SUPPLEMENT DATED FEBRUARY 18, 2009,
TO OFFICIAL STATEMENT DATED FEBRUARY 4, 2009,
RELATING TO THE
LOS ANGELES UNIFIED SCHOOL DISTRICT
(County of Los Angeles, California)

$250,000,000 **General Obligation Bonds** **Election of 2002,** **Series D (2009)**	**$550,000,000** **General Obligation Bonds** **Election of 2004,** **Series I (2009)**	**$150,000,000** **General Obligation Bonds** **Election of 2005,** **Series F (2009)**

This Supplement (this "Supplement") is provided to update information contained in the Official Statement with respect to the above-captioned Bonds, dated February 4, 2009 (the "Official Statement") to reflect a change in tax law, specifically pertaining to the calculation of federal alternative minimum taxable income of corporations that is contained in the American Recovery and Reinvestment Act of 2009, which was signed into law on February 17, 2009. This Supplement must be read together with the Official Statement. Capitalized terms used in this Supplement, if not defined herein, have the meanings specified in the Official Statement.

1) The initial paragraph on the cover of the Official Statement is revised to read as follows:

In the opinion of Sidley Austin LLP, San Francisco, California, Bond Counsel with respect to the Bonds, under existing law and assuming compliance with certain covenants in the documents pertaining to the Bonds, and requirements of the Internal Revenue Code of 1986, as amended, as described herein, interest on the Bonds is not includable in the gross income of the owners of the Bonds for federal income tax purposes and interest on the Bonds is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. In the further opinion of Bond Counsel, interest on the Bonds is exempt from personal income taxes imposed by the State of California. See "TAX MATTERS" herein.

2) The subsection entitled "INTRODUCTION – Tax Matters" on page 3 of the Official Statement is revised to read as follows:

Tax Matters

In the opinion of Sidley Austin LLP, San Francisco, California, Bond Counsel for the Bonds, under existing law and assuming continuing compliance with certain covenants in the Resolution and the Tax Certificate to be executed by the District on the date of issuance of the Bonds and the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), regarding the use, expenditure and investment of proceeds of the Bonds and the timely payment of certain investment earnings to the United States, interest on the Bonds is not includable in the gross income of the owners of the Bonds for federal income tax purposes. Failure to comply with such covenants and requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. In the further opinion of Bond Counsel, interest on the Bonds is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. In addition, under the American Recovery and Reinvestment Act of 2009, which was signed into law on February 17, 2009, interest on the Bonds is not included as an adjustment in calculating federal corporate alternative minimum taxable income for purposes of determining a corporation's alternative minimum tax liability. In the further opinion of Bond Counsel, interest on the Bonds is exempt from personal income taxes imposed by the State of California. See "TAX MATTERS" herein.

3) The initial paragraph of the section entitled "TAX MATTERS" on page 21 of the Official Statement is revised to read as follows:

General

In the opinion of Sidley Austin LLP, San Francisco, California, Bond Counsel, based on existing law and assuming continuing compliance with certain covenants in the Resolution and the Tax Certificate executed by the District on the date of issuance of the Bonds and the requirements of the Code regarding the use, expenditure and investment of proceeds of the Bonds and the timely payment of certain investment earnings to the United States, interest on the Bonds is not includable in the gross income of the owners of the Bonds for federal income tax purposes. Failure to comply with such covenants and requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. Interest on the Bonds is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. In addition, under the American Recovery and Reinvestment Act of 2009, which was signed into law on February 17, 2009, interest on the Bonds is not included as an adjustment in calculating federal corporate alternative minimum taxable income for purposes of determining a corporation's alternative minimum tax liability.

4) The third numbered paragraph of the opinion of Bond Counsel contained in Appendix D – "PROPOSED FORM OF OPINION OF BOND COUNSEL" attached to the Official Statement is revised to read as follows:

3. Interest on the Bonds is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. In addition, under the American Recovery and Reinvestment Act of 2009, which was signed into law on February 17, 2009, interest on the Bonds is not included as an adjustment in calculating federal corporate alternative minimum taxable income for purposes of determining a corporation's alternative minimum tax liability.

NEW ISSUE – BOOK-ENTRY ONLY

DAC Bond©

Ratings:
Moody's: "Aa3"
S&P: "AA-"
See "MISCELLANEOUS – Ratings" herein.

In the opinion of Sidley Austin LