	11	11	12	15
	Total Schools and Centers	989	996	1,001	1,031
	Independent Charter Schools	114	137	150	171

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Schedule of Average Daily Attendance/Hours of Attendance
Year Ended June 30, 2011

	<u>Second Period Report</u>	<u>Annual Report</u>
Elementary:		
General Education:		
Kindergarten	43,240	43,364
Grades 1-3	130,965	130,846
Grades 4-8	204,106	203,504
Opportunity Schools	6	7
Home or Hospital	113	127
Community Day Schools	68	85
County Community Schools	12	11
Special Education	18,720	19,250
County Special Education	1	1
Total Elementary	<u>397,231</u>	<u>397,195</u>
Secondary:		
General Education:		
Regular Classes	146,647	143,979
Continuation Education	3,527	3,507
Opportunity Schools	487	494
Home or Hospital	95	98
Community Day Schools	833	911
County Community Schools	156	148
Special Education	<u>10,958</u>	<u>11,252</u>
Total Secondary	<u>162,703</u>	<u>160,389</u>
Block Grant Funded Fiscally Affiliated Charter	<u>7,882</u>	<u>7,866</u>
Adult Program:*		
Regional Occupational Centers & Programs	N/A	N/A
Classes for Adults – Mandated	N/A	N/A
Concurrently Enrolled Adults	N/A	N/A
Full-time Independent Study**	<u>N/A</u>	<u>N/A</u>
Total Adult Program	<u>N/A</u>	<u>N/A</u>
Total Average Daily Attendance	<u>567,816</u>	<u>565,450</u>
	<u>Hours of Attendance</u>	
Summer School:*		
Elementary	N/A	N/A
Secondary	<u>N/A</u>	<u>N/A</u>
Total Hours	<u>N/A</u>	<u>N/A</u>

* Not collected due to changes made by Education Code Section 42605. For 2008-09 through 2012-13, Districts are not required to operate the program or follow program requirements. Revenue for these years will be based on the same relative proportion that the District received for these programs in fiscal year 2007-08.

* * Students 21 years or older and students 19 or older not continuously enrolled since their 18th birthday, participating in full-time independent study.

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Schedule of Average Daily Attendance
Year Ended June 30, 2011

Canyon Elementary School – 6016323

	<u>Second Period Report</u>	<u>Annual Report</u>
Kindergarten ADA – Total	63.60	63.74
Kindergarten ADA – Classroom-based	63.60	63.74
Grades 1-3 ADA – Total	194.65	194.01
Grades 1-3 ADA – Classroom-based	194.65	194.01
Grades 4-6 ADA – Total	121.93	122.29
Grades 4-6 ADA – Classroom-based	121.93	122.29
Grades 7-8 ADA – Total	0.00	0.00
Grades 7-8 ADA – Classroom-based	0.00	0.00
Grades 9-12 ADA – Total	0.00	0.00
Grades 9-12 ADA – Classroom-based	0.00	0.00
Total ADA	<u>380.18</u>	<u>380.04</u>
Classroom-based ADA	<u>380.18</u>	<u>380.04</u>

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Schedule of Average Daily Attendance
Year Ended June 30, 2011

Carpenter Community Charter – 6016356

	<u>Second Period Report</u>	<u>Annual Report</u>
Kindergarten ADA – Total	163.21	163.46
Kindergarten ADA – Classroom-based	162.90	162.93
Grades 1-3 ADA – Total	435.47	434.74
Grades 1-3 ADA – Classroom-based	435.47	434.74
Grades 4-6 ADA – Total	243.28	243.31
Grades 4-6 ADA – Classroom-based	243.28	243.17
Grades 7-8 ADA – Total	0.00	0.00
Grades 7-8 ADA – Classroom-based	0.00	0.00
Grades 9-12 ADA – Total	0.00	0.00
Grades 9-12 ADA – Classroom-based	0.00	0.00
Total ADA	<u>841.96</u>	<u>841.51</u>
Classroom-based ADA	<u>841.65</u>	<u>840.84</u>

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Schedule of Average Daily Attendance
Year Ended June 30, 2011

Colfax Charter Elementary School – 6016562

	<u>Second Period Report</u>	<u>Annual Report</u>
Kindergarten ADA – Total	111.68	111.85
Kindergarten ADA – Classroom-based	111.68	111.85
Grades 1-3 ADA – Total	306.90	309.58
Grades 1-3 ADA – Classroom-based	306.81	309.52
Grades 4-6 ADA – Total	168.68	168.46
Grades 4-6 ADA – Classroom-based	168.56	168.38
Grades 7-8 ADA – Total	0.00	0.00
Grades 7-8 ADA – Classroom-based	0.00	0.00
Grades 9-12 ADA – Total	0.00	0.00
Grades 9-12 ADA – Classroom-based	0.00	0.00
Total ADA	<u>587.26</u>	<u>589.89</u>
Classroom-based ADA	<u>587.05</u>	<u>589.75</u>

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Schedule of Average Daily Attendance
Year Ended June 30, 2011

Community Magnet Charter Elementary School – 6094726

	<u>Second Period Report</u>	<u>Annual Report</u>
Kindergarten ADA – Total	61.90	62.04
Kindergarten ADA – Classroom-based	61.90	62.04
Grades 1-3 ADA – Total	206.29	206.41
Grades 1-3 ADA – Classroom-based	206.29	206.41
Grades 4-6 ADA – Total	174.95	174.88
Grades 4-6 ADA – Classroom-based	174.95	174.88
Grades 7-8 ADA – Total	0.00	0.00
Grades 7-8 ADA – Classroom-based	0.00	0.00
Grades 9-12 ADA – Total	0.00	0.00
Grades 9-12 ADA – Classroom-based	0.00	0.00
Total ADA	<u>443.14</u>	<u>443.33</u>
Classroom-based ADA	<u>443.14</u>	<u>443.33</u>

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Schedule of Average Daily Attendance
Year Ended June 30, 2011

Dr. T. Alexander Jr. Science Center School – 0102491

	<u>Second Period Report</u>	<u>Annual Report</u>
Kindergarten ADA – Total	119.13	118.16
Kindergarten ADA – Classroom-based	119.13	118.16
Grades 1-3 ADA – Total	284.41	282.70
Grades 1-3 ADA – Classroom-based	284.41	282.70
Grades 4-6 ADA – Total	195.34	194.78
Grades 4-6 ADA – Classroom-based	195.34	194.78
Grades 7-8 ADA – Total	0.00	0.00
Grades 7-8 ADA – Classroom-based	0.00	0.00
Grades 9-12 ADA – Total	0.00	0.00
Grades 9-12 ADA – Classroom-based	0.00	0.00
Total ADA	<u>598.88</u>	<u>595.64</u>
Classroom-based ADA	<u>598.88</u>	<u>595.64</u>

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Schedule of Average Daily Attendance
Year Ended June 30, 2011

Kenter Canyon Elementary School – 6017701

	<u>Second Period Report</u>	<u>Annual Report</u>
Kindergarten ADA – Total	83.79	84.33
Kindergarten ADA – Classroom-based	83.79	84.33
Grades 1-3 ADA – Total	276.88	276.99
Grades 1-3 ADA – Classroom-based	276.88	276.99
Grades 4-6 ADA – Total	150.37	151.62
Grades 4-6 ADA – Classroom-based	150.01	151.37
Grades 7-8 ADA – Total	0.00	0.00
Grades 7-8 ADA – Classroom-based	0.00	0.00
Grades 9-12 ADA – Total	0.00	0.00
Grades 9-12 ADA – Classroom-based	0.00	0.00
Total ADA	<u>511.04</u>	<u>512.94</u>
Classroom-based ADA	<u>510.68</u>	<u>512.69</u>

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Schedule of Average Daily Attendance
Year Ended June 30, 2011

Marquez Avenue Elementary School – 6018063

	<u>Second Period Report</u>	<u>Annual Report</u>
Kindergarten ADA – Total	96.74	96.08
Kindergarten ADA – Classroom-based	96.74	96.08
Grades 1-3 ADA – Total	267.97	267.24
Grades 1-3 ADA – Classroom-based	267.97	267.24
Grades 4-6 ADA – Total	206.72	207.02
Grades 4-6 ADA – Classroom-based	206.72	207.02
Grades 7-8 ADA – Total	0.00	0.00
Grades 7-8 ADA – Classroom-based	0.00	0.00
Grades 9-12 ADA – Total	0.00	0.00
Grades 9-12 ADA – Classroom-based	0.00	0.00
Total ADA	<u>571.43</u>	<u>570.34</u>
Classroom-based ADA	<u>571.43</u>	<u>570.34</u>

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Schedule of Average Daily Attendance
Year Ended June 30, 2011

Open Magnet Charter School – 6097927

	<u>Second Period Report</u>	<u>Annual Report</u>
Kindergarten ADA – Total	41.76	41.63
Kindergarten ADA – Classroom-based	41.76	41.63
Grades 1-3 ADA – Total	207.26	206.63
Grades 1-3 ADA – Classroom-based	207.26	206.63
Grades 4-6 ADA – Total	144.74	144.81
Grades 4-6 ADA – Classroom-based	144.74	144.81
Grades 7-8 ADA – Total	0.00	0.00
Grades 7-8 ADA – Classroom-based	0.00	0.00
Grades 9-12 ADA – Total	0.00	0.00
Grades 9-12 ADA – Classroom-based	0.00	0.00
Total ADA	<u>393.76</u>	<u>393.07</u>
Classroom-based ADA	<u>393.76</u>	<u>393.07</u>

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Schedule of Average Daily Attendance
Year Ended June 30, 2011

Palisades Charter Elementary School – 6018634

	<u>Second Period Report</u>	<u>Annual Report</u>
Kindergarten ADA – Total	96.05	96.27
Kindergarten ADA – Classroom-based	96.05	96.27
Grades 1-3 ADA – Total	228.42	228.94
Grades 1-3 ADA – Classroom-based	228.42	228.94
Grades 4-6 ADA – Total	153.57	153.89
Grades 4-6 ADA – Classroom-based	153.57	153.89
Grades 7-8 ADA – Total	0.00	0.00
Grades 7-8 ADA – Classroom-based	0.00	0.00
Grades 9-12 ADA – Total	0.00	0.00
Grades 9-12 ADA – Classroom-based	0.00	0.00
Total ADA	<u>478.04</u>	<u>479.10</u>
Classroom-based ADA	<u>478.04</u>	<u>479.10</u>

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Schedule of Average Daily Attendance
Year Ended June 30, 2011

Revere (Paul) Middle School – 6058267

	<u>Second Period Report</u>	<u>Annual Report</u>
Kindergarten ADA – Total	0.00	0.00
Kindergarten ADA – Classroom-based	0.00	0.00
Grades 1-3 ADA – Total	0.00	0.00
Grades 1-3 ADA – Classroom-based	0.00	0.00
Grades 4-6 ADA – Total	690.49	685.33
Grades 4-6 ADA – Classroom-based	690.49	685.33
Grades 7-8 ADA – Total	1,331.14	1,319.62
Grades 7-8 ADA – Classroom-based	1,331.14	1,319.62
Grades 9-12 ADA – Total	0.00	0.00
Grades 9-12 ADA – Classroom-based	0.00	0.00
Total ADA	<u>2,021.63</u>	<u>2,004.95</u>
Classroom-based ADA	<u>2,021.63</u>	<u>2,004.95</u>

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Schedule of Average Daily Attendance
Year Ended June 30, 2011

Topanga Elementary School – 6019525

	<u>Second Period Report</u>	<u>Annual Report</u>
Kindergarten ADA – Total	67.89	68.10
Kindergarten ADA – Classroom-based	67.89	68.10
Grades 1-3 ADA – Total	138.88	138.13
Grades 1-3 ADA – Classroom-based	138.88	138.13
Grades 4-6 ADA – Total	95.79	95.53
Grades 4-6 ADA – Classroom-based	95.79	95.53
Grades 7-8 ADA – Total	0.00	0.00
Grades 7-8 ADA – Classroom-based	0.00	0.00
Grades 9-12 ADA – Total	0.00	0.00
Grades 9-12 ADA – Classroom-based	0.00	0.00
Total ADA	<u>302.56</u>	<u>301.76</u>
Classroom-based ADA	<u>302.56</u>	<u>301.76</u>

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Schedule of Average Daily Attendance
Year Ended June 30, 2011

Westwood Elementary School – 6019939

	<u>Second Period Report</u>	<u>Annual Report</u>
Kindergarten ADA – Total	130.31	131.15
Kindergarten ADA – Classroom-based	130.31	131.15
Grades 1-3 ADA – Total	390.29	391.13
Grades 1-3 ADA – Classroom-based	390.29	391.13
Grades 4-6 ADA – Total	231.06	231.06
Grades 4-6 ADA – Classroom-based	231.06	231.06
Grades 7-8 ADA – Total	0.00	0.00
Grades 7-8 ADA – Classroom-based	0.00	0.00
Grades 9-12 ADA – Total	0.00	0.00
Grades 9-12 ADA – Classroom-based	0.00	0.00
Total ADA	<u>751.66</u>	<u>753.34</u>
Classroom-based ADA	<u>751.66</u>	<u>753.34</u>

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Schedule of Instructional Time Offered
Year Ended June 30, 2011

Grade Level	1982-1983 Actual Minutes Offered	1982-1983 Actual Minutes As Reduced ⁽¹⁾	1986-1987 Minutes Requirements	1986-1987 Minutes As Reduced ⁽¹⁾	2010-2011 Actual Minutes Offered	Number of Days Traditional Calendar	Number of Days Multi-track Calendar	Complied with Instructional Minutes and Days Provisions
Kindergarten	31,680	30,800	36,000	35,000	35,000	175	159	Yes
Grades 1 to 3	48,800	47,444	50,400	49,000	53,505	175	159	Yes
Grades 4 to 6 ⁽²⁾	48,800	47,444	54,000	52,500	53,505	175	159	Yes
Grades 7 to 8 ⁽³⁾	62,160	60,434	54,000	52,500	60,434 or 63,344	175	159	Yes
Grades 9 to 12	62,160	60,434	64,800	63,000	63,344	175	159	Yes

(1) Adjusted to reflect instructional minutes applicable to 175 instructional days.

(2) Elementary schools only.

(3) Middle schools with grade configurations 6-8 approved for common planning time have at least 60,434 annual instructional minutes. Middle schools with grade configurations 6-8 not approved for common planning time have at least 63,344 annual instructional minutes.

Notes:

1. All charter schools included in this audit report conform to the above Schedule of Instructional Time Offered. Each of these charter schools' offering exceeded LAUSD's minimum requirement for instructional minutes.
2. LAUSD received incentive funding for increasing instructional time pursuant to the Longer Instructional day.

See accompanying independent auditor's report and notes to state compliance information.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Schedule of Financial Trends and Analysis
Year Ended June 30, 2011
(Dollars in thousands)
(Unaudited)

	2011-2012 Budgeted	2010-2011 Actual	2009-2010 Actual	2008-2009 Actual	2007-2008 Actual
General Fund:					
Revenues	\$ 6,104,061	\$ 6,328,532	\$ 6,208,625	\$ 6,649,743	\$ 6,808,664
Other Financing Sources	18,910	91,168	81,861	106,156	139,678
Total Revenues and Other Financing Sources	6,122,971	6,419,700	6,290,486	6,755,899	6,948,342
Expenditures	6,096,057	6,117,604	6,164,809	6,585,591	6,928,396
Other Financing Uses	213,619	66,531	212,732	77,582	57,945
Total Expenditures and Other Financing Uses	6,309,676	6,184,135	6,377,541	6,663,173	6,986,341
Change in Fund Balance	(186,705)	235,565	(87,055)	92,726	(37,999)
Beginning Fund Balance*	828,645	667,966	749,962	657,236	695,235
Ending Fund Balance	\$ 641,940	\$ 903,531	\$ 662,907	\$ 749,962	\$ 657,236
Available Reserves**	\$ 65,376	\$ 479,661	\$ 184,918	\$ 72,382	\$ 153,224
Unassigned Reserve for Economic Uncertainties	\$ 65,376	\$ 65,376	\$ 65,376	\$ 72,382	\$ 72,382
Unassigned Fund Balance	\$ —	\$ 414,285	\$ 119,542	\$ —	\$ 80,842
Available Reserves as a Percentage of Total Expenditures and Other Financing Uses	1.04%	7.76%	2.90%	1.09%	2.19%
Total Long-Term Debt	\$ 16,527,052	\$ 16,195,638	\$ 15,752,067	\$ 11,148,319	\$ 9,439,128
Average Daily Attendance (ADA) at P-2 excluding regional occupational centers programs and adult programs	546,438	567,819	580,112	599,037	609,410

The General Fund has maintained a positive ending fund balance for the past four fiscal years presented in this schedule.

For a district this size, the State has recommended available reserves to be at least 1% of total General Fund expenditures and other financing uses. The District has been able to meet these requirements for the past four fiscal year

* Budgeted and actual beginning fund balance includes other restatements.

** Available reserves consist of all unassigned fund balances and unassigned reserve for economic uncertainties.

See accompanying notes to state compliance information.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Schedule to Reconcile the Annual Financial Budget Report (SACS)
with Audited Financial Statements
Year Ended June 30, 2011
(in thousands)
(Unaudited)

	<u>All Fund Types</u>
June 30, 2011 Unaudited Actual Financial Reports Fund Balances	\$ 5,642,724
Adjustment:	
Accrue legal liability for outstanding cases	(9,986)
Reduce over accrual of construction contracts payable	67,044
Accrue unrecorded capital projects and bond funded expenditures	(27,094)
Record prior year correction to accrued payroll	2,265
Close liability for settled legal case	1,173
June 30, 2011 Audited Financial Statement Fund Balances	<u>\$ 5,676,126</u>

See accompanying notes to state compliance information.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Charter Schools
Year Ended June 30, 2011

	CDS Code	Affiliated	Fiscally Independent	Included in the District Audit
1	Canyon School	19 64733 6016323	x	Yes
2	Carpenter Community Charter School	19 64733 6016356	x	Yes
3	Colfax Charter Elementary School	19 64733 6016562	x	Yes
4	Community Magnet Charter Elementary School	19 64733 6094726	x	Yes
5	Dr. Theodore T. Alexander Science Center	19 64733 0102491	x	Yes
6	Kenter Canyon Elementary	19 64733 6017701	x	Yes
7	Marquez Elementary	19 64733 6018063	x	Yes
8	Open Magnet Charter School	19 64733 6097927	x	Yes
9	Palisades Elementary	19 64733 6018634	x	Yes
10	Revere (Paul) Middle School	19 64733 6058267	x	Yes
11	Topanga Elementary	19 64733 6019525	x	Yes
12	Westwood Elementary	19 64733 6019939	x	Yes
13	Academia Moderna	19 54733 0120097	x	No
14	Academia Semillas del Pueblo	19 64733 6119929	x	No
15	Accelerated Charter	19 64733 6112536	x	No
16	Accelerated Elementary	19 64733 0100743	x	No
17	Alain Leroy Locke Charter High School	19 64733 1935154	x	No
18	Anahuacelmecac University Prep. High School	19 64733 0118158	x	No
19	Animo Jackie Robinson	19 64733 0111583	x	No
20	Animo Jefferson Charter Middle	19 64733 0122481	x	No
21	Animo Locke ACE Academy Charter High School	19 64733 0119909	x	No
22	Animo Locke High School #1	19 64733 0118588	x	No
23	Animo Locke High School #2	19 64733 0118596	x	No
24	Animo Locke High School #3	19 64733 0118570	x	No
25	Animo Locke Technology High School (Animo Watts #1)	19 64733 0111617	x	No
26	Animo Oscar De La Hoya	19 64733 0101675	x	No
27	Animo Pat Brown High School	19 64733 0106849	x	No
28	Animo Ralph Bunche Charter High School	19 64733 0111575	x	No
29	Animo South Los Angeles Senior High	19 64733 0102434	x	No
30	Animo Venice Charter High School	19 64733 0106831	x	No
31	Animo Watts #2 Charter High School	19 64733 0111625	x	No
32	Ararat Charter School	19 64733 0121079	x	No
33	Aspire Antonio Maria Lugo Academy	19 64733 0109660	x	No
34	Aspire Firestone Academy	19 64733 0122622	x	No
35	Aspire Gateway Academy	19 64733 0122614	x	No
36	Aspire Huntington Park Charter	19 64733 0117960	x	No
37	Aspire Pacific Academy	19 64733 0122721	x	No
38	Bert Corona Charter School	19 64733 0106872	x	No
39	Birmingham Community Charter High School	19 64733 1931047	x	No
40	Bright Star Secondary Academy	19 64733 0112508	x	No
41	California Academy for Liberal Studies Early College High School	19 64733 0109553	x	No
42	California Academy for Liberal Studies Middle School	19 64733 6118194	x	No
43	Camino Nuevo Academy 2-Harvard	19 64733 0122861	x	No
44	Camino Nuevo Charter Academy	19 64733 6117667	x	No
45	Camino Nuevo Charter High School	19 64733 0106435	x	No
46	Camino Nuevo Elementary School #3	19 64733 0122564	x	No
47	Celerity Dyad Charter School	19 64733 0115766	x	No
48	Celerity Nascent Charter School	19 64733 0108910	x	No
49	Celerity Octavia Charter School	19 64733 0122655	x	No
50	Celerity Troika Charter School	19 64733 0115782	x	No

(Continued)

LOS ANGELES UNIFIED SCHOOL DISTRICT
Charter Schools (Continued)
Year Ended June 30, 2011

	CDS Code	Affiliated	Fiscally Independent	Included in the District Audit
51	Centennial College Prep. Academy	19 64733 0112128	x	No
52	Center For Advanced Learning	19 64733 0115139	x	No
53	Central City Value High School	19 64733 0100800	x	No
54	Charter High School of Arts Multimedia/ Performing High School (CHAMPS)	19 64733 0108878	x	No
55	Chime Charter Middle School	19 64733 0101634	x	No
56	Chime Institute's Schwarzenegger Community	19 64733 6119531	x	No
57	Christine O'Donovan Middle School (CRMS #3)	19 64733 0116533	x	No
58	Citizens of the World Charter Hollywood	19 64733 0122556	x	No
59	College Ready Academy High School #5	19 64733 0111492	x	No
60	College Ready Academy High School #7	19 64733 0114942	x	No
61	College Ready High School #11	19 64733 0121285	x	No
62	College Ready Middle Academy #4	19 64733 0120030	x	No
63	College Ready Middle Academy #5	19 64733 0120048	x	No
64	College Ready Middle Academy #7	19 64733 0121277	x	No
65	Community Charter Early College High School	19 64733 0109876	x	No
66	Community Charter Middle School	19 64733 6116750	x	No
67	Community Harvest Charter	19 64733 1996636	x	No
68	Cornerstone Prep Charter School	19 64733 0100297	x	No
69	Crenshaw Arts-Technology Charter High School	19 64733 0101659	x	No
70	Crescendo Charter Academy	19 64733 0112219	x	No
71	Crescendo Charter Central	19 64733 0115774	x	No
72	Crescendo Charter Conservatory	19 64733 0112342	x	No
73	Crescendo Charter School	19 64733 0109959	x	No
74	Crescendo Charter South	19 64733 0115790	x	No
75	Crescendo Charter West	19 64733 0015758	x	No
76	Crown Preparatory Academy	19 64733 0121848	x	No
77	Culture & Language Academy of Success Affirmation	19 64733 0100768	x	No
78	Discovery Charter Prep. #2	19 64733 1995253	x	No
79	Downtown Value School	19 64733 6119903	x	No
80	Dr. Olga Mohan High School (CRHS #4)	19 64733 0111500	x	No
81	Endeavor College Preparatory Charter School	19 64733 0120014	x	No
82	Environmental Science & Technology High School	19 64733 0117606	x	No
83	Equitas Academy Charter Elementary School	19 64733 0119982	x	No
84	Excel Academy	19 64733 0112201	x	No
85	Fenton Avenue School	19 64733 6017016	x	No
86	Fenton Primary Center	19 64733 0115048	x	No
87	Fernando Pullum Performing Arts High School	19 64733 0115295	x	No
88	Film and Theatre Arts	19 64733 0122762	x	No
89	Frederick Douglass Academy Elementary School	19 64733 0117952	x	No
90	Frederick Douglass Academy High School	19 64733 0112557	x	No
91	Frederick Douglass Academy Middle School	19 64733 0112433	x	No
92	Full Circle Learning Academy	19 64733 0115311	x	No
93	Futuro College Preparatory Elementary School	19 64733 0120667	x	No
94	Gabriella Charter School	19 64733 0108886	x	No
95	Garr Academy of Mathematics and Entrepreneurial Studies (GAMES)	19 64733 0112334	x	No
96	Gertz-Ressler Academy High School	19 64733 0106864	x	No
97	Global Education Academy	19 64733 0114967	x	No
98	Goethe International Charter School	19 64733 0117978	x	No
99	Granada Hills Charter High School	19 64733 1933746	x	No
100	Health Services Academy High School (CRHS #8)	19 64733 0117598	x	No

(Continued)

LOS ANGELES UNIFIED SCHOOL DISTRICT
Charter Schools (Continued)
Year Ended June 30, 2011

	CDS Code	Affiliated	Fiscally Independent	Included in the District Audit
101 Heritage College Ready Academy High School	19 64733 0108894		x	No
102 High Tech Los Angeles	19 64733 0100677		x	No
103 Huntington Park College-Ready Academy Charter School	19 64733 0108936		x	No
104 ICEF Vista Elementary Academy	19 64733 0117937		x	No
105 ICEF Vista Middle Academy	19 64733 0115287		x	No
106 Ivy Academia	19 64733 0106351		x	No
107 Ivy Bound Math Science & Technology	19 64733 0115113		x	No
108 Jack H. Skirball Middle School	19 64733 0111518		x	No
109 James Jordan Middle School	19 64733 0109884		x	No
110 Jardin De la Infancia	19 64733 0106880		x	No
111 KIPP Academy of Opportunity	19 64733 0101444		x	No
112 KIPP Comienza Community	19 64733 0121707		x	No
113 KIPP Empower Academy	19 64733 0121699		x	No
114 KIPP LA College Preparatory	19 64733 0100867		x	No
115 KIPP Raices	19 64733 0117903		x	No
116 LA Academy of Art & Enterprise	19 64733 0110304		x	No
117 LA Leadership Academy	19 64733 1996610		x	No
118 Lakeview Charter Academy	19 64733 0102442		x	No
119 Lakeview Charter High School	19 64733 0122606		x	No
120 Larchmont Charter School	19 64733 0108928		x	No
121 Larchmont Charter School, West Hollywood	19 64733 0117929		x	No
122 Legacy Charter High School	19 64733 0117317		x	No
123 Los Feliz Charter Schools for the Arts	19 64733 0112235		x	No
124 Lou Dantzler Preparatory Elementary School	19 64733 0117945		x	No
125 Lou Dantzler Preparatory High School	19 64733 0112540		x	No
126 Lou Dantzler Preparatory Middle School	19 64733 0112227		x	No
127 Magnolia Science Academy	19 64733 6119945		x	No
128 Magnolia Science Academy 2	19 64733 0115212		x	No
129 Magnolia Science Academy 3	19 64733 0115030		x	No
130 Magnolia Science Academy 4	19 64733 0117622		x	No
131 Magnolia Science Academy 5	19 64733 0117630		x	No
132 Magnolia Science Academy 6	19 64733 0117648		x	No
133 Magnolia Science Academy 7	19 64733 0117665		x	No
134 Magnolia Science Academy 8 (Bell)	19 64733 0122747		x	No
135 Marc & Eva Stern Math & Science	19 64733 0111658		x	No
136 Media Arts & Entertainment High School	19 64733 0116509		x	No
137 Milagro Charter Elementary School	19 64733 0102426		x	No
138 Monsenor Oscar Romero	19 64733 0114959		x	No
139 Montague Charter Academy	19 64733 6018204		x	No
140 Multicultural Learning Center	19 64733 6119044		x	No
141 N.E.W. Academy Canoga Park Elementary School	19 64733 0102483		x	No
142 N.E.W. Academy of Science & Arts	19 64733 0100289		x	No
143 New Designs	19 64733 0102541		x	No
144 New Designs - Watts	19 64733 0120071		x	No
145 New Heights	19 64733 0111211		x	No
146 New Los Angeles Charter School	19 64733 0117614		x	No
147 New Millennium Secondary School	19 64733 0117911		x	No
148 New Village Charter School	19 64733 0111484		x	No
149 North Valley Charter Academy	19 64733 0100776		x	No
150 Nueva Esperanza Charter Academy	19 64733 0120055		x	No

(Continued)

LOS ANGELES UNIFIED SCHOOL DISTRICT
Charter Schools (Continued)
Year Ended June 30, 2011

	CDS Code	Affiliated	Fiscally Independent	Included in the District Audit
151 Ocean Charter School	19 64733 0102335		x	No
152 Our Community School	19 64733 0109934		x	No
153 Pacoima Charter School	19 64733 6018642		x	No
154 Palisades Charter High School	19 64733 1995836		x	No
155 Para Los Ninos Charter	19 64733 6120489		x	No
156 Para Los Ninos - E. Thurman Gratts Primary Center	19 64733 0122630		x	No
157 Para Los Ninos Middle School Charter	19 64733 0117846		x	No
158 Port of Los Angeles Senior High	19 64733 0107755		x	No
159 Puente Charter	19 64733 6120471		x	No
160 Renaissance Arts Academy	19 64733 0101683		x	No
161 Richard Merkin Middle Academy	19 64733 0108902		x	No
162 Santa Monica Boulevard Community	19 64733 6019079		x	No
163 Santa Rosa Charter Academy	19 64733 0119974		x	No
164 Stella Middle Charter Academy	19 64733 0100669		x	No
165 Synergy Charter Academy	19 64733 0106427		x	No
166 Synergy Kinetic Academy	19 64733 0117895		x	No
167 TEACH Academy of Technologies	19 64733 0122242		x	No
168 Thurgood Marshall Charter Middle School	19 64733 0125261		x	No
169 Triumph Academy	19 64733 0112193		x	No
170 Triumph Charter High School	19 64733 0112193		x	No
171 Valley Charter Elementary	19 64733 0122754		x	No
172 Valor Academy Charter School	19 64733 0120022		x	No
173 Vaughn Next Century Learning Center	19 64733 6019715		x	No
174 View Park Preparatory Accelerated Elementary School Angeles Mesa Presbyterian Church	19 64733 6117048		x	No
175 View Park Preparatory Accelerated High School	19 64733 0101196		x	No
176 View Park Preparatory Accelerated Middle School	19 64733 6121081		x	No
177 Vista Charter Middle School	19 64733 0122739		x	No
178 Wallis Annenberg High School	19 64733 0100750		x	No
179 Watts Learning Center	19 64733 6114912		x	No
180 Watts Learning Center Charter Middle School	19 64733 0120527		x	No
181 Westside Innovative School House	19 64733 0121012		x	No
182 William & Carol Ouchi High School (CRHS #6)	19 64733 0111641		x	No
183 Wisdom Academy for Young Scientists	19 64733 0112730		x	No

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to State Compliance Information

Year Ended June 30, 2011

(1) Purpose of Schedules

(a) Schedule of Average Daily Attendance

Average daily attendance is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

The schedule of average daily attendance for each of the District's affiliated charter schools is provided separately.

(b) Schedule of Instructional Time Offered

The District has received incentive funding for increasing instructional time as provided by the Incentive for longer instructional day. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of Education Code Sections 46201 through 46206.

(c) Schedule of Financial Trends and Analysis

This schedule focuses on financial trends by displaying past years' data along with current budget information and evaluates the District's ability to continue as a going concern for a reasonable period of time.

(d) Reconciliation of Unaudited Actual Financial Reports with Audited Financial Statements

This schedule provides the information necessary to reconcile the differences between fund balances reported on the unaudited actual financial reports and the audited financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Grantor or Pass-Through Entity ID Number	Program Cluster Expenditures	Total Federal Expenditures
U.S. Department of Agriculture:				
Passed through California Department of Education:				
Child Nutrition School Programs Breakfast	10.553	PCA 13525, 13526	\$ 51,887,823	
Child Nutrition School Programs Lunch	10.555	PCA 13523, 13524	156,116,464	
Child Nutrition School Programs Snack	10.555	PCA 13755	7,966,525	
Donated Food Commodities	10.555	PCA 02288	7,439,734	
Child Nutrition Summer Food Services				
Program Operations	10.559	PCA 13004	3,718,804	
Child Nutrition Summer Food Services Program				
Sponsor Administration	10.559	PCA 13006	392,791	
Subtotal expenditures – Child Nutrition Cluster				\$ 227,522,141
Child Nutrition Child Care Food Program Claims	10.558	PCA 13529	9,104,494	
Child Nutrition Child Care Food Program – Cash in Lieu of Commodities	10.558	PCA 13534	472,394	
Subtotal expenditures – Child Care Food Program				9,576,888
Passed through California Department of Health Services				
Child Nutrition Network	10.561	07-65328	966,642	
Child Nutrition Network	10.561	10-10072	3,950,149	
Subtotal expenditures – Child Nutrition Network				4,916,791
NSLP Equipment Assistance Grant	10.579	PCA 14906		521,356
Forest Reserve	10.665	Not Available		21,019
Subtotal Pass-Through Programs				242,558,195
Total U.S. Department of Agriculture				242,558,195
U.S. Department of Commerce:				
Passed through Corporation for Public Broadcast				
Public Broadcasting Programs	11.550	1714; 06-02-N10084		234,704
Subtotal Pass-Through Programs				234,704
Total U.S. Department of Commerce				234,704
U.S. Department of Defense:				
Flood Control Projects	12.106	Not Available		3,520
Reserve Officer Training Corps Vitalization Act	12.400	Not Available		2,657,013
STARTALK: Exploring Arabic Through Technology, Visual Arts and Photography	12.900	H98230-11-1-0079		1,475
Arabic Mosaic: Apprenticeship in Language and Culture Throughout the Arab World	12.901	H98230-10-1-0093		83,609
Subtotal Direct Programs				2,745,617
Total U.S. Department of Defense				2,745,617
U.S. Department of Housing & Urban Development:				
Passed through County of Los Angeles				
Community Development Block Grant	14.218	105239	13,686	
Passed through City of Carson				
Carson Guidance	14.218	MOU	13,518	
Subtotal expenditures – Comm. Develop. Block Grants				27,204
Passed through Children's Collective, Inc				
Children Collective Youth Program	14.227	C- 040110		39,319
Subtotal Pass-Through Programs				66,523
Total U.S. Department of Housing and Urban Development				66,523
U.S. Department of Justice:				
Watts Anti Gang	16.744	UL06011250/06AGIS		17,495
Subtotal Direct Program				17,495
Total U.S. Department of Justice				17,495
U.S. Department of Labor:				
Passed through Employment Development Department:				
Employment Development Department Trade Act				
East Los Angeles Skill Center	17.245	990089	27,201	
East Los Angeles Occupational Center	17.245	200344	170,173	
Harbor Occupational Center	17.245	200348	92,734	
North Valley Occupational Center	17.245	200522	10,269	
West Valley Occupational Center	17.245	200458	88,251	
Maxine Waters Employment Preparation Center	17.245	200469	13,833	
A Friedman Occupational Center	17.245	200462	15,731	
Subtotal expenditures – Trade Adjustment Assistance				418,192

(Continued)

LOS ANGELES UNIFIED SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2011

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Grantor or Pass-Through Entity ID Number	Program Cluster Expenditures	Total Federal Expenditures
Passed through Watts Labor Community Action Committee: Workforce Investment Act – WATTS/WEP Auto Training Proj.	17.261	200519		\$ 43,665
Workforce Investment Act – One Stop WorkSource - Adult	17.258	200540	\$ 70,102	
Workforce Investment Act – One Stop WorkSource - Dislocated Worker	17.278	200540	19,205	
Workforce Investment Act – Youth	17.259	200024	84,287	
Passed through City of Long Beach: Workforce Investment Act – ARRA Adult	17.258	C - 31483	231,421	
Passed through South Bay WorkSource Center Workforce Investment Act – Adult - I Train	17.258	200467	37,048	
Passed through Homecare Workers Training Center Workforce Investment Act – Adult	17.258	N/A	1,590	
Passed through City of Los Angeles: Workforce Investment Act – Youth Program-Harbor	17.259	117892	638,617	
Workforce Investment Act – ARRA-Summer Youth Employment Program	17.259	C- 117817	3,269,000	
Passed through Para Los Ninos Workforce Investment Act – Youth	17.259	T4316	136,669	
Passed through Archdiocesan Youth Employment Services: Workforce Investment Act – Youth	17.259	N/A	96,642	
Subtotal expenditures – Workforce Investment Act Cluster				4,584,581
Subtotal Pass-Through Programs				5,046,438
Total U.S. Department of Labor				5,046,438
U.S. Department of Transportation: Passed through City of Long Beach: Pacific Gateway Workforce Investment Network- Construction Job Program	20.205	200505		54,245
Subtotal Pass-Through Programs				54,245
Total U.S. Department of Transportation				54,245
National Science Foundation: Wide Chge. Experimental Study	47.076	0070 G ND220		56,969
Total National Science Foundation				56,969
U.S. Environmental Protection Agency: Environmental Protection Agency – Indoor Air Quality	66.034	XA-00T03601-0		20,280
Total U.S. Environmental Protection Agency				20,280
U.S. Department of Education: Federal Supplemental Educational Opportunity Grant	84.007	P007A108953	154,761	
Regional Occupational Center College Work Study (ARRA)	84.033	P033A108953	34,199	
Pell Grant (ARRA)	84.063	P063P105911	180,871	
Subtotal expenditures – Student Financial Assistance Cluster				369,831
Indian Education	84.060	S060A100283		248,546
LA'S BEST	84.215	MOU	43,967	
Fund for Improv Edu Prog – Teach Am Hist	84.215	U215X070162; U215X100365	518,549	
Small Learning Communities (SLC)	84.215	S215L060084	2,185,219	
Small Learning Communities – COH 8	84.215	S215L080570	1,010,416	
Subtotal expenditures – Fund for the Imp. of Education				3,758,151
Foreign Language Assistance	84.293	T293B070149		100,425
Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP)				
GEAR-UP-Project Steps	84.334	P334A050008	1,028,787	
GEAR-UP-Project Higher Learning	84.334	P334A050178	2,947,109	
GEAR-UP-Project LASSO	84.334	P334A050217	988,126	
GEAR-UP-District 8	84.334	P334A050205	737,851	
GEAR-UP-District 6	84.334	P334A060124	634,941	
CA GEAR UP	84.334	10-GEAR UP-1135	37,669	
Subtotal expenditures – GEAR-UP				6,374,483
Los Angeles Early Deciders Teacher Recruit	84.336	P336C050011-07		79,889
I3 Fund ARRA-LA'S Bold Competition	84.396	U396C100336		465,571
Subtotal Direct Programs				11,396,896

(Continued)

LOS ANGELES UNIFIED SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2011

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Grantor or Pass-Through Entity ID Number	Program Cluster Expenditures	Total Federal Expenditures
Passed through California Department of Education:				
Workforce Investment Act – Adult Basic Ed/ESL	84.002	PCA#14508	\$ 14,550,144	
Workforce Investment Act – Adult Secondary Ed	84.002	PCA#13978	736,934	
Eng Lit & Civic Ed-Adult-FY04	84.002	PCA#14109	15,196	
Subtotal expenditures – Adult Education				\$ 15,302,274
Elementary and Secondary Education Act, Title I	84.010	PCA 14329	295,946,268	
CE-NCLB T1 NPS	84.010	PCA 14329	5,962,176	
Elementary and Secondary Education Act, Title I Delinquent	84.010	PCA 14357	263,310	
Elementary and Secondary Education Act, Title I Neglected	84.010	PCA 14329	2,395,803	
CE-NCLB-PARENT/CLUSTER RESOURC	84.010	PCA 14329	1,595,745	
TI-A SUPPLEMENTAL SRVC(NCLB)	84.010	PCA 14329	58,256,077	
CE-NCLB T1 PROF DEV-RTI	84.010	PCA 14329	38,162	
CE-NCLB T1-RED TEAM	84.010	PCA 14329	95,179	
CE-NCLB-T1-PD-TENSCHS	84.010	PCA 14329	3,527,390	
CE-NCLB-T1-PROG IMPRVMT SCH	84.010	PCA 14329	19,376,438	
CE-NCLB T1-CAP EXP REIMB NPS	84.010	PCA 14329	725,441	
NCLB-T1-TRNSTION KNDRGRTN PROG	84.010	PCA 14329	1,431,351	
CE-NCLB T1 SUMMER PD	84.010	PCA 14329	4,772,897	
CE-NCLB-PROF DEV	84.010	PCA 14329	5,547,911	
CE-NCLB-PUBL SCH CHOICE	84.010	PCA 14329	1,428,640	
TI-EXTENDED LEARN ACAD	84.010	PCA 14329	1,186,544	
CE-NCLB-AEMP	84.010	PCA 14329	762,143	
NCLB: T1, ARRA	84.389	PCA 15005	202,427,134	
NCLB: T1, ARRA	84.389	PCA 15009	267,141	
Subtotal expenditures – Title I, Part A Cluster				606,005,750
Migrant Ed – Regular & Summer	84.011	09-14326-1019		1,023,536
Special Ed: IDEA Basic Local Assistance Entitlement	84.027	10-13379-6473-01	120,260,692	
Special Ed: IDEA Local Assistance, Private School ISPs	84.027	10-13379-6473-01	1,071,362	
Special Ed: IDEA Federal Preschool Grant	84.027	10-13430-6473	5,005,772	
Special Ed: IDEA Pre-School Local Assistance Entitlement	84.027	10-13682-6473	9,281,928	
Special Ed: ARRA IDEA Part B, Sec 611, Preschool Local Entitlement	84.391	PCA 15002	4,493,364	
Special Ed: ARRA IDEA Local Assistance	84.391	09-15003-6473-01	42,547,526	
Special Ed: ARRA IDEA Loc. Assistance Private Sch. ISPs	84.391	09-15003-6473-01	983,930	
IDEA Preschool	84.173	PCA 14688	176,450	
Preschool Expansion Grant	84.173	PCA 13431	24,571	
ARRA IDEA Part B, Sec 619, Preschool Grants	84.392	PCA 15000	3,530,047	
Subtotal expenditures – Special Education Cluster				187,375,642
Carl D. Perkins – SEC INSTR	84.048	14894	6,096,627	
Carl D. Perkins – Vocational and Technical Education	84.048	14893	3,684,012	
Subtotal expenditures – Career and Technical Education				9,780,639
Magnet Schools Assistance	84.165	U165A100057		1,071,075
Early Intervention Funds - Part C	84.181	PCA 23761		1,159,329
Title IV – Safe and Drug Free Schools & Community- National-Readiness Emergency Mgt 4 Schs.	84.184	Q184E100145		207,197
Title IV – Safe and Drug Free Schools-Healthy Student	84.184	Q184L080226		2,423,926
Title IV – Safe and Drug Free Schools & Community- State	84.186	Q186A090005		1,347,415
Public Charter School	84.282	PCA 14941		81,498
Homeless Education Project	84.196	14332	138,044	
NCLB:ARRA-T X McKinney-Vento Homeless Assistance	84.387	PCA 15007	365,237	
Subtotal expenditures – Education of Homeless Children and Youth Cluster				503,281
Twenty-first Century Learning Centers	84.287	14349	5,231,805	
Twenty-first Century Learning Centers	84.287	14535	13,434,930	
Twenty-first Century Learning Centers	84.287	14603	312,343	
Subtotal expenditures – Twenty-First Century Community Learning Centers				18,979,078
No Child Left Behind (NCLB) Title II – Enhancing Education Through Technology-Competitive	84.318	PCA 14368	555,953	
No Child Left Behind Title II – Enhancing Education Through Technology – Formula	84.318	PCA 14334	2,562,697	
No Child Left Behind Title II – Enhancing Education Through Technology – ARRA	84.386	PCA 15019; PCA15126	3,584,909	
Subtotal expenditures – Education Technology Grants Cluster				6,703,559

(Continued)

LOS ANGELES UNIFIED SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2011

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Grantor or Pass-Through Entity ID Number	Program Cluster Expenditures	Total Federal Expenditures
GSU Development & Valid of a behavioral Advanced Placement	84.324 84.330	13492-02 S330B110007		\$ 35,695 793,378
Transition Teaching Program	84.350	U350A0700039		427,688
ARTS IN EDU MODEL DEV & DISSEM	84.351	U351D100117		126,648
Reading First	84.357	PCA 14328		4,075,275
SCHOOL DROPOUT PREVENTION PROG	84.360	S360A100054		988,902
Title III, Limited English Proficient Professional Dev	84.365	PCA 14346		33,583,980
No Child Left Behind Title II-B – Math	84.366	PCA 14512		1,355,254
No Child Left Behind Title II-A – Teacher Quality	84.367	PCA 14341		51,457,171
SCHOOL IMPROVEMENT GRT	84.377	PCA15123;14971;15124	\$ 36,668,328	
SCHOOL IMPROVEMENT GRT - ARRA	84.388	PCA 15004	7,343,689	
Subtotal expenditures – School Improvement Grants Cluster				44,012,017
ARRA State Fiscal Stabilization Fund (SFSF)	84.394	PCA 25008		77,257,936
Passed through State Department of Rehabilitation:				
Rehab-Transition Partnership Program	84.158	26706		350,000
Voc Rehab-Trans Part-Greater LA	84.126	27973	809,743	
ARRA Cooperative Public Agency/CRP Contract	84.390	27689A	134,259	
Subtotal expenditures – Vocational Rehabilitation Cluster				944,002
Passed through Center for Collaborative Education				
Principal Residency Network	84.363	MOA		128,938
Subtotal Pass-Through Programs				1,067,501,083
Total U.S. Department of Education				1,078,897,979
U.S. Department of Health & Human Services:				
School Health Program	93.938	1U87DP001201-01/SU87DP001201-02		646,209
Subtotal Direct Programs				646,209
Passed through County of Los Angeles:				
Department of Health Services-Vocational Nurse Ed.	93.178	N/A		14,074
Department of Public Health-RENEW/TRUST (ARRA)	93.724	PH-001123; PH-001130		725,832
Los Angeles Cnty Office of Ed-SHAPE/TRUST (ARRA)	93.724	078891:10:11		229,274
Department of Mental Health-Medi-cal Rehab.	93.778	MH120522		4,013,983
Passed through California Department of Education:				
California Instructional Materials and Supplies	93.575	CCAP-9030	16,309	
General Child Care Center-Block Grant	93.575	PCA 15136	14,318,575	
General Child Care Center-Mandatory & Matching Fund	93.596	PCA 13609	37,978,056	
ARRA Child Care and Dev Block Grant,				
General Center Based	93.713	PCA 15010/PCA 15013	7,451,076	
Subtotal expenditures – Child Care Development Fund Cluster				59,764,016
Passed through California Department. of Health Services:				
Medi-Cal Billing Option	93.778	940830		13,521,406
Passed through Los Angeles County Office of Education:				
ARRA-Head Start	93.708	C-11724	2,231,746	
ARRA-Early Head Start	93.709	C-11730	1,474,199	
Subtotal expenditures – Head Start Cluster				3,705,945
Medi-Cal Administrative Activity	93.778	C-10606:08:09		7,575,667
Passed through University of California				
NIMH-ARRA School based Mental Program Research	93.701	1647 G NA105		80,269
Passed through Rand Corporation:				
CalServe Regional	94.004	14939		29,975
Subtotal Pass-Through Programs				89,660,441
Total U.S. Department of Health & Human Services				90,306,650
U.S. Department of Homeland Security:				
Passed through Governors Office of Emergency Services:				
Public Assistance - Disaster/FEMA 1810	97.036	OES ID #037-91146	6,005	
Public Assistance - Hazard Mitigation/FEMA 1731	97.039	FIPS #037-91146	387,475	
Public Assistance - Fire Management Asst	97.046	OES ID #037-91146	66,798	
Subtotal Pass-Through Programs				460,278
Total U.S. Department of Homeland Security				460,278
Total Expenditures of Federal Awards				\$ 1,420,465,373

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2011

(1) General

The accompanying schedule of expenditures of federal awards presents the expenditures of all federal financial assistance programs for the Los Angeles Unified School District (District). The District's reporting entity is defined in the notes to the District's basic financial statements.

(2) Basis of Accounting

The accompanying schedule of expenditures of federal awards is presented using the modified accrual basis of accounting, as described in Note 1 of the notes to the District's basic financial statements. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the District's basic financial statements but agrees in all material respects.

(3) Noncash Assistance

Included in the schedule of expenditures of federal awards is (CFDA #10.555) \$7,439,734 of donated food commodities received from the U.S. Department of Agriculture, passed-through the State of California, during the year ended June 30, 2011.

(4) Subrecipient Awards

Of the federal expenditures presented in the schedule of expenditures of federal awards, the District provided a significant amount of funding to various subrecipients. Due to the extensive number of federal programs and volume of subrecipients, it is not practical to display the detailed subrecipient information in the schedule of expenditures of federal awards.



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**Report on Internal Control over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards***

The Honorable Board of Education
Los Angeles Unified School District

We have audited the 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, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 14, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the provisions of the *California Code of Regulations* (CCR), Title 5, Education, Section 19810, et seq.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as FS-11-01 and FS-11-02 that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.





Compliance and Other Matters

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

We noted certain matters that we reported to management of the District in a separate letter dated December 14, 2011.

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of District management, the Board of Education, others within the entity, and federal awarding agencies, state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read 'Simpson & Simpson', written in dark ink on a light background.

Los Angeles, California
December 14, 2011



SIMPSON & SIMPSON
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**Report on Compliance with Requirements That Could Have a Direct And
Material Effect on Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133**

Independent Auditor's Report

The Honorable Board of Education
Los Angeles Unified School District

Compliance

We have audited the compliance of the **Los Angeles Unified School District** (the District) with the types of compliance requirements described in the *(OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2011. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

As described in the table below and in the accompanying schedule of findings and questioned costs, the District did not comply with requirements that are applicable to the following programs:

Compliance requirement	Program Name and Catalog of Federal Domestic Assistance (CFDA) number	Finding number
Allowable Costs	English Language Acquisition Grants, CFDA 84.365	F-11-01





Compliance requirement	Program Name and Catalog of Federal Domestic Assistance (CFDA) number	Finding number
Earmarking	WIA Youth Activities, CFDA 17.259	F-11-05
	Vocational Education Basic Grants to States, CFDA 84.048	F-11-05
Earmarking	ARRA Head Start and ARRA Early Head Start, CFDA Nos. 93.708 and 93.709	F-11-07
Reporting	Vocational Education Basic Grants to States, CFDA 84.048	F-11-12
Subrecipient Monitoring	Gaining Early Awareness and Readiness for Undergraduate Programs, CFDA 84.334.	F-11-16
Special Tests and Provisions	Title I Basic Grants to LEAs, CFDA 84.010	F-11-17
	English Language Acquisition Grants, CFDA 84.365	F-11-18

Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the table above, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items: F-11-01, F-11-02, F-11-03, F-11-04, F-11-05, F-11-06, F-11-07, F-11-08, F-11-09, F-11-12, F-11-15 and F-11-16.

Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over



compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items F-11-01, F-11-02, F-11-03, F-11-05, F-11-07, F-11-08, F-11-12, F-11-15, F-11-16, F-11-17, and F-11-18 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items F-11-01 to F-11-18 to be significant deficiencies.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of District management, the Board of Education, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in dark ink, appearing to read 'Simpson E. Simpson', written over a light-colored rectangular background.

December 14, 2011
Los Angeles, California



SIMPSON & SIMPSON
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Independent Auditor's Report on State Compliance

The Honorable Board of Education
Los Angeles Unified School District

We have audited the compliance of the **Los Angeles Unified School District** (the District), with the compliance requirements described in the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2010-11* (the Guide), for the year ended June 30, 2011. The District's programs are identified in the table below. Compliance with the requirements of the state laws and regulations applicable to each program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies*, prescribed in the California Code of Regulations (CCR), Title 5, section 19810 - 19854. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above occurred. An audit also includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with the state laws and regulations applicable to the following programs:

	Number of Procedures in Education Audit Appeals Panel Audit Guide, Standards and Procedures for Audits of California K-12 Local Education Agencies 2010-11	Procedures performed
Attendance Accounting:		
Attendance Reporting	8	Yes
Independent Study	23	Yes
Continuation Education	10	Yes
Kindergarten Continuance	3	Yes





	Number of Procedures in Education Audit Appeals Panel Audit Guide, Standards and Procedures for Audits of California K-12 Local Education Agencies 2010-11	Procedures performed
Instructional Time for:		
School Districts	6	Yes
County Office of Education	3	Not applicable
Instructional Materials General Requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not applicable
Gann Limit calculation	1	Yes
School Accountability Report Card	3	Yes
Public Hearing requirement – Receipt of Funds	1	Yes
Class Size Reduction:		
General Requirements	7	Yes
Option One	3	Yes
Option Two	4	Not applicable
Districts or Charter School with only One School Serving K-3	4	Not applicable
After School Education and Safety Program:		
General Requirements	4	Yes
After School Program	4	Yes
Before School Program	5	Yes
Contemporaneous Records of Attendance for Charter Schools	1	Yes
Mode of Instruction, for Charter Schools	1	Yes
Nonclassroom-Based Instruction/Independent Study, for Charter Schools	15	Not applicable
Determination of Funding for Nonclassroom- Based Instruction, for Charter Schools	3	Not applicable
Annual Instructional Minutes – Classroom Based for Charter Schools	3	Yes



In our opinion, except for the noncompliance described in the accompanying schedule of findings and questioned costs as items S-11-01 to S-11-06 the District complied, in all material respects, with the compliance requirements referred to above that are applicable to each of its programs for the year ended June 30, 2011.

This report is intended solely for the information and use of the Board of Education, District management, others within the entity, the State Controller's Office, Department of Education, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read 'Singman & Singman', written in dark ink on a light background.

December 14, 2011
Los Angeles, California

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

June 30, 2011

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? None
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes

Identification of major programs and type of auditor’s report issued on compliance for each major program:

CFDA #	Name of Federal Program	Opinion
	Department of Agriculture – Child Nutrition Cluster:	Unqualified
10.553	School Breakfast Program;	
10.555	National School Lunch Program;	
10.559	Summer Food Service Program for Children	
10.558	Department of Agriculture – Child and Adult Care Food Program	Unqualified
	Department of Agriculture – Food Stamp Cluster:	Unqualified
10.561	State Administrative Matching Grants for Food Stamp Program	
17.259	Department of Labor – WIA Youth Activities	Unqualified
	Department of Education – Title I, Part A Cluster:	Unqualified
84.010	Title I Grants to Local Educational Agencies	
84.389	Title I Grant to Local Educational	

LOS ANGELES UNIFIED SCHOOL DISTRICT

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CFDA #	Name of Federal Program	Opinion
	Agencies, Recovery Act	
84.048	Department of Education – Vocational Education Basic Grants to States (Perkins IV)	Unqualified
	Department of Education – Special Education Cluster:	Unqualified
84.027	Special Education Grants to States (IDEA, Part B);	
84.173	Special Education Preschool Grants (IDEA Preschool);	
84.391	Special Education Grants to States (Idea, Part B), <i>Recovery Act</i> ;	
84.392	Special Education Preschool Grants (Idea, Part Preschool), <i>Recovery Act</i> .	
	Department of Education – State Fiscal Stabilization Fund Cluster:	Unqualified
84.394	State Fiscal Stabilization Fund (SFSF) – Education State Grants, <i>Recovery Act</i> (Education Stabilization Fund)	
84.215	Department of Education – Fund for the Improvement of Education	Unqualified
84.287	Department of Education – Twenty-First Century Community Learning Centers	Unqualified
	Department of Education – Education Technology State Grants Cluster:	Unqualified
84.318	Education Technology State Grants	
84.386	Education Technology State Grants, <i>Recovery Act</i>	
84.334	Department of Education – Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP)	Unqualified
	Department of Education – School Improvement Grants Cluster	Unqualified
84.377	School Improvement Grants	
84.388	School Improvement Grants, <i>Recovery Act</i>	
84.357	Department of Education – Reading First State Grants	Unqualified
84.365	Department of Education – English	Qualified

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

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CFDA #	Name of Federal Program	Opinion
	Language Acquisition Grants	
84.002	Department of Education – Workforce Investment Act, Title II: Adult Education and Family Literacy Act	Unqualified
84.367	Department of Education – Improving Teacher Quality State Grants	Unqualified
	Department of Health and Human Services – Child Care Development Fund Cluster:	Unqualified
93.575	Child Care and Development Block Grant;	
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund;	
93.713	ARRA – Child Care and Development Block Grant.	
	Department of Health and Human Services – Head Start Cluster	Qualified
93.708	ARRA – Head Start	
93.709	ARRA – Early Head Start	
93.778	Department of Health and Human Services – Medical Assistance Program	Unqualified
•	Any audit findings disclosed which are required to be reported in accordance with Section 510(a) of Circular A-133:	Yes
•	Dollar threshold used to distinguish between type A and type B programs:	\$4,261,396
•	Auditee qualified as low risk auditee	No
State Awards		
	Type of auditor’s report issued on compliance for state programs:	Unqualified

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

June 30, 2011

Section II – Findings Relating to the Basic Financial Statements which are Required to be Reported in Accordance with GAS

FS-11-01 - IFS Change Control – Significant Deficiency

State Audit Guide Finding Code: 30000

Criteria

Changes to accounting application programs are highly critical as they can impact the integrity of financial reporting. Accordingly, such changes warrant accounting management's approval prior to being implemented into production.

Condition

Fourteen (14) of the twenty-nine (29) IFS Migration Request Forms sampled for the 2011 fiscal year did not contain a signature from a Business Sponsor (e.g., Accounting Management). Migration Request forms are required to be authorized by a business sponsor prior to the implementation of a new or changed program into the production environment.

Cause and Effect

Unauthorized programs could be implemented for IFS, this could adversely impact the integrity of accounting data.

Recommendation

IFS Migration Request Forms should be consistently approved by the appropriate business management personnel (i.e., business sponsor) prior to a changed or new program's operational use.

View of Responsible Officials and Planned Corrective Action

ITD agrees with this recommendation. We have obtained signatures from the business sponsor for the 14 IFS migration forms sampled that did not contain a signature. We have also modified the IFS Migration Request Form to include a signature line for the Business sponsor's approval. The new form was put in place in December 2010.

FS-11-02 - ISIS Change Control – Significant Deficiency

State Audit Guide Finding Code: 30000

Criteria

Changes to accounting application programs are highly critical as they can impact the integrity of financial reporting. Accordingly, such changes warrant accounting management's approval prior to being implemented into production.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

June 30, 2011

Condition

Changes to accounting application programs are highly critical as they can impact the integrity of financial reporting. Accordingly, such changes warrant management's approval prior to being implemented into production. However, the following were noted relative to ISIS program changes:

- One (1) of the twenty (20) ISIS change requests sampled for the 2011 fiscal year did not contain an approval from a Business Sponsor (i.e. Student Information System Branch). Requests of ISIS changes that affect the functionality of the program are required to be authorized by a business sponsor prior to the implementation of a new or changed program into the production environment.
- Three (3) of the twenty (20) ISIS change requests sampled for the 2011 fiscal year did not contain approvals from all 4 required groups of the MOC (Management of Change) Committee. These groups consists of Security, Network, Database and Operations. According to ITD Change Management Procedures, a program change is required to be successfully tested prior to submitting the change request for MOC committee review. If any one of the four teams in the MOC committee denies a change request, it will automatically result in the change request being denied.

Cause and Effect

Unauthorized program changes could be implemented for ISIS, this could adversely impact the integrity of student accounting data.

Recommendation

ISIS Change tickets should be consistently approved by both the appropriate business management (i.e., business sponsor) and technical personnel prior to implementing the changed or new program.

View of Responsible Officials and Planned Corrective Action

ITD management considers the single missing signature to be an aberration; we will continue to strive to have all ISIS change requests that affect the functionality of the program signed by the Business Sponsor.

ITD management agrees with the finding regarding the Management of Change process. ITD is re-evaluating its Change Management process, along with other organizational processes. At the conclusion of the review, new Change Management processes will be in place.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

June 30, 2011

Section III – Federal Award Findings and Questioned Costs

Program Identification

Finding Reference Number:

F-11-01

Federal Program Title, Awarding Agency, Pass-Through Entity, Catalog of Federal Domestic Assistance (CFDA) Number, and Award Number:

Title I Grants to Local Educational Agencies: U.S. Department of Education (USED), Passed through the California Department of Education, CFDA No. 84.010 and 84.389, Grant Agreements 14329, 14981, and 15005 (Recovery Act);

Special Education Cluster: Grants to States, Preschool Grants, U.S. Department of Education, Passed through the California Department of Education, CFDA No. 84.027, Grant Agreement 10-13379-6473-01;

English Language Acquisition Grants, U.S. Department of Education (USED), Passed through the California Department of Education, CFDA No. 84.365, Grant Agreement 10-10084-6473;

Child Care and Development Fund: Child Care and Development Block Grant, Child Care Mandatory and Matching Funds of the Child Care and Development Fund; U.S. Department of Health and Human Services, Passed through the California Department of Education, CFDA Nos. 93.575 and 93.713, Contract CCTR-0124 and CSPP-0227;

Workforce Investment Act, Title II: Adult Education and Family Literacy Act, U.S. Department of Education (USED), Passed through the California Department of Education, CFDA No. 84.002, Grant Agreement 10-Multiple-64733;

Medical Assistance Program, U.S. Department of Health & Human Services, Passed through the California Department of Health Services, CFDA No. 93.778, Grant Agreement C-10606:08:09;

Head Start and Early Head Start (Recovery Act), Department of Health and Human Services (HHS),

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

June 30, 2011

Los Angeles County Office of Education
(LACOE), CFDA Nos. 93.708 and 93.709, Grant
Agreements C-11730:10:11 and C-11724:10:11.

Compliance Requirement: Allowable Costs

State Audit Guide Finding Code: 30000 and 50000

Criteria

OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, Attachment B, Selected Items of Cost, Part 8, Compensation for Personal Services, Section H, Support of salaries and wages:

- Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.
- Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation that meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant federal agency. Such documentary support will be required where employees work on:
 - (a) More than one federal award,
 - (b) A federal award and a nonfederal award,
 - (c) An indirect cost activity and a direct cost activity,
 - (d) Two or more indirect activities which are allocated using different allocation bases, or
 - (e) An unallowable activity and a direct or indirect cost activity.
- Personnel activity reports or equivalent documentation must meet the following standards:
 - (a) They must reflect an after the fact distribution of the actual activity of each employee,
 - (b) They must account for the total activity for which each employee is compensated,
 - (c) They must be prepared at least monthly and must coincide with one or more pay periods, and
 - (d) They must be signed by the employee.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

June 30, 2011

Condition

As part of our compliance review over payroll expenditures, we selected a sample of payroll expenditures charged to the program to ascertain if they were allowable per program regulations, accurately charged to the program, and appropriately supported in accordance with the OMB Circular A-87.

Title I Grants to LEAs and Title I Grants to LEAs (Recovery): In our sample of 100 payroll expenditures (50 each for CFDA No. 84.010 and CFDA No. 84.389), we noted the following:

Title I Grants to LEAs:

- 1 employee totaling \$9,047 was unable to provide either multifunded timesheets or semiannual certifications to support the payroll expenditures charged to the program.

Total exceptions amounted to \$9,047 of the \$289,898 sampled from the \$313,655,108 of total payroll and benefit expenditures for the fiscal year ended June 30, 2011.

Title I Grants to LEA (Recovery Act):

- 3 employees totaling \$15,936 provided signed semiannual certifications; however, the certifications were signed and dated subsequent to our requests.
- 1 employee totaling \$6,244 was unable to provide us with time reporting documentation to support the hours charged to the program.

Total exceptions amounted to \$22,180 of the \$333,023 sampled from the \$ 160,794,352 of total payroll and benefit expenditures for the fiscal year ended June 30, 2011.

Special Education Cluster: In our sample of 50 payroll expenditures for CFDA No. 84.027, we noted the following:

- 3 employees totaling \$18,453 provided semiannual certifications; however, the certifications were signed and dated subsequent to our request.

Total exceptions amounted to \$18,453 of the \$404,278 sampled from the \$119,509,693 of total payroll and benefit expenditures for the fiscal year ended June 30, 2011.

English Language Acquisition Grants: In our sample of 60 payroll expenditures, we noted the following

- 2 employees totaling \$14,554 provided semiannual certifications; however, the certifications were signed and dated subsequent to our request.
- 1 employee totaling \$1,867 provided a timesheet; however, the hours reported on the timesheets did not support all hours recorded on the SAP payroll record.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

June 30, 2011

- 1 employee totaling \$7,502 provided a semiannual certification; however, the program code reported was different from the SAP payroll record.

Total exceptions amounted to \$23,923 of the \$362,043 sampled from the \$27,781,374 of total payroll and benefit expenditures for the fiscal year ended June 30, 2011.

Child Care and Development Fund: In our sample of 60 payroll expenditures, we noted the following:

- CFDA No. 93.596: 1 employee totaling \$7,871 provided signed semiannual certification; however, the certification was not dated. As such, we were unable to determine if the certification was prepared timely.

Total exceptions amounted to \$7,871 of the \$221,819 sampled from the \$86,114,469 of total payroll and benefit expenditures for the fiscal year ended June 30, 2011.

- CFDA No. 93.713: 1 employee totaling \$4,754 was unable to provide either multifunded timesheets or semiannual certifications to support the payroll expenditures charged to the program.

Total exceptions amounted to \$4,754 of the \$131,371 sampled from the \$7,346,253 of total payroll and benefit expenditures for the fiscal year ended June 30, 2011.

Workforce Investment Act: In our sample of 60 payroll expenditures, we noted the following:

- 3 employees totaling \$10,022 provided semiannual certifications; however, the certifications were signed and dated subsequent to our request.

Total exceptions amounted to \$10,022 of the \$237,101 sampled from the \$10,788,768 of total payroll and benefit expenditures for the fiscal year ended June 30, 2011.

Medical Assistance Program: In our sample of 40 payroll expenditures, we noted the following:

- 2 employees totaling \$8,911 provided semiannual certifications; however, the certifications were signed and dated subsequent to our request.

Total exceptions amounted to \$8,911 of the \$251,169 sampled from the \$14,903,166 of total payroll and benefit expenditures for the fiscal year ended June 30, 2011.

Head Start Cluster: In our sample of 40 payroll expenditures, we noted the following:

- 3 employees totaling \$7,425 provided semiannual certifications; however, the certifications were signed and dated subsequent to our request.

Total exceptions amounted to \$7,425 of the \$121,244 sampled from the \$3,205,617 of total payroll and benefit expenditures for the fiscal year ended June 30, 2011.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

June 30, 2011

Furthermore, based on our review of the District's policies and procedures for documentation requirement for employees funded by the federal programs, (i.e. BUL-2643.5), it is our understanding that Local District Superintendents or Division Administrators are required to submit a written assurance to the Accounting Controls & Oversight Branch (Accounting Controls) to certify that they have received the appropriate documentation for the time reporting by February 15th and August 15th.

Based on our review of the logs for the fiscal year 2010-11 maintained by the Accounting Controls, we noted that 2 out of 37 and 5 out of 43 divisions did not submit the assurance for the period July – December 2010 and for the period January – June 2011, respectively.

Cause and Effect

The non-compliance appears to be a result of the lack of understanding of the federal compliance requirements by the District's employees.

These findings are repeat findings, have been reported previously for June 30, 2005 to June 30, 2010 (F-05-01, F-06-01, F-07-01, F-08-01, F09-01 and F-10-01).

Questioned Costs: \$112,586 (see summary below):

- **Title I Grants to LEA:** \$9,047 – semiannual certification or multi-funded timesheet was not provided
- **Title I Grants to LEA (Recovery Act):** \$22,180 (\$6,244 inadequate support, \$15,936 untimely)
- **Special Education Cluster:** \$ 18,453 – untimely
- **English Language Acquisition Grants:** \$23,923 (\$9,369 inadequate support, \$14,554 untimely)
- **Child Care and Development Fund CFDA No. 93.596:** \$7,871 – certification was not dated
- **Child Care and Development Fund CFDA No. 93.713:** \$4,754 – untimely
- **Workforce Investment Act:** \$10,022 – untimely
- **Medical Assistance Program:** \$8,911 – untimely
- **Head Start Cluster:** \$7,425 – untimely

Recommendation

We recommend that the District continue to provide ongoing training to appropriate personnel on the updated procedures.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

June 30, 2011

View of Responsible Officials and Planned Corrective Action

The District agrees with the finding and will continue to provide information to appropriate personnel on time and effort requirements.

Contact Information

Various District schools and departments

Telephone: (213) 241-1000

Program Identification

Finding Reference Number:

F-11-02

Federal Program Title, Awarding Agency, Pass-Through Entity, Catalog of Federal Domestic Assistance (CFDA) Number, Award Number and Year:

Title I Grants to Local Educational Agencies: U.S. Department of Education (USED), Passed through the California Department of Education, CFDA No. 84.010 and 84.389, Grant Agreements 14329, 14981, and 15005 (Recovery Act);

School Improvement Grants, Recovery and Reinvestment Act: U.S. Department of Education (USED), Passed through the California Department of Education, CFDA No. 84.388 Grant Agreement 10-15020-6473;

English Language Acquisition Grants, U.S. Department of Education (USED), Passed through the California Department of Education, CFDA No. 84.365, Grant Agreement 10-10084-6473.

Compliance Requirement:

Allowable Costs

State Audit Guide Finding Code:

50000

Criteria

Code of Federal Regulations – Title 34 – Education, Part 75 – Direct Grant Programs – Subpart F – What Are the Administrative Responsibilities of a Grantee? Section 75.702 Fiscal control and fund accounting procedures.

- A grantee shall use fiscal control and fund accounting procedures that ensure proper disbursement of and accounting for federal funds.

OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, Attachment A, General Principles for Determining Allowable Costs, Part C, Basic Guidelines:

- Factors affecting allowability of costs. To be allowable under federal awards, costs must meet the following general criteria:
 - a. Be necessary and reasonable for proper and efficient performance and administration of federal

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

June 30, 2011

awards.

- b. Be allocable to federal awards under the provisions of this circular.
 - c. Be authorized or not prohibited under state or local laws or regulations.
 - d. Conform to any limitations or exclusions set forth in these principles, federal laws, terms and conditions of the federal award, or other governing regulations as to types or amounts of cost items.
 - e. Be consistent with policies, regulations, and procedures that apply uniformly to both federal awards and other activities of the governmental unit.
 - f. Be accorded consistent treatment. A cost may not be assigned to a federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the federal award as an indirect cost.
 - g. Except as otherwise provided for in this circular, be determined in accordance with generally accepted accounting principles.
 - h. Not be included as a cost or used to meet cost sharing or matching requirements of any other federal award in either the current or a prior period, except as specifically provided by federal law or regulation.
 - i. Be the net of all applicable credits.
 - j. Be adequately documented.
- Allocable costs.
 - a. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.
 - b. Any cost allocable to a particular federal award or cost objective under the principles provided for in this circular may not be charged to other federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the federal awards, or for other reasons.

Condition

As part of our procedures over program expenditures, we selected a sample of non-payroll expenditures that were recorded and charged to the program to ascertain whether or not they were allowable per program regulations, accurately charged to the program, and appropriately supported in accordance with the OMB cost circular documentation requirement. We noted that the following non-payroll expenditures recorded to expenditure accounts were not allowable:

Title I Grants to LEAs: Based on our 171 samples, we noted the following:

- 1 sample totaling \$9,418 was charged for Samsonite chair and tent purchase. This purchase was not program related and thus, it was not allowable.
- 1 sample totaling \$8,331 was charged for first aid student kit. This purchase was not program related and thus, it was not allowable.
- 1 sample totaling \$2,192 was for sports related goods including maxi-net, pickle ball swinger paddle, and badminton racket. These items were not allowable to the program.

Total exception of \$19,941 of the \$5,234,510 sampled of the \$116,246,138 charges of expenditures for the fiscal year 2010-11.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

June 30, 2011

Title I Grants to LEAs, Recovery Act: Based on our 40 samples, we noted the following:

- 2 samples totaling \$2,316 were charged for first aid student kit. These costs were unallowable to the program.

Total exception of \$2,316 of the \$8,635,490 sampled of the \$37,653,617 charges of expenditures for the fiscal year 2010-11.

School Improvement Grants, Recovery Act: Based on our 40 samples, we noted the following:

- A total of \$5,844 was charged for student incentive. This cost was not allowable to the program.
- 1 sample totaling \$6,685 was charged for janitorial supplies. This cost was unallowable to the program.

Total exception of \$12,529 of the \$420,088 sampled of the \$2,255,413 charges of expenditures for the fiscal year 2010-11.

English Language Acquisition Grants: Based on our 60 samples, we noted the following:

- 1 sample totaling \$15,650 was charged for training; however, no detailed documentation was provided to support the nature of the training and how it supported the program.
- 2 samples totaling \$7,503 were charged for printers. These costs were not allowable to the program.
- 3 samples totaling \$17,545 of instructional materials were allocated and charged to the program; however, the allocation basis used by the schools was not based on the number of the English Learners of the total number of students as required by the Program and Budget Handbook. No other documentation was provided to support how the charges were allocated. Based on our re-computation using the percentage listed for the schools, the program was over-charged by \$8,430.
- 1 sample totaling \$8,348 was 100% charged to the program for TI-Navigator system for connection between student graphing calculators to the classroom computers; however, based on the allocation, \$2,671 (32%) should have been allocated to the program. As a result, \$5,677 (\$8,348 - \$2,671) was not allowable to charge to the program.

Total exception of \$37,260 of the \$1,017,540 sampled of the \$5,144,096 charges of expenditures for the fiscal year 2010-11.

Cause and Effect

There does not appear to be adequate controls to ensure that all program expenditures are allowable to the federal programs and sufficiently supported with appropriate documentation for allowable activities.

These findings are repeat findings, have been reported previously for June 30, 2007 to June 30, 2010 (F-07-03, F-08-03, F-09-02, and F-10-02).

Questioned Costs

Title I Grants to LEAs (CFDA 84.010): \$19,941

Title I Grants to LEAs Recovery Act (CFDA 84.389): \$2,316

School Improvement Grants Recovery Act (CFDA 84.388): \$12,529

English Language Acquisition Grants: \$37,260

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

June 30, 2011

Recommendation

We recommend that the District provide additional guidance/training to ensure appropriate documentation is maintained to support expenditures charged to federally funded programs. The District should also strengthen its controls over its charges to the federally funded programs to ensure that the reimbursement is in accordance with federal guidelines.

Views of Responsible Officials, Planned Corrective Actions, and Contact Information

Title I Grants to LEAs and Title I Grants to LEAs Recovery Act: The District will continue to provide guidance and training to ensure expenditures fall within program guidelines. The District's handbooks and materials on budgeting that are part of the budget packet given to schools clearly identify allowable expenditures.

Name: Deborah Ernst

Title: Director, Federal and State Education Programs

Telephone: (213) 241-6990

School Improvement Grants, Recovery Act: Student Incentives – Partnership for Los Angeles (PLAS) will be issuing a check for \$5,844 to the school to be deposited into the Donation Account (program 3986). Student incentives expenditures will be transferred to program 3986 upon check deposit and clearance.

Janitorial Supplies – a transfer of expenditures was submitted to General Accounting Branch – Specially Funded Program on 12/05/2011. A total of \$3,000 are to be transferred to program 4731 (Materiel – Operation – Schools), and a total of \$3,685 to program 3986 (School Determined Needs – General Program.)

The District will continue to provide guidance and training to ensure expenditures fall within program guidelines. The District's handbooks and materials on budgeting that are part of the budget packet given to schools clearly identify allowable expenditures.

Name: Nader Fard Delnavez

Title: Administrative Coordinator, Secondary Programs

Telephone: (213) 241-2144

English Language Acquisition Grants:

The District will continue to strengthen policies and controls to ensure that schools comply with the spending and documentation requirements to support expenditures charged to federally funded programs.

1. Using 2010-11 Single Audit findings, the Language Acquisition Branch, in conjunction with Local District English Learner staff, will provide support to schools not meeting the program spending requirements.

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2. Rewrite the District's *Master Plan for English Learners* and include explicit guidelines regarding the mandates and procedures pertaining to categorical funds, program requirements, maintenance of fiscal documentation, and allowable expenditures. This publication will be distributed to all schools and professional development will be provided to all school-site, local district, and central office staff (Refer to timeline referenced in Item 4).
3. Revise the District's existing *Program and Budget Handbook* to include explicit guidelines regarding categorical funds, program requirements, maintenance of fiscal documentation, and allowable expenditures. This handbook will be posted on both the Federal and State Education Program (FSEP) and the Language Acquisition Branch webpages.
4. Provide professional development that is designed to ensure that school-site Principals and EL Coordinators receive comprehensive training on federal and state mandates pertaining to categorical programs, including the purpose of the funds, program requirements, maintenance of fiscal documentation, and allowable expenditures.

<u>Professional Development</u>	<u>Training Date</u>
Title III Master Plan Institute	June 2012
<i>Master Plan for English Learners</i> (all schools)	May – June 2012 September – October 2012
Local District EL Coordinator Monthly Meetings	Various
Local District Principal Meetings	Various

5. Continue to work collaboratively with Local District staff to provide on-going professional development to school-site EL Coordinators that focuses on categorical programs, including the purpose of the funds, program requirements, maintenance of fiscal documentation, and allowable expenditures. Each local district meets with school-site EL Coordinators on a monthly basis. Refer to Attachment A for specific dates.

Name: Ana Estevez-Andressian

Title: Coordinator

Telephone: (213) 241-5582

Program Identification

Finding Reference Number:

F-11-03

Federal Catalog of Domestic Assistance
Number(s):

93.575, 93.596, and 93.713

Federal Program Title:

Child Care and Development Fund: Child Care and Development Block Grant, Child Care Mandatory and Matching Funds of the Child Care and Development Fun, Department of Health and Human Services, and ARRA – Child Care and

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Development Block Grant.

Pass-Through Entity:

California Department of Education

Award Numbers:

CCTR-0124 and CSPP-0227

Compliance Requirement:

Eligibility

State Audit Guide Finding Code:

30000 and 50000

Criteria

Section D of the District Contract with CDE, Certification of Eligibility:

The contractor shall designate the staff person authorized to certify eligibility. Prior to initial enrollment and at the time of recertification, an authorized representative of the contractor shall:

- Certify each family's/child's eligibility for child care and development services after reviewing the completed application and documentation contained in the family data file.
- Issue a notice of Action and Application for services.

Section E, Child Care and Development Center-Based Program Requirements, Contents of Family Data File:

- The Contractor shall establish and maintain a family data file for each family receiving child care and development services.
- The family data file shall contain a completed and signed application for services and the following records as applicable to determine eligibility and need in accordance with above:
 - a. Documentation of income eligibility, including an income calculation worksheet;
 - b. Documentation of employment;
 - c. Documentation of seeking employment;
 - d. Documentation of training;
 - e. Documentation of parental incapacity;
 - f. Documentation of child's exceptional needs;
 - g. Documentation of homelessness;
 - h. Documentation of seeking permanent housing for family stability;
 - i. Written referral from a legally qualified professional from a legal, medical or social services agency or emergency shelter for children at risk of abuse, neglect or exploitation;
 - j. Written referral from a county welfare department, child welfare services worker, certifying that the child is receiving protective services and the family requires child care and development services as part of the case plan;
 - k. For parents receiving cash assistance, documentation regarding the approved welfare to work plan or activity that may include documentation of days and hours of need;
 - l. If the parent of the child was on cash assistance, the date the parental cash aid was terminated.

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- A signed Child Care data collection Privacy Notice and Consent Form CD 9600A (Rev. 01/04) shall be included.
- Notice of Action, Application for Services and/or Recipient of Services shall be included.
- The family data file shall contain all child health and current emergency information required by California Code of regulations, Title 22, Social Security, Division 12, and Community Care Facilities Licensing Regulations with the following exception. Immunization records are not required to be in the family data file for children attending a public or private elementary school or for children receiving care in licensed facilities and reimbursed pursuant to Education Code sections 8220 and 8350.

Condition

In our procedures performed to determine eligibility for the childcare programs funded by this cluster, we sampled a total of 36 from CSPP0277 and 24 from CCTR0124 from 16 out of 100 Early Education Child Care Centers and requested the children files such as annual recertification forms, pay stubs or letter to determine if the eligibility status recorded in the Early Education Student Information System (EESIS) was accurate and supported.

During our review of the participant files, we noted that the program personnel did not sign and date the Confidential Application for Child Development Services and Certification of Eligibility for 10 out of 36 samples to certify that eligibility and document the review process. Certification is required to be signed and dated in order to complete the process of the eligibility.

Additionally, we also noted that the family income for 7 out of 60 files was erroneously calculated; as a result, the respective family fee was not properly calculated and collected. In all 7 cases, family income was under-reported resulting in assessment of lower family fees.

This is a repeat finding F-10-03.

Cause and Effect

It appears that a lack of effective and timely monitoring by the District over the functions performed by the center managers and possible staffing issues has resulted in a failure to follow procedures during eligibility determination and annual recertification.

Questioned Costs

The total net under-billed family fee amounted to \$3,320. Questioned cost was calculated by multiplying the rate at which the center under-charged the families by the total number of program operation days from corresponding date of re-certification up to June 30, 2011.

Recommendation

We recommend the District strengthen its monitoring process to ensure that student files are reviewed on a regular basis in order to comply with the contract and records provision. The District should also continue to provide training sessions for the center managers to ensure that they are aware of the federal requirements in relation to eligibility and that the required documentation is being maintained.

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Views of responsible Officials and Planned Corrective Actions

The District agrees with the finding. The Early Childhood Education (ECE) Division has conducted training on eligibility documentation for all Principals and Office Managers at Early Education Centers (EEC). This training occurred in the month of November 2011 and included an exercise that identified all documents that are to be included in the family file. Specific attention was given to documents requiring signatures and dates. Furthermore, the ECE Division conducted training for new Office Managers and Principals during the month of October 2011.

Additionally, Local District Administrators and Principal Leaders, who oversee and monitor EEC's, were also trained in October 2011. This training included how to conduct monitoring visits, how to review family files and how to fill out monitoring checklist that is forwarded to central office administrators. The above identified Administrators are to visit each EEC in their respective Local District by June 30, 2012, and send their monitoring checklist report to central for evaluation.

The above identified training and monitoring will be a standard operational procedure for future years.

Contact Information

Name: Ted Nelson

Title: Assistant Budget Director

Telephone: (213) 241- 3175

Program Identification

Finding Reference Number:

F-11-04

Federal Program Title, Awarding Agency, Pass-Through Entity, Catalog of Federal Domestic Assistance (CFDA) Number, Award Number:

Child Nutrition Cluster: School Breakfast Program, National School Lunch Program, Summer Food Service Program for Children, U.S. Department of Agriculture (USDA), Passed through the California Department of Education, CFDA No. 10.553, 10.555, and 10.559, Grant Agreement 19-64733-0000000-01;

Child and Adult Care Food Program, U.S. Department of Agriculture (USDA), Passed through the California Department of Education, CFDA No. 10.558, Grant Agreement 19-2016-3A,

Title I Grants to Local Educational Agencies, U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.010, Grant Agreements 11-14329-6473 and 11-14981-6473,

Vocational Education Basic Grants to States (Perkins IV), U.S. Department of Education

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(USED), California Department of Education, CFDA No 84.048, Grant Agreements 10-14894-64733-00; 10-14893-64733 and 10-14893-7435-00;

Workforce Investment Act, Title II: Adult Education and Family Literacy Act, U.S. Department of Education (USED), Passed through the California Department of Education, CFDA No. 84.002, Grant Agreement 10-Multiple-64733;

Fund for the Improvement of Education (FIE), U.S. Department of Education (USED), CFDA No. 84.215, Grant Agreement Nos. S215L060084 and V215L052108.

Compliance Requirement: Equipment Management

State Audit Guide Finding Code: 20000, 30000, and 50000

Criteria

Title 7 – Agriculture, Chapter XXX –Office of the Chief Financial Officer, Department of Agriculture Part 3015.169 – Uniform Federal Assistance Regulations – Equipment Management requirements:

Recipient procedures for managing equipment shall, as a minimum, meet the following requirements (including replacement equipment) until such actions as transfer, replacement or disposal takes place:

- (a) Property records shall be maintained accurately. (Subpart D of this part contains retention and access requirements for these records.) The records shall include for each item of equipment the following:
 - (1) A description of the equipment including manufacturer's serial numbers.
 - (2) An identification number, such as the manufacturer's serial number.
 - (3) Identification of the grant under which the recipient acquired the equipment.
 - (4) The information needed to calculate the Federal share of the equipment (see § 3015.172).
 - (5) Acquisition date and unit acquisition cost.
 - (6) Location, use and condition of the equipment and the date the information was reported.
 - (7) All pertinent information on the ultimate transfer, replacement, or disposal of the equipment.
- (b) Every two years, at a minimum, a physical inventory shall be conducted and the results reconciled with the property records to verify the existence, current utilization, and continued need for the equipment. Any discrepancies between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determine the causes of the differences.
- (c) In order to insure adequate safeguards to prevent loss, damage or theft of equipment, a control system shall be used. Any loss, damage or theft of equipment shall be investigated and fully documented. The awarding agency may require a report of the circumstances involving the loss, damage, or theft of equipment.

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- (d) In order to keep the equipment in good condition, adequate maintenance procedures shall be implemented.

Code of Federal Regulations, Title 34 – Education, Part 80 – Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments – Subpart C – Post – Award Requirements, Section 80.32, Equipment, Part (d):

- Management Requirement – Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:
 - (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
 - (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
 - (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.
 - (4) Adequate maintenance procedures must be developed to keep the property in good condition.
 - (5) If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.

BUL-1158 Accounting for Supplies and Equipment Purchases: Effective July 1, 2004, the dollar threshold to qualify items as “capital” or fixed assets is increased from \$15,000 to \$25000. The threshold for defining items purchased as supplies remains unchanged at below \$500. Items costing from \$500 to \$24,999 are considered “non-capital”. Use object codes 4501 and 4310 for items with a unit cost below \$500.

Condition

Child Nutrition Cluster and Child and Adult Care Food Program: The District uses a computerized system called Filemaker for recording its food services or cafeteria equipment and updating inventory records for inventory checks performed. A review of the inventory records maintained in Filemaker showed that vital information such as unit acquisition cost, grant award number under which the equipment was obtained and condition of the property was missing.

Through discussion with the District’s responsible personnel, we noted that the District performs an inventory count of equipment at all of its locations once every 2 years. The process begins in April of the fiscal year and is expected to be completed by June 30 of the fiscal year. The District provides each school with an inventory log, listing the most current equipment at that school based on the most recent inventory count. The cafeteria personnel performing the inventory must place a checkmark against each item of inventory that exists at the locations. For additions and deletions, the cafeteria personnel are required to check off the equipment, and

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write down quantities of added or deleted equipments on the add or delete form respectively. After the inventory is completed the cafeteria personnel must sign and date the logs and submit to the District office to update the master inventory list.

In our sample of 60 schools selected to perform testing for compliance with equipment management, we noted the following:

- a. Inventory logs for 9 schools did not have checkmarks against equipment item indicating the physical existence of the item.
- b. Inventory logs for 5 schools did not have the cafeteria personnel's signature.
- c. Inventory logs for 8 schools were not dated after the inventory was performed.
- d. The master inventory list was not updated with additions for 7 schools that had equipment(s) checked off on the add sheet.
- e. The master inventory list was not updated with deletions for 4 schools that had equipment(s) checked off on the delete sheet.
- f. The master inventory list contained 1 duplicate piece of equipment for 1 school.

As part of our testing, we inquired about the District's salvage policy for deleted equipments. We were informed that it was the District's policy to transport all salvaged equipment to the District's Salvage Warehouse which is managed by the District's Procurement Department. The salvaged equipment was then auctioned off to the public by the Procurement department, and no proceeds were returned to the Food Services Equipment Division that is responsible for managing and monitoring cafeteria equipment, to be returned to the granting agency. No copy of the policy, however, was made available to us.

Title I Grants to LEAs: Based on our review of the District's latest policies and procedures for inventory for equipment purchased through categorical programs (i.e. BUL-3508.3), it is our understanding that schools and local district offices are required to be compliant with specific policies stated therein, if the equipment was purchased with categorical funds. In our procedures performed to determine if the schools were in compliance with those policies and procedures, we noted the following exceptions for Title I Grants to LEAs:

1. 135 out of 734 schools did not submit either Principal Certification (PC) or Categorical Equipment Inventory (CEI) as required by the BUL-3508.3.
2. If schools did not purchase any equipment during the year, they are required to submit the PC to the Title I Office to certify that no equipment purchase was over \$500. During our review of the Inventory Log, we noted that there were a total of 178 schools who submitted a PC. However, based on the detailed expenditures recorded in the Integrated Financial System (IFS), we noted that twenty-one (21) schools purchased equipment above \$500 for the fiscal year 2010-11. As such, those schools should have submitted the CEI, instead of the PC.
3. In addition, we also noted that another ten (10) schools erroneously used the object code 4490 or 4410 for equipment items purchased below \$500. For items below \$500, object code 4501 or 4310 should be used.

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4. Further, we noted a total of another nine (9) schools had both exceptions for item #2 and #3 above.

Vocational Education Basic Grants to States (Perkins IV)

Section 132 – ROC/P Adult Vocational Education Basic Grants (contract numbers 10-14894-64733-00 and 10-14893-7435-00): According to the publication “Management of Career Technical Education Equipment”, issued by CDE in 2007 for Vocational Education Basic Grants, grantees are required to include information on the inventory log such as description, serial number, identification number, funding source, acquisition cost and, acquisition date. In our sample of 17 out of 34 schools to perform procedures to test the equipment management, we noted that certain equipment reported on the inventory logs did not contain all required components for 10 schools. The following summarizes the components missing from the inventory logs:

<u>Missing Required Component</u>	<u>Number of Schools⁽¹⁾</u>
Serial Number	3
Purchase Date	7
Cost of property	10
Property description	1

⁽¹⁾ *The acquisition cost for one school was omitted entirely from the equipment log.*

In addition, we also noted that the object code 4490 was erroneously used by two (2) schools for equipment items purchased below \$500. For items below \$500, object codes 4501 and 4310 should be used and object code 4490 is for items costing from \$500 to \$24,999 per BUL-1158.

Section 131 – Secondary Vocational Education (contract number 10-14893-64733): In our procedures performed over the inventory for equipment purchased with the Vocational Education Basic Grants for 25 out of 56 secondary schools, we noted that one (1) school did not update its purchases of eight (8) equipment totaling \$35,894 in the inventory equipment logs submitted to the Office of Curriculum - Instruction and School Support CTE (Office) for the fiscal year 2010-11. Additionally, 17 schools had not submitted the 2010-11 equipment logs to the Office.

Workforce Investment Act, Title II: Through discussion with the District’s responsible personnel, we noted that the District’s inventory management is decentralized, so detailed inventory logs are kept at each individual school rather than at the District. At yearend, the District collects the certificates from the schools stating that the inventory had been updated to reflect the current year transactions.

In our procedures performed over the equipment inventory (BUL-953.1 dated August 23, 2010) to verify if the Annual Certification Inventory form was submitted and prepared properly, we sampled 19 out of all 34 schools which were funded by the grant during the fiscal year 2010-11 and noted that the date and the name of the employee who performed the physical inventory was not identified for one (1) school.

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We further selected another 11 schools to determine if the inventory logs were completed in accordance with the BUL-953.1 and noted the following:

1. The inventory logs did not contain the required components for 4 schools. The following summarizes the components missing from the inventory logs:

<u>Missing Required Component</u>	<u>Number of Schools *</u>
Serial Number	1
Purchase Date	1
Cost of property	2
Tag number	3

2. Based on our review of the vendor invoices, we noted that one (1) school recorded only 30 CPUs and 30 monitors instead of 40 each on the log.
3. Instead of program code (i.e. funding source), we noted that one (1) school inadvertently reported the object codes for the entire inventory log.

** One school has 3 components missing and one school has 2 components missing on the logs.*

Fund for the Improvement of Education (FIE): Through discussion with the District's responsible personnel, we noted that the District's inventory management is decentralized, so detailed inventory logs are kept at each individual school rather than at the District.

Based on our review of the District's latest policies and procedures for inventory for equipment purchased through categorical programs (i.e. BUL-3508.3), it is our understanding that schools and local district offices are required to be compliant with specific policies stated therein, if the equipment was purchased with categorical funds.

In the fiscal year 2010-11, there were a total of twenty-two (22) schools awarded with the FIE grants. Of the total schools, we noted that only eleven (11) schools had purchased equipment using the object code 4490. According to the BUL-1158, items costing from \$500 to \$24,999 are considered "non-capital" and object code 4490 should be used.

In our procedures performed to determine if the schools were in compliance with those policies and procedures, we sampled five (5) schools and requested the inventory logs from the school and noted the following exceptions:

1. The inventory logs did not contain the required components for 4 schools. The following summarizes the components missing from the inventory logs:

<u>Missing Required Component</u>	<u>Number of Schools ⁽¹⁾</u>
Description of Equipment	1
Serial Number	2
Property Location	2

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Purchase Date	2
Cost of property	2
Funding Source	1

⁽¹⁾ *The acquisition cost and date for one school was omitted entirely from the equipment log and the serial number for one school was omitted entirely from the equipment log.*

2. In our procedures performed over the inventory for equipment purchased with FIE grant funds, we noted that one (1) school did not update its purchases of equipment totaling \$10,990 in the inventory equipment log.

Cause and Effect

Inadequate supervision and insufficient guidance/training to the personnel at the schools over inventory and management of equipment or property may have contributed to these issues.

This is a repeat finding from Fiscal Years 2008-09 and 2009-10 (F-09-06 and F-10-04).

Questioned Cost

Not applicable. This finding is considered a programmatic non-compliance issue as well as a deficiency in the internal control system to properly monitor and supervise the personnel who are assigned to perform the inventory management.

Recommendation

We recommend the District continue to strengthen its controls over property management by providing adequate supervision/training to ensure that inventory management be performed properly.

Views of responsible Officials, Planned Corrective Actions, and Contact Information

Child Nutrition Cluster and Child and Adult Care Food Program: The District agrees with the recommendation. There will be an inventory conducted this year (2011-12) to review the accuracy of the master inventory log and take random samples to ensure staff is following procedures.

Name: Laura Benavidez

Title: Deputy Director of Food Services – Operation

Telephone: (213) 241-2999

Title I Grants to LEAs: FSEP will continue to work with the local district coordinators to resolve the deficiency in schools completing equipment inventory logs. The Program and Budget Handbook for 2012-2013 will continue to provide guidance on the appropriate object codes for purchasing capitalized and non-capitalized equipment, including equipment with a unit cost of less than \$500.

Name: Deborah Ernst

Title: Director, Federal and State Education Programs

Telephone: (213) 241-6990

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Vocational Education Basic Grants to States (Perkins IV):

Section 131 – Secondary Vocational Education: Because of the District lay-offs of school clerical personnel, we are developing a new inventory system that our CTE advisors will be in control of budget, POs, receivers, and inventory. The highlights of this new system are the following:

1. Budget control sheets will be kept by each advisor. The budget sheets will include justifications for each item budgeted, Record of PO, Receiver Log, Inventory and Spot Inventory check list.
2. Central office will receive the control sheets once per month for review, spot checks and log.
3. Schools are assigned evenly to the advisors by the Central Staff. The Central Staff will send the inventory list to the advisors by April 16, 2012.
4. The physical inventory will be conducted at the same time as other school inventories for other programs in May 2012.
5. It is our intention to implement this process for school year 2011-2012 and future years in compliance with BUL-1158 above.

Name: Kathy Halsey

Title: Coordinator

Telephone: (213) 241-5687

Section 132 – ROC/P Adult Vocational Education Basic Grants: Equipment Log requirements have been reviewed with all Perkins Advisors. All logs have been updated and completed. Central office staff has scheduled visits to DACE schools to ensure logs are completed in accordance with requirements. Items under \$500.00 dollars will be itemized separately when purchased rather than "bundled" in adherence to district policy.

Name: Isabel Vazquez

Title: Director, Career Technical Education

Telephone: (213) 241-3821

Workforce Investment Act, Title II: The District agrees with the finding. The Division of Adult Education will retrain Principals and Assistant Principals at their monthly meetings on equipment inventories. The training will be followed up with communications reminding them to have accurate and complete inventories.

Name: Ted Nelson

Title: Assistant Budget Director

Telephone: (213) 241-3788

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Fund for the Improvement of Education (FIE): Principals will be reminded at the beginning of each semester of the District procedures for maintaining appropriate inventory logs and asked to disseminate BUL-1158 to their designee responsible for the inventory of equipment at the school site and provide training as needed. In addition, Central office will provide schools with an equipment log template that has all of the required components by the second semester of the 2011-12 school year. In addition, identified schools with existing problems with inventory logs will be asked to provide documentation of corrections made by February 29, 2012 given that they have the needed documents available to do so.

Name: Janice Collins, Ph.D.

Title: Project Director,

Telephone: (213) 241-4131

Program Identification

Finding Reference Number:

F-11-05

Federal Program Title, Awarding Agency, Pass-Through Entity, Catalog of Federal Domestic Assistance (CFDA) Number, Award Number Federal Catalog of Domestic Assistance Number(s):

WIA Youth Activities – Department of Labor (DOL), City of Los Angeles - Community Development Department, CFDA No. 17.259, Grant Agreement T4685 (117892);

Vocational Education Basic Grants to States (Perkins IV), U.S. Department of Education (USED), California Department of Education (CDD), CFDA No. 84.048, Grant Agreements 10-14894-64733-00, 10-14893-64733 and 10-14893-7435-00;

ARRA – Head Start and ARRA Early Head Start, Department of Health and Human Services, Los Angeles County Office of Education (LACOE), CFDA Nos. 93.708 and 93.709, Grant Agreement C-11730:10:11 and C-11724:10:11.

Compliance Requirement:

Earmarking

State Audit Guide Finding Code:

30000 and 50000

Criteria

WIA Youth Activities:

202 – Statement of Work of the Agreement, C-6 (a) states:

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At least 50%⁽¹⁾ of all youth registered within the Youth Opportunity System must be out-of-school youth and at least 50%⁽¹⁾ of the system *funds expended must be for the benefit of out-of-school youth*. Contractor shall enroll and serve at least the minimum number of out-of-school youth found in the contract Performance Measures and Customer Service Level table as their network contribution toward the system wide goal. An out-of-school youth is defined as an eligible youth who 1) is a school dropout or 2) has graduated from high school or holds a GED, but is basic skills deficient, unemployed, or underemployed. Under WIA, youth enrolled in alternative schools are considered to be in school.

202 – Statement of Work of the Agreement, E-1 requires that minimum percentage of Out-of-School Youth to be served is 40%⁽¹⁾.

Vocational Education Basic Grants to States:

IV. Program and Administrative Requirements - Perkins IV and Chapter Five of the State Plan establish the requirements for local administration and the use of funds and policies for secondary and postsecondary CTE programs that will be assisted with Perkins IV funds. These policies and requirements must be followed by all LEAs receiving Perkins IV funds. This section is divided into three parts: Use of Perkins IV Funds; Program Requirements; and Assurances, Certifications, Terms, and Conditions.

The text that follows for Part A (Use of Perkins IV Funds) and Part B (Program Requirements) is taken directly from chapter five of the State Plan.

A. Use of Perkins IV Funds - Required Local Educational Agency Use of Section 131 and 132 Funds: Policy. No less than 85 percent of the LEA's Section 131 or 132 allocation must be expended to improve or expand CTE programs and courses approved in the local plan and annual application for funds.

Up to 5 percent of the allocation may be charged to direct or indirect costs for expenditures incurred in activities required to administer the grant.

Up to 10 percent of the allocation may be expended to support other CTE activities that are consistent with the purpose of the Act. These activities include, but are not limited to the following:

- Involving parents, businesses, and labor organizations as appropriate, in the design, implementation, and evaluation of the CTE programs assisted with the funds
- Providing career guidance and academic counseling for students participating in CTE programs
- Developing and expanding program offerings for adults at times and in formats that are accessible for students, including working students
- Developing and supporting small, personalized, career-themed learning communities
- Providing CTE programs for adults and school dropouts to complete secondary education, or update the technical skills of the adults and school dropouts
- Providing CTE program completers and leavers with placement assistance in jobs and advanced education and training
- Supporting training and activities such as mentoring and outreach in nontraditional fields

ARRA – Head Start and ARRA Early Head Start:

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Head Start Act, 42 U.S.C. § 9837, Section 640(d)(1), which requires that “the Secretary shall establish policies and procedures to assure that for fiscal year 2009 and thereafter, not less than 10 percent of the total number of children actually enrolled by each Head Start agency and each delegate agency will be children with disabilities who are determined to be eligible for special education and related services, or early intervention services, as appropriate, as determined under the Individuals with Disabilities Education Act (20 U.S.C. 1400 et seq.), by the State or local agency providing services under section 619 or part C of the Individuals with Disabilities Education Act (IDEA).”

Condition

WIA Youth Activities – Department of Labor: The District’s WIA youth contract with the City of Los Angeles (City) consists of *In-school youth* and *Out-of-school youth programs*. In our procedures of reviewing the District’s compliance with earmarking, we noted that the program costs for the contract were not separately accounted for between the two (2) categories. We also noted that the District did not have a cost allocation plan to allocate the shared program costs between the two (2) programs; all program costs were recorded into one general ledger. As such, the District was unable to determine whether or not the minimum earmarking percentage was met for the contract year.

⁽¹⁾ *According to the District’s Program Coordinator, the District’s agreement number C-117892 with the City requires the minimum percentage to be spent for out-of-school youth should have been 40% instead of 50%.*

Vocational Education Basic Grants to States: During our procedures performed to test the amounts charged to the program coded as earmarking for other CTE activities (category called Guidance and Counseling “G&C”), we noted that both Adult and Secondary Vocational Education programs used an estimated percentage of the program costs to allocate the G&C; however, the estimated percentage was not adequately supported. As such, we were unable to determine if the District’s other CTE activities met the requirements in accordance with the purpose of the program.

Section 131 – Secondary Vocational Education (contract number 10-14893-64733): The reported G&C amounted to \$678,610 which represented 60% of the account code 3228 for the program year 2010-11; however, the percentage was not supported. Additionally, the reported G&C cost exceeded the 10% limitation by \$34,736. The reported total cost for the contract for the program year 2010-11 amounted to \$6,438,737 and 10% of the total amounted to \$643,874.

Section 132 – ROC/P Adult Vocational Education Basic Grants (contract numbers 10-14894-64733-00 and 10-14893-7435-00): The G&C expenditures were reported based on 5% of the total certificated salaries and benefits; however, the percentage was not adequately supported. The reported G&C expenditures for the program year 2010-11 were less than 1% of the program costs for both contracts.

ARRA – Head Start and ARRA Early Head Start: The District’s enrollments for individuals with disabilities (IEP) for both Head Start and Early Head Start programs did not meet the earmarking compliance requirement. To meet the 10% requirement, the Head Start and the Early Head Start needed IEP enrollments of 32 and 9, respectively. However, only 14 and 3 IEPs were enrolled for the Head Start and Early Head Start programs (under enrolled by 44% and 33%).

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Cause and Effect

WIA Youth Activities: There appears to be a lack of effective controls to ensure that the District is in compliance with the applicable contract requirements.

Vocational Education Basic Grants to States: Existing policies and procedures do not provide adequate support for the percentage used in meeting the earmarking provision.

ARRA – Head Start and ARRA Early Head Start: The District was not in compliance with the earmarking requirement.

Questioned Costs

WIA Youth Activities: The District's final program cost claimed for the contract year 2010-11 amounted to \$638,617. Since the program costs were not allocated and reported separately, we were unable to determine whether or not the District met the 40% earmarking contract provisions.

Vocational Education Basic Grants to States: The known questioned is \$34,736.

ARRA – Head Start and ARRA Early Head Start: The questioned cost may not be applicable as a programmatic non-compliance issue does not usually constitute any questioned cost from the current year funding.

Recommendation

WIA Youth Activities: The District should implement policies and procedures to allocate and report the program costs between in-school and out-of-school programs separately.

Vocational Education Basic Grants to States: The District should strengthen policies and procedures to ensure that the percentages used to allocate cost are adequately supported in accordance with the federal guidelines.

ARRA – Head Start and ARRA Early Head Start: The programs ended on September 30, 2011 and the contracts with LACOE were not extended. As such, no recommendation would be applicable.

Views of responsible Officials, Planned Corrective Actions, and Contact Information

WIA Youth Activities: There was nothing in the contract which requires that the costs and number of out-of-school students be segregated or allocated in the General Ledger. Thus, the total costs of salaries and all other expenditures including those for in and out of school youths are not segregated in district's subcontractor invoices or billings to the City. Also, the number of students are identified as in/out of school and reported to the City in the Performance and Evaluation Report for each contract or year. These practices have been used since 2001 without negative comments from the City on its annual Program Monitor and FMD Audits.

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For 2011-12, to comply with this audit finding, the District has created a new program code (2A27) for the salary and benefits to separate the out-of-school youth from the in-school youth. In addition, there is still only one Contract and one Expenditure Plan (Budget) submitted and approved by the City fiscal year 2011-12. The audit recommendation to identify by student type the actual salary of personnel & operating expenses is not necessary and not cost efficient as the main goal and objective of the contract is to meet the overall numbers as established by the aforementioned Performance Measures and Customer Service Level form.

Name: José Artilles

Title: Work Experience Education Specialist

Telephone: (213) 241-7053

Vocational Education Basic Grants to States:

Section 131 – Secondary Vocational Education

1. We plan on adjusting the allocation to the Guidance & Counseling category not to exceed 10% of total expenditure.
2. We are going to create personnel activity report for time study for each employee.
3. We will create policies and procedures to support the earmarking provision.
4. We will have our procedure in place before the beginning of the second semester (about Feb 2012).

Name: Kathy Halsey

Title: Coordinator

Telephone: (213) 241-5687

Section 132 – ROC/P Adult Vocational Education Basic Grant: The Division of Adult and Career Education staff is aware of the 10% limit on G & C. Therefore school-based Perkins Advisors activities in that category were intentionally limited to providing information on non-traditional populations and referrals to other non-Perkins funded school-based staff to assist students. The multi-funded form, Perkins job duties and Perkins Claims forms will be reviewed and aligned so that activities that fall under each of the authorized areas will be easily identifiable. All activities will be completed by December 15, 2011.

Name: Isabel Vazquez

Title: Director, Career Technical Education

Telephone: (213) 241-3821

ARRA – Head Start and ARRA Early Head Start: The District agrees with the finding. Should the District participate in these programs in the future, policies and procedures will be implemented to ensure compliance with the requirement that no less than 10% of the total number of students enrolled will be

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children with disabilities who are determined to be eligible for special education and related services or early intervention services.

Name: Ted Nelson

Title: Assistant Budget Director

Telephone: (213) 241-3788

Program Identification

Finding Reference Number: **F-11-06**

Federal Catalog of Domestic Assistance Number(s): 84.010

Federal Program Titles: Title I Grants to LEAs, U.S. Department of Education (USED)

Pass-Through Entity: California Department of Education

Award Number Grant Agreement 11-14329-6473

Compliance Requirement: Earmarking – Targeting Funds for Choice-Related Transportation and Supplemental Education Services

State Audit Guide Finding Code: 30000 and 50000

Criteria

Title 34: Education – Part 200: Title I Improving The Academic Achievement of the Disadvantaged
Subpart A—Improving Basic Programs Operated by Local Educational Agencies LEA and School Improvement:

§200.45 (b) (1) Supplemental Educational Services: Only students from low-income families are eligible for supplemental educational services. (2) The LEA must determine family income on the same basis that the LEA uses to make allocations to schools under subpart A of this part.

Condition

The District's supplemental education services (SES) funded by Title I Basic grant under the 20% set-aside provision is over-seen by the Beyond the Bell Division (BTB). To determine the student eligibility for the SES program, BTB collects the data provided by the Food Services Branch (FSB), a department of the District that operates the National Breakfast Program and the National School Lunch Program (SBP) funded by the U.S. Department of Agriculture (USDA). FSB is required each school year to verify the eligibility of a sample of 3,000 households selected from applications that it has approved for the free and reduced price meals. The data for the student eligibility is then updated automatically on November 1st to reflect the status changes and notifications must be provided to households by November 15th. On November 16th, BTB requests the updated eligibility data through the District's Information Technology Department (ITD) and uses it as the base to determine the final eligibility for the SES program. If the eligibility status of the student changes, BTB would notify the student's parents and remove those students from the SES program accordingly.

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In our procedures performed to review expenditures charged to SES, we obtained a list of all students selected by the FSB for eligibility verification and noted that the eligibility status of 3,896 students was being adjusted to a “denied” status, i.e. ineligible for the SBP program. Furthermore, we compared those 3,896 students with the roster that BTB obtained from ITD on November 16th and noted that 163 of those ineligible students were included in the BTB list and received SES services. Through our discussion with the BTB SES Coordinator, we were informed that the data provided by ITD was inadvertently generated based on the information captured in the FSB data files as of September 2010 instead of the updated data files as of November 16, 2010; as such, the eligibility information used by the BTB was not the most updated, resulting in services provided to ineligible students.

Cause and Effect

The condition was due to a miscommunication between the BTB and ITD as to the date to capture the eligibility information from the FSB data files.

Questioned Costs

Based on the schedule maintained by BTB to track the SES hours and rates by student, the total SES cost resulting from the 163 ineligible students amounted to \$241,004.

Recommendation

We recommend that the District update its procedures to ensure that the data used for the SES eligibility determination is updated file based on the SBP verification.

Views of Responsible Officials and Planned Corrective Actions

We will ensure all future requests highlight the need to capture the most current information. In addition, starting with the 2011-12 school year, Beyond the Bell will request an update of the SES database after November 15 to reflect any changes in the Lunch application status for all SES eligible students. Beyond the Bell will inform SES providers of any students that may become ineligible based on their meal application denial so they can be removed from the program.

Contact Information

Name: Luis Mora

Title: SES Coordinator

Telephone: (213) 241-3082

Program Identification

Finding Reference Number:

F-11-07

Federal Program Title, Awarding Agency, Pass-Through Entity, Catalog of Federal Domestic Assistance (CFDA) Number, Award Number:

Vocational Education Basic Grants to States (Perkins IV), U.S. Department of Education (USED), California Department of Education (CDE), CFDA No. 84.048, Grant Agreement 10-

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14894-64733-00;

Child Care and Development Fund: Child Care and Development Block Grant, Child Care Mandatory and Matching Funds of the Child Care and Development Fund, Department of Health and Human Services (HSS), and ARRA – Child Care and Development Block Grant. California Department of Education (CDE), CFDA Nos. 93.575, 93.596, and 93.713, Grant Agreement Nos. CCTR-9129 and CSPP-9233;

Head Start and Early Head Start (Recovery Act), Department of Health and Human Services (HHS), Los Angeles County Office of Education (LACOE), CFDA Nos. 93.708 and 93.709, Grant Agreements C-11730:10:11 and C-11724:10:11.

Compliance Requirement:

Earmarking

State Audit Guide Finding Code:

30000 and 50000

Criteria

Vocational Educational Basic Grants to States: United States Code Title 20 – Education, Chapter 44 – Vocational and Technical Education, Subchapter I – Vocational and Technical Education Assistance to the States, Part C – Local Provisions, Section 2355, Local uses of funds, d) Administrative costs:

- Each eligible recipient receiving funds under this part shall not use more than 5% of the funds for administrative costs associated with the administration of activities assisted under this section.

Child Care and Development Fund: CCTR-9129 General Child Care and Development (Center-based) Funding Terms and Conditions and Program Requirements states:

V.C. Administrative Costs – Contractors may claim administrative costs as defined in Section I above which are directly related to the provision of child care and development services. Reimbursement of administrative costs shall not exceed fifteen percent (15%) of net reimbursable program costs or actual administrative costs and audits, whichever is less. The fifteen percent (15%) includes any allowance for indirect costs and audits. Contractors shall maintain written documentation of the rationale used in determining direct and administrative costs.

CSPP 9233 California State Preschool Program Funding Terms and Conditions and Program Requirements states:

V.C. Administrative Costs – Contractors may claim administrative costs as defined in Section I above which are directly related to the provision of child care and development services. Reimbursement of administrative costs shall not exceed fifteen percent (15%) of net reimbursable program costs or actual administrative costs and audits, whichever is less. The fifteen percent (15%) includes any allowance for

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indirect costs and audits. Contractors shall maintain written documentation of the rationale used in determining direct and administrative costs.

Head Start and Early Head Start (Recovery Act): Code of Federal Regulations – Title 45 – Public Welfare, Part 1301 – Head Start Grants Administration – Subpart D – Personnel and General Administration, Section 1301.32, Limitations on costs of development and administration of a Head Start program:

- 1) Allowable costs for developing and administering a Head Start program may not exceed 15 percent of the total approved costs of the program, unless the responsible HHS official grants a waiver approving a higher percentage for a specific period of time not to exceed twelve months.
- 2) Grantees must charge the costs of organization-wide management functions as development and administrative costs. These functions include planning, coordination and direction; budgeting, accounting, and auditing; and management of purchasing, property, payroll and personnel

Section 11 (d) of OMB Circular A-87 states: “*Fringe Benefits*”

- 5) The cost of fringe benefits in the form of employer contributions or expenses for social security; employee life, health, unemployment, and worker's compensation insurance (except as indicated in section 22, Insurance and indemnification); pension plan costs (see subsection e.); and other similar benefits are allowable, provided such benefits are granted under established written policies. Such benefits, whether treated as indirect costs or as direct costs, shall be allocated to Federal awards and all other activities in a manner consistent with the pattern of benefits attributable to the individuals or group(s) of employees whose salaries and wages are chargeable to such Federal awards and other activities.

Condition

Vocational Educational Basic Grants to States: *Section 131 – Secondary Vocational Education:* During our procedures performed over program earmarking requirements, we noted that the District claimed its State’s approved indirect cost rate of 2.14 percent of total program costs as administrative cost for the fiscal year 2010-11.

Based upon our additional analysis, we identified the following positions and their salaries which appeared to be administrative functions, but their salaries were included in the program expenditures for the fiscal year 2010-11.

Secretary	\$	54,698
Office Technicians		56,879
Senior Financial Analyst		55,868
	\$	<u>167,445</u>

The Department that operates the Secondary Vocational Education provided us with their analysis to indicate that the job duties for the above positions were all program directly related functions. However, based on our review of their analysis, we concluded that their job duties (i.e. processing purchase orders,

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filing, accounting, budget development, financial reporting) are solely administrative functions. As such, the above positions should be reported under administrative costs instead of program costs.

The District's claim for the administrative expenditures amounted to \$156,197 for the fiscal year 2010-11. The maximum allowed administrative cost amounted to \$305,755 which is 5% (excluding the approved indirect rate of 2.14%) of the total direct program expenditures of \$6,115,095 (including obligations) for the fiscal year 2010-11. Therefore, the expenditures in question listed above would cause the District to exceed its administrative earmarking limitation by \$17,888 ($167,445 + 156,197 - 305,755$) for the fiscal year ended June 30, 2011.

Child Care and Development Fund: During procedures performed over program earmarking requirements, we noted that the administrative costs of the District's Early Childhood Education Division (Division) were not separately accounted for and therefore, they were not reported accordingly on the final CDFS 9500 (CCTR-9129) and CDFS 8501(CSPP-9233) for the fiscal year ended June 30, 2010 (which was due in February 2011).

Based upon our additional analysis, the combined estimated administrative personnel cost appeared to be \$4,658,749 for 2009-10. The maximum allowed amount for administrative cost amounted to \$17,566,623 which is 15% of the combined total direct program expenditures of \$117,110,821, (\$7,525,976 for CCTR-9129 and \$109,584,845 for CSPP-9233) for the fiscal year 2009-10. Therefore, the un-reported administrative expenditures in question may not have caused the District to exceed its administrative earmarking limitation for the fiscal year ended June 30, 2010. However, our estimate only included the salaries and benefits recorded in the District's payroll system and did not include any non-personnel costs (object codes 4000 – 7000) related to the administrative functions, if any.

Head Start and Early Head Start (Recovery Act): During our procedures performed over program earmarking requirements, we noted that the Early Childhood Education that operates the Head Start and Early Head Start programs calculated and tracked the administrative costs on a spreadsheet, to support the earmarking provision. The Division's claim for the administrative costs amounted to \$205,391 for the Head Start program and \$99,195 for the Early Head Start program. In our review of the expenditures recorded on the spreadsheet, the District's administrative costs claimed for the contract year 2010-11 did not exceed the 15% administrative earmarking limitation for those grants awarded in the fiscal year. However, based on our review of the detailed expenditures on the spreadsheet, we noted that the following line items were reported based on allocation percentages of the total costs incurred per the Integrated Financial System (IFS), the book of record. However, the allocation percentages used in splitting between the program and administrative costs were not supported by a cost allocation plan or any other verifiable data. As such we could not determine if the allocation methodology and calculations were reasonable and acceptable for the cost of the line items allocated within the total administrative cost claimed.

Program	Description	Total	Allocation for Admin	Program Cost	Admin Cost
HS	Managers:	\$ 6,362	50%	\$ 3,181	\$ 3,181
HS	FICA, SUI, Worker's Comp	54,787	5%	52,048	2,739
HS	Health & Welfare	140,025	5%	133,024	7,001

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HS	Utilities, Telephone	16,428	50%	8,214	8,214
HS	Retirement (PERS & STRS)	63,663	5%	60,480	3,183
		<u>\$ 281,265</u>		<u>\$ 256,947</u>	<u>\$ 24,318</u>

Program	Description	Total	Allocation for Admin	Program Cost	Admin Cost
EHS	Disabilities Services Personnel:	\$ 710	10%	\$ 639	\$ 71
EHS	Managers	3,015	50%	1,507	1,508
EHS	FICA, SUI, Worker's Comp	26,647	5%	25,315	1,332
EHS	Health & Welfare	75,999	5%	72,199	3,800
EHS	Retirement (PERS & STRS)	41,690	5%	39,605	2,085
EHS	Office Supplies	12,665	45%	6,966	5,699
EHS	Other Supplies - Adv Committee	2,999	20%	2,399	600
EHS	Other Costs	220	10%	198	22
EHS	Office Supplies	18,762	45%	10,319	8,443
EHS	Other Contracts	<u>11,825</u>	60%	<u>4,730</u>	<u>7,095</u>
Total		<u>\$ 194,532</u>		<u>\$ 163,877</u>	<u>\$ 30,655</u>

Cause and Effect

Vocational Educational Basic Grants to States: The District's Secondary Programs department did not concur with the finding and claimed that the positions in question were funded 100% directly by the program and therefore, such costs should be considered as direct program costs. The direct and indirect administrative cost is defined as activities necessary for the proper and efficient performance of the eligible fiscal and data collection responsibilities under the Perkins Act of 2006. The job functions of executives, secretaries, office clerks and accountants should be reported under the administrative category as either direct or indirect cost.

Child Care and Development Fund: It appears that the Division did not follow the District's policies and procedures to properly account for administrative costs for these grants which impose the earmarking limitation.

Head Start and Early Head Start (Recovery Act): The District was not able to provide an explanation (or the support) for the allocation methodology.

This is a repeat finding, having been reported previously for June 30, 2007 to June 30, 2010 (F-07-15, F-07-16, F-08-07, F-08-09, F-09-08 and F-10-07).

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Questioned Costs

Vocational Educational Basic Grants to States: \$17,888

Child Care and Development Fund: The questioned cost may not be applicable as our estimate is below the limitation of the administrative cost.

Head Start and Early Head Start (Recovery Act): The total contract award for the fiscal year 2010-11 amounted to \$1,924,761 and \$1,389,085, respectively for Head Start and Early Head Start programs. The maximum program administrative cost would be 15% of the total contract award amount or \$288,714 and \$208,363 for Head Start and Early Head Start, respectively. The Division's claims for the administrative costs amounted to \$205,391 for Head Start program and \$99,195 for the Early Head Start program; and therefore, Early Childhood Education's remaining allowable administrative costs for the contracts were \$83,323 and \$109,168, respectively.

Since the allocation percentages were not supported, we were not able to determine if the administrative costs for the two (2) programs exceeded the provision.

Recommendation

Vocational Educational Basic Grants to States: We recommend that the District should enforce the Secondary Programs to follow the District's BUL-5399, in which, schools and offices are required to document their activities if the position is administrative function including fiscal personnel.

Child Care and Development Fund: We recommend that the Division enforce the District's policies and procedures to ensure that administrative costs are appropriately computed and accounted for separately for the child development programs.

Head Start and Early Head Start (Recovery Act): The Head Start and Early Head Start programs ended on September 30, 2011 and the contracts with LACOE were not extended. As such, no recommendation would be applicable.

Views of responsible Officials, Planned Corrective Actions, and Contact Information

Vocational Educational Basic Grants to States: The salaries of the three positions were considered direct program costs due to the following reasons:

- a. They were primarily hired to work exclusively for the Perkins program.
- b. They did not perform activities for any other District general or specially funded programs and the District general activities that may refer to the position or title used by District Human Resources.
- c. The titles used for the Perkins positions were different from those used by LAUSD. However, they are the same job descriptions.
- d. The positions were included as part of Direct Program Costs in the Request for Fund Application submitted and approved by CDE.

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The District will review the job functions of the individuals involved and ensure that administrative cost in the grant does not exceed 5%.

Name: Kathy Halsey

Title: Coordinator

Telephone: (213) 241 -5687

Child Care and Development Fund: The District agrees with the finding. Early Childhood Education (ECE) Fiscal Services has realigned the budget for Fiscal Year 2011-12 to show all administrative costs in one program code. This allows us to separate those costs from direct program costs for reporting purposes. By February 2012, ECE Fiscal Services will identify school based positions that may appear to be administrative in nature but are actually performing direct program activities and have them maintain activity logs as required by District Policy Bulletin BUL-5999.0, Documentation for Employees Performing Administrative & Direct Program Activities, dated February 9, 2011. In Fiscal Year 2010-11, administrative costs were identified, even though they were in various program codes, and given to General Accounting for inclusion for the final report that will be issued in 2012.

Name: Ted Nelson

Title: Assistant Budget Director

Telephone: (213) 241-3175

Head Start and Early Head Start (Recovery Act): The District agrees with the finding. The methodology for the allocation of administrative expenditures had been discussed but never formalized into a written document. If the District participates in these programs in the future, methods of allocating administrative and program expenditures will be formalized into a written document that provides the rationale for the percentages used. Furthermore, activity logs will be maintained to document time spent in administrative and program activities.

Name: Ted Nelson

Title: Assistant Budget Director

Telephone: (213) 241-3175

Program Identification

Finding Reference Number:

F-11-08

Federal Program Title, Awarding Agency, Pass-Through Entity, Catalog of Federal Domestic Assistance (CFDA) Number, Award Number

Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP), U.S. Department of Education (USED), CFDA NO. 84.334, Grant Agreements P334A050178 and P334A060124;

Head Start and Early Head Start (Recovery Act), Department of Health and Human Services (HHS),

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Los Angeles County Office of Education
(LACOE), CFDA Nos. 93.708 and 93.709, Grant
Agreements C-11730:10:11 and C-11724:10:11.

Compliance Requirement: Matching

State Audit Guide Finding Code: 30000 and 50000

Criteria

GEAR-UP: Code of Federal Regulations – Title 34 – Education, Part 80 – Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments – Subpart C – Post-Award Requirements, Section 80.24, Matching or cost sharing:

- Records. Costs and third-party in-kind contributions counting toward satisfying a cost sharing or matching requirement must be verifiable from the records of grantees and subgrantee or cost-type contractors. These records must show how the value placed on third-party in-kind contributions was derived. To the extent feasible, volunteer services will be supported by the same methods that the organization uses to support the allocability of regular personnel costs.

U.S Department of Education: Gaining Early Awareness and Readiness for Undergraduate Programs, Office of Postsecondary Education:

- Section 404C(b) of the Higher Education Act requires at least 50% of the total cost of a GEAR UP project to be paid with State, local, institutional, or private funds.
- Some GEAR UP grantees proposed in their applications matching contributions exceeding the statutory minimum. Under the GEAR UP regulations at 34 CFR 694.7(a) (2), a grantee is obligated to contribute the entire amount of match stated in its application, even if the amount exceeds the statutory requirement.
- Grantees are required by the GEAR UP regulations at 34 CFR 694.7(a) (2) to comply with the matching percentage stated in their applications for each individual year of the grant.

Head Start and ARRA Early Head Start (Recovery Act): Code of Federal Regulations – Title 45 – Public Welfare, Part 1301 – Head Start Program Performance Standards and Other Regulations – Subpart C - Federal Financial Assistance –, Section 1301.20, matching requirements:

- (a) Federal financial assistance granted under the act for a Head Start program shall not exceed 80 percent of the total costs of the program, unless:
- (1) An amount in excess of that percentage is approved under section 1301.21; or
 - (2) The Head Start agency received Federal financial assistance in excess of 80 percent for any budget period falling within fiscal year 1973 or fiscal year 1974. Under the circumstances described in clause
 - (3) Of the preceding sentence, the agency is entitled to receive the same percentage of Federal financial assistance that it received during such budget periods.

Section 11 (h) of OMB Circular A-87 states: “*Support of salaries and wages*”

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- (4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:
- a. More than one Federal award,
 - b. A Federal award and a non-Federal award,
 - c. An indirect cost activity and a direct cost activity,
 - d. Two or more indirect activities which are allocated using different allocation bases, or
 - e. An unallowable activity and a direct or indirect cost activity.
- (5) Personnel activity reports or equivalent documentation must meet the following standards:
- a. They must reflect an after-the-fact distribution of the actual activity of each employee,
 - b. They must account for the total activity for which each employee is compensated,
 - c. They must be prepared at least monthly and must coincide with one or more pay periods, and
 - d. They must be signed by the employee.
 - e. Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:
 - i. The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;
 - ii. At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and
 - iii. The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.
- (6) Substitute systems for allocating salaries and wages to Federal awards may be used in place of activity reports. These systems are subject to approval if required by the cognizant agency. Such systems may include, but are not limited to, random moment sampling, case counts, or other quantifiable *measures of* employee effort.
- (7) Salaries and wages of employees used in meeting cost sharing or matching requirements of Federal awards must be supported in the same manner as those claimed as allowable costs under Federal awards.

Condition

GEAR-UP: Grant P334A050178 (Finding Code 30000)

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In our procedures performed over matching contributions, we selected grant P334A050178 for LD 4 that reported matching expenditures totaling \$2,585,667, for the fiscal year. We requested documentation to support the reported matched expenditures and noted the following:

In our review of 40 Personnel Activity Reports (PARs), we noted the following internal control deficiencies over reporting of matching:

- 1 PAR was under-reported by 4 hours compared to the actual hours reported on the payroll records (SAP);
- 12 PARs were over-reported by a total of 133.50 hours compared to the actual hours reported on the payroll records (SAP);

The total net over-reported matching amounted to \$7,875 of \$382,016 sampled from \$2,031,774 of the total cash match for salary and benefits.

The total cash match of personnel and non-personnel from LD 4 amounted to \$2,031,774 and \$54,276, respectively. The remaining balance of the \$499,617 matching was contributed from LD4's sub-recipients.

GEAR-UP: Grant P334A060124 (Finding Code 30000)

In our procedures performed over matching contributions, we selected grant P334A060124 for LD 6 that reported matching expenditures totaling \$942,815, in the annual performance report submitted for the reporting period ending March 31, 2011. We requested documentation to support the reported matched expenditures and noted the following:

In our review of 20 PARs, we noted the following internal control deficiencies over reporting of matching:

- 2 PARs were over-reported by a total of 4 hours compared to the actual hours reported on the payroll records (SAP);

The total net over-reported matching amounted to \$250 of \$255,859 sampled from \$795,842 of the total cash match for salary and benefits.

The total cash match of personnel and non-personnel from LD 6 amounted to \$795,842 and \$34,959, respectively. The remaining balance of the \$112,374 matching was contributed from LD 6's sub-recipients.

Head Start and ARRA Early Head Start, Recovery Act (Finding Codes 30000 and 50000): The District satisfied the mandatory non-federal matching requirements mandated by the Head Start Act by using the State and local funding, such as the California State Preschool grant (CSPP), First 5 LA (F5LA) and CalSafe, as a match to pay the partial salaries and benefits for program personnel such as teachers, early education aides and other personnel that rendered services to the ARRA Head Start and ARRA Early Head Start programs.

In our procedures performed over matching contributions to verify if the activities funded by the matching funds were in fact allocated or charged in accordance with the relative benefits received, we

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sampled 40 employees (31 from ARRA Head Start and 9 from ARRA Early Head Start) and requested supporting documentation (either Semi-Annual Certifications “SAC” or Multi Funded Time Reports “MFTR”) for the matched expenditures. The payroll timesheets which indicated the location where the employee worked supported the direct benefit to the program. However, we noted the following exceptions related to additional supporting documentation to comply with the OMB requirements:

1. MFTRs provided were signed but not dated for 2 employees.
2. The SACs/MFTRs for 23 employees (18 from Head Start and 5 from Early Head Start) were not prepared timely; these were signed and dated subsequent to our requests.
3. The District was unable to provide the timesheet to support the work hours of 1 ARRA Head Start employee; only a MFTR was provided. Since MFTR does not contain location code information, we were unable to verify if the employee actually worked for the ARRA Head Start program. The same employee’s MFTR was also not prepared timely (signed and dated subsequent to our request).

The inadequately supported match for item number 3 above amounted to \$13,375 of \$957,973 sampled from \$1,162,822 of the total cash match for salary and benefits for the ARRA Head Start Program.

For the fiscal year 2010-11, the District reported federal expenditures of \$1,521,679 and \$1,007,028 respectively for ARRA Head Start and ARRA Early Head Start programs.

Cause and Effect

GEAR-UP: The causes of the above conditions were attributed to formula errors in the electronic spreadsheets utilized by the District to track the matching hours and human error in failing to detect the errors.

These findings are repeat findings, having been reported previously for June 30, 2006 to June 30, 2010 (F-06-13, F-07-12, F-08-08, F-09-17 and F-10-06).

Head Start and ARRA Early Head Start (Recovery Act): The District satisfied the non-federal matching requirements mandated by Title 45, Section 1301.20. However, our testing indicated a 65% (sixty five percent) error rate for non-compliance with preparation of the supporting SAC’s and MFTR’s in a timely manner. The cause of the above conditions were due to insufficient controls in place by the District to ensure that salaries and wages of employees used in meeting matching requirements for the ARRA Head Start and ARRA Early Head Start programs, were supported in the same manner as those claimed as allowable costs under Federal awards.

Questioned Costs

GEAR-UP: Questioned costs are not applicable. The deficiencies noted above did not result in incorrect reporting to the grantor. The District’s matching costs for Fiscal Year 2010-11 are not due to the grantor until the FY 10-11 APR submission date of April 2012 and are subject to revisions until such time the report is submitted.

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Head Start and ARRA Early Head Start (Recovery Act): The questioned matching costs totaling \$13,375 resulted from the unsupported matching hours (missing timesheets). For the employees whose SACs and MFTRs were not prepared untimely or not dated, there is no questioned cost because we were able to determine with the timesheets and the work locations that the employees in fact worked in the Head Start program and were funded by non-federal funds. However, these exceptions are a result of a control deficiency over the documentation requirements in accordance with Circular A-87 as part of the support for the non-federal matching.

Recommendation

GEAR-UP: District should monitor and review the electronic spreadsheets used for tracking matching costs more closely to ensure that supporting documentation for matching is accurately filled out and summarized for inclusion in the APR.

Head Start and ARRA Early Head Start (Recovery Act): The ARRA Head Start and ARRA Early Head Start programs ended on September 30, 2011 and the contracts with LACOE were not extended. As such, no recommendation would be applicable.

Views of responsible Officials, Planned Corrective Actions, and Contact Information

GEAR-UP: *Grant P334A050178*

This was the first year a self-calculating spreadsheet was used to document match. If this system is used next year (2011-12)

1. Tighter controls will be imposed by not allowing GEAR UP staff access to the sheet containing formulas to eliminate the over and under reporting of match.
2. Regular checks will be throughout the year while documenting match to eliminate more problems at the end of the year.

We have engaged an external evaluator to work with GEAR UP 4 LA. Our understanding is that an online match database system is included in those services which have been tailored for GEAR UP.

Name: Micaela Vazquez-Hahn

Title: Director

Telephone: (213) 241-0128

GEAR-UP: *P334A060124*

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Match forms will be individually, manually reviewed by the senior office technician and director to correct over-reporting due to manual inputting errors for previous year and regularly on an ongoing basis.

Name: Monique Dacay

Title: Director

Telephone: (323) 806-0941

Head Start and ARRA Early Head Start (Recovery Act): The District agrees with the finding. The District has been able to obtain the Semi-Annual Certification and MFTR for the majority of the employees. These documents, along with the time sheets, provide the necessary support for the matching requirement. Even though adequate documentation was missing for a few employees, the District exceeded the matching dollar amount required by the program. If the District should participate in this program in the future, policies and procedures will be implemented to support and document the matching requirement.

Name: Ted Nelson

Title: Assistant Budget Director

Telephone: (213) 241-3788

Program Identification

Finding Reference Number:	F-11-09
Federal Catalog of Domestic Assistance Number(s):	84.367
Federal Program Titles:	Improving Teacher Quality State Grants, U.S. Department of Education (USED)
Pass-Through Entity:	California Department of Education
Award Number	PCA14344
Compliance Requirement:	Period of Availability
State Audit Guide Finding Code:	30000 and 50000

Criteria

Code of Federal Regulations Title 34 – Education, Part 80 – Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments – Subpart C – Post-Award Requirements, Section 80.23, Period of availability of funds:

- General: Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case, the carryover balances may be charged for costs resulting from obligations of the subsequent funding period.

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- Liquidation of obligations: A grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation) to coincide with the submission of the annual Financial Status Report (SF-269). The federal agency may extend this deadline at the request of the grantee.

Condition

In our review of the period of availability, we noted that for all federal grants, the District has implemented alternative policies and procedures to manually monitor the expenditure of funds and the 90-day liquidation period at the end of an award year.

In our procedures of reviewing the District's compliance with the period of availability requirement, we selected samples from each of the grants and noted that for the current year expenditure testing of 60 samples from the Improving Teacher Quality State Grants, 2 transactions totaling \$54,920 were paid for services rendered in fiscal year 2009-10, 90 days after the end of the period of availability, which was September 30, 2010.

Total exceptions amounted to \$54,920 of \$1,981,693 sampled from the \$51,457,171 total program expenditures for the fiscal year ended June 30, 2011.

Cause and Effect

This is an isolated case where the year-end accrual by the program department was not timely determined and submitted to accounts payable branch.

This finding is a repeat finding; it has been reported previously for June 30, 2005 – June 30, 2009 (F-06-17, F-07-18, F-09-09, and F-10-09)

Questioned Costs

\$54,920

Recommendation

We recommend that the District continue to closely monitor the expenditures charged to an appropriate grant award period.

Views of Responsible Officials and Planned Corrective Actions

The District agrees that certain transactions were either not accrued or liquidated properly. The District will continue with its established procedures to closely monitor the expenditures charged to an appropriate grant award period. The District will continue to review these procedures for opportunities to improve the controls over period of availability.

Contact Information

Name: Yumi Takahashi

Title: Controller

Telephone: (213) 241-7889

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Program Identification

Finding Reference Number: **F-11-10**

Federal Catalog of Domestic Assistance Number(s): 84.010

Federal Program Titles: Title I Grants to LEAs, U.S. Department of Education (USED)

Pass-Through Entity: California Department of Education

Award Number 11-14329-6473 and 11-14981-6473

Compliance Requirement: Procurement, Suspension and Debarment

State Audit Guide Finding Code: 30000

Criteria

Code of Federal Regulations, Title 34 – Education, Part 80 – Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments – Subpart C – Post-Award Requirements, Section 80.36, Procurement:

- Procurement standards:
 - i. Grantees and subgrantees will use their own procurement procedures, which reflect applicable state and local laws and regulations, provided that the procurements conform to applicable federal law and the standards identified in this section.
 - ii. Grantees and subgrantees will maintain records sufficient to detail the significant history of a procurement. These records will include, but are not necessarily limited to the following: Rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.
- Methods of procurement to be followed:
 - i. Procurement by noncompetitive proposals is procurement through solicitation of a proposal from only one source, or after solicitation of a number of sources, competition is determined inadequate.
 - a. Procurement by noncompetitive proposals may be used only when the award of a contract is infeasible under small purchase procedures, sealed bids or competitive proposals and one of the following circumstances applies:
 - (A) The item is available only from a single source;
 - (B) The public exigency or emergency for the requirement will not permit a delay resulting from competitive solicitation;
 - (C) The awarding agency authorizes noncompetitive proposals; or
 - (D) After solicitation of a number of sources, competition is determined inadequate.

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- ii. Cost analysis, i.e., verifying the proposed cost data, the projections of the data, and the evaluation of the specific elements of costs and profits, is required.

Condition

In our procurement sample testing of 40 expenditures funded by Title I Grants to LEA, 26 samples were related to purchases of supplies and equipment through a master contract between the District and the vendors. In our procedures performed to verify contract rates were properly applied, we noted that items purchased for 9 purchase orders totaling \$1,027,973 were not covered in the master contracts. These items were quoted separately with a discounted price; however, the quotation presented only the discounted price and it did not include the original price. Through our discussion with the procurement personnel, we were informed that its current policies and procedures did not require the District's buyers to verify the reasonableness of the original price or to perform any additional procurement procedures.

Cause and Effect

The District's current policies did not include procedures to ensure that purchases through master contracts be subject to normal competitive bids process if the items were not covered in the contracts when originally procured.

Questioned Costs

Not applicable. This is an internal control issue over procurement procedures for purchases through the master agreement.

Recommendation

The District should update the existing policies and procedures to require additional price analysis to be performed for items purchased from a vendor master contract that was not covered/listed in the master contract.

Views of Responsible Officials and Planned Corrective Actions

We agree with the finding and will modify our appropriate desktop procedures to require procurement staff to validate discounts received followed up with verification of discount by accounts payable. This requirement may be evaluated and addressed as part of the blueprint phase of SAP Release 3 SRM module.

Contact Information

Name: Duane Johnson

Title: Director of Compliance, Grants, and Strategic Contracting

Telephone: (213) 241-3087

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Program Identification

Finding Reference Number:	F-11-11
Federal Catalog of Domestic Assistance Number(s):	93.575 and 93.596
Federal Program Title:	Child Care and Development Fund: Child Care and Development Block Grant, Child Care Mandatory and Matching Funds of the Child Care and Development Fun, Department of Health and Human Services.
Pass-Through Entity:	California Department of Education
Award Numbers:	CCTR-0124 and CSPP-0227
Compliance Requirement:	Program Income
State Audit Guide Finding Code:	30000

Criteria

Section IV – F of the District Contract with CDE General Child Care and Development Program Requirements:

For contractors providing direct services to children, fees shall be considered delinquent after seven (7) calendar days from the date the fees were due.

A Notice of Action, Recipient of Services shall be used to inform the family of the following:

1. The total amount of unpaid fees
2. The fee rate
3. The period of delinquency
4. Services shall be terminated two (2) weeks from the date of the Notice unless all delinquent fees are paid before the end of the two-week period.

Condition

In our procedures performed for the parent fee collection, we noted that a total past due amount of \$95,893 from the parents as of June 30, 2011 was recorded in the District's Early Education Student Information System (EESIS). Of the total, \$55,595 was outstanding for 120 days or more, \$5,939 between 90 to 120 days, \$8,431 between 60 to 90 days, \$6,726 between 30 to 60 days and \$19,202 for less than 30 days. These outstanding amounts were spread over 714 families and 99 centers.

We further randomly selected 5 families who had outstanding balances over 120 days and verified if those families were properly terminated. Based on our review and discussion with the Child Care Centers responsible personnel, we noted that all 5 families continued to receive services beyond the end of Fiscal Year 2010-11 and payment plans were not implemented until October 2011 and November 2011 when this issue was brought to their attention.

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Cause and Effect

There appears to be a lack of adequate internal controls to ensure the parent fees are collected by the child care centers timely.

Questioned Costs

\$95,893

Recommendation

We recommend the District implement an adequate system to monitor the collection of the parent fees timely and to ensure that the follow-up action is taken to comply with the Notice of Delinquency rule.

Views of responsible Officials and Planned Corrective Actions

The District agrees with the finding. In November 2011, the Early Childhood Education (ECE) Division conducted training for Principals and Office Managers on how to collect delinquent fees using the Early Education Student Information System (EESIS). This included how to set up alerts reminding Office Managers that fees are due, how to properly record payment of late fees, and how to create a payment plan for families owing money to the District. Emphasis was placed upon terminating families from the program if delinquent fees are not paid. They were also instructed on how to flag them in EESIS so that they would not be able to enroll at a different site without paying past due fees. This training will be conducted yearly.

Contact Information

Name: Ted Nelson

Title: Assistant Budget Director

Telephone: (213) 241-3175

Program Identification

Finding Reference Number: **F-11-12**

Federal Catalog of Domestic Assistance Number: 84.048

Federal Program Title: Vocational Education Basic Grants to States (Perkins IV), U.S. Department of Education (USED), California Department of Education (CDE), CFDA No. 84.048, Grant Agreement 09-14894-64733-00,

ARRA – Head Start, Department of Health and Human Services, Los Angeles County Office of Education (LACOE), CFDA No. 93.708, Grant Agreement C-11724:10:11;

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Twenty-First Century Community Learning Centers, U.S. Department of Education (USED), California Department of Education (CDE), CFDA No 84.287, Grant 10-14349-6473-4A, 10-14349-6473-5A, 10-14535-6473-4A, 10-14535-6473-5A, 10-14535-6473-6A.

Compliance Requirement:

Reporting

State Audit Guide Finding Code:

30000 and 50000

Criteria

Code of Federal Regulations Title 34 – Education, Part 80 – Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, Subpart C – Post – Award Requirements, Section 80.20, Standards for financial management systems:

- A State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to:
- Permit preparation of reports required by this part and the statutes authorizing the grant, and
- Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions or applicable statutes.

The financial management systems of other grantees and subgrantees must meet the following standards:

- Financial reporting: Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.
- Accounting records: Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

ARRA – Head Start: Code of Federal Regulations – Title 45 – Public Welfare, Part 92 – Uniform administrative requirements for grants and cooperative agreements to state, local and tribal governments – Subpart C – Post Award requirements –, Section 92.20, Standards for financial management systems:

- (a) A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to:

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1. Permit preparation of reports required by this part and the statutes authorizing the grant, and
 2. Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.
- (b) The financial management systems of other grantees and subgrantees must meet the following standards:
- (6) *Source documentation.* Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.

Condition

Vocational Education Basic Grants to States: *Program Reporting:* In our procedures performed over programmatic reporting, we noted that the District compiled CDE Form 101: E1 Report of Career Technical Education Enrollment and Program Completion (CDE Form 101 or E1) for secondary education by retrieving data submitted by individual schools and the Student Information System (SIS). Further, we noted that the District class code was converted to the CBED code for secondary education.

In order to test the accuracy of the data reported on the E1, for Secondary Vocational Education, we selected 7 CBEDs and traced student population data reported on the E1 and E2 to SIS and noted discrepancies between the numbers of the students reported. In the E1 report for school year 2009-2010, we were unable to reconcile the data on all 7 CBEDs to the baseline information from SIS. The discrepancies noted in E1 were also carried forward to the numbers of the students reported in E2 because numbers of students reported on E1 was the basis for the E2 report.

CBED	CTE Category	SIS School Data	CDE E2 Report	Variance Over(Under)
4298	Ethnicity	465	135	(330)
4421	Ethnicity	389	387	(2)
4613	Ethnicity	375	286	(89)
5557	Ethnicity	186	166	(20)
5661	Ethnicity	63	51	(12)
5756	Ethnicity	203	115	(88)
4050	Ethnicity	882	1173	291

ARRA – Head Start: As per the District’s contract with the grantor, LACOE, the District is required to submit Center-based Monthly Attendance Reports (CMARs) to LACOE providing details of the number of days present, excused absences and unexcused absences for each student enrolled at the center. The District uses parent sign-in and sign-out sheets to record attendance for students at each of the District’s Head Start centers, which are then summarized and reported to LACOE at the end of each month.

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In our procedures performed to test the accuracy of the CMARs submitted to LACOE, we selected sixty (60) students from 4 months (15 from each month) and requested the CMARs and the parent sign-in and sign-out sheets for the corresponding months sampled. Our verification of the number of days present, excused absences and unexcused absences between the CMARs and the sign-in and out sheets disclosed the following:

1. 12 unexcused absences had been inadvertently reported as excused absences for 6 students;
2. 9 unexcused absences had been inadvertently reported as days present for 3 students;
3. 3 excused absences had been inadvertently reported as days present for 2 students;
4. 1 day present had been inadvertently reported as excused absence for 1 student.

21st CCLC: In our procedures performed over the attendance reporting to the California Department of Education (CDE), we sampled the two (2) Semiannual Attendance Reports (SAR) to CDE and 25 schools to trace the reported attendance information from the District's SAR submitted to CDE to the "Monthly Attendance Report" (MAR), a report provided directly by the District's individual afterschool providers related to the school attendance data. We noted that the attendance was over-and-underreported for 2 and 12 schools, respectively.

Agency	School Name	Attendance to CDE	Attendance per MAR	Over(Under) Reported
Boys & Girls Club of Carson	Carson Senior High	13,627	13,443	184
Woodcraft Rangers	Manual Art Senior High	9,062	8,530	532
Ready, Set, Go!	Grape Elementary	1,758	1,784	(26)
LA's Best	Lizarraga Elementary	7,695	7,965	(270)
LA's Best	28 th Street Elementary	19,593	19,628	(35)
YS Plus	Millikan Middle	12,459	12,521	(62)
Boys & Girls Club LA Harbor	Banning Senior High	10,198	10,225	(27)
Boys & Girls Club of Carson	Narbonne Senior High	13,458	13,525	(67)
Champions Sports	Gardena Senior High	9,645	9,831	(186)
Champions Sports	Los Angeles Senior High	11,364	11,701	(337)
Keep Youth Doing Something	Arleta Senior High	10,060	10,089	(29)
Lacer	Fairfax Senior High	11,228	11,245	(17)
	North Hollywood Senior High	5,178	5,197	(19)
Youth Policy Institute				
Youth Policy Institute	Roybal Learning Center	9,323	9,361	(38)
Total:		144,648	145,045	(397)

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In another procedure performed over the attendance reported by the District's sub-recipients funded by 21st CCLC, we tested the attendance documentation of 933 students from 13 schools for the After School Education and Safety Program (ASES), which was jointly funded by State and Federal.

There were a total of 86 students in 7 different schools who did not have complete sign-in and sign-out time on the sign-in/sign-out sheets (note: exceptions noted for the following five (5) elementary schools were also reported on S-11-05 of the Findings and Questioned Costs Relating to State Awards). Some students didn't have either the sign-in time or sign-out time. Some students didn't have both. As a result, we were unable to determine how long each student participated in the program. The following are the details of the exceptions:

- **Apperson Elementary School**- 12 students signed in, but did not properly sign out for a total of 12 days.
- **116th Elementary School** - one (1) student signed in, but did not properly sign out for a total of one (1) day.
- **20th Elementary School** – 12 students signed in, but did not properly sign out for a total of 60 days.
- **Grape Elementary School**- five (5) students signed in, but did not properly sign out for a total of eight (8) days.
- **Griffin Elementary School** – one (1) student signed in, but did not properly sign out for a total of one (1) day.
- **Banning High School** ¹– forty-six (46) students signed in, but did not properly sign out for a total of one (1) day.
- **Los Angeles High School** ¹ – nine (9) students signed in, but did not properly sign out for a total of one (1) day.

¹ School funded by 21st CCLC only.

We also obtained the Quarterly Attendance Reports (QAR) for the same schools we sampled and compared the total attendance reported to the attendance records (e.g. sign in/sign out sheets) for the schools for a sample week during the school year 2010-2011. We also tested the completeness and accuracy of the reports by selecting a sample of the students and tracing the same students to attendance records and vice versa. QARs are reports used by the District to report attendance to the California Department of Education (CDE). We noted the following exceptions:

- **Millikan Middle School** – QAR was overstated by 24 days, compared to the sign-in sheets. Upon examining the QAR, we also noted that two (2) students were entered three times on the QAR for the entire week tested, overstating it by 20 days. In addition, three (3) students marked present for a total of seven (7) days on the QAR were not found on the sign in sheets. We also noted three (3) students marked present for three (3) days on the sign-in sheets were not found on the QAR.
- **Colfax Elementary School** - QAR was understated by 15 days, compared to the sign-in sheets.

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- **20th Elementary School** – QAR was overstated by two (2) days, compared to the sign-in sheets. We noted that three (3) students marked present for three (3) days in the QAR were not found in the sign in sheets.
- **State Street Elementary School** – QAR was overstated by five (5) days, compared to the sign in sheets.
- **28th Elementary School** – We noted that one (1) student marked present for one (1) day in the QAR was not found in the sign in sheets. We also noted five (5) students marked present for a total of five (5) days in the sign-in sheets were not found on the QAR.
- **Chavez Elementary School** – We noted two (2) students marked present for a total of two (2) days in the sign-in sheets were not found on the QAR.
- **Grape Elementary School** – We noted that one (1) student marked present for one (1) day in the QAR was not found in the sign in sheets.
- **Lizarraga Elementary School** – QAR was understated by two (2) days, compared to the sign-in sheets. We also noted three (3) students marked present for a total of three (3) days in the sign-in sheets were not found on the QAR.
- **Banning High School** – We noted nine (9) students marked present in the QAR but were not found in the sign-in sheets. We also noted twenty-four (24) students marked present in the sign-in sheets were not found on the QAR.
- **Arleta High School** – We noted six (6) students marked present in the QAR but were not found in the sign-in sheets. We also noted eleven (11) students marked present in the sign-in sheets were not found on the QAR.
- **Manual Arts High School** – We noted twenty –three (23) students marked present in the sign-in sheets were not found on the QAR.
- **North Hollywood High School** – We noted three (3) students marked present in the QAR but were not found in the sign-in sheets. We also noted ten (10) students marked present in the sign-in sheets were not found on the QAR.
- **Los Angeles High School** – We noted six (6) students marked present in the QAR but were not found in the sign-in sheets. We also noted three (3) students marked present in the sign-in sheets were not found on the QAR.
- **Carson High School** – We noted thirteen (13) students marked present in the QAR but were not found in the sign-in sheets. We also noted six (6) students marked present in the sign-in sheets were not found on the QAR.
- **Narbonne High School** – We noted one (1) student marked present in the sign-in sheets were not found on the QAR.

Cause and Effect

Vocational Education Basic Grants to States: The District's policy does not require documentation to be maintained to support numbers reported on E1 and E2 and any reconciliation between the information submitted by the individual schools and SIS. The District does not have policies and procedures in place to ensure accuracy of the conversion from CDE course definition to the District secondary education class code.

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This is a repeat finding from June 30, 2006 to June 30, 2010 (F-06-25, F-07-25, F-08-18, F-09-15 and F10-11).

ARRA – Head Start: Our sample testing of the attendance reporting process indicated a 20% error rate. The causes of the above conditions were due to insufficient controls in place by the District to adequately record and report attendance of the students enrolled in the program.

21st CCLC: In general, there does not appear to be effective controls in place to ascertain that sufficient documentation is maintained to support the District's compliance with reporting under this grant. Additionally, The District's internal control policy and procedures do not require documentation to be maintained to support the reconciliation between the MAR and SAR and do not require that SARs be reviewed and approved by the supervisor prior to submission.

This is a repeat finding from June 30, 2006 – June 30, 2011 (F-06-36, F-07-33, F-08-22, F-09-20, and F-10-12).

Questioned Costs

Vocational Education Basic Grants to States: Not applicable. This finding is considered a programmatic non-compliance issue as well as a deficiency in the internal control system over the reporting to CDE.

ARRA – Head Start: This finding is a reportable condition in internal control over the attendance recording and reporting process. Questioned costs may not be applicable because the program was a cost-reimbursement contract not based on attendance reported.

21st CCLC: Questioned cost is not applicable as the payments for this program is not made based on the basis of attendance.

Recommendation

Vocational Education Basic Grants to States: The District should implement policies and procedures to strengthen its controls over reporting for the Secondary Vocational Education program, to ensure that reports are accurately reconciled to the actual data. The District should consult with CDE to determine if it is required to resubmit the revised reports with corrections.

ARRA – Head Start: The Head Start and Early Head Start programs ended on September 30, 2011 and the contracts with LACOE were not extended. As such, no recommendation would be applicable.

21st CCLC: The District should strengthen its procedures on attendance documentation to ensure that the agencies performing the services for these programs are aware of the District's policies, specifically on

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maintaining accurate attendance records. The District should also continue to perform monitoring site visits to review closely the attendance report process of its agencies.

The District should strengthen its controls to ensure attendance data is compiled and reported accurately. The District should also maintain sufficient documentation to support its results of the reconciliation between the SAR and MAR.

Views of Responsible Officials, Planned Corrective Actions, and Contact Information

Vocational Education Basic Grants to States: We are in the process of updating or making changes in our SIS system. The corrections that are being made are the following.

1. Clerical personnel have changed District-wide due to budget cut. DATA on CTE students has not been populated in the correct field in SIS. We are now having the Advisors populate field 231 in the SIS system which is the Career Field. They will also populate the graduation information fields in April and May, 2012 which is the same calendar at high school sites.
2. We are changing field 231 to reflect the current pathways offered in LAUSD. That change is from 5 pathways to 58 pathways. The change in SIS was implemented on December 1, 2011. For school years 2010-2011 and 2011-2012, we will be able to have better information on CTE students.
3. We are working on the formula for extracting the accurate information from the SIS system. Also, we are working on information on completers in the year the student completed the pathway. Furthermore, we are developing a formula in SIS for seniors who have finished completer courses and have continued the pathway post-secondary.
4. We have set a new calendar for checking the process for populating fields, retrieving and reporting DATA on students.

Name: Kathy Halsey

Title: Coordinator

Telephone: (213) 241-5687

ARRA – Head Start: The District agrees with the finding. Should the District participate in this program in the future, policies and procedures over reporting will be implemented and school personnel will be trained on reporting requirements and procedures.

Name: Ted Nelson

Title: Assistant Budget Director

Telephone: (213) 241-3788

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21st CCLC: The following is a synopsis of the audit finding and the corrective measures implemented to ensure the programs comply with the requirement in the Education Code, operate at full capacity and offer students the best possible programming while maximizing our resources:

The finding demonstrates the need to strengthen our policies and procedures on attendance documentation for the 21ST Century Community Learning Centers Program (CCLC) and explain how we would provide more training on the policies and procedures to our numerous after-school providers so that attendance documentation is accurate when it is reported.

LAUSD - Beyond The Bell Branch has implemented the following procedures to ensure that we are providing training on attendance policies and procedures as well as how we are monitoring how the procedures are being implemented at the sites to ensure documentation of reported attendance figures is readily available and accurate for auditing purposes.

1. Agency contractors and program personnel are required to attend a **“Start-Up Meeting”** scheduled prior to the beginning of the school year. Extensive training on attendance documentation is offered during this meeting.
2. During the “Start-Up Meeting,” extensive time is spent on training staff on the importance of properly documenting and maintaining accurate attendance.
3. Beyond the Bell Branch Administrators and Traveling Supervisors attend the training meeting and interject their role in monitoring attendance procedures as they travel to sites. Beyond the Bell staff routinely monitor attendance to ensure procedures are being used and documentation is maintained as required.
4. Contractors and agency program personnel are required to attend an annual **“Policies and Procedures/Risk Management”** training. **As a result of the audit finding** and reflection on best practices, Beyond the Bell has developed an attendance documentation training scheduled for implementation for the 2011 – 2012 year. The training is offered on a monthly basis. Newly hired personnel must register for and attend the next available training date. Returning personnel must register for and attend the training during the fiscal year.
5. The following “Policies and Procedures/Risk Management” training dates are scheduled for the 2011 – 2012 year (NOTE: Attendance Documentation has been implemented as a result of previous audit findings):
 - 8/30/11, 8/31/11, 9/6/11, 9/21/11, 10/22/11, 11/19/11, 12/14/11, 1/21/12, 2/16/12, 3/14/12, 4/21/12, 5/19/12, & 6/13/12
6. Contractors and agency program personnel are required to attend Federal **Program Monitoring (FPM)** training. The FPM training reflects the CDE’s Program Dimensions. The goal of this training is to offer personnel a best practices approach to running exemplary programs that comply with the requirements in the Education Code. Extensive training on “attendance documentation” is offered during this meeting.

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7. Beyond The Bell Branch conducts “**site visits**” to monitor program quality and student attendance through:

Field Office Administrators

- Certificated Administrators conduct site visits to evaluate and monitor agency program implementation. Attendance documentation is closely monitored during these site visits.

Field Office Traveling Playground Supervisors

- Classified/Unclassified Traveling Playground Supervisors conduct weekly visits to evaluate and monitor agency program implementation. Attendance documentation to ensure appropriate staff-to-student ratio and observation of sign-in/sign-out procedures is closely monitored during these site visits.

Central Office Administrators

- Central Office Administrators conduct site visits to evaluate and monitor agency program implementation. In addition to program quality and compliance, attendance documentation is closely monitored during these site visits.

8. Beyond the Bell Branch conducts “**Random Reviews/Audits of Monthly Attendance Reports**” to examine agency sign-in/sign-out procedures. The agency’s “Attendance Documentation” procedures are further evaluated to ensure the agency’s record keeping corresponds to data submitted to Beyond the Bell. In addition, evaluation of these documents ensures they:

- Comply with Beyond the Bell’s “Early Release Policy.”
- Verify the sign-in/sign-out forms are certified by Site Coordinator.
- Contain Student ID Numbers.

9. To ensure the documentation for the 21st CCLC Program accurately reflects the number of students served and reported to the California Department of Education by the District, Beyond the Bell Branch contracted with City-Span Technologies Incorporated (A nationally recognized service firm which specializes in administering online attendance monitoring programs.) to administer an online attendance reporting and monitoring system. Beyond the Bell Branch through our needs assessments and evaluations recognized the need to strengthen our internal controls to ensure attendance data is compiled and reported accurately. Furthermore, Beyond the Bell Branch recognizes the need to maintain sufficient documentation for the reconciliation between the District’s Quarterly Attendance Reports (QAR) and information submitted to the California Department of Education. Consequently, Beyond the Bell’s gathering of attendance data and reporting procedures has evolved. As a result of previous audit findings, the following system and procedures have been implemented:

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- **Monitoring has been strengthened from quarterly to monthly** and all contractors and staff are now required to submit attendance documentation monthly which has resulted in more accurate attendance reporting to the CDE.
- **Beyond the Bell issues a current "Alpha List"** containing student identification numbers to agencies. Prior to this practice, agencies were responsible for obtaining student identification numbers from schools. Frequently, the information was outdated or incomplete.
- Agencies **submit their attendance electronically** through a secured website to City-Span Technologies Incorporated.
- A **discrepancy report is issued** to agencies requesting them to make corrections of errors when they are identified.
- Agencies **correct and resubmit** the reports and discrepancies are fixed in attendance reports.
- The reporting of attendance to the California Department of Education (CDE) is accomplished on-line bi-annually through the ASSIST through close collaboration with CDE's technical staff to ensure accurate transfer of the information.
- As a result of the volume generated by Beyond the Bell programs, **the CDE has approved the submission** of attendance through an EXCEL program via e-mail. Personnel at CDE then upload the data into ASSIST. Once the data is in the system, the Beyond the Bell designee approves the data submitted.

We will continue to monitor these changes in protocol to ensure that the procedures are followed and all information is reported accurately and documented as necessary for auditing purposes. Should problems arise in any area for contractors or staff, Beyond the Bell will alter and refine the process accordingly to ensure continuous improvement in operations continues.

Name: Harry Talbot

Title: Administrative Coordinator

Telephone: (213) 241-7900

Program Identification

Finding Reference Number: **F-11-13**

Federal Catalog of Domestic Assistance Number(s): 10.553, 10.555, and 10.559

Federal Program Title(s): Child Nutrition Cluster: School Breakfast Program, National School Lunch Program, Summer Food Service Program for Children, U.S. Department of Agriculture (USDA)

Pass-Through Entity: California Department of Education

Award Number: 19-64733-0000000-01

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Compliance Requirement: Reporting

State Audit Guide Finding Code: 30000

Criteria

Title 7 – Agriculture, Chapter II – Food and Nutrition Service, Department of Agriculture, Part 210 – National School Lunch Program, Subpart B – Reimbursement Process for States and School Food Authorities, Section 210.8, Claims for reimbursement:

Internal controls. The school food authority shall establish internal controls which ensure the accuracy of lunch counts prior to the submission of the monthly Claim for Reimbursement. At a minimum, these internal controls shall include: an on-site review of the lunch counting and claiming system employed by each school within the jurisdiction of the school food authority; comparisons of daily free, reduced-price and paid lunch counts against data that will assist in the identification of lunch counts in excess of the number of free, reduced-price, and paid lunches served each day to children eligible for such lunches; and a system for following up on those lunch counts that suggest the likelihood of lunch-counting problems.

School food authority claims review process. Prior to the submission of a monthly Claim for Reimbursement, each school food authority shall review the lunch count data for each school under its jurisdiction to ensure the accuracy of the monthly Claim for Reimbursement. The objective of this review is to ensure that monthly claims include only the number of free, reduced price and paid lunches served on any day of operation to children currently eligible for such lunches.

Condition

Meal counting process:

In the past, the District has been using the Food Services Data Capture (FSDC) system to record the number of meals served at its school sites (performed by physically counting and entering the number of meal tickets collected at meal times) and the Unisys system to report the meals to California Department of Education (CDE) for reimbursement purposes. In November 2009, Food Services Branch (FSB), which administers the meal programs at all of the District's schools, implemented the Cafeteria Management System (CMS) to replace its legacy systems of FSDC and Unisys. Initially the CMS was only implemented for back-of-house purposes, such as reporting to CDE and inventory management. Starting April 2010, FSB started rolling out the CMS at Points of Service (POS) for initial meal count data capture at its schools in a phased in manner. As of April 2011, 219 schools had implemented the CMS POS. The POS is designed to replace the legacy system of paper meal tickets with an electronic software application that stores and connects information relating to the student names, their meal eligibilities (free, reduced price or full price) and their photographs by homeroom. At meal times, the POS terminals, which resemble touchscreen computer monitors, display the names and photographs of the students for one homeroom at a time and the students line up by homeroom at the cafeteria windows to collect their meals. In order to record meal counts, the cafeteria workers operating the terminal tap the

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appropriate photograph image or name of the student as the student passes through the terminal with his/her meal. This ensures that the meal claimed can be traced back to the particular student and his/her eligibility.

During our procedures to observe the operation of the CMS – POS (at fourteen of the District's schools), we observed students lined up at the window with their meals and the cafeteria workers operating the POS tapped the appropriate student's picture on the POS screen to signify that the transaction was complete. We further noted that the students appeared in rapid succession and in more than one instance, the cafeteria workers tapped the screen even before the student appeared at the window; in some instances the students appeared later and the cafeteria workers realized that the wrong pictures had been tapped and made a note of the names to be rectified later. It appeared very likely that the POS operators would tap the wrong pictures and not notice the mistakes. Therefore, we designed our substantive procedures to test the CMS to verify if a student who was absent on a specific day was claimed as having been served a meal on that day.

Accordingly, we selected 8 schools that had CMS implemented at POS. We then selected 5 students from each of the 8 schools for a total of 40 students. For these 40 students, we obtained the Student Monthly Attendance Summary (SMAS) reports for 1 month, each showing the dates on which the student was absent (the SMAS reports used for testing were tested without exception, by us for the state compliance attendance audit). Total number of absences tested for the 40 students were 85 days.

We also obtained CMS meal history reports for the 40 students for the month tested showing the dates on which each student ate a school meal (breakfast and/or lunch). A comparison of the SMAS reported absences and the CMS meal history reports showed that for 11 out of the 40 students, at least one breakfast or lunch was claimed in CMS for the day even though the student was absent. The total number of meals over claimed, was 3 breakfasts and 14 lunches, over 14 days.

Claims Review Process:

Upon inquiry, we noted that prior to submission of monthly claims for reimbursement; the FSB performed an analysis of meal count data by location to test for reasonableness. For this purpose, the FSB had its six Accounting Technicians (ATs) download meal count reports from the CMS and compare the current month data with the preceding month's and preceding six months' data. A comparison was also made to see if the meal count for each day of the month was reasonably close to the month's average. However, we noted that the FSB did not have a formalized standard set of procedures to be followed by its ATs; as a result, each of the ATs performed his/her own procedures. Further, not all the ATs maintained a copy of the analysis performed each month. Therefore, we were unable to test if the analysis was in fact performed as represented to us.

Cause and Effect

Our sample testing of the meal count process indicated a 25% error rate. It appears that a lack of oversight and adequate training of the CMS-POS meal count process at the school cafeteria level has resulted in some over counting of meals served.

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It appears that the District has policies in place that require an analysis of meal counts prior to claims for reimbursement. However, the policies do not require documentation to be retained to evidence the analyses performed. Also, the policies do not prescribe a standard set of analysis procedures to be performed by each FSB AT.

Questioned Costs

This finding is a reportable condition in internal control over the meal count process and the claims review process. The question cost for the over claimed meals is \$43.36 which is less than \$10,000, the OMB Circular A-133 510(a)(3) requirement for reporting of known questioned costs.

Recommendation

We recommend the District train its POS operators to be more diligent and careful while recording meal counts. This will ensure meals are claimed only for those students that were actually present. We recommend that the District strengthen its controls regarding the meal count reconciliation process to include a standard set of procedures, as well as the need to maintain documentation of analyses performed.

Views of responsible Officials and Planned Corrective Actions

Food Services reviewed the information provided and has the following response:

Student meals are rung up in the POS system at the checkout point. All students on the list are at Elementary schools. Elementary students line up by classroom and alphabetically. Food Services is constantly requesting schools to provide photographs for students so that the cashier can not only verify the name but also match the student's face to the photograph.

- All the students on the list had a photograph in the POS system with the exception of 3 students.
- While there is always a possibility for human error with the cashier accidentally hitting the wrong student's name on the POS screen, the possibility for error is low especially when the student can be matched by both name and face. Also, students are required to state their name to the manager.

Based on this report we will do the following to inform our managers of the findings and highlight and emphasize to our staff:

- Follow up with school Principals to provide student photographs at the beginning of the school year and follow up on students without photographs, during the course of the year. Please note we have to rely on the school Principals for student photographs.
- Pay greater attention to matching both the name and face of the student to the name and photograph in the POS at the checkout point.

Contact Information

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Name: Laura Benavidez

Title: Deputy Director of Food Services – Operation

Telephone: (213) 241-2999

Program Identification

Finding Reference Number:

F-11-14

Federal Program Title and Federal Catalog
of Domestic Assistance Number(s):

Federally Funded Programs

Pass-Through Entity:

All Pass-through entities

Compliance Requirement:

Reporting

State Audit Guide Finding Code:

30000

Criteria

Subpart C—Auditees §___.300 Auditee responsibilities.

The auditee shall:

- (a) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.
- (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.
- (c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.
- (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with §___.310.

§___.310 Financial statements.

- (b) Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and

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major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.

Code of Federal Regulations Title 34 – Education, Part 80 – Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, Subpart C – Post – Award Requirements, Section 80.20, Standards for financial management systems:

- A State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to:
- Permit preparation of reports required by this part and the statutes authorizing the grant, and
- Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions or applicable statutes.

The financial management systems of other grantees and subgrantees must meet the following standards:

- Financial reporting: Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.
- Accounting records: Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

Condition

In our review of the first draft schedule of expenditures of federal awards (SEFA), including the accuracy of the CFDA numbers, the accuracy and completeness of expenditure amounts reported and the grouping of the clustered programs on the SEFA, we noted the following errors:

1. The total federal awarded amount reported on the SEFA was erroneously under-reported by \$237,099,030 due to a formula footing error;
2. Expenditures for two (2) non-federal funded grants were included in the original SEFA causing an over-reporting of \$1,506,902 (\$669,014 reported under CFDA #93.709 and \$837,888 under CFDA #84.215);
3. The passed through entity for CFDA #17.245 was inadvertently reported under the California Department of Education instead of Employment Development Department;
4. The following programs were not reported as a cluster in accordance with the OMB Circular A-133:
 - Student Financial Assistance Cluster: CFDA #84.007, #84.033 and #84.063
 - Vocational Rehabilitation Cluster: CFDA #84.126 and 84.390
 - Head Start Cluster: CFDA #93.708 and #93.709

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5. In June 2011 the District received notification from the pass-through entity requiring the Head Start Cluster programs (a non-major program) to be audited as a major program in the District's 2010-11 Single Audit. However, this was not communicated to the auditors prior to their discovery of the letter.

Note that all errors were corrected in the final SEFA.

Cause and Effect

The determination of which programs will be audited and audit costs are affected by the accuracy of the SEFA at the time of the audit. An inaccurate SEFA can affect the amount of audit coverage required, and delay an audit beyond the required reporting deadline. In addition, should omissions or other errors be made and not identified in a timely manner, the District could miss its federal reporting deadline, jeopardize future federal funding and report its financial information inaccurately to grantors. Timely accurate reporting is an important accountability measure.

Questioned Costs

Not applicable. This finding is considered a significant internal control deficiency over reporting.

Recommendation

The District should implement policies and procedures to strengthen its controls over the preparation and review of the SEFA, to ensure that all federal grant information and awarded amounts are accurately reconciled and correctly reported.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the finding. The District will review its procedures and make improvements as necessary. The District will ensure that proper controls are in place to allow for accurate SEFA reporting next fiscal year.

Contact Information

Name: Yumi Takahashi
Title: Controller
Telephone: (213) 241-7889

Program Identification

Finding Reference Number:

F-11-15

Federal Program Title, Awarding
Agency, Pass-Through Entity,

Title I Grants to Local Educational Agencies: U.S.
Department of Education (ED), Passed through the

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Catalog of Federal Domestic
Assistance(CFDA) Number,
Award Number and Year:

California Department of Education, CFDA No.
84.010, Grant Agreements 14329 and 14981;

Vocational Education Basic Grants to States: U.S.
Department of Education (ED), Passed through the
California Department of Education, CFDA No.
84.048, Grant Agreements 09-14894-64733-00;

Medical Assistance Program (Medicaid; Title
XIX), Department of Health Services, CFDA
93.778, Grant Agreement C-10606:08:09.

Compliance Requirement:

Reporting

State Audit Guide Finding Code:

30000 and 50000

Criteria

Title I Part A--Improving Basic Programs Operated by Local Educational Agencies

Sec. 6339. Carryover and waiver

- (a) Limitation on carryover - Notwithstanding section 1225(b) of this title or any other provision of law, not more than 15 percent of the funds allocated to a local educational agency for any fiscal year under this subpart (but not including funds received through any reallocation under this subpart) may remain available for obligation by such agency for one additional fiscal year.
- (b) Waiver – A State educational agency may, once every 3 years, waive the percentage limitation in subsection (a) of this section if:
 1. the agency determines that the request of a local educational agency is reasonable and necessary; or
 2. Supplemental appropriations for this subpart become available.

Code of Federal Regulations Title 34 – Education, Part 80 – Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, Subpart C – Post – Award Requirements, Section 80.20, Standards for financial management systems:

- A State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to:
- Permit preparation of reports required by this part and the statutes authorizing the grant, and
- Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions or applicable statutes.

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The financial management systems of other grantees and subgrantees must meet the following standards:

- Financial reporting: Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

Accounting records: Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

Carl D. Perkins Career and Technical Education Improvement Act of 2006: CDE Grant Number 09-14894: Grant Award Notification states:

6. All Perkins IV funds must be expended within the dates designated and for the maximum amount indicated in the AO-400. Encumbrances may be made at any time after the beginning date of the grant stated on the AO-400. All funds must be expended or legally obligated by June 30, 2010. Any funds left unclaimed after September 30, 2010, will revert to the CDE for reallocation to other LEAs. Unauthorized expenditures shall become the responsibility of the LEA. No extension of this grant will be allowed.

Medical Assistance Program: Code of Federal Regulations Title 42 – Public Health, Part 431 – State Organization and General Administration, Subpart A:

- Submit all reports required by the Secretary;
- Follow the Secretary's instructions with regard to the form and content of those reports; and
- Comply with any provision that the Secretary finds necessary to verify and assure the correctness of the reports.

Condition

Title I Basic Grants to LEA's: In our procedures performed for expenditures reported for Title I Basic, we noted that the total expenditures reported in the Consolidated Application (ConApp) for the 2009-10 grant included accrued expenditures of \$7,226,844 (also called AC transactions) for the fiscal year 2009-10. *(Note that the final expenditures for 2009-10 are included in Part II of ConApp which is due to CDE in January 2011).* Of the total accrual, we noted that \$631,252 was subsequently adjusted in December 2010 by the District's Accounts Payable as over-accrual. However, the total expenditure reported on the ConApp submitted to CDE was not adjusted accordingly. As a result, the program cost was over-reported and the carryover amount thus under-reported.

Vocational Education Basic Grants to States: In our review of the Final Claim Document covering actual expenditures on the Carl D. Perkins Section 131 Secondary, Grant #09-14894 for the grant period ending June 30, 2010, we noted that a total of \$157,602 was obligated but not spent; however, such unspent funds had not been refunded to the grantor.

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Medical Assistance Program: The Medicaid program is a national health care program designed to furnish medical assistance to families; to the aged, blind, disabled; and to individuals whose income and resources are insufficient to meet the cost of necessary medical services. The District is reimbursed for the salaries of the employees who are involved with the eligible activities. To claim the salary expenditures incurred for such activities, employees are required to perform a Time Survey quarterly. The Time Survey is a representative sample of staff's work, which is to be used as the basis of the Medi-Cal Administrative Activities (MAA) claim. The ratio of MAA time to total hours of the employees who participated in the Time Survey is the basis used for claims. That ratio is then applied to total salaries and other expenditures for the reporting period. Calculated expenditures are reduced by 50% to arrive at the reimbursable claims.

During our review, we noted that the District's current policies included certain procedures to identify and exclude the employees who were funded by any federal programs in the quarterly claim calculations. Further, through our discussion with the District, we noted that procedures performed for such were only for payroll expenditures recorded in SAP, the District's payroll system, which interfaces with their book of records, IFS. However, we noted that there were adjustments related to payroll that were booked directly in IFS. These adjustments; therefore, were not subjected to this analysis. As such, it is possible that there may have been payroll that were originally funded by non-federal program and recorded in the SAP that was adjusted in IFS to other federally funded programs.

Cause and Effect

Title I Basic Grants to LEA's: According to the NCLB regulations, LEAs may only carry over 15% of its allocation from one year to the next. The State is permitted to waive this 15% limitation once every three (3) years. Had the District's carry over amount exceeded the 15% limitation in the year when the waiver was not allowed, the adjustment for the over-accrual is required to be returned to the grantor. For the fiscal year 2009-10, the District requested an approval from CDE to carry over more than 15%; as such, the adjustment of \$631,252 was allowed to be spent and obligated until September 30, 2011.

Vocational Education Basic Grants to States: The District's existing policy did not include a monitoring review of unspent fund to be returned in a timely manner.

Cause and Effect

Medical Assistance Program: The District's existing policy did not include a review of these journal entries recorded in the IFS.

This is a repeat finding from fiscal year 2009-10 (F-10-13).

Questioned Costs

Title I Basic Grants to LEA's None noted. This is a control deficiency over reporting procedures.

Vocational Education Basic Grants to States: \$157,602

Questioned Costs

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Medical Assistance Program: We were unable to determine a possible questioned cost since a system has not been set-up by the District to track all the journal entries that could have an impact on the Medicaid claims process.

Recommendation

Title I Basic Grants to LEAs: We recommend that the District amend its existing policies and procedures to require any adjustments made subsequent to the reporting period (September 30) for the Title I be communicated to the Budget Division timely for proper carryover calculations and reporting. The District should update its current accounting procedures to include timely refunding of any unspent grant funds be returned to grantors.

Vocational Education Basic Grants to States: We recommend that the District amend its existing current accounting procedures to include timely refunding of any unspent grant funds be returned to grantors.

Medical Assistance Program: We recommend that the District implement policies and procedures for the inclusion if any of journal entries recorded in the IFS to be part of the claims process to ensure all activities are accounted for.

Views of Responsible Officials, Planned Corrective Actions, and Contract Information

Title I Basic Grants to LEAs and Vocational Education Basic Grants to States: The District agrees with the findings. The District will strengthen its procedures to ensure that report to the granting agency reflects, or a revised report is submitted, for any adjustments made subsequent to the reporting period. Any unspent funds will be refunded accordingly, upon receipt of invoice from grantor.

Name: Teresa Rojas

Title: Director of Accounting

Telephone: (213) 241-7970

Medical Assistance Program: The District agrees with the finding and will incorporate a review of the journal entries affecting federal programs into its policies. It should be noted that the job classifications that are used for the reimbursement claim are not typically a part of these journal entries.

Name: Sherry Purcell, Ph.D.

Title: Coordinator, Media-Cal Reimbursement and Wellness Programs

Telephone: (213) 241-0551

Program Identification

Finding Reference Number:

F-11-16

Federal Program Title, Awarding Agency, Pass-Through Entity, Catalog of Federal Domestic Assistance (CFDA) Number,

Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP), U.S. Department of Education (USED), CFDA No 84.334, Grant Agreement P334A050178;

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Award Number

Twenty-First Century Community Learning Centers, U.S. Department of Education (USED), California Department of Education (CDE), CFDA No 84.287, Grant Agreements 09-14535-6473-4A, 09-14349-6473-5A, 09-14535-6473-5A, 09-14349-6473-4A, 10-14535-6473-6B, 10-14535-6473-6C, 10-14535-6473-6D, 10-14603-6473-6B, 10-14603-6473-6C, 10-14603-6473-6D, 10-14349-6473-4A, 10-14349-6473-5A, 10-14535-6473-4A, 10-14535-6473-5A, 10-14535-6473-6A .

Compliance Requirement:

Sub-recipient Monitoring

State Audit Guide Finding Code:

30000 and 50000

Criteria

United States Code, Title 31 – Money and Finance, Subtitle V – General Assistance Administration, Chapter 75 – Requirements for Single Audits, Section 7502, Audit requirements; exemptions:

- Each pass-through entity shall:
 - (a) provide such subrecipient the program names (and any identifying numbers) from which such assistance is derived, and the federal requirements which govern the use of such awards and the requirements of this chapter;
 - (b) monitor the subrecipient's use of federal awards through site visits, limited scope audits, or other means;
 - (c) review the audit of a subrecipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, as defined by the Director, pertaining to federal awards provided to the subrecipient by the pass-through entity; and
 - (d) require each of its subrecipients of federal awards to permit, as a condition of receiving federal awards, the independent auditor of the pass-through entity to have such access to the subrecipient's records and financial statements as may be necessary for the pass-through entity to comply with this chapter.

Condition

GEAR-UP: Local District 4 contracts with subrecipients to meet its grant matching contributions to the program. Matching for grant number P334A050178 derived from its subrecipients accounted for approximately twenty-five percent (25%) of its total matching reported in the Annual Performance Report (APR) for the program year 2009-10. Through our discussions with the Program Director, the monitoring policies and procedures have been drafted but they have not been implemented to document their monitoring reviews of its subrecipients' matching costs to ascertain whether or not (1) they were necessary and reasonable for proper and efficient accomplishment of the GEAR-UP program objectives; and, (2) if the cost were allowable under the applicable cost principles and conformed to the provisions of the OMB circular.

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For the grant year 2009-10 (September 09 – August 10), the total matching contributions derived from the subrecipients amounted to \$808,670 for grant number P334A050178. The District's total reported matching contributions for the grant amounted to \$3,180,712.

Twenty-First Century Community Learning Centers: The District's Beyond the Bell, which operates the before-and-after-School programs funded by 21st CCLC, contracted with 36 agencies. During our procedures performed over subrecipient monitoring, we noted the following:

1. According to the District's sub-recipients Single Audit report log, 16 agencies were subject to the A-133 audits and 9 of them did not submit their Single Audit Reports for the fiscal year 2009-10 until 9 months after their audit period. However, the OMB Circular A-133 requires audits be completed within 9 months of the end of audit period. Through our discussion, the personnel in-charge of collecting the audit reports represented that she had made several attempts during the year with the agencies to remind them to submit their reports; however, such attempts were not documented.
2. Furthermore, the District did not collect the Single Audit report from one agency called LA's Best. According to the Program Coordinator, LA's Best is not a subrecipient of the District. However, based on our review, LA's Best is a separate legal entity under 501 (c)(3) code of the Internal Revenue Service. Therefore, the District should have collected the Single Audit report from this agency.

Cause and Effect

GEAR-UP: The Local District was in the process of finalizing the subrecipient monitoring procedures over the matching.

Twenty-First Century Community Learning Centers: Proper policies and procedures for subrecipient monitoring do not appear to be in place to ensure that the District is in compliance with the applicable OMB requirements.

These findings are repeat findings, having been previously reported for June 30, 2005 to June 30, 2010 (F-05-30, F-06-28, F-06-29, F-07-29, F-08-21, F-09-17 and F-10-16).

Questioned Costs

GEAR-UP: Not applicable.

Twenty-First Century Community Learning Centers: Not applicable.

Recommendation

GEAR-UP: We recommend that the District finalize and implement the policies and procedure immediately to ensure that the subrecipient monitoring compliance requirement be met with the federal requirements.

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Twenty-First Century Community Learning Centers: We recommend that the District establish policies and procedure to ensure compliance with the federal requirements for subrecipient monitoring.

Views of Responsible Officials, Planned Corrective Actions, and Contact Information

GEAR-UP: We agree with the findings and recommendation. We have finalized and will implement the subrecipient policies and procedures immediately.

Name: Micaela Vazquez-Hahn

Title: Project Director

Telephone: 213-241-0128

Twenty-First Century Community Learning Centers: The District agrees with the finding and will develop procedures to document follow-up communications with subrecipients related to compliance with the contractual obligation for the agency to provide their audit within 90 days of the end of the agency's fiscal year. The District agrees and will modify our procedures to collect the required Audit.

Name: Harry Talbot

Title: Administrative Coordinator

Telephone: (213) 241-7900

Program Identification

Finding Reference Number:	F-11-17
Federal Catalog of Domestic Assistance Number(s):	84.010
Federal Program Titles:	Title I Grants to LEAs, U.S. Department of Education (ED)
Pass-Through Entity:	California Department of Education
Award Number	Grant Agreement 11-14329-6473
Compliance Requirement:	Special Tests and Provisions – Highly Qualified Teachers and Paraprofessionals
State Audit Guide Finding Code:	30000 and 50000

Criteria

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Title 34 – Education, Secondary Education, Department of Education, Part 200 – Title I – Improving the Academic Achievement of the Disadvantaged, Subpart A – Improving Basic Programs Operated by Local Educational Agencies, Section 200.58, Qualifications of paraprofessionals:

- New paraprofessionals. A paraprofessional covered under paragraph (a) of this section, who is hired after January 8, 2002, must have:
 - (1) Completed at least two years of study at an institution of higher education;
 - (2) Obtained an associate's or higher degree; or
 - (3) (i) Met a rigorous standard of quality, and can demonstrate through a formal State or local academic assessment knowledge of, and the ability to assist in instructing, as appropriate:
 - (a) Reading/language arts, writing, and mathematics or
 - (b) Reading readiness, writing readiness, and mathematics readiness.
 - (ii) A secondary school diploma or its recognized equivalent is necessary, but not sufficient, to meet the requirement in paragraph (c)(3)(i) of this section.

No Child Left Behind Act Section 1119, (i) Verification of Compliance:

- (1) In General – In verifying compliance with this section, each local educational agency, at a minimum, shall require that the principal of each school operating a program under section 1114 or 1115 attest annually in writing as to whether such school is in compliance with the requirements of this section.

MEM-5313: D – Principal Certification Form for the 2010-2011 School Year

Upon reviewing the teacher roster, if a “No” (not in compliance) or “Pending” appears after any teacher who is assigned to a core academic setting, then the school is not yet in compliance with NCLB with respect to teacher. Once the information for your school is verified, please complete the principal certification form and submit the original to Certificated Employment Operations by Friday, December 3, 2010.

Condition

In our procedures of verifying the schools' compliance of the Principal Attestation over the certifications and notices on teacher and paraprofessional qualifications, we obtained a log maintained by the Certificated Workforce Management & Qualification Division (Division), and noted that 190 out of 879 schools did not submit the annual Principal Certification Form (PCF) to the Division as required by MEM-5313.0.

Through our discussion with the Division's personnel, we also noticed that the Division was in the process of manually identifying teachers' highly qualified status school by school and maintained schedules to track completion of such review. Based on our review of the schedules, we noted that there were a total of 38 schools which submitted the PCF certifying that their schools were in compliance with NCLB (i.e. all teachers at the school are compliant with NCLB); however, the results of the Division's review disclosed that at least one teacher at those schools was not highly qualified.

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Paraprofessionals

In our procedures performed for the salaries charged to the Title I –Basic Grants, we noted that three (3) paraprofessionals totaling \$41,586 did not meet the NCLB highly qualified requirement but their salaries and benefits were charged to the program.

Cause and Effect

There appear to be isolated incidents where certain schools may have misunderstood the requirements and erroneously submitted the certification.

Questioned Costs

\$41,586

The finding related to the Principal Attestation is a programmatic non-compliance issue and it does not constitute any questioned costs.

Recommendation

We recommend that the District strengthen its monitoring process to ensure that schools are compliant with the principal attestation requirement and submit the accurate certifications timely.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the finding. The returning of the “Principal’s Certification Form” will be monitored, with principals being contacted when the document has not been forwarded.

The concept of an electronic “Principal Certification Form” will be explored as an option as the tool for the principals to utilize to provide verification.

1. “Principal Verification Forms” will be reviewed for accuracy.
2. Principals will be notified if changes are necessary and “Principal Certification Forms” will be adjusted.

Contact Information

Name: Derek Ramage

Title: Director, Certificated Workforce Management and Qualifications

Telephone: (213) 241-4663

Paraprofessionals: Since all but two paraeducators in the District have presented documentation showing that they meet NCLB requirements, the only time we anticipate that there may be an issue of a non-compliant employee being placed in a Title 1 school, would be in the event of that the employee is

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bumped during the RIF process. In order to ensure that that will not happen, the following steps will be taken:

- (1) Staff will review the Qualifications infotype (IT24) in SAP to ensure NCLB Compliance
- (2) If there is no record of NCLB compliance is in SAP, staff will contact the Talent Acquisition and Selection Branch to verify compliance
- (3) If the employee does NOT qualify, the selection branch staff will arrange for testing immediately
- (4) If the employee fails to qualify prior to the effective date of the RIF, the employee will be separated from the District

Contact Information

Name: Eva Segee

Title: Assistant Director, Personnel

Telephone: 213/241-7830

Program Identification

Finding Reference Number:	F-11-18
Federal Catalog of Domestic Assistance Number(s):	84.365
Federal Program Titles:	English Language Acquisition Program, U.S. Department of Education (ED)
Pass-Through Entity:	California Department of Education
Award Number:	Grant Agreement 11-14346-64733-00
Compliance Requirement:	Special Tests and Provisions – Parental Notification
State Audit Guide Finding Code:	30000 and 50000

Criteria

Elementary & Secondary Education Act, Subpart 5 – Administration, Part C – General Provisions, Section 3302, Parental Notification:

In General – Each eligible entity using funds provided under this title to provide a language instruction educational program shall, not later than 30 days after the beginning of the school year, inform a parent or the parents of a limited English proficient child identified for participation in, or participating in, such program of:

- (1) The reasons for the identification of their child as limited English proficient and in need of placement in a language instruction educational program;

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- (2) The child's level of English proficiency, how such level was assessed, and the status of the child's academic achievement;
- (3) The method of instruction used in the program in which their child is, or will be, participating, and the methods of instruction used in other available programs, including how such programs differ in content, instruction goals, and use of English and a native language in instruction;
- (4) How the program in which their child is, or will be participating will meet the educational strengths and needs of the child;
- (5) How such program will specifically help their child learn English, and meet age-appropriate academic achievement standards for grade promotion and graduation;
- (6) The specific exit requirements for such program, the expected rate of transition from such program into classrooms that are not tailored for limited English proficient children, and the expected rate of graduation from secondary school for such program if funds under this title are used for children in secondary schools;
- (7) In the case of a child with a disability, how such program meets the objectives of the individualized education program of the child; and
- (8) Information pertaining to parental rights that includes written guidance:
 - a) Detailing:
 - The right that parents have to have their child immediately removed from such program upon their request and
 - The options that parents have to decline to enroll their child in such program or to choose another program or method of instruction, if available and
 - Assisting parents in selecting among various programs and methods of instruction, if more than one program or method is offered by the eligible entity.
 - b) Separate Notification – In addition to providing the information required to be provided under subsection (a), each eligible entity that is using funds provided under this title to provide a language instruction educational program, and that has failed to make progress on the annual measurable achievement objectives described in Section 3122 for any fiscal year for which part A is in effect, shall separately inform a parent or the parents of a child identified for participation in such program, or participating in such program, of such failure not later than 30 days after such failure occurs.
 - c) Receipt of Information – The information required to be provided under subsections (a) and (b) to a parent shall be provided in an understandable and uniform format and, to the extent practicable, in a language that the parent can understand.
 - d) Special rule applicable during school year for a child who has not been identified for participation in a language instruction educational program prior to the beginning of the school year, the eligible entity shall carry out subsections (a) through (c) of this section with respect to the parents of the child within 2 weeks of the child being placed in such a program.

Condition

In our procedures performed over participating limited English proficiency (LEP) students, we requested copies of the required parental notifications for the students participating in the program during the 2010-

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2011 school years. We also requested copies of the school certification forms for notification sent to parents for failure of Annual Measurable Achievement Objectives (AMAO).

In our sample of 30 schools for certifications of AMAO, we noted the following:

- 9 schools did not issue the AMAO Certification Form before October 9, 2010.
- 2 schools could not locate the AMAO certification.

In our sample of 60 participating students for annual parent notifications, we noted the following:

- 10 annual parent notifications were unable to be located.
- 6 annual parent notifications were issued after 30 days of the beginning of the school year/or not within 2 weeks from the program enrollment.
- 2 annual parent notifications were issued without any dates.

In our sample of 38 participating students for initial parental notification, we noted the following:

- 10 initial parent notifications, schools were unable to locate.
- 9 initial parent notifications, schools issued the certification after 30 days of the beginning of the school year/or not within 2 weeks from the program enrollment.

Cause and Effect

In general, there does not appear to be effective controls in place to ascertain that sufficient documentation is maintained to support the District's compliance.

This is a repeat finding from June 30, 2006 – June 30, 2010 (F-06-36, F-07-33, F-08-22, F-09-20, and F-10-18).

Questioned Costs

Not applicable. This finding is considered a programmatic non-compliance issue as well as a deficiency in the internal control system to properly monitor the parental notification process.

Recommendation

We recommend the District continue to strengthen its policies and procedures to ensure that the schools comply with the requirement that all parental notifications are made in a timely manner and the supporting documentation is maintained on file to support the schools' compliance.

Views of responsible Officials and Planned Corrective Actions

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The District will continue to strengthen policies and procedures to ensure that schools comply with the requirement that all parental notifications are provided in a timely manner and the required supporting documentation is maintained on file to support the schools' compliance:

1. Use 2010-11 Single Audit findings along with the data provided by schools to the *English Learner Online Accountability System*, the Language Acquisition Branch, in conjunction with Local District English Learner staff, to provide support to schools not meeting the parental notification timelines.
2. Rewrite the District's *Master Plan for English Learners* and include explicit guidelines regarding the mandates and procedures pertaining to parental notification. This publication will be distributed to all schools and professional development will be provided to all school-site, local district, and central office staff (Refer to timeline referenced in Item 4).
3. Revise existing parental notification policies to include explicit guidelines regarding the mandates and procedures pertaining to parental notification. These policies will be posted on the District's *InsideLAUSD* website and will be accessible to all employees. Reference to these policies will be included in the *Master Plan for English Learners* professional development that will be provided to all schools (Refer to timeline referenced in Item 4).
4. Provide professional development that is designed to ensure that school-site Principals, EL Coordinators and Teachers receive comprehensive training on federal and state mandates, as well as the District's instructional programs for ELs.

Professional Development

Training Date

Title III Master Plan Institute

June 2012

Master Plan for English Learners (all schools)

May – June 2012

September – October 2012

5. Continue to work collaboratively with Local District staff to provide on-going professional development to school-site EL Coordinators that focuses on federal and state mandates. Each local district meets with school-site EL Coordinators on a monthly basis.

Contact Information

Name: Ana Estevez-Andressian

Title: Coordinator

Telephone: (213) 241-5582

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Section IV - Findings and Questioned Costs Relating to State Awards

S-11-01 Regular and Special Day Classes – Elementary Schools – Attendance Computations

State Audit Guide Finding Codes: 10000 and 40000

Schools Affected

- Hooper Elementary School
- Alta California Elementary School
- Bandini Elementary School
- Monlux Elementary School
- Saticoy Elementary School
- Lane Elementary School
- Norwood Elementary School
- Mount Washington Elementary School
- Raymond Avenue Elementary School
- Beckford Elementary School
- Harvard Elementary School
- Cabrillo Elementary School

Criteria

California Education Code, Section 46300(a) – In computing average daily attendance of a school district or county office of education, there shall be included the attendance of pupils while engaged in educational activities required of those pupils under the immediate supervision and control of an employee of the district or county office who possessed a valid certification document, registered as required by law.

Condition, Cause and Effect

In our sample of 25 elementary schools, we obtained the Student Monthly Attendance Summary Reports (SMASRs) for a sample of teachers for school month three (3). SMASRs are system-generated reports from the District's Integrated Student Information System (ISIS), a system utilized by the teachers to electronically input, submit and certify student attendance on a daily basis. This system, which replaced the manual daily attendance recording through Student Apportionment Attendance Record Cards, was fully implemented for all of the District's elementary schools during FY 2009-2010. We verified whether these SMASRs were reported accurately in the *Second Principal Report (P2)* and the *Annual Principal Report (P3)*. We obtained the monthly statistical reports where all the SMASRs are summarized, for our sampled schools and verified whether the SMASRs were completely and accurately summarized. We then traced these monthly statistical reports to Revised Annual Attendance Ledgers (i.e. ACES Dump Reports), which in turn were traced to the *Second Principal Report (P2)* and the *Annual Principal Report (P3)*.

To test the integrity of data reported in the sampled SMASRs, we selected a sample of absences from notes, phone logs and other absence records and compared them to the SMASRs to verify that they were not included in the calculation of Average Daily Attendance reported in the P2 and P3. In addition, since the SMASRs are generated through ISIS, we also tested the system's general internal controls which included, but were not limited to appropriate access controls.

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Out of the 27,823 days of attendance tested, 580 days of absences, we noted the following findings.

- **Hooper Elementary School** - Of 1,600 days of attendance and 29 absences sampled, we noted the following exceptions:
 - Fifteen (15) students were absent for one (1) day each for a total of 15 days, but the excused absences were not supported by absence notes or an absence log.
- **Alta California Elementary School** - Of 1,106 days of attendance and 23 absences sampled, we noted the following exceptions:
 - Five (5) students were absent for one (1) day each for a total of five (5) days, but the excused absences were not supported by absence notes or an absence log.
 - One (1) student was absent for one (1) day, as evidenced by an absence note but was marked as present in the school's monthly attendance summary.
- **Bandini Elementary School** - Of 1,064 days of attendance and 16 absences sampled, we noted the following exceptions:
 - Two (2) students were absent for one (1) day each for a total of two (2) days, but the excused absences were not supported by absence notes or an absence log.
- **Monlux Elementary School** - Of 1,148 days of attendance and 25 absences sampled, we noted the following exceptions:
 - Two (2) students were absent for one (1) day each for a total of two (2) days, but the excused absences were not supported by absence notes or an absence log.
- **Saticoy Elementary School** - Of 980 days of attendance and 22 absences sampled, we noted the following exceptions:
 - Six (6) students were absent for one (1) day each for a total of six (6) days, but the excused absences were not supported by absence notes or an absence log.
 - One (1) student was tardy for one (1) day but was marked as absent in the school's monthly attendance summary.
- **Lane Elementary School** - Of 1,064 days of attendance and 29 absences sampled, we noted the following exceptions:
 - Four (4) students were absent for one (1) day each for a total of four (4) days, but the excused absences were not supported by absence notes or an absence log.
- **Norwood Elementary School** - Of 1,064 days of attendance and 29 absences sampled, we noted the following exception:
 - One (1) student was absent for one (1) day, as evidenced by an absence note but was marked as present in the school's monthly attendance summary.
- **Mount Washington Elementary School** - Of 1,372 days of attendance and 21 absences sampled, we noted the following exceptions:
 - Four (4) students were absent for one (1) day each for a total of four (4) days, but the absences were not supported by absence notes or an absence log.

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- **Raymond Avenue Elementary School** - Of 1,372 days of attendance and 24 absences sampled, we noted the following exceptions:
 - Two (2) students were absent for one (1) day each for a total of two (2) days, but the excused absences were not supported by absence notes or an absence log.
- **Beckford Elementary School** - Of 938 days of attendance and 13 absences sampled, we noted the following exceptions:
 - Two (2) students were absent for one (1) day each for a total of two (2) days, but the excused absences were not supported by absence notes or an absence log.
- **Harvard Elementary School** - Of 882 days of attendance and 17 absences sampled, we noted the following exception:
 - Two (2) students were absent for a total of two (2) days, as evidenced by an absence note but was marked as present in the school's monthly attendance summary.
- **Cabrillo Elementary School** - Of 1,106 days of attendance and 15 absences sampled, we noted the following exception:
 - Two (2) students were absent for one (1) day each for a total of two (2) days, but the excused absences were not supported by absence notes or an absence log.
 - One (1) student was absent for one(1) day, as evidenced by an absence note but was marked as present in the school's monthly attendance summary.

These findings are repeat findings, having been reported previously at June 30, 2010 (S-10-1) but for different schools.

Questioned Costs

4 days / 121 days = 0.033 ADA overstated * \$5,264.22 = \$174

- **Alta California Elementary School** – 1 day overstated/121 days in single track school year
- **Saticoy Elementary School** – 1 day understated/121 days in single track school year
- **Norwood Elementary School** – 1 day overstated/121 days in single track school year
- **Harvard Elementary School** – 2 days overstated/121 days in single track school year
- **Cabrillo Elementary School** – 1 day overstated/121 days in single track school year

Recommendation

We recommend that the District continue to strengthen its controls over implementing District policies over student attendance reporting. Furthermore, we recommend that the District continue to provide adequate attendance reporting training to the schools so that proper attendance reporting procedures are adhered to.

Views of Responsible Officials and Planned Corrective Actions

These schools will conduct in-service training to their office staff and/or teachers, as well as add to their attendance procedures the periodic review of attendance/absence records to help increase accuracy and compliance with required documentation.

S-11-02 Regular and Special Day Classes – Secondary Schools – Attendance Computations

State Audit Guide Finding Codes: 10000 and 40000

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Schools Affected:

- Carver Middle School
- Orchard Academies #2B
- Bethune Middle School
- Olive Vista Middle School
- Hale Middle School
- Marshall High School
- Bell High School
- San Pedro High School
- Torres ELA Performing Arts High School
- San Fernando High School
- Bravo Medical Magnet High School

Criteria

California Education Code, Section 46300(a) – in computing average daily attendance of a school district or county office of education, there shall be included the attendance of pupils who were engaged in educational activities required of those pupils under the immediate supervision and control of an employee of the district or county office who possessed a valid certification document, registered as required by law.

Condition, Cause and Effect

In our sample of 13 secondary schools, we obtained the weekly attendance summaries for a sample of teachers for month three (3). The weekly attendance summaries are system-generated reports from the District's Integrated Student Information System (ISIS), a system utilized by the teachers to electronically input, submit and certify student attendance on a daily basis. We verified whether these weekly attendance summaries for the schools sampled were accurately reported in the *Second Principal Report (P2)* and the *Annual Principal Report (P3)*. We obtained the monthly statistical reports where all the weekly attendance summaries are summarized, for our sampled schools and verified whether the weekly attendance summaries were completely and accurately summarized. We then traced these monthly statistical reports to the Revised Annual Attendance Ledgers (i.e. ACES Dump Reports), which in turn were traced to the *Second Principal Report (P2)* and the *Annual Principal Report (P3)*.

To test the integrity of data reported in the sampled weekly attendance summaries, we selected a sample of absences from notes, phone logs and other absence records and compared these to the weekly attendance summaries to verify that these were not included in the calculation of Average Daily Attendance reported in the P2 and P3. In addition, since the weekly attendance summaries are generated through ISIS, we also tested the system's general internal controls which included, but were not limited to appropriate access controls.

We selected a sample of 25,037 days of attendance and 481 absences for testing and noted the following findings:

- **Carver Middle School** - Of 1,335 days of attendance and 17 absences sampled, we noted the following exceptions:
 - Two (2) students were absent for a total of two (2) days, but the excused absences were not supported by absence notes or an absence log.

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- **Orchard Academies #2B** - Of 1,200 days of attendance and 13 absences sampled, we noted the following exceptions:
 - Six (6) students were absent for one (1) day each for a total of six (6) days, but the excused absences were not supported by absence notes or an absence log.
- **Bethune Middle School** - Of 586 days of attendance and 25 absences sampled, we noted the following exceptions:
 - Two (2) students were absent for a total of two (2) days, as evidenced by absence notes but was marked as present for two (2) out of the four (4) periods of those days in the school's weekly attendance summary
- **Olive Vista Middle School** - Of 1,815 days of attendance and 44 absences sampled, we noted the following exceptions:
 - Two (2) students were absent for one (1) day each for a total of two (2) days, but the excused absences were not supported by absence notes or an absence log.
- **Hale Middle School** - Of 2,870 days of attendance and 50 absences sampled, we noted the following exceptions:
 - One (1) student was absent for one (1) day, but the excused absence was not supported by an absence note or an absence log.
- **Marshall High School** - Of 2,280 days of attendance and 29 absences sampled, we noted the following exceptions:
 - Five (5) students were absent for one (1) day each for a total of five (5) days, but the excused absences were not supported by absence notes or an absence log.
 - One (1) student was absent for a day, as evidenced by an absence note but was marked as present in four (4) out of the five (5) periods for that day in the school's weekly attendance summary.
- **Bell High School** - Of 2,810 days of attendance and 40 absences sampled, we noted the following exceptions:
 - One (1) student was absent for one (1) day, but the excused absence was not supported by an absence note or an absence log.
 - One (1) student was absent for three (3) periods in one (1) day, as evidenced by an absence note but was marked as present in the same periods for that day in the school's weekly attendance summary.
- **San Pedro High School** - Of 3,405 days of attendance and 42 absences sampled, we noted the following exceptions:
 - 22 students were absent for one (1) to two (2) days each for a total of 24 days, but the excused absences were not supported by an absence note or an absence log.
- **Torres ELA Performing Arts High School** - Of 780 days of attendance and 25 absences sampled, we noted the following exceptions:
 - Three (3) students were absent for one (1) day each for a total of three (3) days, but the excused absences were not supported by absence notes or an absence log.

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- **San Fernando High School** - Of 2,885 days of attendance and 89 absences sampled, we noted the following exceptions:
 - Seven (7) students were absent for one (1) day each and one (1) student for two (2) days for a total of nine (9) days, but the excused absences were not supported by absence notes or an absence log.
- **Bravo Medical Magnet High School** - Of 2,310 days of attendance and 36 absences sampled, we noted the following exceptions:
 - Six (6) students were absent for one (1) day each for a total of six (6) days, but the excused absences were not supported by absence notes or an absence log.
 - One (1) student was absent for periods 2-6 for one (1) day, as evidenced by an absence note but was recorded as present for those periods. Upon further review, we noted that the student's teacher for periods 5 and 6 did not submit attendance for those periods and all the students in those classes were reported as present.
 - One (1) student was absent for periods 2-6, as evidenced by an absence note but was recorded as present for periods 3, 5 and 6. This student was under the same teachers above who did not submit attendance for periods 5 and 6.

These findings are repeat findings, having been reported previously at June 30, 2010 (S-10-02) but for different schools.

Questioned Costs

2 days / 121 days = 0.017 ADA overstated * \$5264.22 = \$89

1 day / 132 days = 0.008 ADA overstated * \$5264.22 = \$42

- **Bethune Middle School** – 2 days overstated/121 days in single track school year
- **Marshall High School** – 1 day overstated/ 132 days in multi-track school year

Recommendation

We recommend that the District continue to strengthen its controls over implementing District policies over student attendance reporting. Furthermore, we recommend that the District continue to provide adequate attendance reporting training to the schools so that proper attendance reporting procedures are adhered to.

Views of Responsible Officials and Planned Corrective Actions

These schools will conduct in-service training to their office staff and/or teachers, as well as add to their attendance procedures the periodic review of attendance/absence records to help increase accuracy and compliance with required documentation.

S-11-03 Attendance Accounting – Continuation Education – Attendance Computations

State Audit Guide Finding Codes: 10000 and 40000

School Affected

- Metropolitan High School

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Criteria

Title 5, California Code of Regulations, Section 401(d) – in all classes for adults, continuation schools, and classes, and regional occupational centers and programs, attendance shall be reported to the supervising administrator at least once each school month.

California Education Code, Section 46300(a) – in computing average daily attendance of a school district or county office of education, there shall be included the attendance of pupils while engaged in educational activities required of those pupils and under the immediate supervision and control of an employee of the district or county office who possessed a valid certification document, registered as required by law.

California Education Code, Section 46170 – In continuation high schools and continuation education classes, a day of attendance is 180 minutes of attendance but no pupil shall be credited with more than 15 hours of attendance per school per week, proportionately reduced for those school weeks having weekday holidays on which classes are not held.

Condition, Cause and Effect

In our sample of two (2) continuation schools, we traced the total on *Worksheet for Completing the Statistical Report* and compared the totals to the monthly school's *Statistical Report* totals, which in turn were traced to the *Second Principal Report* (P2) and the *Annual Principal Report* (P3) for the third school month. We also employed the same sample of two continuation schools and traced the days reported on the *Monthly School Statistical Report* and compared the totals to the Student Apportionment Attendance Cards and the supporting attendance records maintained by the selected teachers.

We noted the following findings:

- **Metropolitan High School** – Of the 1,516 hours (300 days) of attendance, 30 days of absences sampled and tested, we noted the following findings:
 - Attendance for one (1) student was understated by six (6) hours and attendance for another student was overstated by one (1) hour.

This finding is a repeat finding, having been reported previously at June 30, 2010 (S-10-03) but for different schools.

Questioned Costs

1.67 days understated/121 days in single track school year= 0.014 ADA * \$5264.22 = (\$74)

Recommendation

We recommend that the District strengthen its review process over the compilation of the *Monthly Statistical Reports* to ensure that the reports accurately reflect student attendance data.

Views of Responsible Officials and Planned Corrective Actions

To help ensure accuracy of calculation, the school has assigned 2 staff members to the task of compiling attendance hours for the monthly statistical (attendance) report—one to compile the data, one to review the compiled data for accuracy. School has also changed its procedure to compile attendance data on a weekly basis to better manage data.

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S-11-04 Attendance Accounting – Dependent Charter School – Attendance Computations

State Audit Guide Finding Codes: 10000 and 40000

School Affected

- Kenter Canyon Elementary School

Criteria

California Education Code, Section 46300(a) – in computing average daily attendance of a school district or county office of education, there shall be included the attendance of pupils while engaged in educational activities required of those pupils and under the immediate supervision and control of an employee of the district or county office who possessed a valid certification document, registered as required by law.

Condition, Cause and Effect

In our sample of two (2) elementary schools, we obtained the Student Monthly Attendance Summary Reports (SMASRs) for a sample of teachers for school month three (3). SMASRs are system-generated reports from the District's Integrated Student Information System (ISIS), a system utilized by the teachers to electronically input, submit and certify student attendance on a daily basis. This system, which replaced the manual daily attendance recording through Student Apportionment Attendance Record Cards, was fully implemented for all of the District's elementary schools during FY 2009-2010. We verified whether these SMASRs were reported accurately in the *Second Principal Report (P2)* and the *Annual Principal Report (P3)*. We obtained the monthly statistical reports where all the SMASRs are summarized, for our sampled schools and verified whether the SMASRs were completely and accurately summarized. We then traced these monthly statistical reports to Revised Annual Attendance Ledgers (i.e. ACES Dump Reports), which in turn were traced to the *Second Principal Report (P2)* and the *Annual Principal Report (P3)*.

To test the integrity of data reported in the sampled SMASRs, we selected a sample of absences from notes, phone logs and other absence records and compared these to the SMASRs to verify that these were not included in the calculation of Average Daily Attendance reported in the P2 and P3. In addition, since the SMASRs are generated through ISIS, we also tested the system's general internal controls which included, but were not limited to appropriate access controls.

Out of the 2,184 days of attendance and 37 days absences tested, we noted the following finding:

- **Kenter Canyon Elementary School** – Of 1,120 days of attendance and 19 absences sampled, we noted the following exceptions:
 - Five (5) students were absent for one (1) day each for a total of five (5) days, but the absences were not supported by absence notes or an absence log.
 - One (1) student was marked as absent for one (1) day in the school's monthly attendance summary but upon verification, the student was only tardy, as evidenced by a tardy note. The student should have been recorded as present.

This is a repeat finding having been reported at June 30, 2010 (S-10-05) but for different schools.

Questioned Costs

1 day understated/ 121 days in single track school year = 0.008 ADA understated * \$5,264.22 = (\$42)

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Recommendation

We recommend that the District strengthen its review process over dependent charter schools to ensure accuracy of supporting documentation in order for proper reporting of attendance.

Views of Responsible Officials and Planned Corrective Actions

At the beginning of the school year, the school provided staff with a review of the attendance procedures, and teachers were encouraged to review their work more frequently. With regards to absence verifications, school also implemented a new procedure which has resulted in increased written absence verifications.

S-10-05 – After School Education and Safety Program

State Audit Guide Finding Codes: 40000

School Affected

- Analee Elementary School
- Wilmington Elementary School
- Patrick Henry Middle School
- Herrick Elementary School
- Griffith Middle School
- Heliotrope Elementary School
- Apperson Elementary School
- Holmes Middle School
- 116th Elementary School
- 20th Elementary School
- Grape Elementary School
- Griffin Elementary School
- Bridge Elementary School
- Millikan Middle School
- San Fernando Middle School
- Commonwealth Elementary School
- Gulf Elementary School
- Edison Middle School
- Lilian Elementary School
- 66th Street Elementary School
- Angeles Mesa Elementary School
- Cimarron Elementary School
- Colfax Elementary School
- Ford Boulevard Elementary School
- 28th Elementary School
- Dyer Elementary School
- Richland Elementary School
- Eshelman Elementary School
- Audubon Middle School
- Dodson Middle School
- Drew Middle School
- Carver Middle School
- Gage Middle School
- Chavez Elementary School
- Lizarraga Elementary School
- Alta Loma Elementary School
- Grant Elementary School
- Burton Elementary School
- Fair Avenue Elementary School
- Gridley Elementary School
- State Street Elementary School
- Sylmar Elementary School
- Sylvan Elementary School
- West Vernon Elementary School
- Leo Politi Elementary School
- Barton Hill Elementary School

Criteria

California Education Code 8483(a) – (1)Every after school component of a program established pursuant to this article shall commence immediately upon the conclusion of the regular school day, and operate a

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minimum of 15 hours per week at least until 6:00 on every regular school day. Every after school component of the program shall establish a policy regarding reasonable early daily release of pupils from the program. For those programs or school sites operating in a community where early release policy does not meet the unique requirements of that community or school, or both, documented evidence may be submitted to the department for an exception and a request for approval of an alternative plan.

(2) It is the intent of the Legislature that elementary school pupils participate in the full day of the program every day during which pupils participate and that pupils in middle school or junior high school attend a minimum of nine hours a week and three days a week to accomplish program goals.

California Education Code 8483.1 (a) – (1) Every before school program component established pursuant to this article shall in no instance operate for less than one and one-half hours per regular school day. Every program shall establish a policy regarding reasonable late daily arrival of pupils to the program.

(2) (A) It is the intent of the Legislature that elementary school pupils participate in the full day of the program every day during which pupils participate and that pupils in the middle or junior high school attend a minimum of six hours a week or three days a week to accomplish program goals, except when arriving late in accordance with the late arrival policy or as reasonably necessary.

(2) (B) A pupil who attends less than one-half of the daily program hours shall not be accounted for the purposes of the attendance.

California Education Code 8482 – The purpose of this program is to create incentives for establishing locally driven before and after school enrichment programs both during schooldays and summer, intersession, or vacation days that partner public schools and communities to provide academic and literacy support and safe, constructive alternatives for youth. The term public school includes charter schools.

Condition, Cause and Effect

On a sample basis, we tested attendance documentation of 54 schools and 3,240 students who participated in the After School Education and Safety Program. We examined the attendance records for the selected students and verified that the attendance reporting was complete and accurate. We also verified whether the selected students complied with the attendance requirements established by the District, as required by the California Education Code. We noted the following exceptions:

After School Component of the Program

On a sample basis, we tested the attendance documentation of 44 schools and 2,890 students who participated in the after school component of the After School Education and Safety Program.

There were a total of 168 students in 13 different schools who did not have complete sign-in and sign-out time on the sign-in/sign-out sheets. Some students didn't have either the sign-in time or sign-out time. Some students didn't have both. Due to the missing sign-in or sign-out time, we were unable to determine whether the elementary school students participated in the full day of after school program on every day during which students participated except as consistent with the established early release policy and whether students in middle or junior high schools attended the after school program a minimum of nine hours a week and three days a week, except as consistent with the established early release policy. There were also some students who did not have proper sign-in/ sign-out, as a result,

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we were unable to determine how long each student participated in the program. The following are the details of the exceptions:

- **Analee Elementary School** - 33 students signed in, but did not properly sign out for a total of 33 days.
- **Wilmington Elementary School** – 66 students signed in, but did not properly sign out for a total of 66 days.
- **Patrick Henry Middle School** – 19 students signed in, but did not properly sign out for a total of 19 days.
- **Herrick Elementary School** – one (1) student signed in, but did not properly sign out for a total of one (1) day.
- **Griffith Middle School** - one (1) student signed in, but did not properly sign out for a total of one (1) day.
- **Heliotrope Elementary School** - 12 students signed in, but did not properly sign out for a total of 12 days.
- **Apperson Elementary School**- 12 students signed in, but did not properly sign out for a total of 12 days.
- **Holmes Middle School** – three (3) students signed in, but did not properly sign out for a total of 9 days.
- **116th Elementary School** - one (1) student signed in, but did not properly sign out for a total of one (1) day.
- **20th Elementary School** – 12 students signed in, but did not properly sign out for a total of 60 days.
- **Grape Elementary School**- five (5) students signed in, but did not properly sign out for a total of eight (8) days.
- **Griffin Elementary School** – one (1) student signed in, but did not properly sign out for a total of one (1) day.
- **Bridge Elementary School** - two (2) students signed in, but did not properly sign out for a total of two (2) days.

There were 227 students in 24 schools that did not comply with the established early release policy. As a result, the following elementary schools had students that did not participate in the full day of the after school program on every day during which pupils participated, and the following middle schools had students that participated less than nine hours a week and three days a week:

- **Millikan Middle School** - eight (8) students did not participate for nine hours and three days of the after school program for the week we tested that they participated and there were no early release forms to explain why such requirement was not complied with.
- **San Fernando Middle School** - 20 students did not participate for nine hours and three days of the after school program for the week we tested that they participated and there were no early release forms to explain why such requirement was not complied with.

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- **Heliotrope Elementary School** – six (6) students did not participate in the full period of the after school program for a total of 35 days that they participated and there were no early release forms to explain why such requirement was not complied with.
- **Analee Elementary School** – eight (8) students did not participate in the full period of the after school program for a total of 29 days that they participated and there were no early release forms to explain why such requirement was not complied with.
- **Wilmington Elementary School** - 14 students did not participate in the full period of the after school program for a total of 56 days that they participated and there were no early release forms to explain why such requirement was not complied with.
- **Commonwealth Elementary School** - 13 students did not participate in the full period of the after school program for a total of 65 days that they participated and there were no early release forms to explain why such requirement was not complied with.
- **Patrick Henry Middle School** – nine (9) students did not participate for nine hours and three days of the after school program for the week we tested that they participated and there were no early release forms to explain why such requirement was not complied with.
- **Herrick Elementary School** – nine (9) students did not participate in the full period of the after school program for a total of 11 days that they participated and there were no early release forms to explain why such requirement was not complied with.
- **Gulf Elementary School** – nine (9) students did not participate in the full period of the after school program for a total of 11 days that they participated and there were no early release forms to explain why such requirement was not complied with.
- **Edison Middle School** – two (2) students did not participate for nine hours and three days of the after school program for the week we tested that they participated and there were no early release forms to explain why such requirement was not complied with.
- **Heliotrope Elementary School** – 18 students did not participate in the full period of the after school program for a total of 74 days that they participated and there were no early release forms to explain why such requirement was not complied with.
- **Lilian Elementary School** – 15 students did not participate in the full period of the after school program for a total of 69 days that they participated and there were no early release forms to explain why such requirement was not complied with.
- **66th Street Elementary School** – eight (8) students did not participate in the full period of the after school program for a total of 37 days that they participated and there were no early release forms to explain why such requirement was not complied with.
- **Angeles Mesa Elementary School** – six (6) students did not participate in the full period of the after school program for a total of 30 days that they participated and there were no early release forms to explain why such requirement was not complied with.
- **Cimarron Elementary School** – nine (9) students did not participate in the full period of the after school program for a total of 31 days that they participated and there were no early release forms to explain why such requirement was not complied with.

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- **Apperson Elementary School** – six (6) students did not participate in the full period of the after school program for a total of 26 days that they participated and there were no early release forms to explain why such requirement was not complied with.
- **Colfax Elementary School** – seven (7) students did not participate in the full period of the after school program for a total of 19 days that they participated and there were no early release forms to explain why such requirement was not complied with.
- **Ford Boulevard Elementary School** – nine (9) students did not participate in the full period of the after school program for a total of 36 days that they participated and there were no early release forms to explain why such requirement was not complied with.
- **Holmes Middle School** – seven (7) students did not participate for nine hours and three days of the after school program for the week we tested that they participated and there were no early release forms to explain why such requirement was not complied with .
- **116th Elementary School** – Two (2) students did not participate in the full period of the after school program for a total of six (6) days that they participated and there was no early release form to explain why such requirement was not complied with.
- **28th Elementary School** – One (1) student did not participate in the full period of the after school program for a total of one (1) day that he participated and there was no early release form to explain why such requirement was not complied with.
- **Dyer Elementary School** – four (4) students did not participate in the full period of the after school program for a total of four (4) days that they participated and there were no early release forms to explain why such requirement was not complied with.
- **Richland Elementary School** – 20 students did not participate in the full period of the after school program for 83 days that they participated and there were no early release forms to explain why such requirement was not complied with .
- **Eshelman Elementary School** – 19 students did not participate in the full period of the after school program for a total of 85 days that they participated and there were no early release forms to explain why such requirement was not complied with.

We also obtained the Quarterly Attendance Reports (QAR) for the same schools we sampled and compared the total attendance reported to the attendance records (e.g. sign in/sign out sheets) for the schools for a sample week during the school year 2010-2011. We also tested the completeness and accuracy of the reports by selecting a sample of the students and tracing the same students to attendance records and vice versa. QARs are reports used by the District to report attendance to the California Department of Education (CDE). We noted the following exceptions:

- **Millikan Middle School** – QAR was overstated by 24 days, compared to the sign-in sheets. Upon examining the QAR, we also noted that two (2) students were entered three times in the QAR for the entire week tested, overstating it by 20 days. In addition, three (3) students marked present for a total of seven (7) days in the QAR were not found in the sign in sheets. We also noted three (3) students marked present for three (3) days in the sign-in sheets were not found on the QAR.
- **San Fernando Middle School** - QAR was understated by eight (8) days, compared to the sign-in sheets. Upon examining the QAR, we also noted that two (2) students were entered

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two times in the QAR for the entire week tested, overstating it by 10 days. In addition, two (2) students marked present for a total of seven (6) days in the QAR were not found in the sign in sheets. We also noted three (3) students marked present for a total of 10 days in the sign-in sheets were not found on the QAR.

- **Heliotrope Elementary School** – QAR was understated by three (3) days, compared to the sign-in sheets. We also noted two (2) students marked present for a total of two (2) days in the sign-in sheets were not found on the QAR.
- **Audubon Middle School** - – QAR was understated by 366 days, compared to the sign-in sheets. In addition, 14 students marked present for a total of 14 days in the QAR were not found in the sign in sheets. We also noted 22 students marked present for a total of 22 days in the sign-in sheets were not found on the QAR.
- **Analee Elementary School** – QAR was overstated by 36 days, compared to the sign-in sheets. In addition, 14 students marked present for a total of 14 days in the QAR were not found in the sign in sheets. We also noted 5 students marked present for a total of 5 days in the sign-in sheets were not found on the QAR.
- **Wilmington Elementary School** – QAR was overstated by 67 days, compared to the sign-in sheets. In addition, 19 students marked present for a total of 19 days in the QAR were not found in the sign in sheets. We also noted 28 students marked present for a total of 28 days in the sign-in sheets were not found on the QAR.
- **Commonwealth Elementary School** – We noted 11 students marked present for a total of 11 days in the sign-in sheets were not found on the QAR.
- **Patrick Henry Middle School** – QAR was understated by 292 days, compared to the sign-in sheets. Upon examining the QAR, we also noted that four (4) students were entered twice in the QAR for one (1) day each, overstating it by 4 days. We also noted 55 students marked present for a total of 55 days in the sign-in sheets were not found on the QAR.
- **Griffith Middle School** – QAR was overstated by 13 days, compared to the sign-in sheets. We also noted 2 students marked present for a total of 2 days in the sign-in sheets were not found on the QAR.
- **Edison Middle School** – QAR was understated by 69 days, compared to the sign-in sheets. We also noted seven (7) students marked present for a total of seven (7) days in the sign-in sheets were not found on the QAR.
- **Dodson Middle School** – QAR was understated by 3 days, compared to the sign-in sheets. In addition, three (3) students marked present for a total of three (3) days in the QAR were not found in the sign in sheets. We also noted two (2) students marked present for a total of two (2) days in the sign-in sheets were not found on the QAR.
- **Drew Middle School** - QAR was understated by 11 days, compared to the sign-in sheets. We also noted three (3) students marked present for a total of three (3) days in the sign-in sheets were not found on the QAR.
- **Carver Middle School** - QAR was understated by five (5) days, compared to the sign-in sheets. Upon examining the QAR, we also noted that one (1) student was entered two times in the QAR for the entire week tested, overstating it by one (1) day.

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- **Gage Middle School** - QAR was overstated by two (2) days, compared to the sign-in sheets. Upon examining the QAR, we also noted that one (1) student was entered two times in the QAR for one (1) day but the same student did not have supporting sign-in sheet, overstating QAR by two (2) days.
- **Heliotrope Elementary School** – QAR was overstated by 27 days, compared to the sign-in sheets. We noted that one (1) student marked present for one (1) day in the QAR was not found in the sign in sheets.
- **Lilian Elementary School** – QAR was overstated by two (2) days, compared to the sign-in sheets. We noted that one (1) student marked present for one (1) day in the QAR was not found in the sign in sheets.
- **66th Street Elementary School** – QAR was overstated by two (2) days, compared to the sign-in sheets.
- **Angeles Mesa Elementary School** - QAR was understated by three (3) days, compared to the sign-in sheets. We also noted three (3) students marked present for a total of three (3) days in the sign-in sheets were not found on the QAR.
- **Cimarron Elementary School** - QAR was understated by three (3) days, compared to the sign-in sheets. We also noted two (2) students marked present for a total of two (2) days in the sign-in sheets were not found on the QAR.
- **Colfax Elementary School** - QAR was understated by 15 days, compared to the sign-in sheets.
- **20th Elementary School** – QAR was overstated by two (2) days, compared to the sign-in sheets. We noted that three (3) students marked present for three (3) days in the QAR were not found in the sign in sheets.
- **28th Elementary School** – We noted that one (1) student marked present for one (1) day in the QAR was not found in the sign in sheets. We also noted five (5) students marked present for a total of five (5) days in the sign-in sheets were not found on the QAR.
- **Chavez Elementary School** – We noted two (2) students marked present for a total of two (2) days in the sign-in sheets were not found on the QAR.
- **Grape Elementary School** – We noted that one (1) student marked present for one (1) day in the QAR was not found in the sign in sheets.
- **Lizarraga Elementary School** – QAR was understated by two (2) days, compared to the sign-in sheets. We also noted three (3) students marked present for a total of three (3) days in the sign-in sheets were not found on the QAR.
- **Alta Loma Elementary School** – QAR was understated by three (3) days, compared to the sign-in sheets. We also noted three (3) students marked present for a total of three (3) days in the sign-in sheets were not found on the QAR.
- **Bridge Elementary School** – We noted that one (1) student marked present for one (1) day in the QAR was not found in the sign in sheets. We also noted one (1) student marked present for a total of one (1) day in the sign-in sheets was not found on the QAR.

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- **Dyer Elementary School** – We noted one (1) student marked present for a total of one (1) day in the sign-in sheets was not found on the QAR.
- **Grant Elementary School** – QAR was understated by one (1) day, compared to the sign-in sheets. We noted that one (1) student marked present for one (1) day in the QAR was not found in the sign in sheets. We also noted two (2) students marked present for a total of two (2) days in the sign-in sheets were not found on the QAR.
- **Richland Elementary School** – We noted two (2) students marked present for a total of 10 days in the sign-in sheets were not found on the QAR.

Before School Component of the Program

Condition, Cause and Effect

On a sample basis, we tested the attendance documentation of 10 schools and 350 students who participated in the before school component of the After School Education and Safety Program.

There were 14 students in eight (8) schools that did not comply with the established late arrival policy.

- **Burton Elementary School** - One (1) student did not participate in at least one-half of the before school program for one (1) day that he participated and there was no late arrival form to explain why such requirement was not complied with. The student was counted as present in the attendance summary.
- **Fair Avenue Elementary School** - One (1) student did not participate in at least one-half of the before school program for one (1) day that he participated and there was no late arrival form to explain why such requirement was not complied with. The student was counted as present in the attendance summary.
- **Grape Elementary School** - One (1) student did not participate in at least one-half of the before school program for one (1) day that he participated and there was no late arrival form to explain why such requirement was not complied with. The student was counted as present in the attendance summary.
- **Gridley Elementary School** – Four (4) students did not participate in at least one-half of the before school program for a total of four (4) days that they participated and there were no late arrival forms to explain why such requirement was not complied with. The students were counted as present in the attendance summary.
- **Leo Politi Elementary School** - One (1) student did not participate in at least one-half of the before school program for one day that he participated and there was no late arrival form to explain why such requirement was not complied with. The student was counted as present in the attendance summary.
- **State Street Elementary School** - One (1) student did not participate in at least one-half of the before school program for one day that he participated and there was no late arrival form to explain why such requirement was not complied with. The student was counted as present in the attendance summary.
- **Sylmar Elementary School** – Two (2) students did not participate in at least one-half of the before school program for a total of two (2) days that they participated and there were no late

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arrival forms to explain why such requirement was not complied with. The students were counted as present in the attendance summary.

- **Sylvan Elementary School** – Three (3) students did not participate in at least one-half of the before school program for one day that they participated and there were no late arrival forms to explain why such requirement was not complied with. The students were counted as present in the attendance summary.

We also obtained the Quarterly Attendance Reports (QAR) for the same schools we sampled and compared the total attendance reported to the attendance records (e.g. sign in/sign out sheets) for the schools for a sample week during the school year 2010-2011. We also tested the completeness and accuracy of the reports by selecting a sample of the students and tracing the same students to attendance records and vice versa. QARs are reports used by the District to report attendance to the California Department of Education (CDE). They serve as a summary of the sign in/sign out sheets. We noted the following exceptions:

- **Barton Hill Elementary School** - One (1) student marked present for one (1) day in the QAR was not found in the sign in sheets. One (1) student marked present for one (1) day in the sign-in sheets was not found on the QAR.
- **Burton Elementary School** – QAR was understated by 89 days, compared to the sign in sheets. In addition, two (2) students marked present for a total of two (2) days in the QAR were not found in the sign in sheets. 17 students marked present for a total of 17 days in the sign-in sheets were not found on the QAR.
- **Fair Avenue Elementary School** – QAR was understated by 89 days, compared to the sign in sheets. In addition, 11 students marked present for a total of 11 days in the sign-in sheets were not found on the QAR.
- **Gridley Elementary School** – QAR was overstated by one (1) day, compared to the sign in sheets. In addition, one (1) student marked present for a total of one (1) day in the QAR was not found in the sign in sheets. One (1) student marked present for a total of one (1) day in the sign-in sheets was not found on the QAR.
- **Leo Politi Elementary School** – QAR was overstated by three (3) days, compared to the sign in sheets. In addition, one (1) student marked present for a total of one (1) day in the QAR was not found in the sign in sheets. One (1) student marked present for a total of one (1) day in the sign-in sheets was not found on the QAR.
- **State Street Elementary School** – QAR was overstated by five (5) days, compared to the sign in sheets.
- **Sylmar Elementary School** – QAR was overstated by one (1) day, compared to the sign in sheets. In addition, four (4) students marked present for a total of four (4) days in the QAR was not found in the sign in sheets. Two (2) students marked present for a total of one (1) day in the sign-in sheets was not found on the QAR.
- **Sylvan Elementary School** – QAR was understated by five (5) days, compared to the sign in sheets. In addition, two (2) students marked present for a total of one (1) day in the QAR was not found in the sign in sheets. Two (2) students marked present for a total of two (2) days in the sign-in sheets was not found on the QAR.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

June 30, 2011

- **West Vernon Elementary School** – QAR was understated by two (2) days, compared to the sign in sheets. In addition, one (1) student marked present for a total of one (1) day in the QAR was not found in the sign in sheets. One (1) student marked present for a total of one (1) day in the sign-in sheets was not found on the QAR.

These findings are repeat findings, having been reported previously at June 30, 2010 (S-10-05) but for different schools.

Questioned Costs

As a result of the above testing, the total under reporting of attendance was 925 days. The California Department of Education will determine the impact of the above exceptions on the After School Education and Safety Program funding if there is any.

Recommendation

We recommend that the District strengthen its procedures on attendance documentation for the After School Education and Safety program. The District should ensure that the agencies performing the services for these programs are aware of the district policies, specifically on maintaining accurate attendance records. We also recommend for the District to continue performing agency visits to make sure that the established policies are complied with.

Views of Responsible Officials and Planned Corrective Actions

The District has always reviewed attendance data to ensure that what is reported to the State is accurate. In a program with 84,473 units of service rendered daily by over 30 agencies at over 700 sites, (an annual total of 15,205,140 units of service) error is anticipated. (The total underreporting noted in the audit represents .006% of this total.)

To improve the attendance reporting/monitoring process, Beyond The Bell (BTB) has undertaken the following specific policy/procedures improvements.

1. On July 18, 2011, BTB entered into a 5 year contract with Cityspan Technologies Incorporated, a nationally recognized service firm which specialized in administering online attendance monitoring programs, to administer an online attendance reporting system or attendance monitoring and reporting. The goal was both to adopt a standard attendance monitoring system, to unify reporting procedures across all of the Districts' sites, and to eliminate the errors, delays, and inefficiencies in the various systems previously employed. This procurement was a direct result of the audit findings.
2. BTB created a new set of procedures by which attendance at BTB agency programs would be recorded and monitored.
3. To ensure proper attendance documentation and reporting Cityspan transmits, at the beginning of each year, a detailed description of attendance policies, step-by-step attendance procedures, and uploading instructions will be provided to each agency. Additionally, Cityspan offered online assistance to agencies having trouble adopting the new attendance monitoring and reporting system.
4. At the beginning of each year, BTB staff conducts a meeting with agency technical staff to provide instruction so that agency after school site staff is trained to follow the necessary

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

June 30, 2011

- policies and procedures, particularly regarding sign in procedures and early dismissal paperwork, on an ongoing basis. The attendance procedures also provide a detailed description of how attendance will be verified and who will do the verification. This is an ongoing action.
5. BTB has increased the number of staff conducting on site audits, and the frequency of audits at after school program agency sites and at school sites has increased. If any discrepancy is found, BTB staff will instruct agency staff as to proper procedures. The schedule of site visits (CMP audits) is available for review in the BTB office.
 6. The results of the annual site visit audits are included in the annual review for each agency, and if material discrepancies are observed then letters of corrective action are issued by BTB to which the agency must respond. Agencies delinquent in responding to corrective action are subject to payment withholding until discrepancies are corrected.

While BTB is in the first year of using the new attendance monitoring and reporting system our experience has been positive. The new system should free staff time to monitor program compliance, and will further create efficiencies in mandated reporting which should allow more time for staff to conduct training and program staff development. The increased auditing has increased compliance with sign in procedures. Again, given the positive response to date, a positive result (being greater fidelity to procedures) after the first year of the new policy and procedures is anticipated.

S-11-06 After School and Safety Program

State Audit Guide Finding Codes: 40000

Criteria

California Education Code 8482 – The purpose of this program is to create incentives for establishing locally driven before and after school enrichment programs both during schooldays and summer, intersession, or vacation days that partner public schools and communities to provide academic and literacy support and safe, constructive alternatives for youth. The applicants for grants pursuant to this article agree to provide school day attendance rates and Program attendance to the Department of Education.

Condition

We performed procedures to verify that the number of students served and reported to CDE by the District for the ASES Program is supported by written records that document pupil participation. We compared the numbers reported to CDE and the numbers supported by the District's Quarterly Attendance Reports (QARs), the documents that summarize the number of students served in the District's ASES Program. We also tested, on a sample basis, the attendance reporting made in these QARs. We noted over/under-reporting of attendance for the schools on page 322.

These findings are repeat findings, having been reported previously at June 30, 2010 (S-10-06) but for different schools.

Questioned Costs

The California Department of Education will determine the impact of the above exceptions on the After School Education and Safety Program funding if there is any.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

June 30, 2011

Recommendation

We recommend that the District strengthen its procedures on attendance documentation for the After School Education and Safety program. The District should ensure that the agencies performing the services for these programs are aware of the district policies, specifically on maintaining accurate attendance records. We also recommend for the District to perform agency visits to make sure that the established policies are complied with.

Views of Responsible Officials and Planned Corrective Actions

LAUSD - Beyond The Bell Branch has implemented the following procedures to ensure that we are providing training on attendance policies and procedures as well as how we are monitoring how the procedures are being implemented at the sites to ensure documentation of reported attendance figures is readily available and accurate for auditing purposes.

1. Agency contractors and program personnel are required to attend a **“Start-Up Meeting”** scheduled prior to the beginning of the school year. Extensive training on attendance documentation is offered during this meeting.
2. During the “Start-Up Meeting,” extensive time is spent on training staff on the importance of properly documenting and maintaining accurate attendance.
3. Beyond the Bell Branch Administrators and Traveling Supervisors attend the training meeting and interject their role in monitoring attendance procedures as they travel to sites. Beyond the Bell staff routinely monitor attendance to ensure procedures are being used and documentation is maintained as required.
4. Contractors and agency program personnel are required to attend an annual **“Policies and Procedures/Risk Management”** training. **As a result of the audit finding** and reflection on best practices, Beyond the Bell has developed an attendance documentation training scheduled for implementation for the 2011 – 2012 year. The training is offered on a monthly basis. Newly hired personnel must register for and attend the next available training date. Returning personnel must register for and attend the training during the fiscal year.
5. The following “Policies and Procedures/Risk Management” training dates are scheduled for the 2011 – 2012 year (NOTE: Attendance Documentation has been implemented as a result of previous audit findings):
 - 8/30/11, 8/31/11, 9/6/11, 9/21/11, 10/22/11, 11/19/11, 12/14/11, 1/21/12, 2/16/12, 3/14/12, 4/21/12, 5/19/12, & 6/13/12
6. Contractors and agency program personnel are required to attend a **Federal Program Monitoring (FPM)** training. The FPM training reflects the CDE’s Program Dimensions. The goal of this training is to offer personnel a best practices approach to running exemplary programs that comply with the requirements in the Education Code. Extensive training on “attendance documentation” is offered during this meeting.
7. Beyond The Bell Branch conducts **“site visits”** to monitor program quality and student attendance through:
 - **Field Office Administrators**
 - Certificated Administrators conduct site visits to evaluate and monitor agency program implementation. Attendance documentation is closely monitored during these site visits.
 - **Field Office Traveling Playground Supervisors**
 - Classified/Unclassified Traveling Playground Supervisors conduct weekly visits to evaluate and monitor agency program implementation. Attendance documentation to

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

June 30, 2011

ensure appropriate staff-to-student ratio and observation of sign-in/sign-out procedures is closely monitored during these site visits.

- **Central Office Administrators**
 - Central Office Administrators conduct site visits to evaluate and monitor agency program implementation. In addition to program quality and compliance, attendance documentation is closely monitored during these site visits.
- 8. Beyond the Bell Branch conducts **“Random Reviews/Audits of Monthly Attendance Reports”** to examine agency sign-in/sign-out procedures. The agency’s “Attendance Documentation” procedures are further evaluated to ensure the agency’s record keeping corresponds to data submitted to Beyond the Bell. In addition, evaluation of these documents ensures they:
 - Comply with Beyond the Bell’s “Early Release Policy.”
 - Verify the sign-in/sign-out forms are certified by Site Coordinator.
 - Contain Student ID Numbers.
- 9. To ensure the documentation for the ASES Program accurately reflects the number of students served and reported to the California Department of Education by the District, Beyond the Bell Branch contracted with City-Span Technologies Incorporated (A nationally recognized service firm which specializes in administering online attendance monitoring programs.) to administer an online attendance reporting and monitoring system. Beyond the Bell Branch through our needs assessments and evaluations recognized the need to strengthen our internal controls to ensure attendance data is compiled and reported accurately. Furthermore, Beyond the Bell Branch recognizes the need to maintain sufficient documentation for the reconciliation between the District’s Quarterly Attendance Reports (QAR) and information submitted to the California Department of Education. Consequently, Beyond the Bell’s gathering of attendance data and reporting procedures has evolved. As a result of previous audit findings, the following system and procedures have been implemented:
 - **Monitoring has been strengthened from quarterly to monthly** and all contractors and staff are now required to submit attendance documentation monthly which has resulted in more accurate attendance reporting to the CDE.
 - **Beyond the Bell issues a current “Alpha List”** containing student identification numbers to agencies. Prior to this practice, agencies were responsible for obtaining student identification numbers from schools. Frequently, the information was outdated or incomplete.
 - Agencies **submit their attendance electronically** through a secured website to City-Span Technologies Incorporated.
 - A **discrepancy report is issued** to agencies requesting them to make corrections of errors when they are identified.
 - Agencies **correct and resubmit** the reports and discrepancies are fixed in attendance reports.
 - The reporting of attendance to the California Department of Education (CDE) is accomplished on-line bi-annually through the ASSIST through close collaboration with CDE’s technical staff to ensure accurate transfer of the information.
 - As a result of the volume generated by Beyond the Bell programs, **the CDE has approved the submission** of attendance through an EXCEL program via e-mail. Personnel at CDE then upload the data into ASSIST. Once the data is in the system, the Beyond the Bell designee approves the data submitted.

We will continue to monitor these changes in protocol to ensure that the procedures are followed and all information is reported accurately and documented as necessary for auditing purposes.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

June 30, 2011

No	School Name	CDE Report	Attendance Reports	Variance
1	Burton El	7,410	7,415	(5)
2	Gridley El	11,980	11,981	(1)
3	Politi El	15,735	15,870	(135)
4	Sylmar El	9,235	9,273	(38)
5	Sylvan Park El	8,915	8,940	(25)
6	West Vernon El	13,320	13,409	(89)
7	66Th St El	15,579	15,666	(87)
8	Alta Loma El	32,351	32,659	(308)
9	Angeles Mesa El	12,448	12,464	(16)
10	Annalee El	12,858	12,819	39
11	Commonwealth El	19,578	19,579	(1)
12	Dyer El	22,432	22,803	(371)
13	Eshelman El	16,652	16,690	(38)
14	Grant El	26,462	26,746	(284)
15	Gulf El	20,395	20,863	(468)
16	Heliotrope El	23,011	23,090	(79)
17	Herrick El	17,430	17,453	(23)
18	Heliotrope El	2,881	2,914	(33)
19	Wilmington Park El	25,878	25,832	46
20	Henry MS	29,548	29,549	(1)
21	Edison MS	21,902	21,909	(7)
22	Griffith MS	39,569	39,588	(19)
23	Holmes MS	19,764	19,825	(61)
24	Dodson MS	16,908	17,156	(248)
25	Drew MS	23,912	23,823	89
26	Hollenbeck MS	37,803	36,841	962
27	Carnegie MS	30,303	28,275	2,028
28	Irving MS	19,609	19,613	(4)
29	Carver MS	46,082	46,849	(767)
30	Gage MS	44,151	45,362	(1,211)
31	Nimitz MS	33,497	33,344	153
32	San Fernando MS	17,352	17,366	(14)
33	Audubon MS	8,697	19,465	(10,768)
	total variance			(11,784)



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December 14, 2011

The Honorable Board of Education
Los Angeles Unified School District
Los Angeles, California

Members of the Board:

We have audited the financial statements of the **Los Angeles Unified School District** (the District) as of and for the year ended June 30, 2011, and have issued our report thereon dated December 14, 2011. In planning and performing our audit of the basic financial statements of the District, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and a deficiency that we consider to be a material weakness.

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

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider items FS-11-01 and FS 11-02 to be significant deficiencies in internal control.

Although not considered to be significant deficiencies or material weaknesses, we also noted certain items during our audit, which we would like to bring to your attention. These comments are summarized in the following report to management on pages 325 to 333.

We did not audit the District's response to the findings and comments identified in our audit, and accordingly, we express no opinion on it.



This communication is intended solely for the information and use of the Board of Education, District management, the State Controller's office, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script that reads "Seymour E. Seymour".

Current Year Management Letter Comments

ML-11-01 - Data Center Physical Access

Observation

Access Badge Request forms for Data Center access could not be located for four (4) of the ten (10) individuals sampled with Data Center access. We also noted that, Data Center access system (AMAG) reports are not reviewed/certified and signed on a periodic basis by IT management.

Impact

Unauthorized physical access to the Data Center could increase the likelihood of theft and/or damage to production data, computer devices and other information technology resources.

Recommendation

Data Center access reports should be reviewed and signed periodically (e.g., every 6 to 12 months) by ITD management to identify and remove inappropriate physical access to the data center.

Management Response

ITD management agrees with this recommendation and has begun discussions with the Beaudry headquarters building management to review access to the Data Center a minimum of every 6 months.

ML-11-02 - Computer Operations Procedures

Observation

Data Center operations procedures are not compiled and made accessible to ITD Computer Operations personnel, such procedures were only compiled into one set after auditor request was made.

Impact

Computer operations procedures may not be followed in a consistent and appropriate manner to ensure compliance with management's criteria.

Recommendation

Data Center procedures should be compiled and made accessible to ITD Computer Operations personnel either via storage on a shared network directory or distribution of multiple copies.

Current Year Management Letter Comments

Management Response

ITD management agrees with this recommendation. At minimum, ITD plans to have multiple copies of the procedures by June 30, 2012.

ML-11-03 - Batch Program Run Instructions

Observation

Run book instructions identify the specific operational requirements of a production batch job that a computer operator needs to be aware of should an error in job execution occur. However, Run Book/Instructions could not be provided for a sample of 35 IFS production jobs.

Impact

Accounting system production job processing may not be effectively recovered in a timely manner in the event of a system “abend” or malfunction.

Recommendation

Run book instructions should be developed for all IFS production batch jobs.

Management Response

ITD management began a review all batch programs managed by Data Center Operations in early 2011. At the conclusion of the review, a full set of documentation (including run instructions) will be compiled for the batch programs.

ML-11-04- IT Asset Inventory Management

Observation

IT asset discovery functionality is an automated process that helps IT management identify computer devices and their respective locations on the computer network. However, such functionality is not currently utilized to support IT asset inventory management.

Impact

IT assets may not be accurately recorded, tracked and effectively utilized. This could adversely impact the integrity of IT asset management and accounting.

Current Year Management Letter Comments

Recommendation

An IT asset discovery tool should be implemented to support the management of IT asset inventory.

Management Response

ITD management agrees with this finding. ITD is currently reviewing various solutions to provide IT asset discovery. At this time, no vendor or solution has been selected.

ML-11-05 - Wireless Encryption

Observation

WEP encryption is used instead of a more secure wireless encryption standard, i.e., WPA, for the Administration's network wireless access points. We were informed that to facilitate WPA encryption, the Administration network's current wireless access point devices would need to be upgraded to be compatible with WPA encryption.

Impact

A less than robust wireless encryption standard, e.g., WEP encryption, could result in unauthorized access by a system intruder to the district's computer network and mission critical systems.

Recommendation

WPA encryption should be implemented for the district's Administration wireless network.

Management Response

ITD management agrees with this finding. New District sites will use WPA exclusively; existing sites with a wireless network will be transitioned to WPA as resources allow.

ML-10-06 - Wireless Access Point Security

Observation

Periodic War Driving is not performed to identify unsecured wireless network connections, e.g., rogue or unauthorized wireless access points, for the district's 333 Beaudry Administration's wireless network.

Current Year Management Letter Comments

Impact

Unauthorized wireless access points may not be detected in a timely manner to effectively prevent system intrusion.

Recommendation

War driving should be performed on a periodic basis; either by ITD personnel or by a contracted consultant incorporated into a periodic independent network vulnerability assessment.

Management Response

ITD management agrees with the finding. When funding becomes available, ITD will contract for war driving services.

ML-11-07 - Mainframe Utility Management

Observation

Access to powerful mainframe system utilities (e.g., AMASPZAP, IMASPZAP, etc.) exists for a retired individual's RACF account (GCR6814).

Impact

The potential misuse of powerful system utilities could adversely impact the integrity of accounting system and data when assigned to individuals whose job function does not require them to have such access.

Recommendation

Inappropriate access should be deleted and RACF access profiles for System Utility access should be reviewed and approved on a periodic basis (e.g., every 6 to 12 months).

Management Response

The retired individual's RACF account will be removed by December 31, 2011.

ML-11-08 - Mainframe System Dataset Access

Observation

A retired employee's RACF account (GCR6814) has update/alter access to Systems production datasets, i.e., datasets with the Sys1.* high-level qualifier.

Current Year Management Letter Comments

Impact

Inadequate restriction to modify/update access to production dataset/files can result in unauthorized changes that adversely impact the integrity of accounting and financial reporting information

Recommendation

Inappropriate access to production datasets should be deleted. Also, RACF access profiles for ZOS system production datasets should be reviewed and approved on a periodic basis (e.g., every 6 to 12 months).

Management Response

The retired individual's RACF account will be removed by December 31, 2011.

ML-11-09 - IFS Dataset Access

Observation

The following Inactive RACF groupUIDs have Update or Alter access to IFS production datasets:

- BFSSEC2
- 1BFSSEC3
- BFSUSR4
- IFSBFTP

Impact

Unauthorized changes to accounting data and transactions may occur if access is not sufficiently restricted.

Recommendation

Inappropriate access to IFS production datasets should be deleted. Also, RACF access profiles for IFS production datasets should be reviewed and approved on a periodic basis (e.g., every 6 to 12 months).

Management Response

ITD management will review the membership of the above inactive RACF groups and take appropriate action.

Current Year Management Letter Comments

ML-11-10 - SMF Logging

Observation

System Management Facility (SMF) Record type 14 (INPUT Data Set Activity) is not logged to track when a dataset is processed.

Impact

Unauthorized or erroneous accounting data file input may not be detected if data modifications are not logged and summary reports reviewed periodically.

Recommendation

ITD management should consider the logging and review of the SMF record type 14 (INPUT Data Set Activity) subsequent to an appropriate assessment of any resource impact to the system.

Management Response

ITD management will take recommendation under advisement for further review. If SMF logging is found to be feasible, it will be implemented.

ML 11-11 - Construction in Progress and Transfers to Depreciable Capital Assets

Observation

Every year, the District undertakes numerous construction projects to either modernize existing school facilities or build new ones. Facilities Program Support Services, a branch within the District's Facilities Services Division (FSD) facilitates the proper accumulation and recording of the costs related to these construction projects. Also, part of the branch's responsibilities is to inform the General Accounting Branch whenever a construction of an asset is completed. The General Accounting Branch is in charge of the proper accounting of these assets, once they are put in service.

Construction in progress (CIP) is a District general ledger account that refers to the temporary classification of capital assets that are being built/assembled before being placed in service. The District tracks all its costs related to the building/assembly of such assets until the asset is completed. When the asset is completed or substantially completed, all these accumulated costs are transferred to another account, to indicate that such assets are ready to be put in service and as such, are to be depreciated. Subsequently, depreciation is accounted for using the most appropriate method to properly account for the asset's wear and tear.

Upon testing the correctness of the amounts accumulated in CIP and subsequently transferred to depreciable capital assets, we noted that some new construction and existing facilities projects

Current Year Management Letter Comments

amounting to about \$80.9 Million that have been completed but have not been transferred to depreciable capital assets. Furthermore, we noted certain Information Technology Department (ITD) projects amounting to about \$9.9 Million that were transferred as completed this year but were actually completed in the prior years. Depreciation expenses for these related assets should have been recorded in the prior years.

Impact

Lack of proper coordination between the Facilities Services Division and the General Accounting Branch resulted in a significant misstatement of construction in progress, depreciable capital assets and depreciation expenses.

Recommendation

We continue to recommend that the FSD perform a more thorough analysis of costs incurred for New Construction and Existing Facilities projects and that ITD perform a similar analysis of costs for ITD projects, when deciding whether these projects are completed and are ready to be put into operation and therefore, are to be depreciated.

Specifically, the District should establish and implement a clearer policy that addresses proper identification of completed projects. Currently, FSD's trigger point in determining a project's completion is a "notice of completion" document for the project's primary construction contractors. Supposedly, this document denotes that a project is completed or substantially completed. This information has to be verified by the facilities group and communicated to the General Accounting Branch. Same for ITD projects, ITD should thoroughly analyze all existing projects and evaluate each project's completion. The results of the evaluation should be communicated as well to the General Accounting Branch for proper recording of the assets' completion.

Management Response

Facilities Program Support Services acknowledges the discrepancies in the process for accounting for CIP and depreciable capital assets. A coordination meeting on lessons learned will be convened with General Accounting Branch and FSD to discuss corrective actions immediately after the CAFR audit is completed. First, all FSD projects and construction contracts will be reviewed for project completions and capitalized cost. Second, all entries in CIP and the depreciable capital assets accounts will be reviewed against FSD completed projects information. Third, to complete the analysis, FSD will provide a draft schedule of completed projects to General Accounting in March initiate the review the impact of transactions at June 30 at an earlier date.

Current Year Management Letter Comments

ML 11-12 – Ineffective Accrual Process for Construction-Related Expenditures

Observation

Generally accepted accounting principles for government entities require that expenditures be recorded in the period in which governments normally liquidate the related liability or when the transaction is expected to draw upon current spendable resources. Every year-end, the District, through Accounts Payable Department determines what expenditures need to be accrued in its financial statements by verifying through different departments what goods have been received or what services have been rendered from various vendors, and for which the District have not yet paid.

For goods and services related to construction of schools, due to the high volume of transactions, the District employs a separate group (Facilities Services Division) that administers the determination of accrual amounts at year-end. For fiscal year 2010-11, this group determined the accrual amounts by estimating what goods and services have been delivered based upon open contracts and purchase orders. It was later determined that the estimates were significantly more than actual expenditures and adjustments amounting to about \$67 Million had to be made. After the auditors verified the correctness of accrued amounts by searching for unrecorded liabilities, it was noted that expenditures mainly pertaining to professional services were under-accrued by about \$ 22.5 Million.

Impact

Ineffective coordination within the Facilities Services Division and miscommunication about the procedures in place for the year-end accrual process resulted in significant adjustments in expenditures to be reported in the financial statements for FY 2010-11.

Recommendation

The District should implement a systematic methodology or procedure to be used in determining what expenditures need to be recorded as accrued liabilities in the appropriate fiscal year, especially for departments that involve high volume of expenditure transactions. For construction-related expenditures where typically, actual billings by vendors take place at a much later date from when the services are rendered, project managers should be made responsible and held accountable to coordinate with Facilities Services Division and Accounts Payable in determining ongoing projects for which services have been rendered but have not been billed at year-end. Alternatively, project managers may be assigned the responsibility to coordinate with third party vendors to encourage timely submission of billings. Actual billings can then be the basis for the amount of expenditures to be accrued at year-end.

Management Response

The District acknowledges the audit finding. Accounts Payable, General Accounting Branch, FSD and other divisions will convene to discuss lessons learned and corrective actions immediately after

Current Year Management Letter Comments

the CAFR audit is completed. FSD will implement a process to review and analyze FSD construction contracts and professional services agreements in January. As encumbrance and payment requests are processed by FPPS, an estimate of work to be performed through June 30 will be maintained in the Invoice Tracker system. As subsequent transactions are processed, this estimate will be adjusted and refined through June 30. Non-FSD encumbrances in capital funds will also be identified and forwarded to responsible department contacts for similar activity. FSD will coordinate with Accounts Payable more prior to June 30 to review draft accruals data against information in the financial system of record. At fiscal year-end, accruals entries will be provided solely from FSD's Invoice Tracker system.

Status of Prior Year's Management Letter Comments

ML-10-01 - Audit Logging of SAP Infotypes

Recommendation

Payroll and ITD management should enable audit logging for the Additional Off-Cycle Payments (267) and Payroll Results Adjustments (221) SAP infotypes.

Current Status

Corrective action(s) implemented. The Additional Off-Cycle Payments (267) and Payroll Results Adjustments (221) SAP infotypes are now logged.

ML-10-02 - Information Security Function

Recommendation

The information security function should be organized at a level commensurate with the level of risk and sensitivity associated with the district's mission critical systems and IT infrastructure. Accordingly, we recommend that the information security function be organized at a higher reporting level within the ITD organization to ensure sufficient independence, resources and visibility are given to security matters.

Current Status

Corrective action(s) implemented.

ML-10-03 - IFS Data and Program Backups are not Periodically Tested

Recommendation

Management should schedule periodic testing of IFS backup data and programs to ensure timely and effective recovery of accounting processing in the event the IFS system fails.

Current Status

Corrective action(s) implemented. IFS backup is not tested periodically.

ML 10-04 - Construction in Progress and Transfers to Depreciable Capital Assets

Recommendation

We recommend that the Facilities Services Division (FSD) perform a more thorough analysis of costs incurred for New Constructions, Existing Facilities and ITD projects, when deciding whether these

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projects are completed and are ready to be put into operation and therefore, are to be depreciated. This information should be verified by the facilities group supervisors and communicated to the General Accounting Branch. Same for ITD projects, ITD should thoroughly analyze all existing projects and evaluate each project's completion. The results of the evaluation should be communicated as well to the General Accounting Branch for proper recording of the assets' completion.

Specifically, the District should establish and implement a clearer policy that addresses proper identification of completed projects. Currently, FSD's trigger point in determining a project's completion is a "notice of completion" from the District's major construction contractors. Supposedly, this document denotes that a project is completed or substantially completed. This procedure may be appropriate for the Existing Facilities and ITD projects at Existing Facilities; however, as there are several major construction contractors for phases of a New Construction, the "notice of completion" does not appear to be the best document to trigger completion of those projects. We suggest that the "certificate of occupancy" seems to be a more accurate trigger of when New Construction projects should be moved to the completed asset category and depreciated.

Current Status

FSD will present a policy on Accounting for Capital Outlay Costs to align District processes with CSAM Procedure 770. The policy will provide requirements and criteria for capitalization of major repair project costs, public works project costs and other capital outlays. The policy will provide examples to differentiate between building repairs or maintenance costs and building fixtures, betterments and service systems.

ITD is in the process of reviewing current procedures in tracking completed projects. They are also currently reviewing procedures on soft costs allocation to the actual project. In addition, ITD is working on preparing their JV's to allocate the soft costs identified that need to be charged to the project.

ML 10-05 – Recording of Non-Exchange Transactions

Recommendation

For the recording of all non-exchange transactions that the District enters into, such as the State grants and reimbursements related to emergency repairs, we recommend that there should be more effective coordination between the department(s) monitoring the transactions and the General Accounting Branch. General Accounting has the technical knowledge on how to record the transactions properly and the departments that are responsible for the actual transactions are more familiar with the details and status of the transactions.

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Current Status

The District has implemented the audit recommendations and an accounting process is in place to appropriately record the amount of revenue deferred and revenue earned pertaining to non-exchange transactions and specifically, the Emergency Repair Program.

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Findings Related to the Basic Financial Statements Reported in Accordance with *Government Auditing Standards*

FS-10-01 - Lack of IFS Security Reporting - Material Weakness

State Audit Guide Finding Code: 30000

Recommendation

IFS user access security reports be developed to facilitate management review of user access to IFS transactions. These reports should be reviewed periodically by Accounting Department management to ensure access to sensitive accounting system transactions is appropriate and restricted based upon the user's job function.

Current Status

Corrective action(s) partially implemented. A manual review of user profile screen prints will be performed on annual basis.

FS-10-02 - Lack of Logging and Security Monitoring Control Processes - Significant Deficiency

State Audit Guide Finding Code: 30000

Recommendations

Windows network logs which capture critical activities should be reviewed on a timely basis. If necessary, log filtering tools can be used to enable efficient monitoring and review of access.

Current Status

Corrective action(s) implemented. Cisco Security Monitoring, Analysis, and Response System (MARS) has been implemented for network logging.

FS-10-03 - IFS Program Change Approval - Significant Deficiency

State Audit Guide Finding Code: 30000

Recommendation

IFS program changes should be consistently approved by accounting management with a signature to prevent unauthorized program changes. User acceptance testing signatures should also be documented.

Current Status

Corrective action(s) implemented. ITD has modified the transport form to require the signature of the business owner.

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FS-10-04 - Lack of Sufficient Documentation for SAP Program Changes to the Production System - Significant Deficiency

State Audit Guide Finding Code: 30000

Recommendation

The requirement for documenting and approving application changes should be consistently followed to prevent unauthorized program changes. This includes documenting and retaining management approvals to confirm that program changes are aligned with management intentions and user requirements.

Current Status

Corrective action(s) implemented. ITD has reviewed the transport request forms for appropriate signatures and updated the identified transport forms by obtaining the business owners signature.

FS-10-05 - Developer Access to Payroll Production Data - Significant Deficiency

State Audit Guide Finding Code: 30000

Recommendation

ITD-BTS management should continue to review access for all payroll infotypes and remove BTS' update access where possible. In the long term, ITD and Payroll management should develop a transition plan to migrate the need to update production payroll data from ITD-BTS personnel.

Current Status

Corrective action(s) partially implemented. Although ITD-BTS users do not have ongoing access to update any info types in production, update access to payroll Infotypes were noted for four (4) ITD-BTS personnel during this year's audit.

FS-10-06 - SAP Time Management SOD Conflicts - Significant Deficiency

State Audit Guide Finding Code: 30000

Recommendation

Management should remove conflicting access for the users identified in a timely manner. Also, prior to assigning access to a user, the user's existing role and transaction assignments should be reviewed via the use of a security matrix or other mechanism to determine if the new access requested presents a segregation of duties conflict.

Current Status

Corrective action implemented. Conflicting access removed.

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Findings and Questioned Costs Related to Federal Awards

1. Finding F-10-01 – Allowable Costs – Payroll Certifications and Documentation for Specially Funded Employee Positions

Finding F-09-01 – Allowable Costs – Payroll Certifications and Documentation for Specially Funded Employee Positions

Finding F-07-01 – Allowable Costs – Payroll Certifications and Documentation for Specially Funded Employee Positions

Finding F-06-01 – Allowable Costs – Payroll Certifications and Documentation for Specially Funded Employee Positions

Program Identification:

Child Nutrition Cluster: School Breakfast Program, National School Lunch Program, Summer Food Service Program for Children, U.S. Department of Agriculture (USDA), Passed through the California Department of Education, CFDA No. 10.553, 10.555, and 10.559, Grant Agreement 19-64733- 0000000-01;

Title I Grants to Local Educational Agencies: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.010, Grant Agreement S010A070005 (09-14329-6473);

Special Education Cluster: Grants to States, Preschool Grants, U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.027, and 84.173, Grant Agreements 08-13379-6473-01 and 08-13682- 64733-01;

Special Education Cluster: Grants to States, Preschool Grants (American Recovery and Reinvestment Act of 2009), U.S. Department of Education, CFDA Nos. 84.391A, 84.391 and 84.392, Grant Agreements 08-15000-6473-01, 08-15003-6473-01, 09-15000-6473-01 and 09-15003-6473-01;

Vocational Education Basic Grants to States: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.048, Grant Agreements 08-14894-64733-00, 08- 14893-74435-00, and 08-14893-6733-00;

Safe and Drug-Free Schools and Communities: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.186, Grant Agreements Q186A080005 and 08-14109-64733-00;

Fund for the Improvement of Education: U.S. Department of Education (ED), CFDA No. 84.215, Grant Agreements V215L052108, and S215L060084;

Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP): U.S. Department of Education (ED), CFDA No. 84.334, Grant Agreements P334A050008 and P334A050178;

Reading First State Grants: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.357, Grant Agreements 07-14328-6473-00 and 07-14911-6473;

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English Language Acquisition Grants: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.365, Grant Agreements 09-10084-6473 and 10-10084-6473;

Improving Teacher Quality State Grants: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.367, Grant Agreement PCA14344/14341;

Child Care and Development Fund Cluster: Child Care and Development Block Grant, Child Care Mandatory and Matching Funds of the Child Care and Development Fund; U.S. Department of Health and Human Services, Passed through the California Department of Education, CFDA Nos. 93.575 and 93.596, Contract CCTR-8159;

Workforce Investment Act, Title II: Adult Education and Family Literacy Act, Pass through the California Department of Education, CFDA No. 84.002, Grant Agreements 08-14508-64733-00, 08-14109-64733-00 and 09-1419-64733;

Child and Adult Care Food Program: U.S. Department of Agriculture (USDA), Passed through the California Department of Education, CFDA No. 10.558, Grant Agreement 19-2016-3;

Twenty-First Century Community Learning Centers: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.287, Grant Agreement 08-14349-6473-4A;

State Grants for Innovative Programs: U.S. Department of Education (ED), Passed Through the California Department of Education, CFDA No. 84.298, Pass-Through Identification No. 1964733, Grant Agreement S298A060005;

Education Technology State Grants: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.318, Grant Agreement

Medical Assistance Programs: U.S. Department of Health and Human Services, Passed through the California Department of Education, CFDA No. 84.778, Grant Agreement C-10606:08:09.

Recommendation

We recommend that the District continue to provide ongoing training to appropriate personnel on the updated procedures. We also recommend that the District meet with the School Administrative Assistants who oversee time reporting in schools, and inform them of the changes.

Current Status

Implemented

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2. Finding F-10-02 – Allowable Costs – Not Allowable Activities and Unsupported Documentation to NonPayroll Expenditures

Finding F-09-02 – Allowable Costs – Unsupported Adjusting Journal Vouchers Recorded to Non payroll Expenditure

Program Identification:

Title I Grants to Local Educational Agencies, U.S. Department of Education (ED), Passed through the California Department of Education, CFDA Nos. 84.010 and 84.389, Grant Agreements 09-14329-6473 (S010A070005) and 10-14329-6473;

English Language Acquisition Grants, U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.365, Grant Agreement 10-10084-6473;

Recommendation

We recommend that the District provide additional guidance/training to ensure appropriate documentation is maintained to support expenditures charged to federally funded programs. The District should also strengthen its controls over its charges to the federally funded programs to ensure that the reimbursement is in accordance with federal guidelines.

Current Status

Implemented

3. Finding F-07-02 – Allowable Costs – Unsupported Adjusting Journal Vouchers Recorded to Payroll Expenditure

Program Identification:

Title I Grants to Local Educational Agencies, U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.010, Grant Agreement 06- 14329-6473

Vocational Education Basic Grants to States: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.048, Grant Agreements 06/07- 13924-64733-00 and 06-13923-64733-00;

Twenty-First Century Community Learning Centers, U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.287, Grant Agreements 05-14349 6473-2A, 05 14349-6473-3A, and 06-14349-6473-1A;

Reading First State Grants, U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.357, Grant Agreement 04-14328-6473-00;

English Language Acquisition Grants, U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.365, Grant Agreements 03-14346-6473- 00 and 10084-6474-00;

Improving Teacher Quality State Grants, U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.367, Grant Agreement S367A040005A;

Child Care and Development Fund: Child Care and Development Block Grant, Child Care Mandatory and Matching Funds of the Child Care and Development Fund; U.S. Department of

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Health and Human Services, Passed through the California Department of Education, CFDA Nos. 93.575 and 93.596, Contract CCTR-6164

Recommendation

We recommend the District enhance policies and procedures to ensure that all payment vouchers are adequately supported before recording them in the general ledger. We also recommend the District establish policies and procedures to ensure that salary allocations are made based on actual time and effort documentation and not based on estimated budgeted information.

Current Status

Implemented. The District provided its auditors copies of all journal vouchers and SAP and/or QMF print outs detailing the employee names for the payroll expenditures transferred with the period of the payroll incurred. This documentation provided support for all but \$7,585 related to the Vocational Education Program.

4. Finding F-07-08 – Allowable Costs – Controls over Calculation of Indirect Costs Charged to Program

Program Identification:

Twenty-First Century Community Learning Centers: U.S. Department of Education (ED); Passed through the California Department of Education, CFDA No. 84.287, Grant Agreements 05-14349-6473-2A and 06-14349-6473-1A;

GEAR-UP: U.S. Department of Education (ED), CFDA No. 84.334, Grant Agreements P334A000061-05, P334A050178-06, and P334A050205.

Recommendation

We recommend that the District provide additional guidance/training to its accountants to ensure that grants required to use the restricted indirect cost rate are calculated using the appropriate direct cost base in accordance with federal guidelines.

Current Status

Implemented

5. Finding F-07-09 – Cash Management – Interest Income from Advances not Returned to Federal Government

Finding F-06-07 – Cash Management – Interest Income from Advances not Returned to Federal Government

Program Identification:

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Public Assistance Grants: Department of Homeland Security (DHS), (CFDA 83.544), Passed through the California Governor's Office of Emergency Services (OES), FEMA 1008-DR, P.A. 037-91146, OES 93708.4;

WIA - Adult Basic Education: U.S. Department of Education (ED), Passed through the California Department of Education (CDE) Adult Education – State Grant Program (CFDA 84.002), Grant ID#29-R419-06AF;

Title I Grants to Local Educational Agencies: U.S. Department of Education (ED), Elementary and Secondary Act Title I, Part A; Passed through the California Department of Education (CDE) as Title I, Part A of the No Child Left Behind Act of 2001 (CFDA 84.010), PCA 14329;

Vocational Education Basic Grants to States: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.048, Grant Agreements 07/08- 14893-74435-00, 07-14894-64733-00 and 07/08-14893-64733-00;

Safe and Drug-Free Schools and Communities: U.S. Department of Education (ED), Passed through the California Department of Education (CDE), Title VI, Part A, Safe and Drug-Free Schools & Communities (CFDA 84.186);

Twenty-First Century Community Learning Centers: U.S. Department of Education (ED), Elementary and Secondary Act Title IV, Part B; Passed through the California Department of Education (CDE) as 21st Century Community Learning Centers Grant (CFDA 84.287), PCA 14349;

State Grants for Innovative Programs: U.S. Department of Education (ED), Passed Through the California Department of Education, CFDA No. 84.298, Pass-Through Identification No. 1964733; Grant Agreement S298A06005;

Education Technology State Grants: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.318, Grant Agreements 07-14368-6437, 06-14368-6473-14368 and 2006/07-14334-6437;

Reading First State Grants: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.357, Grant Agreement 04-14328-6473-00;

English Language Acquisition Grants: U.S. Department of Education (ED), Elementary and Secondary Act Title III, Part A; Passed through the California Department of Education (CDE) as Limited English Proficient Student Program (CFDA 84.365), PCA 14346;

Improving Teacher Quality State Grants: U.S. Department of Education (ED), Elementary and Secondary Act Title II, Part A; Passed through the California Department of Education (CDE) as Teacher and Principal Training and Recruiting (CFDA 84.367), PCA 14341.

Recommendation

We recommend that the District strengthen controls to ensure the accuracy of the interest income calculation. The District may also consider recouping the interest income of \$118,309 from CDE.

Current Status

Implemented

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6. Finding F-10-03 – Eligibility- Lack of Effective and Timely Monitoring to CCTR Centers

Finding F-09-04 – Eligibility- Lack of Effective and Timely Monitoring to CCTR Centers

Program Identification:

Child Care and Development Fund Cluster: Child Care and Development Block Grant, Child Care Mandatory and Matching Funds of the Child Care and Development Fund; U.S. Department of Health and Human Services, Passed through the California Department of Education, CFDA Nos. 93.575 and 93.596, Contracts CCTR-8159, CCTR-9129 and CSPP-9233.

Recommendation

We recommend the District strengthen its monitoring process to ensure that student files are reviewed on a regular basis in order to comply with the contract and records provision. The District should also provide training sessions for the center managers to ensure that they are aware of the federal requirements in relation to eligibility and that the required documentation is being maintained.

Current Status

Implemented

7. Finding F-10-04 – Equipment – Equipment Management Policies

Program Identification:

Child Nutrition Cluster: School Breakfast Program, National School Lunch Programs, Summer Food Service Program for Children, U.S. Department of Agriculture (USDA), Passed through the California Department of Education, CFDA Nos. 10.553, 10.555 and 10.559, Grant Agreement 19-64733-0000000-01;

Title I Grants to Local Educational Agencies: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA Nos. 84.010 and 84.389, Grant Agreement 10-14329-6473;

Vocational Education Basic Grants to States: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.048, Grant Agreements 09-14894-64733-00 and 09-14893-6733-00;

Safe and Drug-Free Schools and Communities: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.186, Grant Agreements Q186A080005 and Q215E60268;

Fund for the Improvement of Education: U.S. Department of Education (ED), CFDA No. 84.215, Grant Agreements V215L052108 and S215L060084;

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English Language Acquisition Grants: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.365, Grant Agreement 10-10084-6473;

Workforce Investment Act, Title II: Adult Education and Family Literacy Act, Pass through the California Department of Education, CFDA No. 84.002, Grant Agreement 09-1419-64733.

Recommendation

We recommend the District continue to strengthen its controls over property management by providing adequate supervision/training to ensure that inventory management be performed properly.

Current Status

Implemented

8. Finding F-08-07 – Matching, Level of Effort, and Earmarking – Administrative Cost

Finding F-07-15 – Matching, Level of Effort, and Earmarking – Administrative Cost

Finding F-06-15 – Matching, Level of Effort, and Earmarking – Administrative Cost

Program Identification:

Vocational Education Basic Grants to States: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.048, Grant Agreements 07- 14894-64733-00, 07/08-14893-74435-00 and 07/08-14893-64733-00;

Twenty-First Century Community Learning Centers: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.287, Grant Agreements 07-14349-6473-3A and 07-14349-6473-4A;

Reading First State Grants: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.357, Grant Agreement 07-14328-6473-00;

English Language Acquisition Grants: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.365, Grant Agreement T365A070005.

Recommendation

We recommend that the District strengthen its policies and procedures to ensure that administrative costs are appropriately computed and not charged over the allowable maximum per grant.

Current Status

Implemented

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9. Finding F-10-05 – Matching, Level of Effort, Earmarking, and Reporting – Matching Funds Reported

Finding F-10-06 – Matching, Level of Effort, Earmarking, and Reporting – Matching Funds Reported

Program Identification:

Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP): U.S. Department of Education (ED), Grant Agreements P334A050008, P334A050217, and P334A050178;

State Administrative Matching Grants for Food Stamp Program: U.S. Department of Agriculture (USDA), Passed through the California Department of Health Services, CFDA No. 10.561, Grant Agreement 07-65328;

Recommendation

The District should establish sufficient controls, policies and procedures to ensure that (1) adequate support for matching be maintained; (2) the sources of matching contributions are from an allowable source; (3) the values placed on contributions (including third party in-kind contributions) are supported and accurate; and (4) the activities used for matching contributions are allowable costs/cost principles requirements and properly documented.

Current Status

Implemented

10. Finding F-10-07 – Matching, Level of Effort, and Earmarking – Administrative Cost plus the Indirect Cost Rate Limitation

Finding F-09-08 – Matching, Level of Effort, and Earmarking – Administrative Cost plus the Indirect Cost Rate Limitation

Finding F-08-09 – Matching, Level of Effort, and Earmarking – Administrative Cost over the Restricted 2% Limit

Finding F-07-16 – Matching, Level of Effort, and Earmarking – Program Administrative Costs plus the Indirect Cost Rate Limitation

Finding F-06-14 – Matching, Level of Effort, and Earmarking – Administrative Cost

Finding F-05-17 – Matching, Level of Effort, and Earmarking – Administrative Cost over the Restricted 2% Limit

Program Identification:

Vocational Education Basic Grants to States: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.048, Grant Agreements 08-14894-64733-00, 08-14893-74435-00, 08-14893-6733-00, 09-14894-64733-00, and 09-14893-6733-00;

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Twenty-First Century Community Learning Centers: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.287, Grant Agreements 08-14535-6473-4A, 08-14349-6473-3A, 08-14349- 5A, and 08-14535-6473-5A;

Reading First State Grants: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA Nos. 84.357 and 84.357A, Grant Agreement 07-14328-6473-00 and 07-14911-6473;

English Language Acquisition Grants: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.365, Grant Agreement 09-10084-6473 and 10-10084-6473;

Safe and Drug-Free Schools and Communities: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.186, Grant Agreements Q186A080005 and Q215E60268;

Workforce Investment Act, Title II: Adult Education and Family Literacy Act, Pass through the California Department of Education, CFDA No. 84.002, Grant Agreements 08-14508-64733-00, 08-14109-64733-00, and 09-1419-64733;

Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP): U.S. Department of Education (ED), CFDA No. 84.334, Grant Agreements P334A050008, P334A050217, and P334A050178;

Child Care and Development Fund Cluster: Child Care and Development Block Grant, Child Care Mandatory and Matching Funds of the Child Care and Development Fund; U.S. Department of Health and Human Services, Passed through the California Department of Education, CFDA Nos. 93.575 and 93.596, Contract CCTR-8159.

Recommendation

We recommend that the District establish policies and procedures to ensure that administrative cost are appropriately computed and accounted for separately by each federal program. The policies and procedures should also require employees whose duties crossover with multiple activities/functions which are apart from their original job descriptions, be required to prepare a personal activity report (PAR) in accordance with OMB A-87 to clearly identify the employees' daily activities supporting the hours worked outside of their normal positions.

Current Status

Implemented

11. Finding F-10-08 – Earmarking – Targeting Funds for Choice-Related Transportation and Supplemental Education Services

Program Identification:

Title I Grants to Local Educational Agencies: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.010, Grant Agreement 10-14329-6473.

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Recommendation

We recommend that the District revise its resporting procedures to exclude all of the choice-related transportation costs if the transportation did not meet the intent of Public School Choice Program that parents are given choices to transfer their child(ren) from their home schools (if it is a PI school) to a non-PI school.

Current Status

Implemented

12. Finding F-10-09 – Period of Availability – Program Code Controls

Finding F-09-09 – Period of Availability – Program Code Controls

Finding F-08-12 – Period of Availability – Program Code Controls

Finding F-07-18 – Period of Availability – Program Code Controls

Finding F-06-17 – Period of Availability – Program Code Controls

Program Identification:

Title I Grants to Local Educational Agencies: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.010, Grant Agreements 09-14329-6473 and 10-14329-6473;

Special Education Cluster: Grants to States, Preschool Grants, U.S. Department of Education, Passed through the California Department of Education, CFDA No. 84.027, and 84.173, Grant Agreements 08-13379-6473-01 and 08-13682-6473-01;

Safe and Drug-Free Schools and Communities: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.186, Grant Agreement Q186A060005;

State Grants for Innovative Programs: U.S. Department of Education (ED), Passed Through the California Department of Education, CFDA No. 84.298, Pass-Through Identification No. 1964733, Grant Agreement S298A060005;

English Language Acquisition Grants: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.365, Grant Agreements T365A070005 (03-14346 6473-00, 10084-6474-00, and 10-10084-6473);

Improving Teacher Quality State Grants: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.367, Grant Agreements S367A070005A and PCA14344/14341;

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Vocational Education Basic Grants to States: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.048, Grant Agreements 07/08-14893-74435-00, 07/08-14893-64733-00, 07/08-14894-64733-00, 09-14894-64733-00, and 09-14893-6733-00;

Education Technology State Grants: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.318, Grant Agreements 06-14368-6473, 07-14368-6437, and 2006/07-14334-6437;

Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP): U.S. Department of Education (ED), Higher Education Act Title IV, Part A; (CFDA 84.334), Project Title: Gear-up, Award No. P334A000061;

Fund for Improvement of Education: U.S. Department of Education (ED), CFDA No. 84.215, Grant Agreements V215L052108 and S215L060084;

Medical Assistance Program: U.S. Department of Health & Human Services, Passed Through the California Department of Health Services (CDHS), CFDA No. 93.778, Grant Agreement C-10606:08:09.

Recommendation

We recommend that the District implement policies and procedures to closely monitor the expenditures charged to an appropriate grant award period. The District should also perform additional analysis for the grants that do not have separate program/project codes for each award year to ensure that reported program expenditures for each grant award year were claimed and obligated appropriately.

We further recommend that the District strengthen controls over its monitoring of outstanding obligations to ensure that all obligations are liquidated under the award not later than 90 days after the end of the funding periods; and unliquidated obligations are reconciled and adjusted so that the balance remaining in encumbrance is properly returned to the grantor.

Current Status

Implemented

13. Finding F-10-09 – Period of Availability – Expenses Not Claimed in Proper Period and Liquidation of Obligations

Finding F-09-09 – Period of Availability – Expenses Not Claimed in Proper Period and Liquidation of Obligations

Finding F-08-13 – Period of Availability – Expenses Not Claimed in Proper Period and Liquidation of Obligations

Finding F-07-19 – Period of Availability – Expenses Not Claimed in Proper Period and Liquidation of Obligations

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Finding F-06-18 – Period of Availability – Expenses Not Claimed in Proper Period

Finding F-06-19 – Period of Availability – Liquidation of Obligations

Finding F-05-19 – Period of Availability – Expenses Not Claimed in Proper Period

Program Identification:

Title I Grants to Local Educational Agencies: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.010, Grant Agreements 09-14329-6473 and 10-14329-6473;

Special Education Cluster: Grants to States, Preschool Grants, U.S. Department of Education, Passed through the California Department of Education, CFDA No. 84.027, and 84.173, Grant Agreements 08-13379-6473-01 and 08-13682-6473-01;

Safe and Drug-Free Schools and Communities: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.186, Grant Agreement Q186A060005;

State Grants for Innovative Programs: U.S. Department of Education (ED), Passed Through the California Department of Education, CFDA No. 84.298, Pass-Through Identification No. 1964733, Grant Agreement S298A060005;

English Language Acquisition Grants: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.365, Grant Agreements T365A070005 (03-14346-6473-00, 10084-6474-00, and 10-10084-6473);

Improving Teacher Quality State Grants: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.367, Grant Agreements S367A070005A and PCA14344/14341;

Vocational Education Basic Grants to States: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.048, Grant Agreements 07/08-14893-74435-00, 07/08-14893-64733-00, 07/08-14894-64733-00, 09-14894-64733-00, and 09-14893-6733-00;

Education Technology State Grants: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.318, Grant Agreements 06-14368-6473, 07-14368-6437, and 2006/07-14334-6437;

Twenty-First Century Community Learning Centers: U.S. Department of Education (ED), Elementary and Secondary Act Title IV, Part B; Passed through the California Department of Education (CDE) as 21st Century Community Learning Centers Grant (CFDA 84.287), PCA 14349;

Reading First State Grants: U.S. Department of Education (ED), Elementary and Secondary Act Title I, Part B; Passed through the California Department of Education (CDE) as Reading First (CFDA 84.357), PCA 14328;

Child Care and Development Fund: Child Care and, Development Block Grant, Child Care Mandatory and Matching Funds of the Child Care and Development Fund; U.S. Department of

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Health and Human Services, Passed through the California Department of Education, CFDA Nos. 93.575 and 93.596, Contract CCTR-6164;

Fund for Improvement of Education: U.S. Department of Education (ED), CFDA No. 84.215, Grant Agreements V215L052108 and S215L060084;

Medical Assistance Program: U.S. Department of Health & Human Services, Passed Through the California Department of Health Services (CDHS), CFDA No. 93.778, Grant Agreement C-10606:08:09.

Recommendation

We recommend that the District implement policies and procedures to closely monitor the expenditures charged to an appropriate grant award period. The District should also perform additional analysis for the grants that do not have separate program/project codes for each award year to ensure that reported program expenditures for each grant award year were claimed and obligated appropriately.

We further recommend that the District strengthen controls over its monitoring of outstanding obligations to ensure that all obligations are liquidated under the award not later than 90 days after the end of the funding periods; and unliquidated obligations are reconciled and adjusted so that the balance remaining in encumbrance is properly returned to the grantor.

Current Status

Implemented

14. Finding F-10-10 – Procurement, Suspension, and Debarment – No Evidence of Required Quotations or Waivers for Competitive Bidding

Finding F-09-10 – Procurement, Suspension, and Debarment – No Evidence of Required Quotations or Waivers for Competitive Bidding

Finding F-08-14 – Procurement, Suspension, and Debarment – No Evidence of Required Quotations or Waivers for Competitive Bidding

Finding F-07-21 – Procurement, Suspension, and Debarment – No Evidence of Required Quotations or Waivers for Competitive Bidding

Finding F-06-21 – Procurement, Suspension, and Debarment – No Evidence of Required Quotations or Waivers for Competitive Bidding

Finding F-05-21 – Procurement, Suspension, and Debarment – No Evidence of Required Quotations or Waivers for Competitive Bidding

Program Identification:

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Food Stamp Cluster: State Administrative Matching Grants for Food Stamp Program, U.S. Department of Agriculture (USDA), Passed through the California Department of Health Services, CFDA No. 10.561, Grant Agreement 19-64733-0000000-01;

Child Nutrition Cluster: School Breakfast Program, National School Lunch Program, Summer Food Service Program for Children, U.S. Department of Agriculture (USDA), Passed through the California Department of Education, CFDA No. 10.553, 10.555, and 10.559, Grant Agreement 19-64733-0000000-01

Title I Grants to Local Educational Agencies: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.010, Grant Agreements 09-14329-6473 and 10-15005-6473;

Title I Grants to Local Educational Agencies: U.S. Department of Education (ED), American Recovery and Reinvestment Act (Recovery Act), Passed through the California Department of Education, CFDA No. 84.010, Grant Agreement S389A090005 (PSA 15005);

Vocational Education Basic Grants to States: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.048, Grant Agreements 08-14893-64733-00, 08-14893-74435-00, and 08-14894-64733-00;

Special Education Cluster: Grants to States, Preschool Grants, U.S. Department of Education, Passed through the California Department of Education, CFDA Nos. 84.027, and 84.173, Grant Agreement 08-13682-6473-01 and 08-13379-6473-01;

Safe and Drug-Free Schools and Communities: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.186, Grant Agreements Q186A080005 and 08-14109-64733-00;

Fund for the Improvement of Education: U.S. Department of Education (ED), CFDA No. 84.215, Grant Agreements V215L052108, S215L080570, and S215L060084;

Twenty-First Century Community Learning Centers: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.287, Grant Agreements 07-14535-6473-4A, 08-14349-6473-4A, 08-14349-6473-5A, and 08-14535-6473-5A;

Education Technology State Grants: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.318, Grant Agreements 05-14334-6473, 06-14368-6473, 07-14368-6437, and 08-14368-64733;

Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP): U.S. Department of Education (ED), CFDA No. 84.334, Grant Agreements P334A050178-08, P334A050008-08, and P334A050205-08;

Reading First State Grants: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.357, Grant Agreement 07-14328-6473-00;

English Language Acquisition Grants: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.365, Grant Agreement 09-10084-6473;

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Improving Teacher Quality State Grants: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.367, Grant Agreement PCA 14344/14341;

Child and Adult Care Food Program: U.S. Department of Agriculture (USDA), Passed through the California Department of Education, CFDA 10.558, Grant Agreement 19-2016-3A;

State Grants for Innovative Programs: U.S. Department of Education (ED), Passed Through the California Department of Education, CFDA No. 84.298, Pass-Through Identification No. 1964733, Grant Agreement S298A06005;

Child Care and Development Fund: Child Care and Development Block Grant, Child Care Mandatory and Matching Funds of the Child Care and Development Fund; U.S. Department of Health and Human Services, Passed through the California Department of Education, CFDA Nos. 93.575 and 93.596, Contract CCTR-6164.

Recommendation

We recommend the District strengthen its controls over its procurement approval process and document retention policies to ensure that required policies of the District are being followed with proper documentation maintained in the procurement files.

Current Status

Implemented

15. Finding F-09-11 – Procurement, Suspension, and Debarment – No Certification and No Documentation to Investigation

Program Identification:

Child Nutrition Cluster: School Breakfast Program, National School Lunch Program, Summer Food Service Program for Children, U.S. Department of Agriculture (USDA), Passed through the California Department of Education, CFDA No. 10.553, 10.555, and 10.559, Grant Agreement 19-64733-0000000-01;

Food Stamp Cluster: State Administrative Matching Grants for Food Stamp Program, U.S. Department of Agriculture (USDA), Passed through the California Department of Health Services, CFDA No. 10.561, Grant Agreement 19-64733-0000000-01;

Title I Grants to Local Educational Agencies: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.010, Grant Agreement 09-14329-6473;

Special Education Cluster: Grants to States, Preschool Grants, U.S. Department of Education, Passed through the California Department of Education, CFDA Nos. 84.027, and 84.173, Grant Agreement 08-13682-6473-01;

Vocational Education Basic Grants to States: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.048, Grant Agreement 08-14894-64733-00;

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Twenty-First Century Community Learning Centers: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.287, Grant Agreements 07-14535-6473-4A and 08-14535-6473-5A;

English Language Acquisition Grants, U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.365, Grant Agreement 09-10084-6473;

Reading First State Grants: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.357, Grant Agreement 07-14328-6473-00;

Fund for the Improvement of Education: U.S. Department of Education (ED), CFDA No. 84.215, Grant Agreements U215X070162 and S215L080570;

Safe and Drug-Free Schools and Communities: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.186, Grant Agreements Q186A080005 and 08-14109-64733-00;

Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP): U.S. Department of Education (ED), CFDA No. 84.334, Grant Agreements P334A050178 and P334A050008;

Improving Teacher Quality State Grants: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.367, Grant Agreement PCA 14344/14341.

Recommendation

We recommend that the District continue to monitor the internal controls as documented in the new procurement policy manual to ensure compliance with federal suspension and debarment regulations. It is also our recommendation that the District continue to provide training to the appropriate procurement staff on the new procurement manual and hold periodic meetings for any future updates or revisions.

Current Status

Implemented

16. Finding F-10-14 – Reporting – Not Retaining the Meal Tickets Collected

Program Identification:

Child Nutrition Cluster: School Breakfast Program, National School Lunch Program, Summer Food Service Program for Children, U.S. Department of Agriculture (USDA), Passed through the California Department of Education, CFDA Nos. 10.553, 10.555, and 10.559, Grant Agreement 19-64733- 0000000-01.

Recommendation

Pursuant to findings from previous years audits, which included the same finding, the District had already issued a policy memorandum dated July 16, 2010, effective from that day, addressed to food

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service managers, mandating that meal tickets must be kept on hand and available for review for three years, plus the current school year, keeping in line with federal compliance requirements. Additionally current year tickets were to be maintained at the school site. However, for our entire audit year, that is fiscal year 2009-10, schools did not maintain meal tickets for the federally required time-period of three years. As such, we recommend that the District strengthen its controls regarding the meal counting process. The District should also ensure all cafeteria managers comply with the District's retention policy.

Current Status

Implemented

17. Finding F-10-15 – Reporting – Discrepancies between APRs and the Report generated from the FRDB

Finding F-09-13 – Reporting – Discrepancies between APRs and the Report generated from the FRDB

Finding F-08-17 – Reporting – Discrepancies between APRs and the Report generated from the FRDB

Program Identification:

Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP): U.S Department of Education (ED), CFDA No. 84.334, Grant Agreements P334A050008, P334A050217, and P334A050178.

Recommendation

The District should implement a policy to formalize the documentation of the procedures of APR reporting and to strengthen its controls over the reporting process.

Current Status

Implemented

18. Finding F-10-11 – Financial and Performance Reporting

Finding F-09-15 – Reporting – Financial and Performance Reporting

Finding F-08-18 – Reporting – Financial and Performance Reporting

Finding F-07-25 – Reporting – Performance Reporting

Finding F-07-27 – Reporting – Performance Reporting

Finding F-06-25 – Reporting – Financial and Performance Reporting

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Program Identification:

Vocational Education Basic Grants to States: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.048, Grant Agreements 08-14894-64733-00, 09-14894-64733-00, and 09-14893-6733-00;

State Administrative Matching Grants for Food Stamp Program: U.S. Department of Agriculture (USDA), CFDA 10.561, Passed through the California Department of Health Services (DHS) as California Nutrition Network, Agreement No. 04-35450;

Fund for the Improvement of Education: U.S. Department of Education (ED), Elementary and Secondary Act Title V, Part D; (CFDA 84.215), Project Title: Teaching American History, Award No. U215X030096;

Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP): U.S. Department of Education (ED) Pass-Through Entity: California Department of Education Award Number: Grant Agreements P334A050178, and P334A050205.

Recommendation

The District should implement policies and procedures to strengthen its controls over reporting for the Secondary Vocational Education program, to ensure that reports are accurately reconciled to the actual data. The District should consult with CDE to determine if it is required to resubmit the revised reports with corrections.

Current Status

Implemented

19. Finding F-10-12 – Reporting – Not Sufficient Control over the Review and Approval of Monthly Attendance Sheets

Finding F-09-16 – Reporting – Not Sufficient Control over the Review and Approval of Monthly Attendance Sheets

Finding F-08-19 – Reporting – Not Sufficient Control over the Review and Approval of Monthly Attendance Sheets

Program Identification:

Twenty-First Century Community Learning Centers: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.287, Grant Agreements 07-14349-6473-4A, 08-14349-6473-3A, 08-14349-6473-4A, 08-14349-6473-5A, 08-14535-6473-5A, 09-14349-6473-4A, 09-14349-6473-5A, 09-14535-6473-4A, and 09-14535-6473-5A.

Recommendation

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The District should strengthen its controls to ensure attendance data is compiled and reported accurately and include only schools authorized for the program. The District should also maintain sufficient documentation to support its results of the reconciliation between the SAR and QAR.

Current Status

Implemented

20. Finding F-10-13 – Reporting

Program Identification:

Medical Assistance Programs (Medicaid; Title XIX): U.S. Department of Health and Human Services, Passed through the California Department of Education, CFDA No. 93.778, Grant Agreement C-10606:08:09.

Recommendation

The District should implement policies and procedures to strengthen its controls over reporting to ensure that reports are accurately reconciled to the accurate data and for the proper reporting period. We recommend that the District implement policies and procedures for inclusion of journal entries recorded on the IFS to be part of the claims process to ensure all activities are accounted for.

Current Status

Partially Implemented

21. Finding F-10-16 – Subrecipient Monitoring – Monitoring Procedures Performed

Finding F-09-17 – Subrecipient Monitoring – Monitoring Procedures Performed

Finding F-08-21 – Subrecipient Monitoring – Monitoring Procedures Performed

Finding F-07-29 – Subrecipient Monitoring – Monitoring Procedures Performed

Finding F-06-28 – Subrecipient Monitoring – Monitoring Procedures Performed

Finding F-05-30 – Subrecipient Monitoring – Monitoring Procedures over Subrecipients

Program Identification:

Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP), CDFA No. 84.334, U.S. Department of Education (ED), Grant Agreements P334A050008, P334A050217, and P334A050178.

Twenty-First Century Community Learning Centers, U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.287, Grant Agreements 07-14349-6473-4A, 07-14535-6473-4A, 08-14349-6473-3A, 08-14349-6473-3B, 08-14349-6473-4A, 08-

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14535-6473-4A, 08-14349-6473-5A, 08-14535-6473-3A, 08-14535-6473-3B, 08-14535-6473-3C, 08-14349-6473-5A, 08-14535-6473-5A, 09-14349-6473-4A, 09-14349-6473-5A, 09-14535-6473-4A, 09-14535-6473-5A, 09-14535-6473-6A, 09-14535-6473-6B, 09-14603-6473-6B, 09-14535-6473-6C, 09-14603-6473-6C, 09-14535-6473-6D, and 09-14603-6473-6D.

Recommendation

We recommend that the District establish policies and procedure to ensure that the subrecipient monitoring compliance requirement be met with the federal requirements.

Subsequent to our audit fieldwork and exit conference, the District' Procurement Services Branch provided us with a copy of the amendment number one to the original agreements for the 3 agencies. The purpose of the amendment was to extend the contract period for 2010-11 and the award identification was added to the amendment. It is our recommendation that the District strengthen its controls to ensure that all federal award identification is included on the original pass-through agreements and all amendments.

Current Status

Implemented. (Pending CDE confirmation.)

22. Finding F-07-31 – Special Tests and Provisions (Participation of Private School Children) – Per-Pupil Allocations offered to Participating Private Schools

Program Identification:

Safe and Drug Free Schools and Communities: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.186, Grant Agreement Q186A060005;

English Language Acquisition Grants: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.365, Grant Agreements 03-14346-6473- 00, and 10084-6474-00;

Improving Teacher Quality State Grants: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.367, Grant Agreement S367A040005A.

Recommendation

We recommend that the District enhance its policies and procedures to ensure participating private schools are timely notified of any changes in per-pupil allocation amounts available.

Current Status

Implemented

23. Finding F-10-17 – Special Tests and Provisions (Highly Qualified Paraprofessionals) – Qualifications

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Finding F-09-19 – Special Tests and Provisions Highly Qualified Teachers and Paraprofessionals

Finding F-08-23 – Special Tests and Provisions Highly Qualified Teachers and Paraprofessionals

Finding F-07-34 – Special Tests and Provisions Highly Qualified Teachers and Paraprofessionals

Finding F-06-34 – Special Tests and Provisions (Highly Qualified Paraprofessionals) – Qualifications

Program Identification:

Title I Grants to Local Educational Agencies: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.010, Grant Agreement 09-14329-6473 and 10-14329-6473.

Recommendation

We recommend that the District implement policies and procedures to ensure that non-highly qualified paraprofessionals are not funded by any NCLB programs where a highly qualified status is required to comply with NCLB requirements.

Current Status

Implemented

24. Finding F-10-18 – Special Tests and Provisions (Parent Notification Letters) – Support for Notifications

Program Identification:

English Language Acquisition Grants: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.365, Grant Agreement 10-10084-64733-00.

Recommendation

We recommend the District continue to strengthen its policies and procedures to ensure that the schools comply with the requirement that all parental notifications are made in a timely manner and that supporting documentation be maintained on file to support the schools' compliance.

Current Status

Implemented

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Findings and Questioned Costs Related to State Awards

(1) S-10-01 Regular and Special Day Classes – Elementary Schools – Attendance Computations

State Audit Guide Finding Codes: 10000 and 40000

Schools Affected

- Winnetka Elementary School
- Sunland Elementary School
- Broad Avenue Elementary School

Recommendation

We recommend that the District continue to strengthen its controls over implementing District policies over student attendance reporting. Furthermore, we recommend that the District continue to provide adequate attendance reporting training to the schools so that proper attendance reporting procedures are adhered to.

Current Status

Corrective actions were implemented by the subject schools.

(2) S-10-02 Regular and Special Day Classes – Secondary Schools – Attendance Computations

State Audit Guide Finding Codes: 10000 and 40000

Schools Affected:

- White Middle School
- Roosevelt High School

Recommendation

We recommend that the District continue to strengthen its controls over implementing District policies over student attendance reporting. Furthermore, we recommend that the District continue to provide adequate attendance reporting training to the schools so that proper attendance reporting procedures are adhered to.

Current Status

Corrective actions were implemented by the subject schools.

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(3) S-10-03 Attendance Accounting – Continuation Education – Attendance Computations

State Audit Guide Finding Codes: 10000 and 40000

School Affected

- Mission High School
- Monterey High School

Recommendation

We recommend that the District strengthen its review process over the compilation of the *Monthly Statistical Reports* to ensure that the report accurately reflects student attendance data.

Current Status

Corrective action was implemented.

(4) S-10-04 Attendance Accounting – Independent Study – Attendance Computations

State Audit Guide Finding Codes: 10000 and 40000

School Affected

- Venice Skill Center AEWC

Recommendation

We recommend that the District strengthen its review process over independent study to ensure proper reporting of attendance through appropriate evaluation of pupils' work based on all required documentation on file.

Current Status

Corrective actions were implemented by the subject school.

(5) S-10-05 Attendance Accounting – Dependent Charter School – Attendance Computations

State Audit Guide Finding Codes: 10000 and 40000

Schools Affected

- Alexander Science Center

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Recommendation

We recommend that the District continue to strengthen its review process over dependent charter schools' attendance reporting.

Current Status

Corrective actions were implemented by the subject school.

(6) S-09-06 – After School Education and Safety Program

State Audit Guide Finding Codes: 40000

School Affected

Belvedere Middle School	Vista Middle School
Normont Elementary School	Ritter Elementary School
Glassell Park Elementary School	Glenhill Street Elementary School
Columbus Avenue Elementary School	Sharpe Elementary School
Pio Pico Elementary	122 nd St. Elementary School
Haddon Elementary School	San Antonio Elementary School
San Gabriel Elementary School	Hughes Elementary School
Rowan Avenue Elementary School	Ellen Ochoa Learning Center
San Miguel Elementary School	Ascot Elementary School
Hughes Elementary School	Marvin Elementary School
24 th Street Elementary School	Liberty Elementary School
Loma Vista Elementary School	Magnolia Elementary School
Harrison Elementary School	Hawaiian Elementary School
Hoover Elementary School	Miramonte Elementary School
Norwood Elementary School	

Recommendation

We recommend that the District strengthen its procedures on attendance documentation for the After School Education and Safety program. The District should ensure that the agencies performing the services for these programs are aware of the district policies, specifically on maintaining accurate attendance records. We also recommend for the District to perform agency visits to make sure that the established policies are complied with.

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Status of Prior Year Findings and Recommendations

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Current Status

Beyond the Bell (BTB) has undertaken policy and procedures improvements to address the above findings.

(7) S-10-7 After School and Safety Program

State Audit Guide Finding Codes: 40000

Schools Affected

Belvedere Middle School

Vista Middle School

Ritter Elementary School

Ritter Elementary School

Gratts Elementary School

Glenhill Street Elementary School

Harrison Elementary School

Hoover Elementary School

Pio Pico Elementary

Miramonte. Elementary School

Norwood Elementary School

75th Street Elementary School

Wadsworth Elementary School

Haddon Elementary School

San Antonio Elementary School

San Gabriel Elementary School

Sharp Elementary School

Ellen Ochoa Learning Center

Recommendation

We recommend that the District strengthen its procedures on attendance documentation for the After School Education and Safety program. The District should ensure that the agencies performing the services for these programs are aware of the district policies, specifically on maintaining accurate attendance records. We also recommend for the District to perform agency visits to make sure that the established policies are complied with.

Current Status

Beyond The Bell Branch has implemented the procedures to ensure that they are providing training on attendance policies and procedures as well as how the procedures are being implemented at the sites to ensure documentation of reported attendance figures is readily available and accurate for auditing purposes.

(8) S-10-08 – Kindergarten Continuance

State Audit Guide Finding Codes: 40000

School Affected

- Gridley Elementary School

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Recommendation

We recommend that the District strengthen its controls in implementing policies about students who need to stay in kindergarten for more than a year.

Current Status

Corrective actions were implemented by the subject school.

APPENDIX C

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

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APPENDIX C

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following statements are summaries of certain provisions of the Lease Agreement, the Assignment Agreement and the Trust Agreement. This summary does not purport to be comprehensive and these statements are qualified in their entirety by reference to the full terms of the Lease Agreement, the Assignment Agreement and the Trust Agreement.

DEFINITIONS OF CERTAIN TERMS

The following sets forth the definitions of certain words and terms used in this Summary of Principal Legal Documents.

“Additional Certificates” means all Certificates authorized by a Supplemental Trust Agreement and executed and delivered by the Trustee under and pursuant to the Trust Agreement.

“Additional Payments” means the payments so designated and required to be paid by the District pursuant to the provisions of the Lease Agreement relating to additional payments.

“Assignment Agreement” means the Assignment Agreement, dated as of October 1, 2001, by and between the Corporation and the Trustee, together with any duly authorized, executed and acknowledged amendments thereto.

“Authorized Denomination” means, with respect to the Series 2012A Certificates and the Series 2012B Certificates, \$5,000 or any integral multiple thereof.

“Available Moneys” means (a) Seasoned Funds, (b) the proceeds of any obligations issued or incurred to refund the Certificates, (c) insurance proceeds or a condemnation award paid directly to the Trustee, (d) amounts drawn under any Credit Facility that is a direct pay letter of credit or (e) investment income derived from the investment of moneys described in clauses (a) or (b) of this definition.

“Business Day” means a day other than a Saturday or a Sunday on which the Trustee, the remarketing agent, the Credit Provider, the Liquidity Provider, any broker-dealer, the auction agent or banks or trust companies in New York, New York, are not authorized or required to remain closed 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.

“Certificates” means any Certificate of Participation or Certificates of Participation, executed and delivered by the Trustee pursuant to and Outstanding under the Trust Agreement.

“Certificate Year” shall have the meaning ascribed thereto in the Tax Certificate.

“Closing Date” with respect to any Series of Certificates, means the date upon which there is a physical delivery of such Series of Certificates in exchange for the amount representing the purchase price of such Certificates by the Original Purchaser.

“Code” means the Internal Revenue Code of 1986, as amended, together with applicable temporary and final regulations promulgated, and applicable official public guidance published, under the Code.

“Completion Date” means, with respect to any Project, the date of completion of such 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, dated as of June 12, 2012, of the District, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

“Corporation” means the LAUSD Administration Building Finance Corporation, a nonprofit public benefit corporation organized and existing under the laws of the State.

“Corporation Representative” means the President of the Corporation, the Vice President of the Corporation, the Secretary of the Corporation or any other person authorized by resolution of the Board of the Corporation to act on behalf of the Corporation under or with respect to the Trust Agreement, the Lease Agreement and the Assignment Agreement.

“Counsel” means an attorney at law or a firm of attorneys (who may be an employee of or counsel to the District or the Trustee) duly admitted to the practice of law before the highest court of any state of the United States of America or of the District of Columbia.

“Credit Facility” means any letter of credit, line of credit, bond insurance or other instrument then in effect which provides for payment when due of principal and interest evidenced by any Series of Certificates, except that upon the issuance of an alternate Credit Facility in accordance with the Trust Agreement, such term shall mean such alternate Credit Facility. A Credit Facility and a Liquidity Facility may be established under a single instrument.

“Credit Provider” means any bank, insurance company, pension fund or other financial institutions which provides a Credit Facility for any Series of the Certificates, and their respective successors or assigns.

“Debt Service” means the scheduled amount of interest and amortization of principal payable with respect to the Certificates during the period of computation, excluding amounts scheduled during such period which relate to principal which has been retired before the beginning of such period.

“Defeasance Obligations” means (a) cash, (b) non-callable and non-prepayable Federal Securities, (c) evidences of ownership of proportionate interests in future interest and principal payments on U.S. Treasury obligations held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying U.S. Treasury obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated, (d) pre-refunded municipal obligations rated “AAA” by Fitch, if Fitch has rated the Certificates, and/or “Aaa” by Moody’s, if Moody’s has rated the Certificates, and/or “AAA” by S&P, if S&P has rated the Certificates or (e) an investment contract with a provider rated “AAA” by Fitch, if Fitch has rated the Certificates, and/or “Aaa” by Moody’s, if Moody’s has rated the Certificates, and/or “AAA” by S&P, if S&P has rated the Certificates and comprised of Federal Securities.

“Delivery Costs” means, with respect to any Series of Certificates, all costs and expenses of execution and delivery of the Certificates of such Series, including, but not limited to: (a) underwriters’ fees other than those taken in the form of a discount on the Closing Date for such Series; (b) counsel fees, including Special Counsel, underwriters’ counsel, District counsel, Corporation counsel and special tax counsel fees, as well as any other specialized counsel fees incurred in connection with the financing; (c) financial advisor fees; (d) certain fees and expenses of any Credit Provider and any Liquidity Facility Provider; (e) rating agency fees; (f) initial Trustee fees and expenses, including Trustee counsel fees; (g) recording fees; (h) accountant fees; and (i) printing costs of the Certificates of such Series and of an official statement or other offering document with respect thereto.

“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.

“*District Representative*” means each person authorized by resolution of the Board of Education of the District delivered to the Trustee to act on behalf of such District under or with respect to the Lease Agreement and the Trust Agreement.

“*Event of Default*” means an event of default under the Lease Agreement, as defined in the Lease 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, as described in the Lease Agreement as of such date, as may be amended at any time and from time to time in accordance with the Lease Agreement.

“*Federal Securities*” means (i) direct general obligations of (including obligations issued or held in book entry form on the books of the Department of the Treasury) the United States of America, (ii) obligations the payment of principal of and interest on which are guaranteed as to full and timely payment by the United States of America or (iii) non-callable obligations of government-sponsored agencies that are not backed by the full faith and credit of the United States of America.

“*Fiscal Year*” means the twelve-month period beginning on July 1 of any year and ending on June 30 of the next succeeding year, or any other twelve-month period selected by the District as its fiscal year.

“*Fitch*” means Fitch Investors Service, Inc., and its successors and assigns, or, if such entity shall for any reason no longer perform the function of a securities rating agency, “Fitch” shall be deemed to refer to any other nationally recognized rating agency designated by the District.

“*Headquarters Building*” means the real property and improvements acquired and improved by the Corporation with the proceeds of the Certificates, as described in the Lease Agreement.

“*Independent Counsel*” means an attorney duly admitted to the practice of law before the highest court of the state in which such attorney maintains an office and who is not an employee of the Corporation, the Trustee or the District.

“*Insurance and Condemnation Fund*” means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

“*Insurer*” means Ambac Assurance Corporation, a Wisconsin domiciled stock insurance company, or any successor thereto or assignee thereof, as issuer of the financial guaranty insurance policies with respect to the Series 2001C Certificates and the Series 2002C Certificates.

“*Interest Payment Date*” means, with respect to the Series 2012A Certificates and the Series 2012B Certificates, each April 1 and October 1, commencing October 1, 2012.

“*Lease Agreement*” means the agreement for the lease of the Property by the Corporation to the District, dated as of October 1, 2001, together with any duly authorized and executed amendments thereto.

“*Lease Payment Date*” means, with respect to any Series of Certificates, any date occurring fifteen (15) Business Days prior to any Payment Date with respect to that Series of Certificates.

“*Lease Payment Fund*” means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

“*Lease Payments*” means all payments required to be paid by the District pursuant to the provisions of the Lease Agreement, including any prepayment thereof pursuant to the Lease Agreement, which payments consist of an interest component and a principal component.

“*Liquidity Facility*” means any letter of credit, line of credit, standby purchase agreement or other instrument then in effect which provides for the purchase of any Series of Certificates upon the tender thereof in the event remarketing proceeds are insufficient therefor. A Liquidity Facility and a Credit Facility may be established under a single instrument.

“*Liquidity Provider*” means any bank, insurance company, pension fund or other financial institutions which provides a Liquidity Facility for any Series of the Certificates, and their respective successors or assigns.

“*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 shall for any reason no longer perform the function of a securities rating agency, “*Moody’s*” shall be deemed to refer to any other nationally recognized rating agency designated by the District.

“*Net Proceeds*,” means when used with respect to insurance or condemnation proceeds, means any insurance proceeds or condemnation award paid with respect to the Property, to the extent remaining after payment therefrom of all expenses incurred in the collection thereof.

“*Original Purchaser*” means, with respect to any Series of Certificates, the first purchaser of such Certificates.

“*Outstanding*,” when used with reference to the Certificates and as of any particular date, means all Certificates theretofore delivered except: (a) any Certificate canceled by the Trustee or surrendered for cancellation at or before said date, (b) Certificates for the payment or prepayment of which funds or eligible securities in the necessary amount, including accrued interest with respect thereto, shall have theretofore been deposited with the Trustee (whether upon or prior to the maturity or prepayment date of such Certificates), provided that, if such Certificates are to be prepaid prior to maturity, notice shall 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 (c) any Certificate in lieu of, in substitution for or in exchange for which another Certificate shall have been delivered pursuant to the Trust Agreement.

“*Owner*” or “*Certificate Owner*” when used with respect to a Certificate, means the person in whose name the ownership of such Certificate shall be registered.

“*Payment Date*” means any Interest Payment Date or Principal Payment Date.

“*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) any right or claim of any mechanic, laborer, materialman, supplier or vendor filed or perfected in the manner prescribed by law; (v) 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 (vi) 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 (the Trustee entitled to rely upon investment direction of the District as a determination by the District that such investment constitutes a legal investment):

1. Cash (insured at all times by the Federal Deposit Insurance Corporation or otherwise collateralized with obligations described in paragraph 2 below);
2. Direct obligations of (including obligations issued or held in book entry form on the books of) the Department of the Treasury of the United States of America;

3. Senior debt obligations of other Government Sponsored Agencies approved by the Insurer;
4. Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:
 - (a) Export-Import Bank
 - (b) Farm Credit System Financial Assistance Corporation
 - (c) Rural Economic Community Development Administration (formerly the Farmers Home Administration)
 - (d) General Services Administration
 - (e) U.S. Maritime Administration Small Business Administration
 - (f) Government National Mortgage Association (GNMA)
 - (g) U.S. Department of Housing & Urban Development (PHA's)
 - (h) Federal Housing Administration
 - (i) Federal Financing Bank;
5. Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:
 - (a) Senior debt obligations rated "Aaa" by Moody's and "AAA" by S&P issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC)
 - (b) Obligations of the Resolution Funding Corporation (REFCORP)
 - (c) Senior debt obligations of the Federal Home Loan Bank System
 - (d) Senior debt obligations of other Government Sponsored Agencies approved by the Insurer;
6. U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of "P-1" by Moody's and "A-1" or "A-1+" by S&P and maturing no more than 360 calendar days after the date of purchase (ratings on holding companies are not considered as the rating of the bank);
7. Commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's and "A-1+" by S&P and which matures not more than 270 calendar days after the date of purchase;
8. Investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P;
9. Pre-refunded Municipal Obligations defined as follows: Any Obligations or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and
 - (a) Which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of S&P and Moody's or any successors thereto; or
 - (b) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph 2 above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such Obligations or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the Obligations or other obligations

described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;

10. Municipal obligations rated “Aaa/AAA” or general obligations of states with a rating of at least “A2/A” or higher by both Moody’s and S&P;
11. Investment agreements approved in writing by the Insurer;
12. Other forms of investments (including repurchase agreements) approved in writing by the Insurer; and
13. The Los Angeles County Pooled Investment Fund.

“*Prepayment*” means any payment made by the District pursuant to the Lease as a prepayment of the Lease Payments.

“*Prepayment Fund*” means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

“*Principal Amount*,” when used with respect to Lease Payments, means the total principal component of Lease Payments then unpaid.

“*Principal Office*” means, with respect to the Trustee, the main or principal corporate trust office of the Trustee located in Los Angeles, California; *provided, however*, for transfer, registration, exchange, payment and surrender of Certificates means care of the corporate trust office of U.S. Bank Trust National Association in St. Paul, Minnesota, or such other office designated by the Trustee from time to time.

“*Principal Payment Date*” means, with respect to the Series 2012A Certificates and the Series 2012B Certificates, October 1 of each year, commencing October 1, 2012.

“*Proceeds*,” when used with reference to any Series of Certificates, means the principal amount of such Certificates, plus accrued interest, if any, and premium, if any, less original issue discount.

“*Project*” means the acquisition and improvement of the Property financed with proceeds of Certificates.

“*Project Costs*” means all costs of payment of, or reimbursement for, acquisition and improvement of the Property by 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 the Site and the Facility to be leased from the Corporation to the District pursuant to the Lease Agreement, as described in the Lease Agreement; *provided, however*, that the District, without the consent of the Owners, may modify the Property by substituting one or more Sites or Facilities, or adding one or more Sites or Facilities to the lien of the Lease Agreement, but only in accordance with the provisions of the Lease Agreement relating to amendments of the Lease Agreement.

“*Rating Category*” means any generic rating category of Fitch, Moody’s or S&P, without regard to any refinement of such category by plus or minus sign or by numerical or other qualifying designation.

“*Record Date*” means, (a) with respect to the Series 2001B Certificates, with respect to any Interest Payment Date, the 15th day of the calendar month immediately preceding an Interest Payment Date and (b) with respect to the Series 2012A Certificates and the Series 2012B Certificates, the 15th day (whether or not a Business

Day) of the month next preceding each Interest Payment Date. With respect to any payment of defaulted interest, a special record date shall be established in accordance with the provisions of the Trust Agreement.

“Rental Period” means each twelve-month period during the Term of the Lease Agreement commencing on October 2 in any year and ending on October 1 in the next succeeding year.

“Registration Books” means the records maintained by the Trustee pursuant to the Trust Agreement for registration and transfer of ownership of the Certificates.

“Regulations” means temporary and permanent regulations promulgated under the Code.

“Reserve Fund” means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

“Reserve Requirement” means (i) with respect to the Series 2012A Certificates, \$7,840,623.10, (ii) with respect to the Series 2012B Certificates, \$5,081,009.00, and (iii) with respect to any Series of Additional Certificates, the amount set forth in the Supplemental Trust Agreement under which such Series of Additional Certificates is executed and delivered.

“S&P” 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, “S&P” shall be deemed to refer to any other nationally recognized rating agency designated by the District.

“Seasoned Funds” means moneys deposited by the District with the Trustee and so designated by the District, which moneys shall have been held by the Trustee in an account in the Lease Payment Fund for at least 123 days prior to the date notice of tender or prepayment is given and not commingled with any moneys so held for less than said period and during which period no petition in bankruptcy was filed by the District under the United States Bankruptcy Code, unless such petition was dismissed and all applicable appeal periods have expired without an appeal having been filed.

“Series,” when used with reference to the Certificates, means all of the Certificates designated as being of the same series, executed and delivered in a simultaneous transaction, regardless of variations in principal payment date, interest rate, prepayment and other provisions, and any Certificates thereafter executed and delivered upon transfer or exchange of or in lieu of or in substitution for (but not to refund) such Certificates pursuant to the Trust Agreement.

“Series 2001B Certificates” means the \$68,890,000 aggregate principal amount of Certificates of Participation (Administration Building Project) 2001 Series B authorized by and at any time Outstanding under and executed and delivered pursuant to the Trust Agreement.

“Series 2012A Certificates” means the Los Angeles Unified School District Refunding Certificates of Participation, 2012 Series A (Headquarters Building Projects) authorized by and at any time Outstanding under and to be executed and delivered pursuant to the Trust Agreement.

“Series 2012B Certificates” means the Los Angeles Unified School District Refunding Certificates of Participation, 2012 Series B (Headquarters Building Projects) authorized by and at any time Outstanding under and to be executed and delivered pursuant to the Trust Agreement.

“Site” means, as of any date, the real property, if any, comprising a portion of the Property leased by the Corporation to the District pursuant to the Lease Agreement, as described in the Lease Agreement as of such date, as may be amended at any time and from time to time in accordance with the Lease Agreement.

“Special Counsel” means an attorney or a firm of attorneys, acceptable to the District, of nationally recognized standing in matters pertaining to the tax-exempt nature of interest on bonds issued by states and their

political subdivisions, duly admitted to the practice of law before the highest court of any state of the United States of America or the District of Columbia.

“*State*” means the State of California.

“*Supplemental Trust Agreement*” means an agreement amending or supplementing the terms of the Trust Agreement entered into pursuant to the terms of the Trust Agreement.

“*Tax Certificate*” means, with respect to any Series of Tax-Exempt Certificates, the Tax Certificate dated as of the Closing Date for the Certificates of such Series, concerning certain matters pertaining to the use and investment of Proceeds of such Certificates, executed by the District on the date of execution and delivery of such Certificates, including any and all exhibits attached thereto.

“*Taxable Certificates*” means a Series of Certificates, the interest with respect to which is not exempt from federal income taxation under the Code.

“*Tax-Exempt Certificates*” means a Series of Certificates, the interest with respect to which is exempt from federal income taxation under the Code.

“*Term of the Lease Agreement*” means the time during which the Lease Agreement is in effect, as provided in the Lease Agreement.

“*Trust Agreement*” means the Trust Agreement, dated as of October 1, 2001, by and among the District, the Corporation and the Trustee, together with any amendments or supplements to the Trust Agreement permitted to be made under the Trust Agreement.

“*Trustee*” means U.S. Bank Trust National Association, a national banking association organized under the laws of the United States of America, or any successor thereto acting as Trustee pursuant to the Trust Agreement.

THE LEASE AGREEMENT

Representations, Covenants and Warranties

Of the District. The District represents, covenants and warrants to the Corporation as follows:

(a) *Due Organization and Existence.* The District is a school district duly organized and validly existing under the laws of the State, has full legal right, power and authority under the laws of the State to enter into the Lease Agreement and the Trust Agreement and to carry out and consummate all transactions contemplated thereby, and by proper action the District has duly authorized the execution and delivery of the Lease Agreement and the Trust Agreement.

(b) *Due Execution.* The representatives of the District executing the Lease Agreement and the Trust Agreement have been fully authorized to execute the same pursuant to a resolution duly adopted by the Board of Education of the District.

(c) *Valid, Binding and Enforceable Obligations.* The Lease Agreement and the Trust Agreement have been duly authorized, executed and delivered by the District and constitute the legal, valid and binding obligations of the District enforceable against the District in accordance with their respective terms.

(d) *No Encumbrances.* The District will not mortgage or encumber the Property, except as provided under the terms of the Lease Agreement and the Trust Agreement.

(e) *No Conflicts.* The execution and delivery of the Lease Agreement and the Trust Agreement, the consummation of the transactions therein contemplated and the fulfillment of or compliance with the terms and conditions thereof, do not and will not conflict with or constitute a violation or breach of or default (with due notice

or the passage of time or both) under any applicable law or administrative rule or regulation, or any applicable court or administrative decree or order, or any indenture, mortgage, deed of trust, lease, contract or other agreement or instrument to which the District is a party or by which it or its properties are otherwise subject or bound, or result in the creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the property or assets of the District, which conflict, violation, breach, default, lien, charge or encumbrance would have consequences that would materially and adversely affect the consummation of the transactions contemplated by the Lease Agreement and the Trust Agreement, or the financial condition, assets, properties or operations of the District.

(f) *Consents and Approvals.* No consent or approval of any trustee or holder of any indebtedness of the District or of the voters of the District, and no consent, permission, authorization, order or license of, or filing or registration with, any governmental authority is necessary in connection with the execution and delivery of the Lease Agreement and the Trust Agreement, or the consummation of any transaction therein contemplated, except as have been obtained or made and as are in full force and effect.

Of the Corporation. The Corporation represents, covenants and warrants to the District as follows:

(a) *Due Organization and Existence.* The Corporation is a nonprofit, public benefit corporation organized and existing under and by virtue of the laws of the State; has power to enter into the Lease Agreement, the Assignment Agreement and the Trust Agreement; is possessed of full power to own and hold, improve and equip the Headquarters Building and to lease and sell the same; and has duly authorized the execution and delivery of all of the aforesaid agreements and such agreements constitute the legal, valid and binding agreements of the Corporation, enforceable against the Corporation in accordance with their respective terms.

(b) *No Encumbrances.* The Corporation will not pledge the Lease Payments or other amounts derived from the Property and from 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 and the Trust Agreement.

(c) *No Violations.* Neither the execution and delivery of the Lease Agreement, the Assignment Agreement or the Trust Agreement, the fulfillment of or compliance with the terms and conditions thereof, nor the consummation of the transactions contemplated thereby, conflicts with or results in a breach of the terms, conditions or provisions of any restriction or any agreement or instrument to which the Corporation is now a party or by which the Corporation is bound, constitutes a default under any of the foregoing, or results in the creation or imposition of any lien, charge or encumbrance whatsoever upon any of the property or assets of the Corporation, or upon the Property, except Permitted Encumbrances.

(d) *No Assignments.* Except as provided in the Lease Agreement and Assignment Agreement, the Corporation will not assign the Lease Agreement, its right to receive Lease Payments from the District or its duties and obligations under the Lease Agreement to any other person, firm or corporation so as to impair or violate the representations, covenants and warranties contained summarized under this caption.

(e) *Execution and Delivery.* The Corporation has duly authorized and executed the Lease Agreement in accordance with all applicable laws.

(f) *Consents and Approvals.* No consent or approval of any trustee or holder of any indebtedness of the Corporation, and no consent, permission, authorization, order or license of, or filing or registration with, any governmental authority is necessary in connection with the execution and delivery of the Lease Agreement, the Assignment Agreement and the Trust Agreement, or the consummation of any transaction therein contemplated, except as have been obtained or made and as are in full force and effect.

Deposit of Moneys; Payment of Acquisition Costs; Payment of Delivery Costs

Deposit of Moneys. On the Closing Date for each Series of Certificates, the Corporation shall cause to be deposited with the Trustee the Proceeds of the sale of the Certificates delivered on such Closing Date.

Payment of Project Costs. Payment of Project Costs, if any, for each Series of Certificates shall be made from the moneys deposited in the related account of the Project Fund, which moneys shall be disbursed for such purpose in accordance and upon compliance with the provisions of the Trust Agreement summarized under “THE TRUST AGREEMENT – Project Fund and Delivery Costs Fund – Payment of Project Costs.”

Payment of Delivery Costs. Payment of Delivery Costs for each Series of the Certificates shall be made from the moneys deposited in the related account of the Delivery Costs Fund, which moneys shall be disbursed for such purpose in accordance and upon compliance with the provisions of the Trust Agreement summarized under “THE TRUST AGREEMENT – Project Fund and Delivery Costs Fund – Payment of Delivery Costs.”

Agreement to Lease; Term of Lease Agreement; Lease Payments

Lease. The Corporation leases the Property to the District, and the District 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 shall commence on the date of recordation of the Lease Agreement and shall end on October 1, 2031, unless such term is extended as provided in the Lease Agreement. If, on October 1, 2031, the Trust Agreement or the Lease Agreement shall not be discharged or otherwise terminated by its terms, or if the Lease Payments payable under the Lease Agreement shall have been abated at any time and for any reason, then the Term of the Lease Agreement shall be extended until there has been deposited with the Trustee an amount sufficient to pay all obligations due under the Trust Agreement or the Lease Agreement, as the case may be, provided, however, that to the extent amounts are owed by the District, the Term of the Lease Agreement shall be extended to such date until all such obligations shall have been satisfied but in no event shall the Term of the Lease Agreement extend beyond October 1, 2041. If, prior to October 1, 2031, the Trust Agreement shall be discharged by its terms, the Term of the Lease Agreement shall thereupon end.

Possession. The District agrees to accept and take possession of the Property on or prior to the date of recordation of the Lease Agreement. The first Lease Payment shall be due on November 15, 2001.

Lease Payments. *Obligation to Pay.* 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 respective principal amounts specified in the Lease Agreement, as may be amended and modified from time to time in connection with any change in Property or execution and delivery of any Series of Additional Certificates, and in the respective interest amounts computed in accordance with the Lease Agreement, to be due and payable on the respective Lease Payment Dates, such amounts to be applied to the payment and interest with respect to the related Series of Certificates. The Trustee shall send written notification to the District at least 30 days prior to each Interest Payment Date, which notification will indicate the Lease Payment due on the next succeeding Lease Payment Date, less any amount available under the Trust Agreement in the Lease Payment Fund for application as a credit against such Lease Payment. For the purpose of computing the total Lease Payment to be paid by the District, the Trustee shall add to the actual interest accrued to such date of notification the amount of interest that will accrue with respect to each Series of Certificates. Each Lease Payment shall be deposited with the Trustee no later than the Lease Payment Date preceding the Interest Payment Date or Principal Payment Date on which such Lease Payment is due. To the extent such amount is insufficient to make Lease Payments on such Interest Payment Date or Principal Payment Date, the District agrees to make up such deficiency on such Interest Payment Date or Principal Payment Date and to deposit such amount with the Trustee on or prior to such Interest Payment Date or Principal Payment Date.

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) shall be credited towards the Lease Payment then due and payable; and no Lease Payment need be made on any Lease Payment Date if the amounts then held in the Lease Payment Fund and available for such purpose are at least equal to the Lease Payment then required to be paid. The Lease Payments for the Property payable in any Rental Period shall be for the use and occupancy of the Property during such Rental Period.

Effect of Prepayment. In the event that the District prepays all remaining Lease Payments in full pursuant to the Lease Agreement, the obligations under the Lease Agreement shall thereupon cease and terminate including, but not limited to, the obligation to pay Lease Payments as summarized under this caption; subject however, to the provisions of the Lease Agreement summarized under “– Prepayment of Lease Payments – Security Deposit” in the case of prepayment by application of a security deposit. In the event that the District prepays the Lease Payments in part, but not in whole, pursuant to the provisions of the Lease Agreement summarized under “– Prepayment of Lease Payments – Optional Prepayment” and “– Prepayment of Lease Payments – Mandatory Prepayment From Net Proceeds of Insurance or Eminent Domain” as a result of any insurance or condemnation award with respect to any portion of the Property, the principal portion of such prepayment shall be credited entirely towards the prepayment of the principal components of the Lease Payments in Authorized Denominations as set forth in the amendment to the Lease Agreement executed and delivered pursuant to provisions of the Lease Agreement and the Trust Agreement relating to amendments in conjunction with the issuance of such Series of Additional Certificates. In the event that the District prepays the Lease Payments evidenced by the Series 2012A Certificates or the Series 2012B Certificates, in part, but not in whole, pursuant to the provisions of the Lease Agreement summarized under “– Prepayment of lease payments – Optional Prepayment,” the principal portion of such prepayment shall be credited entirely toward the prepayment of the principal component of Lease Payments evidenced by such Series of Certificates in Authorized Denominations as it is directed in writing by the District to the Trustee and otherwise in inverse order of their dates of payment in integral multiples of Authorized Denominations.

Rate on Overdue Payments. In the event the District should fail to make any of the payments required under the Lease Agreement as summarized under this caption (“– Lease Payments”) the payment in default shall continue as an obligation of the District until the amount in default shall 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 the Certificates. Such interest, if received, shall be deposited in the Lease Payment Fund.

Fair Rental Value. The Lease Payments and Additional Payments for the Property for each Rental Period shall constitute the total rental for the Property for each such Rental Period and shall 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 total Lease Payments and Additional 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.

Source of Payments, Budget and Appropriation. The Lease Payments shall be payable from any source of available funds of the District, subject to the provisions of the Lease Agreement summarized under “– Destruction and Eminent Domain; Use of Net Proceeds” and “– Prepayment of Lease Payments – Mandatory Prepayment from Net Proceeds of Insurance or eminent Domain.” 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 annual appropriations for all such Lease Payments and Additional Payments due under the Lease Agreement in the Fiscal Year covered by such budget at the actual interest rate applicable to each Series of Certificates. The District shall provide a written determination of such budgeted amount to the Trustee pursuant to the provisions of the Trust Agreement relating to District budgets. The covenants on the part of the District contained in the Lease Agreement shall be deemed to be and shall be construed to be duties imposed by law and it shall 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. In addition to the foregoing, the District covenants, if amounts appropriated pursuant to the foregoing in any year are insufficient, it shall make additional appropriations to the extent necessary to include all Lease Payments and Additional Payments under the Lease Agreement in the budget for such Fiscal Year covered by such budget.

Assignment. 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 assents to such assignment. The Corporation directs the District, and the District agrees

to pay to the Trustee at its Principal Office, all payments payable by the District pursuant to the provisions of the Lease Agreement summarized under this caption (“– Lease Payments”) and “– Prepayment of Lease Payments.”

Principal Component of the Lease Payments. The District shall pay to the Trustee for deposit in the appropriate subaccounts in the Lease Payment Fund the scheduled principal components of the Lease Payments on the Lease Payment Dates immediately preceding each of the respective Principal Payment Dates, as set forth in the Lease Agreement.

Interest Component of the Lease Payments. The interest component of the Lease Payments shall be as set forth in the Lease Agreement.

Quiet Enjoyment. During the Term of the Lease Agreement, the Corporation shall provide the District with quiet use and enjoyment of the Property, and the District shall, 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 shall have the right to inspect the Property as provided in the Lease Agreement.

Title. During the Term of the Lease Agreement, the Corporation shall hold fee title to the Headquarters Building and any and all additions which compose fixtures, repairs, replacements or modifications to the Headquarters Building, 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 provisions of the Lease Agreement summarized under “– Maintenance; Taxes; Insurance; Use Limitations; and Other Matters – Installation of Equipment.”

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 Property shall 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 shall 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 and any credit or liquidity provider, all costs and expenses of auditors, engineers, counsel, accountants and any remarketing agent, broker-dealer or auction agent under any remarketing agreement, broker-dealer agreement or auction agent agreement (if any) relating to the Certificates and any amounts required to be rebated to the federal government, which payments shall not be subject to abatement.

Maintenance; Taxes; Insurance; Use Limitations; and Other Matters

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 shall be the responsibility of the District, and the District shall 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 shall 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 more specifically set forth in the Lease Agreement. The District waives the benefits of subsections 1 and 2 of section 1932 of the California Civil Code, but such waiver shall not limit any of the rights of the District under the terms of the Lease Agreement.

The District shall 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 shall 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 shall 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 shall 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 shall, 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 shall thereafter compose part of the Property and be subject to the provisions of the Lease Agreement. Such additions and modifications shall not in any way damage the Property, substantially alter its nature, cause the interest component of Lease Payments 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 this paragraph, shall be of a value which is not less than the annual Lease Payments 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 this paragraph; provided that if any such lien is established and the District shall 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 shall 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.

Public Liability and Property Damage Insurance. The District shall 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, 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. Said policy or policies shall 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 shall 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 public 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, Earthquake, Boiler and Machinery and Workers' Compensation Insurance.

(a) The District shall 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 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 shall be in an amount customarily maintained by the District with respect to its other properties of like character and function. The Net Proceeds of such insurance shall be applied as provided in the provisions of the Lease Agreement relating to the application of Net Proceeds.

(b) The District shall procure and maintain, or cause to be procured and maintained, throughout the Term of the Lease Agreement, earthquake insurance, in such amounts and for such terms as may be commercially available at a reasonable cost from an admitted insurer.

(c) The District shall 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 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 shall 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 such Property in an amount equal to 24 months of Lease Payments for such Property (calculated assuming that the annual Lease Payment amount determined in accordance with the provisions of the Lease Agreement summarized under “– Agreement to Lease; Term of Lease Agreement; Lease Payments – Source of Payments; Budget and Appropriation” consists of twelve equal monthly deposits), with the Trustee named as additional insured and loss payee, assuming all sinking fund payments are made when due. Such insurance may be carried in conjunction with, and may be subject to the same provisions as, the insurance required under the provisions of the Lease Agreement summarized under “– Fire, Extended Coverage, Earthquake, Boiler and Machinery and Workers’ Compensation Insurance.” The District 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 shall be paid to the Trustee and deposited in the Lease Payment Fund and shall be credited towards the payment of the Lease Payments pursuant to the Trust Agreement.

Title Insurance. With respect to each Series of Certificates delivered, the District shall provide, from moneys in the Delivery Costs Fund or at its own expense, on the Closing Date for such Series or as soon thereafter as practicable, a CLTA title insurance policy covering, and in the amount of not less than the principal amount of such Series of Certificates, insuring both the fee title of the Corporation in the Headquarters Building and the leasehold estate of the District in the Property securing such Certificates, subject only to Permitted Encumbrances, with the Trustee as additional insured and loss payee. The Net Proceeds of such title insurance shall be applied as provided in the provisions of the Lease Agreement relating to the application of Net Proceeds.

General Insurance Requirements; Form of Policies; Annual Certification. The District shall maintain or cause to be maintained, during the entire term of the Lease, with insurers of recognized responsibility (or through the District's current program of self-insurance with respect to insurance required by the provisions of the Lease Agreement summarized under “– Public Liability and Property Damage Insurance” and under paragraphs (a) and (c) under “– Fire, Extended Coverage, Earthquake, Boiler and Machinery and Workers’ Compensation Insurance” above) all coverage required by the provisions of the Lease Agreement summarized under “– Public Liability and Property Damage Insurance,” “– Fire, Extended Coverage, Earthquake, Boiler and Machinery and Workers’ Compensation Insurance,” “– Rental Interruption Insurance” and “– Title Insurance.” Each policy of insurance required by the Lease Agreement as summarized under paragraph (b) under “– Fire, Extended Coverage, Earthquake, Boiler and Machinery and Workers’ Compensation Insurance,” “– Rental Interruption Insurance” and “– Title Insurance” shall be obtained from an insurance provider licensed to do business in the State and rated “A” or better by A.M. Best & Company, and shall provide that all proceeds thereunder shall be payable to the Trustee and applied as provided in the Lease Agreement. The District shall pay or cause to be paid when due the premiums for all insurance policies required by the Lease Agreement.

The District shall cause to be delivered annually to the Trustee 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 Lease Agreement as summarized under “– Public Liability and Property Damage Insurance” and under paragraphs (a) and (c) under “– Fire, Extended Coverage, Earthquake, Boiler and Machinery and Workers’ Compensation Insurance” through a program of self-insurance, the District shall 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 shall 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, then (i) such report shall so state and (ii) the District shall 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 shall obtain the insurance required by the provisions of the Lease Agreement summarized under paragraph (a) under “– Fire, Extended Coverage, Earthquake, Boiler and Machinery and Workers’ Compensation Insurance” 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 the Certificates.

The Trustee shall not be responsible for the sufficiency of any insurance required in the Lease Agreement, including any forms of self-insurance and shall 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 as soon as practicable following the event or events giving rise to such a claim.

Advances. If the District shall fail to perform any of its obligations with respect to obtaining and maintaining insurance pursuant to the Lease Agreement, the Corporation or the Trustee may, but shall not be obligated to, take such action as may be necessary to cure such failure, including the advancement of money, and the District shall be obligated to repay all such advances as soon as possible, with interest at rates equal to the rates then payable with respect to the Certificates.

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 shall remain the sole property of the District, in which neither the Corporation nor the Trustee shall have any interest, and may be modified or removed by the District at any time provided that the District shall 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 shall prevent the District from purchasing or leasing items to be installed pursuant to this paragraph 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 shall attach to any part of the Property.

Liens. The District shall 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 provisions of the Lease Agreement summarized under “– Maintenance; Taxes; Insurance; Use Limitations; and Other Matters,” the District shall 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 shall arise at any time. The District shall 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 covenants by the Lease Agreement with the holders of the Tax-Exempt Certificates that, notwithstanding any other provisions of the Lease, it shall not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of interest with respect to the Tax-Exempt Certificates under Section 103 of the Code. The District shall not, directly or indirectly, use or permit the use of Proceeds of the Tax-Exempt Certificates or any of the property financed or

refinanced with Proceeds of the Tax-Exempt 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 result in the loss of exclusion from gross income for federal income tax purposes of interest with respect to the Tax-Exempt Certificates.

Destruction and Eminent Domain; Use of Net Proceeds

Eminent Domain. If all of the Property shall 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 shall thereupon terminate. If less than all of the Property shall be taken permanently, or if all of the Property or any part thereof shall be taken temporarily under the power of eminent domain, (1) the Lease Agreement shall continue in full force and effect and shall not be terminated by virtue of such taking and the parties waive the benefit of any law to the contrary, and (2) there shall 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' under the Lease Agreement, 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. *From Insurance Award.* The Net Proceeds of any insurance award resulting from any damage to or destruction of any portion of the Headquarters Building or the Property by fire or other casualty shall be paid to the Trustee, as assignee of the Corporation under the Assignment Agreement, deposited in the appropriate subaccounts within the Insurance and Condemnation Fund by the Trustee and applied as set forth in the Trust Agreement.

From Eminent Domain Award. The Net Proceeds of any eminent domain award resulting from any event described in the Lease Agreement shall be paid to the Trustee, as assignee of the Corporation under the Assignment Agreement, deposited in the appropriate subaccounts within the Insurance and Condemnation Fund and applied as set forth in the Trust Agreement.

From Title Insurance. The Net Proceeds of any title insurance award shall be paid to the Trustee, as assignee of the Corporation under the Assignment Agreement, deposited in the appropriate subaccounts within the Insurance and Condemnation Fund and applied as set forth in the Trust Agreement.

Abatement of Lease Payments. The fair rental value of the Property shall equal or exceed the unpaid principal component of the Lease Payments at all times; therefore, such payments due under the Lease Agreement shall not be subject to abatement, except as provided in the immediately following paragraph.

Lease Payments with respect to the Certificates shall be abated during any period in which, by reason of damage, destruction, non-completion 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 provisions of the Lease Agreement summarized under “– Maintenance; Taxes; Insurance; Use Limitations; and Other Matters – Modification of Property”). The extent of such abatement shall 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, incomplete or otherwise unavailable for use and occupancy by the District. Such abatement shall continue for the period commencing with such damage, destruction, non-completion or other event and 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, non-completion or non-availability, the Lease Agreement shall continue in full force and effect and the District waives any right to terminate the Lease Agreement by virtue of any such damage, destruction, non-completion or unavailability.

Notwithstanding the foregoing, there shall be no abatement of Lease Payments under the immediately preceding paragraph by reason of damage, destruction, non-completion 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 have been 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 principal component of the Lease Payments; or (ii) (A) the proceeds of rental interruption insurance or (B) amounts in the Insurance and Condemnation Fund and/or the Lease Payment 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.

Disclaimer of Warranties; Access; Release and Indemnification

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 shall the Corporation or its assigns be liable for incidental, indirect, special or consequential damages in connection with or arising out of, 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, shall 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 shall 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 under the Lease Agreement.

Release and Indemnification Covenants. The District shall and 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, or (v) the acquisition, construction, installation and equipping of the Property or the authorization of payment of the Project Costs and Delivery Costs. No indemnification is made under this the provisions summarized in this paragraph or elsewhere in 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, Subleasing and Amendment

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 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: (i) the Lease Agreement and the obligation of the District to make Lease Payments under the lease Agreement shall remain obligations of the District; (ii) the District shall, within 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; (iii) no such sublease by the District shall 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 (iv) the District shall furnish the Corporation and the Trustee with a written opinion of Special Counsel stating that such sublease does not cause the interest components of the Lease Payments with respect to Tax-Exempt Certificates to become subject to federal income taxes.

Amendment of Lease Agreement. The District shall exercise its option to amend the Lease Agreement pursuant to the provisions of the Lease Agreement summarized under this caption (“– Amendment of Lease

Agreement”) to substitute land or facilities or add land or facilities to the Property pursuant to the immediately following two paragraphs if required pursuant to the Lease Agreement.

Substitution or Addition of Site. The District shall have, and is granted, the option at any time and from time to time during the Term of the Lease Agreement to substitute other land (a “Substitute Site”) for the Property or a portion thereof, or to add additional land to the Property (“Additional Site”), provided that the District shall satisfy all of the following requirements which are conditions precedent to such substitution or addition: (i) if the District holds fee title to such Substitute Site or Additional Site, the District shall enter into a site and facility lease with the Corporation and shall file with the Trustee a copy of such site and facility lease which describes such Substitute Site or Additional Site; (ii) the District shall file with the Corporation and the Trustee an amendment to the Lease Agreement which describes such Substitute Site or Additional Site; (iii) the District delivers to the Trustee and the Corporation a certificate of the District stating that the value of the Property after said substitution or addition is at least equal to the unpaid principal component of the Lease Payments, as determined either on the basis of (A) an appraisal of the Property after said substitution or addition, conducted by an MAI appraiser designated by the District, or (B) the acquisition costs of the Substitute Site or Additional Site; (iv) the District shall obtain an amendment to the title insurance policy required pursuant to the Lease Agreement which describes the Substitute Site or Additional Site; (v) the District shall provide notice of such substitution or addition to any rating agency then rating the Certificates; (vi) such substitution or addition shall not cause the District to violate any of its covenants, representations and warranties made in the Lease Agreement or in the Trust Agreement; and (vii) the Corporation shall have amended its articles of incorporation to allow it to acquire and lease such Substitute Site or Additional Site.

Substitution or Addition of Facility. The District shall have, and is granted, the option at any time and from time to time during the Term of the Lease Agreement to substitute other facilities (a “Substitute Facility”) for the Property, or a portion thereof, or to add additional facilities to the Property (each an “Additional Facility”), provided that the District shall satisfy all of the following requirements which are conditions precedent to such substitution or addition: (i) if the District holds title to such Substitute Facility or Additional Facility, the District shall enter into a site and facility lease with the Corporation and shall file with the Trustee a copy of such site and facility lease which describes the Substitute Facility or Additional Facility; (ii) the District shall file with the Corporation and the Trustee an amendment to the Lease Agreement which describes the Substitute Facility or Additional Facility; (iii) the District delivers to the Trustee and the Corporation a certificate of the District stating that the value of the Property after said substitution is at least equal to the unpaid principal component of the Lease Payments, as determined either on the basis of (A) an appraisal of the Property after said substitution, conducted by an MAI appraiser designated by the District, or (B) the acquisition costs of the Substitute Facility or Additional Facility; (iv) the District shall obtain an amendment to the title insurance policy required pursuant to the Lease Agreement which describes the Substitute Facility or Additional Facility; (v) the District shall provide notice of such substitution or addition to any rating agency then rating the Certificates; (vi) such substitution shall not cause the District to violate any of its covenants, representations and warranties made in the Lease Agreement or in the Trust Agreement; and (vii) the Corporation shall have amended its articles of incorporation to allow it to acquire and lease such Substitute Facility or Additional Facility.

Release of Property. The District shall have, and is 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 shall satisfy all of the following requirements which are conditions precedent to such release: (i) if the District holds fee title to such Property, the District shall enter into a site and facility lease with the Corporation and shall file with the Trustee a copy of such site and facility lease which describes the Property, as revised by such release; (ii) the District shall file with the Corporation and the Trustee an amendment to the Lease Agreement, as applicable, which describes the Property, as revised by such release; (iii) the District delivers to the Trustee and the Corporation a certificate of the District stating that the value of the Property after said release, is at least equal to the unpaid principal component of the Lease Payments, as determined on the basis of an appraisal of the Property after said release, conducted by an MAI appraiser designated by the District; (iv) the District shall obtain an amendment to the title insurance policy required pursuant to the Lease Agreement which describes the Property, as revised by such release; (v) the District shall provide notice of such release to any rating agency then rating the Certificates; and (vi) such release shall not cause the District to violate any of its covenants, representations and warranties made in the Lease Agreement or in the Trust Agreement.

General. Without the prior written consent of the Trustee, (i) 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, and (ii) the District will not abandon or vacate the Property.

Events of Default and Remedies

Events of Default Defined. The following shall be “Events of Default” under the Lease Agreement and the terms “Events of Default” and “Default” shall mean, whenever they are used in the Lease Agreement, any one or more of the following events:

(a) Failure by the District to pay any Lease Payment or Additional Payment required to be paid under the Lease Agreement at the time specified in the Lease Agreement.

(b) 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 paragraph (a) above, for a period of 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 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 shall 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.

(c) 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 shall have happened and be continuing, it shall 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 shall 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 paragraph (b) below; provided, that no such termination shall 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 shall, 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 shall be payable to the Corporation at the time and in the manner as provided in the Lease Agreement, to wit:

(a) In the event the Corporation does not elect to terminate the Lease Agreement in the manner provided for in paragraph (b) below, the District agrees to and shall remain liable for the payment of all Lease Payments and the performance of all conditions contained in the Lease Agreement and shall 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 shall be payable only at the same time and in the same manner as provided in the Lease Agreement for the payment of Lease Payments under the Lease Agreement, 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 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 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 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 shall 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 under the Lease Agreement, the right to terminate the Lease Agreement shall vest in the Corporation to be effected in the sole and exclusive manner provided for in the immediately following paragraph (b). The District further waives the right to any rental obtained by the Corporation in excess of the Lease Payments and conveys and releases such excess to the Corporation as compensation to the Corporation for its services in re-leasing the Property.

(b) Upon the occurrence and continuation of any Default or Event of Default under the Lease Agreement, 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 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 shall be the absolute property of the Corporation and the District shall have no right thereto, nor shall 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 shall of itself operate to terminate the Lease Agreement, and no termination of the Lease Agreement on account of default by the District shall be or become effective by operation of law, or otherwise, unless and until the Corporation shall 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 shall 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 shall be cumulative and shall 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 shall impair any such right or power or shall 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 Lease Agreement, it shall not be necessary to give any notice, other than such notice as may be required in 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 shall be limited to the particular breach so waived and shall not be deemed to waive any other breach under the Lease Agreement.

Application of Proceeds. All net proceeds received from the re-lease or other disposition of the Property under 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 under the Lease Agreement, shall be transferred to the Trustee promptly upon receipt thereof and applied by the Trustee in accordance with the provisions of the Trust Agreement summarized under “THE TRUST AGREEMENT – Events of Default and Remedies of Certificate Owners – Application of Funds.”

Trustee and Certificate Owners to Exercise Rights. Such rights and remedies as are given to the Corporation under the Lease Agreement have been assigned by the Corporation to the Trustee under the Trust Agreement, to which assignment the District consents. Such rights and remedies shall be exercised by the Trustee and the Owners of the Certificates as provided in the Trust Agreement and in the Lease Agreement.

Prepayment of Lease Payments

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 any Series of Certificates by a deposit with an escrow holder under an escrow deposit and trust agreement as referenced in the defeasance provisions of the Trust Agreement, of: (a) in the case of a security deposit relating to all Lease Payments with respect to such Series, either (i) an amount which, together with amounts on deposit in the Lease Payment Fund and Insurance and Condemnation Fund (all of which shall be Available Moneys), is sufficient to pay all unpaid Lease Payments with respect to such Series of Certificates, including the principal and interest components thereof, in accordance with the Lease Payment schedule set forth in the Lease Agreement, or (ii) Defeasance Obligations 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 Defeasance Obligations then on deposit and interest earnings thereon in the Lease Payment Fund and Insurance and Condemnation Fund (all of which shall be Available Moneys), be fully sufficient to pay or repay all unpaid Lease Payments with respect to such Series of Certificates on or before their respective Payment Dates; or (b) in the case of a security deposit relating to a portion of the Lease Payments with respect to such Series of Certificates, a certificate executed by a District Representative designating the portion of the Lease Payments with respect to such Series of 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 Series designated in such District Representative's certificate, including the principal and interest components thereof, or (ii) Defeasance Obligations 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 Series of Certificates designated in the aforesaid District Representative's certificate.

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 provisions of the Lease Agreement summarized under this caption (“– Security Deposit”) as to all Lease Payments with respect to a Series of Certificates, all obligations of the District under the Lease Agreement with respect to such Series shall 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 such provisions of the Lease Agreement. Said deposit and interest earnings thereon shall be deemed to be and shall constitute a special fund for the payments provided for by such provisions of the Lease Agreement.

Notwithstanding the three preceding paragraphs, with respect to the Lease Payments evidenced by the Series 2012A Certificates and the Series 2012B Certificates, (a) the use of Available Moneys shall not be a requirement under the first paragraph under this caption (“– Security Deposit”) in connection with the deposit of all or a portion of such Lease Payment as provided therein, and (b) the second paragraph under this caption (“– Security Deposit”) shall not apply.

Optional Prepayment. The District, at its option, may prepay the principal component of Lease Payments with respect to a Series of Certificates in any amount not in excess of the principal with respect to such Certificates then Outstanding as provided in the Trust Agreement.

Mandatory Prepayment From Net Proceeds of Insurance or Eminent Domain. The District shall be obligated to prepay the Lease Payments with respect to any Series of Certificates in whole or in part, (subject to any additional requirements of the Trust Agreement relating to extraordinary prepayment) in any integral multiple of an Authorized Denomination on any date on which the Certificates are subject to prepayment pursuant to the provisions of the Trust Agreement relating to extraordinary prepayment, from and to the extent of any Net Proceeds of an insurance or title insurance award or a condemnation award theretofore deposited in the Prepayment Fund for such purpose pursuant to the provisions of the Trust Agreement summarized under “THE TRUST AGREEMENT – Reserve Fund” and “THE TRUST AGREEMENT – Insurance and Condemnation Fund; Proceeds of Insurance Award; Proceeds of Eminent Domain Award.” The District and the Corporation agree that such Net Proceeds, to the extent remaining after payment of any delinquent Lease Payments, shall be credited towards the obligations under this paragraph.

Credit for Amounts on Deposit. In the event of prepayment of the principal components of the Lease Payments in full under the Lease Agreement, such that the Trust Agreement shall be discharged by its terms as a result of such prepayment, all amounts then on deposit in the Lease Payment Fund shall be credited towards the amounts then required to be so prepaid.

Miscellaneous

Notices. Unless otherwise specified in the Lease Agreement, all notices, certificates or other communications under the Lease Agreement shall be given in the manner and to the address(es) provided in the Trust Agreement.

Net-net-net Lease. The Lease Agreement shall be deemed and construed to be a “net-net-net lease” and the District agrees that the Lease Payments shall be an absolute net return to the Corporation, free and clear of any expenses, charges or set-offs whatsoever.

Applicable Law. The Lease Agreement shall be governed by and construed in accordance with the laws of the State.

Third Party Beneficiaries. Each Credit Provider and each Liquidity Provider, if any, shall be third-party beneficiaries of the Lease Agreement.

THE ASSIGNMENT AGREEMENT

Pursuant to the Assignment Agreement, the Corporation, for good and valuable consideration, unconditionally grants, transfers and assigns to the Trustee, for the benefit of the Owners of the Certificates, without recourse (i) all of its rights to receive the Lease Payment and Additional Payments scheduled to be paid by the District under and pursuant to the Lease Agreement, (ii) all rents, profits, products and proceeds from the Property to which the Corporation has any right or claim whatsoever under the Lease Agreement, (iii) the right to take all actions and give all consents under the Lease Agreement, (iv) any right of access more particularly described in the Lease Agreement, (v) all other right, title, and interest of the Corporation in the Lease Agreement, and (vi) all right, title, and interest of the Corporation in the funds and accounts (and the money and other property held therein) established pursuant to the Trust Agreement or the Lease Agreement; provided, however, that nothing contained in the Assignment Agreement shall abrogate the Corporation’s rights to be indemnified as provided in the Lease Agreement. All rights assigned by the Corporation shall be administered by the Trustee as assignee thereof according to the provisions of the Trust Agreement and for the equal and proportionate benefits of the Owners of Certificates.

THE TRUST AGREEMENT

Certain Provisions Relating to the Certificates of Participation

Transfer of Certificates. The registration of any Certificate may, in accordance with its terms, be transferred upon the Registration Books by the person in whose name it is registered, in person or by their attorney duly authorized in writing upon surrender of such Certificate for cancellation at the Principal Office of the Trustee, accompanied by delivery of a written instrument of transfer in a form acceptable to the Trustee, duly executed. Whenever any Certificate or Certificates shall be surrendered for registration of transfer, the Trustee shall execute and deliver a new Certificate or Certificates of the same Series for like aggregate principal amount in Authorized Denominations. The Trustee may require the payment by the Certificate Owner requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer. The Trustee shall not be required to transfer (i) any Certificates during the period between the date seven days prior to the date of selection of Certificates for prepayment and such date of selection, or (ii) any Certificates selected for prepayment.

Exchange of Certificates. Certificates may be exchanged, upon surrender thereof, at the Principal Office of the Trustee for a like aggregate principal amount of Certificates of other Authorized Denominations of the same Series, tenor and maturity. Whenever any Certificate or Certificates shall be surrendered for exchange, the Trustee shall execute and deliver a new Certificate or Certificates of the same Series, tenor and maturity for like aggregate principal amount in Authorized Denominations. The Trustee may require the payment by the Certificate Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange. The Trustee shall not be required to exchange (i) any Certificates during the period between the date seven days prior to the date of selection of Certificates for prepayment and such date of selection, or (ii) any Certificates selected for prepayment.

Certificates Mutilated, Lost, Destroyed or Stolen. If any Certificate shall become mutilated, the Trustee, at the expense of the Owner of said Certificate, shall execute and deliver a new Certificate of like Series, tenor, maturity and amount in exchange and substitution for the Certificate so mutilated, but only upon surrender to the Trustee of the Certificate so mutilated. Every mutilated Certificate so surrendered to the Trustee shall be canceled by it and destroyed with a certificate of destruction furnished to the District. If any Certificate shall be lost, destroyed or stolen, evidence of such loss, destruction or theft shall be submitted to the Trustee, and, if such evidence is satisfactory to the Trustee and the District and if an indemnity satisfactory to them shall be given, the Trustee, at the expense of the Certificate Owner, shall execute and deliver a new Certificate of like Series, tenor, maturity and amount and numbered as the Trustee shall determine in lieu of and in substitution for the Certificate so lost, destroyed or stolen. The Trustee may require payment of the expenses which may be incurred by the Trustee in carrying out the duties summarized in this paragraph. Any Certificate executed and delivered under the provisions summarized in this paragraph in lieu of any Certificate alleged to be lost, destroyed or stolen shall be equally and fractionally entitled to the benefits of the Trust Agreement with all other Certificates secured by the Trust Agreement. The Trustee shall not be required to treat both the original Certificate and any replacement Certificate as being Outstanding for the purpose of determining the principal amount of Certificates which may be executed and delivered under the Trust Agreement or for the purpose of determining any percentage of Certificates Outstanding under the Trust Agreement, but both the original and replacement Certificate shall be treated as one and the same. Notwithstanding any other provisions summarized in this paragraph, in lieu of delivering a new Certificate in exchange for a Certificate which has been mutilated, lost, destroyed or stolen, and which has matured or has been called for prepayment, the Trustee may make payment with respect to such Certificate upon receipt of the aforementioned indemnity.

Execution of Documents and Proof of Ownership. Any request, direction, consent, revocation of consent, or other instrument in writing required or permitted by the Trust Agreement to be signed or executed by Certificate Owners may be in any number of concurrent instruments of similar tenor, and may be signed or executed by such Owners in person or by their attorneys or agents appointed by an instrument in writing for that purpose, or by any bank, trust company or other depository for such Certificates. Proof of the execution of any such instrument, or of any instrument appointing any such attorney or agent, and of the ownership of Certificates shall be sufficient for any purpose of the Trust Agreement (except as otherwise provided in the Trust Agreement), if made in the following manner:

(a) The fact and date of the execution by any Owner or their attorney or agent of any such instrument and of any instrument appointing any such attorney or agent, may be proved by a certificate, which need not be acknowledged or verified, of an officer of any bank or trust company located within the United States of America, or of any notary public, or other officer authorized to take acknowledgments of deeds to be recorded in such jurisdictions, that the persons signing such instruments acknowledged before him the execution thereof. Where any such instrument is executed by an officer of a corporation or association or a member of a partnership on behalf of such corporation, association or partnership, such certificate shall also constitute sufficient proof of his authority.

(b) The fact of the ownership of Certificates by any person and the amount, the maturity and the numbers of such Certificates and the date of their holding the same shall be proved by the Registration Books.

Any request or consent of the Owner of any Certificate shall bind every future Owner of the same Certificate in respect of anything done or suffered to be done by the Trustee pursuant to such request or consent.

Registration Books. The Trustee shall keep or cause to be kept, at its Principal Office, sufficient records for the registration and registration of transfer of the Certificates, which shall at all reasonable times be open to inspection by the District and the Corporation during regular business hours with reasonable prior notice; and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on the Registration Books, Certificates as provided in the Trust Agreement. The District, the Corporation and the Trustee shall be entitled to treat the Owner of a Certificate as the absolute owner thereof for all purposes.

Execution and Delivery of Additional Certificates. The District, the Corporation and the Trustee may by execution of a Supplemental Trust Agreement, without the consent of the Owners, provide for the execution and delivery of Additional Certificates in one or more Series. The Trustee may execute and deliver to or upon the Request of the Corporation such Additional Certificates, in such principal amount as shall reflect the additional principal components of the Lease Payments and the proceeds of such Additional Certificates may be applied to the Project. Such Additional Certificates may only be executed and delivered upon compliance by the District with the provisions of the Trust Agreement, and subject to the following specific conditions, which are conditions precedent to the execution and delivery of any such Additional Certificates: (a) the District shall not be in default under the Trust Agreement or any Supplemental Trust Agreement or under the Lease Agreement; (b) the aggregate principal amount of Certificates executed and delivered at any time Outstanding under the Trust Agreement or under any Supplemental Trust Agreement shall not exceed any limit imposed by law, by the Trust Agreement or by any Supplemental Trust Agreement; (c) the Lease Agreement shall have been amended so as (i) to increase the Lease Payments payable by the District thereunder by an aggregate amount equal to the principal and interest represented by such Additional Certificates, payable at such times and in such manner as may be necessary to provide for the payment of the principal and interest represented by such Certificates; *provided, however,* that no such amendment shall be made such that the sum of Lease Payments, including any additional Lease Payments required by such amendment, shall be in excess of the fair rental value of the Property after taking into account any amendment of the description of the Property in connection with the execution and delivery of Additional Certificates; and (ii) to take into account any amendment of the description of the Property in connection with the execution and delivery of Additional Certificates; and (d) said Supplemental Trust Agreement shall provide for payment dates and/or mandatory prepayment dates of Additional Certificates in amounts sufficient to provide for payment of the Additional Certificates when principal and interest components of Lease Payments are due.

Any Additional Certificates shall be on a parity with, and each Owner thereof shall have the same rights upon an event of default as the Owner of, any other Certificates executed and delivered under the Trust Agreement, except as otherwise provided in the Supplemental Trust Agreement under which Additional Certificates are executed and delivered.

Proceedings for Authorization of Additional Certificates. Whenever the District shall determine to authorize the execution and delivery of any Additional Certificates pursuant to the Trust Agreement, the District and the Trustee shall enter into a Supplemental Trust Agreement without the consent of the Owners of any Certificates, providing for the execution and delivery of such Additional Certificates, specifying the maximum principal amount of such Additional Certificates and prescribing the terms and conditions of such Additional Certificates. Such Supplemental Trust Agreement shall prescribe the form or forms of such Additional Certificates and, subject to the

provisions of the Trust Agreement, shall provide for the distinctive designation, denominations, dates, principal payment dates, interest rates, interest payment dates, provisions for prepayment and places of payment of principal and interest.

Before such Additional Certificates shall be executed and delivered, the District shall file or cause to be filed the following documents with the Trustee: (a) an opinion of Independent Counsel to the effect (i) that such counsel has examined the Supplemental Trust Agreement and the amendment to the Lease Agreement required by the Trust Agreement; (ii) that the execution and delivery of the Additional Certificates have been sufficiently and duly authorized by the District; (iii) that said amendment to the Lease Agreement and the Supplemental Trust Agreement, when duly executed by the District, will be valid and binding obligations of the District; (iv) that the amendment to the Lease Agreement has been duly authorized, executed and delivered and has been duly recorded; and (v) that the amendment to the Lease Agreement does not adversely affect the exclusion from gross income of interest with respect to the Outstanding Tax-Exempt Certificates for federal income tax purposes; (b) certification of the District that the requirements of the Trust Agreement summarized under the caption “– Execution and Delivery of Additional Certificates” have been met, which shall include a Certification by the District as to the fair rental value of the Property, after giving effect to the execution and delivery of the Additional Certificates and to the use of Proceeds received therefrom; (c) certified copies of the resolutions of the Board of Education of the District and of the Board of Directors of the Corporation authorizing the execution of the Supplemental Trust Agreement and the amendments to the Lease Agreement required by the Trust Agreement; (d) an executed counterpart or duly authenticated copy of the Supplemental Trust Agreement and the amendment to the Lease Agreement required by the Trust Agreement; and (e) a certificate of insurance verifying coverage under the policies of insurance required by the Lease Agreement.

Upon the delivery to the Trustee of the foregoing instruments, the Trustee shall execute and deliver said Additional Certificates, in the aggregate principal amount specified in such Supplemental Trust Agreement, to, or upon the request of, the Corporation.

Project Fund and Delivery Costs Fund

Project Fund. There is established by the Trust Agreement, and the Trustee shall maintain a special fund designated as, the “Project Fund.” The Trustee shall keep such fund separate and apart from all other funds and moneys held by it, and shall administer such fund as provided in the Trust Agreement. With respect to each Series of Certificates, the Trustee shall establish and maintain within the Project Fund a separate account designated as the “_____ Project Account” (inserting therein the Series designation of the related Series of Certificates). Proceeds of the sale of a Series of Certificates shall be deposited in the related Project Account within the Project Fund in the amount required to be deposited therein pursuant to the Supplemental Trust Agreement authorizing such Series of Certificates, 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 shall be used and withdrawn by the Trustee to pay the costs of the Project with respect to which such account was established.

Payment of Project Costs. Amounts in a Project Account shall be disbursed for Project Costs with respect to the related Project. The Trustee shall disburse moneys in a Project Account upon receipt of a sequentially numbered requisition requesting disbursement executed by a District Representative. Each such requisition shall: (a) set forth the amounts to be disbursed for payment or reimbursement of previous payments of Project Costs with respect to such Project and the person or persons to whom said amounts are to be disbursed; (b) state that the amounts to be disbursed constitute Project Costs with respect to such 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; (c) 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 (d) state that the amount remaining in such Project Account, 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 such Project as then estimated.

The Trustee shall be responsible for the safekeeping and investment (in accordance with the Trust Agreement) of the moneys held in the Project Fund and the payment thereof in accordance with the provisions of the

Trust Agreement summarized in the immediately preceding paragraph, but the Trustee shall not be responsible for such requisitions except to insure that the contents of such requisitions conform, on their face, to the requirements of such provisions.

Delivery Costs Fund. There is established by the Trust Agreement, and the Trustee shall maintain, a special fund designated as the “Delivery Costs Fund.” The Trustee shall keep such fund separate and apart from all other funds and moneys held by it, and shall administer such fund as provided in the Trust Agreement. With respect to each Series of Certificates for which a portion of the Proceeds of the sale thereof is required to be set aside specifically to pay Delivery Costs thereof, the Trustee shall establish and maintain a separate account within the Delivery Costs Fund established for such Series, designated as the “_____ Delivery Costs Account” (inserting therein the Series designation of the related Series of Certificates). In connection with the delivery of the Series 2012A Certificates and the Series 2012B Certificates, the Trustee shall establish and maintain in the Delivery Costs Fund separate accounts designated as the “Series 2012A Delivery Costs Account” and the “Series 2012B Delivery Costs Account,” respectively. There shall be deposited in each Delivery Costs Account the Proceeds of the sale of the related Series of Certificates required to be deposited therein pursuant to the Supplemental Trust Agreement authorizing such Series of Certificates, together with any other funds from time to time deposited with the Trustee for such purpose and identified in writing to the Trustee.

Payment of Delivery Costs. Amounts in a Delivery Costs Account shall be disbursed for Delivery Costs with respect to the related Series of Certificates. The Trustee shall disburse moneys in a Delivery Costs Account only upon a receipt of a written requisition, with bills, invoices or statements attached, executed by a District Representative, setting forth the amounts to be disbursed for payment or reimbursement of Delivery Costs and the name and address of the person or persons to whom said amounts are to be disbursed, stating that the amounts to be disbursed are for Delivery Costs with respect to the related Series of Certificates properly chargeable to such Delivery Costs Account and have not been the subject of any prior requisitions.

The Trustee shall be responsible for the safekeeping and investment (in accordance with the Trust Agreement) of the moneys held in the Delivery Costs Fund, including the accounts therein, and the payment thereof in accordance with the provisions of the Trust Agreement summarized in the immediately preceding paragraph, but the Trustee shall not be responsible for the representations made in such requisitions and may conclusively rely thereon without any independent investigation.

Upon written notice from a District Representative that all Delivery Costs with respect to any Series of Certificates have been paid, but in no event later than one year following the Closing Date for such Series, the Trustee shall transfer any moneys with respect to such Series then remaining in the related Delivery Costs Account to the related Project Account.

Transfers of Unexpended Proceeds. The Trustee is directed by the Trust Agreement that all unexpended moneys remaining in an Project Account with respect to any Project and not identified in writing by a District Representative to be required for payment of Project Costs with respect to such Project, on the Completion Date (evidenced by the filing by the District of a Certificate of Completion) with respect to such Project, be transferred to any other Project Account within the Project Fund (*provided, however*, that moneys remaining in an Project Account relating to a Series of Taxable Certificates shall not be transferred to an Project Account relating to a Series of Tax-Exempt Certificates) and thereafter be transferred to the related Lease Payment Account and applied to pay the Lease Payments with respect to the related Project and Series of Certificates as the same become due and payable.

Lease Payments; Lease Payment Fund

Assignment of Rights in Lease Agreement. The Corporation has, in the Assignment Agreement, transferred, assigned and set over to the Trustee certain of its rights in the Lease Agreement, including but not limited to all of the Corporation’s rights to receive and collect all of the Lease Payments and all other amounts required to be deposited in the Lease Payment Fund pursuant to the Lease Agreement or pursuant to the Trust Agreement. All Lease Payments and such other amounts to which the Corporation may at any time be entitled shall be paid directly to the Trustee, and all of the Lease Payments collected or received by the Corporation shall be deemed to be held and to have been collected or received by the Corporation as the agent of the Trustee, and if received by the Corporation at any time shall be deposited by the Corporation with the Trustee within one Business

Day after the receipt thereof, and all such Lease Payments and such other amounts shall be forthwith deposited by the Trustee upon the receipt thereof in the Lease Payment Fund.

Establishment of Lease Payment Fund. There is established by the Trust Agreement, and the Trustee shall maintain, a fund designated as the "Lease Payment Fund," to be maintained as a fund separate and apart from all other funds and accounts held by the Trustee, in which there may be established for each Series of Certificates a separate account or accounts designated as the "_____ Lease Payment Account" (inserting therein the Series designation of such Certificates). In connection with the delivery of the Series 2012A Certificates and the Series 2012B Certificates, the Trustee shall establish and maintain in the Lease Payment Fund separate accounts designated as the "Series 2012A Lease Payment Account" and the "Series 2012B Lease Payment Account," respectively. All moneys at any time deposited by the Trustee in a Lease Payment Account within the Lease Payment Fund shall be held by the Trustee in trust for the benefit of the Owners of the related Certificates. So long as any Certificates are Outstanding, neither the District nor the Corporation shall 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 shall be used and applied by the Trustee as hereinafter set forth.

Deposits. There shall be deposited in the Lease Payment Fund all Lease Payments received by the Trustee, including any moneys received by the Trustee for deposit therein, and any other moneys or proceeds or funds required to be deposited therein pursuant to the Lease Agreement or pursuant to the Trust Agreement.

Application of Money. Amounts on hand in the Lease Payment Fund shall be applied to the respective subaccounts in the Lease Payment Fund (each, a "Lease Payment Account"), an amount equal to the aggregate principal and interest due with respect to the related Series of Certificates on such Interest Payment Date; provided that, if amounts on deposit in the Lease Payment Fund are insufficient to pay the full amount of principal and interest then due and payable with respect to the Certificates, then the Trustee shall apply such amounts first to the payment of interest due with respect to the Certificates, pro rata by Series, if necessary, and second to the payment of principal due with respect to the Certificates, pro rata by Series, if necessary.

Surplus. Any surplus remaining in an account of the Lease Payment Fund after prepayment and payment of (i) all Certificates of the related Series, including premiums and accrued interest (if any) and (ii) any applicable fees and expenses to the Trustee, shall be withdrawn by the Trustee and remitted to the District.

Security of Funds. All moneys deposited with the Trustee under the Trust Agreement shall be held in trust and (except for moneys held by the Trustee, as paying agent, for the payment of the principal, premium, if any, and interest with respect to the Certificates of the related Series) shall, while held by the Trustee, be and remain entitled to the benefit and shall be subject to the security of the Trust Agreement, for the equal and proportionate benefit of the Owners of all Outstanding Certificates.

Reserve Fund

Establishment of Reserve Fund. The Trustee shall establish a special trust fund designated as the "Reserve Fund" (the "Reserve Fund") in which there may be established for each Series of Certificates a separate account designated as the Reserve Account (inserting therein the Series designation of such Certificates). With respect to the Series 2012A Bonds and the Series 2012B Bonds, the Trustee shall establish and maintain within the Reserve Fund the "Series 2012A Reserve Account" and the "Series 2012B Reserve Account," respectively.

All moneys at any time on deposit in the Reserve Fund (which amounts may be in cash, Permitted Investments, a line of credit, letter of credit, insurance policy or surety bond, or a combination thereof, equal to the Reserve Requirement; *provided, however*, that the provider of any line of credit, letter of credit, insurance policy or surety bond shall have a rating of "A+" or better, or the equivalent thereof from Fitch, "A1" or better, or the equivalent thereof, from Moody's, or "A+" or better, or the equivalent thereof, from S&P) shall be held by the Trustee in trust for the benefit of the District and for the benefit of the Owners, as a reserve for the payment when due of all the Lease Payments and Prepayments to be paid pursuant to the Lease Agreement and of all payments on the Certificates and applied solely as provided in the Trust Agreement.

The District shall not substitute any credit facility in lieu of all or any portion of moneys on deposit in the Reserve Fund without notice to Fitch, Moody's and S&P.

Transfers of Excess. The Trustee shall, on or before March 1 and September 1 of each year, provide written notice to the District of any moneys then on hand in the Reserve Fund in excess of the Reserve Requirement (based on fair market value) and on March 15 and September 15, the Trustee shall transfer such excess moneys to the Lease Payment Fund to be applied to the next Lease Payment due from the District.

Application of Reserve Fund in Event of Deficiency in Lease Payment Fund. Whether or not Lease Payments are then in abatement, if one day immediately preceding any Certificate Payment Date, the moneys available in the Lease Payment Fund are less than the amount of the principal and interest with respect to a Series of Certificates then coming due and payable, the Trustee first shall apply the moneys on hand in the related account of the Reserve Fund to make delinquent Lease Payments on behalf of the District by transferring the amount necessary for this purpose to the Lease Payment Fund from any cash on deposit. Under no circumstances shall moneys in the Reserve Fund be applied for any fees due to the Trustee under the Trust Agreement or any other costs of the Trustee or its agents, attorneys and counsel incurred with respect to an Event of Default under the Trust Agreement or otherwise. The Trustee shall notify the District of the amount of any deficiency in the Reserve Fund.

Transfer To Make All Lease Payments. With respect to any Series of Certificates, if on any Interest Payment Date, the moneys on deposit in the related accounts within the Reserve Fund and the Lease Payment Fund (excluding amounts required for payment of principal, interest and prepayment premium (if any) with respect to such Certificates not presented for payment), are sufficient to pay in full all Outstanding Certificates of such Series, including all principal, interest and prepayment premiums (if any), the Trustee shall, upon the written direction of a District Representative, transfer all amounts then on deposit in such account within the Reserve Fund and the Lease Payment Fund to be applied to the payment of the Lease Payments on behalf of the District. Any amounts remaining in an account within the Lease Payment Fund upon payment in full of all Outstanding Certificates of the related Series shall be disbursed as provided in the provisions of the Trust Agreement summarized under "– Lease Payments; Lease Payment Fund – Surplus."

Insurance and Condemnation Fund; Proceeds of Insurance Award; Proceeds of Eminent Domain Award

Establishment of Insurance and Condemnation Fund; Application of Net Proceeds of Insurance Award. (a) Any Net Proceeds of insurance against accident to or destruction of any part of the Property collected by the District in the event of any such accident or destruction shall be paid to the Trustee by the District pursuant to the provisions of the Lease Agreement relating to the application of Net Proceeds and deposited by the Trustee promptly upon receipt thereof in a special fund to be established and designated as the "Insurance and Condemnation Fund," in which there may be established for each Series of Certificates a separate account designated as the "_____ Insurance and Condemnation Account" (inserting therein the Series designation of such Certificates).

(b) With respect to each Series of Certificates, within 90 days following the date of such deposit, the District shall determine and notify the Trustee in writing of its determination either (i) that the replacement, repair, restoration, modification or improvement of the Property is not economically feasible or in the best interest of the District, or (ii) that all or a portion of such Net Proceeds are to be applied to the prompt replacement, repair, restoration, modification or improvement of the damaged or destroyed portions of the Property.

(c) In the event the District's determination is as set forth in clause (i) of the immediately preceding paragraph, such Net Proceeds shall be promptly transferred by the Trustee to the appropriate account within the Lease Payment Fund pursuant to the Lease Agreement and applied to the prepayment of related Certificates as provided in the Trust Agreement; *provided, however*, that in the event of damage or destruction in full of the Property, such Net Proceeds may be transferred to the Lease Payment Fund only if sufficient, together with other moneys available therefor, to cause the prepayment of the principal components and interest components of all unpaid Lease Payments with respect to the Certificates pursuant to the Lease Agreement; provided further, however, that in the event of damage or destruction in part of the Property, such Net Proceeds may be transferred to the Lease Payment Fund and applied, pro rata by Series, to the prepayment of Lease Payments only if the resulting Lease Payments represent fair consideration for the remaining portions of the Property, evidenced by a certificate signed by a District Representative and a Corporation Representative.

(d) In the event the District's determination is as set forth in clause (ii) of paragraph (b) above, Net Proceeds deposited in the Insurance and Condemnation Fund shall be applied to the prompt replacement, repair, restoration, modification or improvement of the damaged or destroyed portions of the Property by the District, and disbursed by the Trustee upon receipt of requisitions signed by a District Representative stating 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 and (iv) that each obligation mentioned therein has been properly incurred, is a proper charge against such account within the Insurance and Condemnation Fund, has not been the basis of any previous withdrawal, and specifying in reasonable detail the nature of the obligation. Notwithstanding the foregoing, the District may not elect to provide for the replacement, repair, restoration, modification or improvement of the damaged or destroyed portions of the Property unless the Property, following such replacement, repair, restoration, modification or improvement will have a value not less than the Outstanding principal component of the Certificates. Any balance of the Net Proceeds remaining after such work has been completed shall be paid to the District.

Application of Net Proceeds of Eminent Domain Award. If all or any part of the Property shall be taken by eminent domain proceedings (or sold to a government threatening to exercise the power of eminent domain), the Net Proceeds therefrom shall be deposited with the Trustee in the applicable account within the Insurance and Condemnation Fund pursuant to the Lease Agreement and shall be applied and disbursed by the Trustee as follows:

(a) If the District has given written notice to the Trustee of its determination that (i) such eminent domain proceedings have not materially affected the operation of the Property or the ability of the District to meet any of its obligations with respect to the Property under the Lease Agreement, and (ii) such proceeds are not needed for repair or rehabilitation of the Property, the District shall so certify to the Trustee and the Trustee, at the District's written request, shall transfer such proceeds to the related account within the Lease Payment Fund pursuant to the Lease Agreement to be applied, pro rata by Series, to the prepayment of Lease Payments and applied to the prepayment of Certificates in the manner provided in the provisions of the Trust Agreement relating to extraordinary prepayment.

(b) If the District has given written notice to the Trustee of its determination that (i) such eminent domain proceedings have not materially affected the operation of the Property or the ability of the District to meet any of its obligations with respect to the Property under the Lease Agreement, and (ii) such proceeds are needed for repair, rehabilitation or replacement of such Property, the District shall so certify to the Trustee and the Trustee, at the District's written request, shall pay to the District, or to its order, from said proceeds such amount's as the District may expend for such repair or rehabilitation, upon the filing with the Trustee of requisitions of a District Representative in the form and containing the provisions set forth in paragraph (d) of the provisions summarized under the caption "-- Establishment of Insurance and Condemnation Fund; Application of Net Proceeds of Insurance Award" above.

(c) If (i) less than all of the Property shall have been taken in such eminent domain proceedings or sold to a government threatening the use of eminent domain powers, and if the District has given written notice to the Trustee of its determination that such eminent domain proceedings have materially affected the operation of the Property or the ability of the District to meet any of its obligations with respect to the Property under the Lease Agreement or (ii) all of the Property shall have been taken in such eminent domain proceedings, then the Trustee shall transfer such proceeds to the Lease Payment Fund pursuant to the Lease Agreement to be applied to the prepayment, pro rata by Series, of Lease Payments and applied to the prepayment of Certificates in the manner provided in the provisions of the Trust Agreement relating to extraordinary redemption.

(d) In making any determination under the provisions of the Trust Agreement summarized under this caption ("-- Application of Net Proceeds of Eminent Domain Award"), the District may, but shall not be required to, obtain at its expense, the report of an independent engineer or other independent professional consultant, a copy of which shall be sent to the Trustee. Any such determination by the District shall be final.

Application of Net Proceeds of Title Insurance Award. The Net Proceeds from a title insurance award shall be deposited with the Trustee in the Insurance and Condemnation Fund pursuant to the provisions of the Lease Agreement relating to the application of Net Proceeds from an eminent domain award and shall be transferred to the Lease Payment Fund pursuant to the Lease Agreement to be credited towards the prepayment, pro rata by Series, of

Lease Payments required to be paid and applied to the prepayment of Certificates in the manner provided in the provisions of the Trust Agreement relating to extraordinary redemption.

Cooperation. The Corporation and the Trustee shall 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 portion thereof. The Trustee shall not be obligated to join in such action if it believes it will be exposed to liability or has not been indemnified to its satisfaction from any loss, liability or expense including, but not limited to, attorneys fees.

Moneys in Funds; Investments

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 for the purposes specified in the Trust Agreement, and such moneys, and any income or interest earned thereon, shall be expended only as provided in the Trust Agreement, and shall not be subject to levy or attachment or lien by or for the benefit of any creditor of the Corporation, the Trustee, the District or any Owner of Certificates, except as provided in the Trust Agreement.

Investments Authorized. Moneys held by the Trustee under the Trust Agreement shall, upon written direction of a District Representative received at least two Business Days prior to the making of an investment, be invested and reinvested by the Trustee in Permitted Investments. If a District Representative shall fail to so direct investments, the Trustee shall invest such moneys in Permitted Investments described in paragraph (4) of the definition thereof. Such investments, if registrable, shall be registered in the name of and held by the Trustee or its nominee, as trustee. The Trustee may purchase or sell to itself or any affiliate, as principal or agent, investments authorized by the provisions summarized in this paragraph. Such investments and reinvestments shall be made giving full consideration to the time at which funds are required to be available. The Trustee may act as principal or agent in the making or disposing of any investment; *provided, however*, that (i) amounts in the Lease Payment Fund shall not be invested in any instruments bearing a credit rating by Fitch, if Fitch shall have rated the Certificates, by Moody's, if Moody's shall have rated the Certificates, and by S&P, if S&P shall have rated the Certificates, of lesser quality than that of the Certificates; and (ii) Available Moneys held for payment of a premium or for payment of tendered Certificates shall be invested only in Federal Securities for a period not to exceed the lesser of 30 days and the date such amounts are required. The District acknowledges that, to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the District the right to receive brokerage confirmations of security transactions as they occur, the District will not receive such confirmations to the extent permitted by law. The Trustee will furnish the District periodic cash transaction statements which include detail for all investment transactions made by the Trustee under the Trust Agreement. The Trustee may make any investments under the Trust Agreement through its own bond or investment department or trust investment department, or those of its parent or any affiliate. The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee under the Trust Agreement.

The Trustee may, in its sole discretion, 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 shall be accounted for separately notwithstanding such commingling by the Trustee; *provided, however*, that the Trustee shall not commingle moneys representing Available Moneys.

Accounting. The Trustee shall furnish to the District, at least monthly, an accounting which may be in the form of its customary accounting statements of all investments made by the Trustee. The Trustee shall not be responsible or liable for any loss suffered in connection with any investment of funds made by it in accordance with the provisions of the Trust Agreement summarized under the caption "— Investments Authorized" above.

Allocation of Earnings. All interest or income received by the Trustee on investment of the accounts in the Lease Payment Fund shall as received be retained in the respective accounts in the Lease Payment Fund. Amounts retained in the Lease Payment Fund pursuant to the provisions summarized in this paragraph shall be applied as a credit against the Lease Payment due by the District pursuant to the Lease Agreement on the Lease Payment Date following the date of deposit. All interest or income in any account of the Project Fund shall be transferred to the

related account in the Lease Payment Fund. All interest or income in the Delivery Costs Fund shall be retained therein.

The Trustee; Registrars

Appointment of Trustee. Other than the Trustee initially appointed, which appointment is confirmed by the Trust Agreement, the Corporation and the District agree that they will maintain a Trustee which shall be a commercial bank or banking association with corporate trust powers; a trust company; a federal savings association; a federally chartered savings institution; a savings bank; a savings institution; or a financial institution the deposits of which are insured by the Federal Deposit Insurance Corporation to the extent permitted by law, which shall have (or, in the case of a commercial bank with trust powers, banking association, or a trust company included in a bank holding company system, the related bank holding company shall have) a combined capital and surplus of at least \$50,000,000, and subject to supervision or examination by federal or State authority, so long as any Certificates are Outstanding. If such commercial bank with trust powers, banking association, trust company or banking institution publishes a report of condition at least annually pursuant to law or to the requirements of any supervising or examining authority above referred to then for the purpose of the provisions summarized in this paragraph, the combined capital and surplus of such commercial bank with trust powers, banking association, trust company or banking institution shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. The Trustee shall be subject to regulations regarding fiduciary funds on deposit similar to Title 12 of the U.S. Code of Federal Regulation Section 9.10(b), and shall be acting in its fiduciary capacity. In case at any time the Trustee shall cease to be eligible in accordance with the provisions summarized in this paragraph, the Trustee shall resign immediately in the manner and with the effect specified in the provisions of the Trust Agreement summarized under “– Removal of Trustee” below. The Trustee is authorized by the Trust Agreement to pay the Certificates when duly presented for payment at maturity or on prepayment, and to cancel all Certificates upon payment thereof. The Trustee shall keep records in accordance with industry standards of all funds administered by it and of all Certificates paid and discharged. The Trustee shall be compensated for its services rendered pursuant to the provisions of the Trust Agreement.

Acceptance of Trusts. The Trustee accepts the trusts imposed upon it by the Trust Agreement and agrees to perform said trusts, but only upon and subject to the following express terms and conditions:

(a) The Trustee, prior to the occurrence of an Event of Default and after the curing or waiver of all Events of Default which may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in the Trust Agreement and no implied duties or obligations shall be read into the Trust Agreement against the Trustee. In case an Event of Default has occurred (which has not been cured or waived), the Trustee may exercise such of the rights and powers vested in it by the Trust Agreement and shall use the same degree of care and skill in their exercise as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

(b) No provision in the Trust Agreement shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under the Trust Agreement, or in the exercise of any of its rights or powers.

(c) The Trustee may execute any of the trusts or powers of the Trust Agreement and perform the duties required of it under the Trust Agreement either directly or by or through attorneys or agents and shall be entitled to rely on advice of counsel concerning all matters of trust and its duty under the Trust Agreement.

(d) The Trustee shall not be responsible for any recital in the Trust Agreement, in the Assignment Agreement or in the Certificates, or for any of the supplements thereto or instruments of further assurance, or for the sufficiency of the security for the Certificates delivered under the Trust Agreement or intended to be secured by the Trust Agreement, or for the tax status of interest with respect to the Certificates and the Trustee shall not be bound to ascertain or inquire as to the observance or performance of any covenants, conditions or agreements on the part of the Corporation or the District under the Lease Agreement.

(e) The Trustee shall not be accountable for the use of any Certificates delivered under the Trust Agreement or the proceeds thereof. The Trustee, in its individual or any other capacity, may become the Owner,

custodian or pledgee of Certificates secured by the Trust Agreement with the same rights which it would have if it were not the Trustee; may acquire and dispose of other bonds or evidence of indebtedness of the District with the same rights it would have if it were not the Trustee; 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 shall represent the Owners of the majority in principal amount of the Certificates then Outstanding; and may engage in other transactions with the Corporation or the District, whether as trustee or otherwise.

(f) In the absence of bad faith on its part, the Trustee shall be protected in acting or refraining from acting upon any notice, request, consent, requisition, certificate, order, affidavit, letter, telegram or other paper or document believed by it to be genuine and to have been signed or sent by the proper person or persons. Any action taken or omitted to be taken by the Trustee in good faith pursuant to the Trust Agreement upon the request or authority or consent of any person who at the time of making such request or giving such authority or consent is the Owner of any Certificate, shall be conclusive and binding upon all future Owners of the same Certificate and upon Certificates executed and delivered in exchange therefor or in place thereof. The Trustee shall not be bound to recognize any person as an Owner of any Certificate or to take any action at his request unless such Certificate shall be deposited with the Trustee and satisfactory evidence of the ownership of such Certificate shall be furnished to the Trustee.

(g) As to the existence or non-existence of any fact or as to the sufficiency or validity of any instrument, paper or proceeding, the Trustee shall be entitled to rely upon a certificate signed by a Corporation Representative or a District Representative as sufficient evidence of the facts therein contained and prior to the occurrence of an Event of Default of which the Trustee has been given notice or is deemed to have notice, shall also be at liberty to accept a similar certificate to the effect that any particular dealing, transaction or action is necessary or expedient. The Trustee may accept a certificate of a Corporation Representative or a District Representative to the effect that an authorization in the form therein set forth has been adopted by the Corporation or the District, as the case may be, as conclusive evidence that such authorization has been duly adopted, and is in full force and effect.

(h) The permissive right of the Trustee to do things enumerated in the Trust Agreement shall not be construed as a duty and it shall not be answerable for other than its negligence or willful misconduct. The immunities and exceptions from liability of the Trustee shall extend to its officers, directors, employees and agents.

(i) The Trustee shall not be required to take notice or be deemed to have notice of any Event of Default under the Trust Agreement except failure by the District to make any of the Lease Payments to the Trustee required to be made by the District pursuant to the Lease Agreement or failure by the Corporation or the District to file with the Trustee any document required by the Trust Agreement or the Lease Agreement to be so filed subsequent to the delivery of the Certificates, unless the Trustee shall be specifically notified in writing of such default by the Corporation, the District or by the Owners of at least 5% in aggregate principal amount of Certificates then Outstanding; and all notices or other instruments required by the Trust Agreement to be delivered to the Trustee must, in order to be effective, be delivered at the Principal Office of the Trustee, and in the absence of such notice so delivered the Trustee may conclusively assume there is no Event of Default except as aforesaid.

(j) The Trustee shall not be required to give any bond or surety in respect of the execution of the said trusts and powers or otherwise in respect of the premises.

(k) Notwithstanding anything elsewhere in the Trust Agreement with respect to the execution of any Certificates, the withdrawal of any cash, the release of any property, or any action whatsoever within the purview of the Trust Agreement, the Trustee shall have the right, but shall not be required, to demand any showings, certificates, opinions, appraisals or other information, or corporate action or evidence thereof, in addition so that by the terms of the Trust Agreement required as a condition of such action, by the Trustee deemed desirable for the purpose of establishing the right of the District to the withdrawal of any cash, or the taking of any other action by the Trustee.

(l) All moneys received by the Trustee shall, until used or applied or invested as provided in the Trust Agreement, be held in trust for the purposes for which they were received but need not be segregated from other funds except to the extent required by law.

(m) The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of a majority in aggregate principal amount of the Outstanding Certificates (unless the Owners do not have the right to provide such direction) relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under the Trust Agreement.

(n) Under no circumstances shall the Trustee be liable in its individual capacity for the obligations evidenced by the Certificates.

(o) The Trustee shall not be accountable for the use or application by the District or the Corporation or any other party of any funds which the Trustee has released in accordance with the terms of the Trust Agreement.

(p) 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 shall 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.

(q) The Trustee makes no representations as to the validity or sufficiency of the Certificates and shall incur no responsibility in respect thereof, other than in connection with the duties or obligations in the Trust Agreement or in the Certificates assigned to or imposed upon it. The Trustee shall not be responsible for the validity or sufficiency of the Lease Agreement or the assignment under the Assignment Agreement. The Trustee shall 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 the Lease Agreement, or the value of or title to the premises upon which the Property are located or the Property. The Trustee makes no representations and shall have no responsibility for any official statement or other offering material prepared or distributed with respect to the Certificates.

(r) In accepting the trust created by the Trust Agreement, the Trustee acts solely as Trustee for the Owners and not in its individual capacity and all persons, including without limitation the Owners and the District or the Corporation having any claim against the Trustee arising from the Trust Agreement, shall look only to the funds and accounts held by the Trustee under the Trust Agreement for payment except as otherwise provided in the Trust Agreement.

(s) The Trustee shall not be personally liable, in case of entry by it or the Corporation upon the Property, for debts contracted or liabilities or damages incurred in the management or operation of the Property by the Corporation or it.

(t) Whether or not therein expressly so provided, every provision of the Trust Agreement, the Lease Agreement and the Assignment Agreement relating to the conduct or affecting the liability of the Trustee shall be subject to the provisions of the Trust Agreement summarized under “– The Trustee; Registrars.”

(u) The Trustee is authorized and directed to execute in its capacity as Trustee the Assignment Agreement.

Fees, Charges and Expenses of Trustee. The Trustee shall be entitled to payment and reimbursement for reasonable fees for its services rendered under the Trust Agreement and all advances, if any, including interest on all such advances at its prime rate then in effect, plus two percent, external counsel fees (including expenses), the allocated cost of internal legal services (to the extent such services are not redundant of services performed by external counsel) and all disbursements of internal counsel, and other expenses reasonably and necessarily made or incurred by the Trustee in connection with such services and, in the Event of Default, the Trustee shall have a first and prior lien on the funds held under the Trust Agreement to secure the same. The Trustee’s compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust. The Trustee’s rights under the Trust Agreement shall survive its resignation or removal and final payment of the Certificates.

Removal of Trustee. The District and the Corporation may by written agreement between themselves so long as no Event of Default shall have occurred and be continuing, or the Owners of a majority in aggregate principal amount of all Certificates Outstanding may by written request, at any time and for any reason, remove the Trustee and any successor thereto, and shall thereupon appoint a successor or successors thereto.

The Trustee may at any time resign by giving written notice to the District and the Corporation and by giving to the Certificate Owners notice by mailing such notice to the registered Owners of the Certificates. Upon receiving such notice of resignation, the District shall promptly appoint a successor Trustee by an instrument in writing; *provided, however*, that in the event that the District has not appointed a successor Trustee who has accepted its appointment within 30 days following receipt of such notice of resignation, the resigning Trustee may petition the appropriate court having jurisdiction to appoint a successor Trustee. Any resignation or removal of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee and the transfer of any credit facility and any liquidity facility in accordance with its terms to the successor Trustee and its acceptance thereof.

Appointment of Agent. The Trustee may appoint an agent to exercise any of the powers, rights or remedies granted to the Trustee under the Trust Agreement, and to hold title to property or to take any other action which may be desirable or necessary.

Merger or Consolidation. Any company, corporation or association into which the Trustee may be merged or converted, or with which it may be consolidated, or any company, corporation or association resulting from any merger, conversion or consolidation to which it shall be a party, or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business (provided that such company shall be eligible under the provisions of the Trust Agreement relating to the appointment of a Trustee) shall 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.

Concerning any Successor Trustee. Every successor Trustee appointed under the Trust Agreement shall execute, acknowledge and deliver to its or his predecessor and also the Corporation and the District an instrument in writing accepting such appointment under the Trust Agreement and thereupon such successor, without any further act, deed or conveyance, shall become fully vested with all the estates, properties, rights, powers, trusts, duties and obligations of its predecessors; but such predecessor shall, nevertheless, on the written request of the District, or of its successor, execute and deliver an instrument transferring to such successor all the estates, properties, rights, powers and trusts of such predecessor under the Trust Agreement; and every predecessor Trustee shall deliver all securities and moneys held by it as the Trustee under the Trust Agreement to its successor. Upon such acceptance, the District shall mail, or cause the mailing of, notice thereof to the Certificate Owners at their respective addresses set forth on the Registration Books. Should any instrument in writing from the District be required by any successor Trustee for more fully and certainly vesting in such successor the estate, rights, powers and duties vested or intended to be vested in the predecessor by the Trust Agreement, any and all such instruments in writing shall, on request, be executed, acknowledged and delivered by the District. The resignation of any Trustee and the instrument or instruments removing any Trustee and appointing a successor under the Trust Agreement, together with all other instruments provided for in the provisions of the Trust Agreement summarized under “– The Trustee; Registrar,” shall be filed or recorded by the successor Trustee in each recording office where the Assignment Agreement shall have been filed or recorded.

Monthly Account Statements. The Trustee each month shall provide to the District a statement setting forth amounts on deposit in the funds and accounts under the Trust Agreement.

Modification or Amendment of Agreements

Amendments Permitted. The Trust Agreement and the rights and obligations of the Owners of the Certificates and the Lease Agreement and the rights and obligations of the parties thereto, may be modified or amended at any time by a supplemental agreement which shall become effective when the written consents of the Owners of at least 60% in aggregate principal amount of the Certificates then Outstanding, exclusive of Certificates disqualified as provided in the Trust Agreement, shall have been filed with the Trustee. No such modification or amendment shall: (a) extend or have the effect of extending the fixed maturity of any Certificate or reducing the

interest rate with respect thereto or extending the time of payment of interest, or reducing the amount of principal thereof or reducing any premium payable upon the prepayment thereof, without the express consent of the Owner of such Certificate, (b) 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 (c) modify any of the rights or obligations of the Trustee without its written assent thereto.

The Trust Agreement and the rights and obligations of the Owners of the Certificates and the Lease Agreement and the rights and obligations of the respective 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: (a) to add to the covenants and agreements of any party, other covenants to be observed, or to surrender any right or power therein reserved to the District, (b) to cure, correct or supplement any ambiguous or defective provision contained therein and which shall not adversely affect the interests of the Owners of the Certificates, in regard to questions arising under the Trust Agreement or thereunder, as the parties to the Trust Agreement or thereto may deem necessary or desirable, (c) to make such additions, deletions or modifications as may be necessary or desirable to assure exemption from federal income taxation of interest with respect to the Certificates, (d) to the extent necessary to obtain a rating with respect to the Certificates from Fitch or Moody's or S&P, or both, (e) to issue Additional Certificates as provided in the Trust Agreement, (f) to allow for interest with respect to Additional Certificates to be calculated at an adjustable or variable rate, or (g) to substitute, add or eliminate Property in accordance with the Lease Agreement, provided that such amendment, in the opinion of nationally recognized Special Counsel delivered to the Corporation, the District and the Trustee, shall not adversely affect the interests of the interests of the Owners of the Certificates or shall impair the right of any Owner to receive, in any case, such Owner's fractional share of any Lease Payment in accordance with such Owner's Certificate.

Any such supplemental agreement shall become effective upon execution and delivery by the parties to the Trust Agreement or thereto, as the case may be.

Procedure for Amendment with Written Consent of Certificate Owners. The Trust Agreement and the Lease Agreement may be amended by supplemental agreement as provided in the provisions of the Trust Agreement summarized under this caption ("– Procedure for Amendment with Written Consent of Certificate Owners") in the event the consent of the Owners of the Certificates is required pursuant to the provisions of the Trust Agreement relating to permitted amendments. A copy of such supplemental agreement, together with a request to the Certificate Owners for their consent thereto, shall be mailed by the Trustee to each Owner of a Certificate at their address as set forth on the Registration Books, but failure to receive copies of such supplemental agreement and request shall not affect the validity of the supplemental agreement when assented to as provided in the provisions of the Trust Agreement summarized under this caption ("– Procedure for Amendment with Written Consent of Certificate Owners").

Such supplemental agreement shall not become effective unless there shall be filed with the Trustee the written consents of the Owners of at least sixty percent (60%) in aggregate principal amount of the Certificates then Outstanding (exclusive of Certificates disqualified as provided in the Trust Agreement), and a notice shall have been mailed as provided in the Trust Agreement.

Each such consent shall be effective only if accompanied by proof of ownership of the Certificates for which such consent is given, which proof shall be such as is permitted by the Trust Agreement. Any such consent shall be binding upon the Owner of the Certificate giving such consent and on any subsequent Owner (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 in the immediately following paragraph has been mailed. Any revocation received after such notice has been mailed shall be of no effect.

After the Owners of the required percentage of Certificates shall have filed their consents to such supplemental agreement, the Trustee shall mail a notice to the Owners of the Certificates in the manner provided in this caption for the mailing of such supplemental agreement of the notice of adoption thereof, 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 under this caption (but failure to receive copies of said notice shall not affect the validity of such supplemental agreement or consents thereto). A record, consisting of the papers required by the

provisions of the Trust Agreement summarized under this caption to be filed with the Trustee, shall be conclusive proof of the matters therein stated. Such supplemental agreement shall become effective upon the mailing of such last-mentioned notice, and such supplemental agreement shall be deemed conclusively binding upon the parties to the Trust Agreement and the Owners of all Certificates at the expiration of 60 days after such mailing, except in the event of a final decree of a court of competent jurisdiction setting aside such consent in a legal action or equitable proceeding for such purpose commenced within such 60 day period.

Disqualified Certificates. Certificates owned or held by or for the account of the District or the Corporation or by any person directly or indirectly controlling 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) shall 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 shall not be entitled to vote upon, consent to, or take any other action provided for in the Trust Agreement.

Effect of Supplemental Agreement. From and after the time any supplemental agreement becomes effective pursuant to the provisions of the Trust Agreement, the Trust Agreement or the Lease Agreement, as the case may be, shall be deemed to be modified and amended in accordance therewith, the respective rights, duties and obligations of the parties thereto and all Owners of Certificates Outstanding, as the case may be, shall thereafter be determined, exercised and enforced under the Trust Agreement subject in all respects to such modification and amendment, and all the terms and conditions of any supplemental agreement shall be deemed to be part of the terms and conditions of the Trust Agreement or the Lease Agreement, as the case may be, for any and all purposes. The Trustee may require each Certificate Owner, before their consent provided for in the provisions of the Trust Agreement summarized under “– Modification or Amendment of Agreements” shall be deemed effective, to reveal whether the Certificates as to which such consent is given are disqualified as provided in the Trust Agreement.

Endorsement or Replacement of Certificates Delivered After Amendments. The Trustee may determine that Certificates delivered after the effective date of any action taken as provided in the provisions of the Trust Agreement summarized under “– Modification or Amendment of Agreements” shall bear a notation, by endorsement or otherwise, in form approved by the Trustee, as to such action. In that case, upon demand on the Owner of any Certificate Outstanding at such effective date and presentation of his Certificate for the purpose at the Principal Office of the Trustee, a suitable notation shall be made on such Certificate. The Trustee may determine that the delivery of substitute Certificates, so modified as in the opinion of the Trustee is necessary to conform to such Certificate Owners’ action, which substitute Certificates shall thereupon be prepared, executed and delivered. In that case, upon demand on the Owner of any Certificate then Outstanding, such substitute Certificate shall be exchanged at the Principal Office, without cost to such Owner, for a Certificate of the same character then Outstanding, upon surrender of such Outstanding Certificate.

Amendatory Endorsement of Certificates. The provisions of the Trust Agreement summarized under “– Modification or Amendment of Agreements” shall not prevent any Certificate Owner from accepting any amendment as to the particular Certificates held by that Owner, provided that proper notation thereof is made on such Certificates.

Covenants

Compliance With and Enforcement of Lease Agreement. The District covenants and agrees with the Owners of the Certificates to perform all obligations and duties imposed on it under the Lease Agreement. The Corporation covenants and agrees with the Owners of the Certificates 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 thereunder. 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 either of them, in the Property, 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, 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 municipal corporation, to the end that such rights, privileges and franchises shall be maintained and preserved, and shall not become abandoned, forfeited or in any manner impaired.

Prosecution and Defense of Suits. The Corporation and the District shall promptly, upon request of the Trustee or any Certificate Owner, from time to time 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 shall prosecute all such suits, actions and other proceedings as may be appropriate for such purpose and shall indemnify and save the Trustee and every Certificate 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.

Recordation and Filing. The District shall record and file, or cause to be recorded and filed, the Lease Agreement, the Assignment Agreement and all such documents as may be required by law (and shall take all further actions which may be necessary or be reasonably required by the Trustee), all in such manner, at such times and in such places as may be required by law in order fully to preserve, protect and perfect the security of the Trust Agreement.

District Budgets. The District shall supply to the Trustee in each year a written determination by a District Representative of the District that the District has made adequate provision in its proposed annual budget for the payment of Lease Payments due under the Lease Agreement in the fiscal year covered by such budget at the actual interest rate applicable to the Certificates. Such determination shall be made as soon as practicable after the first publication of any notice of public hearing upon the proposed budget of the District and shall be made, in any event, not later than November 1 of each year. The determination given by the District to the Trustee shall be that the amounts so budgeted are fully adequate for the payment of all Lease Payments due under the Lease Agreement in the annual period covered by such budget.

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 the Lease Agreement and for the better assuring and confirming unto the Owners of the Certificates the rights and benefits provided in the Trust Agreement.

Satisfaction of Conditions Precedent. The District certifies, recites and declares that all acts, conditions and things required by the constitution and statutes of the State, the Lease Agreement and the Trust Agreement to exist, to have happened and to have been performed precedent to and in the delivery of the Certificates, do exist, have happened and have been performed in due time, form and manner as required by law.

Limitation of Liability

Limited Liability of District. Except for the payment of Lease Payments and Additional Payments when due in accordance with the Lease Agreement and the performance of the other covenants and agreements of the District contained in the Lease Agreement and the Trust Agreement, the District shall have no pecuniary obligation or liability to any of the other parties or to the Owners of the Certificates 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, except as expressly set forth in the Trust Agreement.

No Liability for Trustee Performance. Neither the District nor the Corporation shall have any obligation or liability to any of the other parties or to the Owners of the Certificates with respect to the performance by the Trustee of any duty imposed upon it under the Trust Agreement.

Indemnification. The District agrees to indemnify and save the Trustee harmless from and against all claims, suits and actions brought against them or to which they are made a party, and from all losses and damages suffered by them as a result thereof, including, but not limited to, attorneys fees and expenses, including where and to the extent such claim, suit or action arises out of the actions of any party to the Trust Agreement including but not

limited to the execution and delivery of the certificates or the ownership, operation or use of the Property by the District. Such indemnification shall not extend to claims, suits and actions brought against the Trustee arising out of such party's negligence or willful misconduct. In the event the District is required to indemnify the Trustee as provided in the Trust Agreement, the District shall be subrogated to the extent of amounts paid to the rights of the Trustee to recover such losses or damages from any other person or entity. The obligations of the District summarized in this paragraph shall survive the discharge of the Trust Agreement and the Certificates and the resignation or removal of the Trustee under the Trust Agreement.

Limitation of Rights to Certain Parties and Certificate Owners. Nothing in the Trust Agreement or in the Certificates expressed or implied is intended or shall be construed to give any person other than the District, the Corporation, the Trustee and the Owners of the Certificates, any legal or equitable right, remedy or claim under or in respect of the Trust Agreement or any covenant, condition or provision of the Trust Agreement; and all such covenants, conditions and provisions are and shall be for the sole and exclusive benefit of the District, the Corporation, the Trustee and said Owners.

Events of Default and Remedies of Certificate Owners

Assignment of Rights. Pursuant to the Assignment Agreement, the Corporation has transferred, assigned and set over to the Trustee all of the Corporation's rights in and to the Lease Agreement (excepting only certain of the Corporation's rights thereunder), including without limitation all of the Corporation's rights 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, Additional Payments and any other amounts required to be deposited in the Lease Payment Fund or the Insurance and Condemnation Fund, and (ii) otherwise to exercise the Corporation's rights and take any action to protect the interests of the Trustee or the Certificate Owners in an Event of Default.

Remedies. If an Event of Default shall happen, then and in each and every such case during the continuance of such Event of Default, the Trustee may, and to the extent indemnified to its satisfaction upon request of the Owners as provided in the Lease Agreement shall, 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 shall be no right under any circumstances to accelerate the maturities of the Certificates.

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 Lease Agreement in connection with an Event of Default or otherwise shall be applied by the Trustee in the order following upon presentation of the several Certificates, and the execution and delivery of new Certificates if only partially paid, or upon the surrender thereof if fully paid: (1) *first*, to the payment of the fees, costs and expenses of the Trustee and of the Certificate Owners in declaring such Event of Default and pursuing remedies (although the Trustee shall have no claim to amounts for the payment of premiums upon an optional prepayment), including reasonable compensation to its or their agents, attorneys and counsel; and (2) *second*, to the payment of the whole amount then owing and unpaid with respect to the Certificates for principal and interest, with interest on the overdue principal and installments of interest at a rate per annum equal to the rate then payable with respect to the Certificates to the extent permitted by law (but such interest on overdue installments of interest shall be paid only to the extent funds are available therefor following payment of principal and interest and interest on overdue principal, as aforesaid), and in case such moneys shall be insufficient to pay in full the whole amount so owing and unpaid with respect to the Certificates, then to the payment of such principal and interest without preference or priority of principal over interest, or of interest over principal, or of any installment of interest over any other installment of interest, ratably to the aggregate of such principal and interest.

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, shall proceed to protect or enforce its rights or the rights of the Owners of Certificates 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 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 shall deem most effectual in support of any of its rights or duties under the Trust Agreement.

Non-waiver. Nothing in the provisions of the Trust Agreement or in the Certificates, shall affect or impair the obligation of the District to pay or prepay the Lease Payments in accordance with and subject to the terms and provisions of the Lease Agreement, or affect or impair the right of action, which is also absolute and unconditional, of the Certificate Owners to institute suit to enforce and collect such payment. No delay or omission of the Trustee or of any Owner of any of the Certificates to exercise any right or power arising upon the happening of any Event of Default shall impair any such right or power or shall 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 of Certificates may be exercised from time to time and as often as shall be deemed expedient by the Trustee or the Certificate Owners.

Remedies Not Exclusive. No remedy in the Trust Agreement conferred upon or reserved to the Trustee or to the Certificate Owners is intended to be exclusive of any other remedy, and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Trust Agreement or now or hereafter existing, at law or in equity or by statute or otherwise.

Power of Trustee to Control Proceedings. In the event that the Trustee, upon the happening of an Event of Default, shall have taken any action, by judicial proceedings or otherwise, pursuant to its duties under the Trust Agreement, whether upon its own discretion or upon the request of the Owners of a majority in principal amount of the Certificates then Outstanding, it shall have full power, in the exercise of its discretion for the best interests 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 shall not discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, without the consent of a majority in aggregate principal amount of the Certificates Outstanding.

Limitation on Certificate Owners' Right to Sue. No Owner of any Certificate executed and delivered under the Trust Agreement shall 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 Trust Agreement; (b) the Owners of at least 25% in aggregate principal amount of all the Certificates then Outstanding shall have made written request upon the Trustee to exercise the powers granted in the Trust Agreement or to institute such action, suit or proceeding in its own name; (c) said Owners shall have tendered to the Trustee reasonable indemnity satisfactory to it 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 declared by the Trust Agreement, in every case, to be conditions precedent to the exercise by any Owner of Certificates of any remedy under the Trust Agreement; it being understood and intended that no one or more Owners of Certificates shall have any right in any manner whatever by his or their action to enforce any right under the Trust Agreement, except in the manner provided in the Trust Agreement, and that all proceedings at law or in equity with respect to an Event of Default shall be instituted, had and maintained 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 provisions of the Trust Agreement.

Miscellaneous

Defeasance. If and when all Outstanding Certificates of a Series shall be paid and discharged in any one or more of the following ways.

(a) by well and truly paying or causing to be paid the principal of and interest and prepayment premiums (if any) with respect to all Outstanding Certificates of a Series, as and when the same become due and payable; or

(b) by depositing with the Trustee, under an escrow deposit and trust agreement, security for the payment of Lease Payments with respect to such Series as more particularly described in the provisions of the Lease Agreement relating to a security deposit, said security to be held by the Trustee to be applied by the Trustee to pay or prepay the Lease Payments with respect to such Series on any date on which prepayment is provided for or as the same become due, pursuant to the provisions of the Lease Agreement relating to security deposits, notwithstanding that any such Certificates shall not have been surrendered for payment,

all obligations of the Corporation, the Trustee and the District with respect to all Outstanding Certificates of such Series shall cease and terminate, except only 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 provisions of the Trust Agreement summarized in this paragraph (b), to the Owners of such Certificates not so surrendered and paid all sums due with respect thereto, and in the event of deposits pursuant to paragraph (b) above, such Certificates shall continue to represent direct and proportionate interests of the Owners thereof in Lease Payments under the Lease Agreement.

Any funds held by the Trustee, at the time of one of the events described in paragraphs (a) or (b) above, which are not required for the payment to be made to Owners or for any outstanding fees and expenses of the Trustee, shall be paid over to the District.

Notwithstanding anything in the Trust Agreement to the contrary, in the event that the principal and/or interest with respect to a Series of the Certificates shall be paid by a Credit Provider with respect thereto pursuant to a municipal bond insurance policy, the Certificates of such Series shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by such Credit Provider, and such Credit Provider shall be subrogated to the rights of such Owners.

Records. The Trustee shall keep complete and accurate records of all moneys received and disbursed by it under the Trust Agreement, which shall be available for inspection by the District, the Corporation and any Owner, or the agent of any of them, at any time during regular business hours with reasonable prior notice.

Notices. All written notices to be given under the Trust Agreement shall be given by mail or personal delivery to the party entitled thereto at its address set forth in the Trust Agreement, or at such address as the party may provide to the other party in writing from time to time. All notices, certificates or other communications under the Trust Agreement shall be sufficiently given and shall be deemed to have been received upon actual receipt.

Benefits of the Trust Agreement Limited to Parties. Nothing in the Trust Agreement expressed or implied is intended or shall be construed to confer upon, or to give to, any person or entity, other than a Liquidity Provider, a Credit Provider, a remarketing agent (if any), a broker-dealer (if any), an auction agent (if any), a tender agent (if any), the District, the Corporation, the Trustee and the Owners any claim, remedy or right under or pursuant to the Trust Agreement, and any agreement, condition, covenant or term contained in the Trust Agreement required to be observed or performed by or on behalf of the District shall be for the sole and exclusive benefit of such listed parties.

Destruction of Canceled Certificates. Whenever in the Trust Agreement provision is made for the surrender to or cancellation by the Trustee and the delivery to the District of any Certificates, the Trustee may, in lieu of such cancellation and delivery, destroy such Certificates as may be allowed by law and deliver a certificate of such destruction to the District, unless otherwise requested by the District Representative.

Unclaimed Moneys. Notwithstanding any provisions of the Trust Agreement, any moneys held by the Trustee in trust for the payment of the principal or prepayment price, or interest with respect to, any Certificates appertaining thereto and remaining unclaimed for two years after the date such principal or prepayment price or interest with respect to any of the Certificates become due and payable (whether at maturity or upon call for prepayment as provided in the Trust Agreement), if such moneys were so held at such date, or two years after the

date of deposit of such moneys if deposited after said date when the principal or prepayment price, or interest with respect to any of the Certificates became due and payable, shall be repaid to the District, free from the trusts created by the Trust Agreement, and all liability of the Trustee with respect to such moneys shall thereupon cease; *provided, however,* that before the repayment of such moneys to the District as aforesaid, the Trustee shall (at the cost of the District) first mail to the Owners of any Certificate which has not been paid at the addresses shown on the Registration Books maintained by the Trustee a notice, in such form as may be deemed appropriate by the Trustee, with respect to the Certificates so payable and not presented and with respect to the provisions relating to the prepayment to the District of the moneys held for the payment thereof.

Credit Provider to Act for Owners. Notwithstanding anything in the Trust Agreement to the contrary, when there is a Credit facility in effect and so long as the Credit Provider has not defaulted under its Credit Facility, for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the Owners of Certificates supported by such Credit Facility are entitled to take pursuant to the Trust Agreement, such Credit Provider shall be deemed the Owner of such Certificates.

Invalidity of Certain Provisions. In case any one or more of the provisions contained in the Trust Agreement should be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any of the provisions contained in the Trust Agreement and, to the extent and only to the extent that any such provision is invalid, illegal or unenforceable, the Trust Agreement shall be construed as if such provisions had never been contained therein.

Next Business Day. Unless otherwise noted in the Trust Agreement, in the event that the day on which any act or function is to be performed or done is not a Business Day, such act or function will be performed or done on the next succeeding Business Day. If a payment date is not a Business Day, then payment may be made on the next Business Day and, except as otherwise provided in the Trust Agreement, no interest shall accrue for the intervening period.

Governing Law. The Trust Agreement shall be construed and governed in accordance with the laws of the State.

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APPENDIX D

PROPOSED FORM OF OPINION OF SPECIAL COUNSEL

Upon execution and delivery of the Certificates, Orrick, Herrington & Sutcliffe LLP, Special Counsel to the District, proposes to render its final opinion in substantially the following form:

[Date of Delivery]

Los Angeles Unified School District
Los Angeles, California

Los Angeles Unified School District
Refunding Certificates of Participation
2012 Series A (Headquarters Building Projects)

Los Angeles Unified School District
Refunding Certificates of Participation
2012 Series B (Headquarters Building Projects)
(Final Opinion)

Ladies and Gentlemen:

We have acted as special counsel to the Los Angeles Unified School District (the “District”) in connection with execution and delivery of Los Angeles Unified School District Refunding Certificates of Participation 2012 Series A (Headquarters Building Projects) evidencing principal in the aggregate amount of \$87,845,000 and Los Angeles Unified School District Refunding Certificates of Participation 2012 Series B (Headquarters Building Projects) evidencing principal in the aggregate amount of \$72,345,000 (collectively, the “Certificates”), executed and delivered on the date hereof pursuant to the Trust Agreement, dated as of October 1, 2001, by and among the District, the LAUSD Administration Building Finance Corporation (the “Corporation”) and U.S. Bank National Association, as trustee (the “Trustee”), as amended and supplemented by the First Supplemental Trust Agreement, dated as of December 1, 2002, by the Second Supplemental Trust Agreement, dated as of May 1, 2005, by the Third Supplemental Trust Agreement, dated as of May 1, 2005, by the Fourth Supplemental Trust Agreement, dated as of August 1, 2008, and by the Fifth Supplemental Trust Agreement, dated as of June 1, 2012, each by and among the District, the Corporation and the Trustee (collectively, the “Trust Agreement”). In such connection, we have reviewed the Trust Agreement, the Lease Agreement, dated as of October 1, 2001, between the District and the Corporation, as amended and supplemented by Amendment No. 1 to Lease Agreement, dated as of December 1, 2002, by Amendment No. 2 to Lease Agreement, dated as of May 1, 2005, by Amendment No. 3 to Lease Agreement, dated as of May 1, 2005, by Amendment No. 4 to Lease Agreement, dated as of August 1, 2008, and by Amendment No. 5 to Lease Agreement, dated as of June 1, 2012, each between the District and the Corporation (collectively, the “Lease Agreement”), the Assignment Agreement, dated as of October 1, 2001, by and between the Corporation and the Trustee, as amended and supplemented by Amendment No. 1 to Assignment Agreement, dated as of June 1, 2012, by and between the Corporation and the Trustee (collectively, the “Assignment Agreement”), the Tax Certificate of the District, dated the date hereof (the “Tax Certificate”), opinions of counsel to the District, the Trustee and others, certificates of the District, the Corporation, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Trust Agreement.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by

actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Certificates has concluded with their execution and delivery, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the District. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the first paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Lease Agreement, the Assignment Agreement, the Trust Agreement and the Tax Certificate, including, without limitation, covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest evidenced by the Certificates to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Certificates, the Lease Agreement, the Assignment Agreement, the Trust Agreement and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against school districts in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, arbitration, judicial reference, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in the Lease Agreement, the Assignment Agreement or the Trust Agreement or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Certificates and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Lease Agreement and the Trust Agreement have been duly executed and delivered by, and constitute valid and binding obligations of, the District.

2. Assuming due authorization, execution and delivery of the Trust Agreement and the Certificates by the Trustee, the Certificates are entitled to the benefits of the Trust Agreement.

3. The portion of each Lease Payment paid by the District designated as and evidencing and representing interest and received by the Owners of the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Such interest evidenced by the Certificates is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest evidenced by, the Certificates.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

APPENDIX E

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 \$87,845,000 principal amount of Refunding Certificates of Participation, 2012 Series A (Headquarters Building Projects) and \$72,345,000 principal amount of Refunding Certificates of Participation, 2012 Series B (Headquarters Building Projects) (collectively, the “Certificates”). The Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of June 1, 2012 (the “Trust Agreement”), by and among the Los Angeles Unified School District (the “District”), the LAUSD Administration Building Finance Corporation (the “Corporation”) and U.S. Bank National Association, as trustee (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.

“Listed 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 May 3, 2012.

“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 4. 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 5. Provision of Annual Reports.

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, 2012 (which is due not later than February 25, 2013), 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 Listed Event under Section 6(c).

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.

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.

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 6. Content of Annual Reports.

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:

1. Adopted budget of the District for the current fiscal year.
2. Information regarding total assessed valuation of taxable properties within the District as set forth in Table A-22 of Appendix A to the Official Statement.
3. Information regarding total tax levies and collections on taxable properties within the District as set forth in Table A-26 of Appendix A to the Official Statement.
4. District outstanding debt as set forth in Tables A-15, A-16, A-17, A-18 and A-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 A-19 of Appendix A to the Official Statement.
5. District average daily attendance as set forth in Table A-30 of Appendix A to the Official Statement entitled "Annual Average Daily Attendance."
6. Statement of revenues, expenditures and changes in general fund balances of the District.

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 Listed Events pursuant to Section 6 hereof.

Section 7. Reporting of Listed Events.

If a Listed Event occurs, the District shall provide, in a timely manner not in excess of ten (10) Business Days after the occurrence of such Listed Event, notice of such Listed Event to (i) the MSRB and (ii) the Dissemination Agent.

Pursuant to the provisions of this Section 7, the District shall give, or cause to be given, notice of the occurrence of any of the following events (each, a "Listed 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.

If the District determines that a Listed 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.

If the Dissemination Agent has been instructed by the District to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the MSRB through its EMMA System.

Section 8. 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 Listed 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 9. 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 Listed 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 10. 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 11. 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:

If the amendment or waiver relates to the provisions of Sections 4(a), 5, 6 or 7, 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;

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

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 Listed 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 12. 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 Listed 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 Listed 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 Listed Event.

Section 13. 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 14. 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 15. 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 16. 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 17. 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: June 12, 2012

LOS ANGELES UNIFIED SCHOOL DISTRICT

By: _____
Megan K. Reilly
Chief Financial Officer

ACKNOWLEDGED AND AGREED TO BY:

DIGITAL ASSURANCE CERTIFICATION,
L.L.C., as Dissemination Agent

By: _____
Dissemination Agent

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APPENDIX F

BOOK-ENTRY SYSTEM

THE INFORMATION IN THIS APPENDIX F 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 Refunding Certificates of Participation, 2012 Series A (Headquarters Building Projects) and the Refunding Certificates of Participation, 2012 Series B (Headquarters Building Projects) (collectively, 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 will be issued for each maturity of each series of the Certificates, each in the aggregate principal amount of such maturity of such series, and will be deposited with DTC.

DTC 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. 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 a Standard & Poor’s rating of AA+. 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.

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 confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations 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 physical securities representing their ownership interests in 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's 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. 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, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Certificates may wish to ascertain that the nominee holding the Certificates for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, 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 shall be sent to DTC. If less than all of the Certificates of a series 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 redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Certificates unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District 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 Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Prepayment proceeds, distributions, and other payments on 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 District, on payable date 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 or the District subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of prepayment proceeds, distributions, and other payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District, 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.

If applicable, a Beneficial Owner shall give notice to elect to have its Certificates purchased or tendered, through its Participant, to the District's designated agent, and shall effect delivery of such Certificates by causing the Direct Participant to transfer the Participant's interest in the Certificates, on DTC's records, to the District's designated agent. The requirement for physical delivery of Certificates in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Certificates are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Certificates to the DTC account of the District's designated agent.

DTC may discontinue providing its services as depository with respect to the Certificates at any time by giving reasonable notice to the District. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

The District 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 and the requirements of the Trust Agreement with respect to certificated Certificates will apply.

THE DISTRICT, THE CORPORATION, THE TRUSTEE, THE FINANCIAL ADVISOR 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, THE FINANCIAL ADVISOR 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 G

LOS ANGELES COUNTY TREASURY POOL

The Treasurer and Tax Collector of the County of Los Angeles (the “Treasurer”) manages, in accordance with California 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. The Treasurer maintains a website, the address of which is <http://ttc.lacounty.gov>, on which the Treasurer periodically places information relating to the Treasury Pool. 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.

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 March 31, 2012, 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	\$ 7.250
Schools and Community Colleges	12.524
Independent Public Agencies	3.299
Total	<u>\$23.073</u>

Of these entities, the involuntary participants accounted for approximately 85.70%, and all discretionary participants accounted for 14.30% 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 California 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 20, 2012, 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 April 30, 2012, the

March 31, 2012 book value of the Treasury Pool was approximately \$23.073 billion and the corresponding market value was approximately \$23.120 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. On a quarterly basis, the County's outside auditor (the "External Auditor") reviews the cash and investment reconciliations for completeness and accuracy. Additionally, the External Auditor reviews investment transactions on a quarterly basis for nonconformance with the approved Investment Policy and annual accounts for all investments.

The following table identifies the types of securities held by the Treasury Pool as of March 31, 2012.

Type of Investment	% of Pool
U.S. Government and Agency Obligations	40.58
Certificates of Deposit	22.38
Commercial Paper	34.40
Bankers Acceptances	0.00
Municipal Obligations	0.03
Corporate Notes & Deposit Notes	2.61
Asset Backed Instruments	0.00
Repurchase Agreements	0.00
Other	<u>0.00</u>
	100.00

The Treasury Pool is highly liquid. As of March 31, 2012 approximately 50.94% of the investments mature within 60 days, with an average of 582 days to maturity for the entire portfolio.

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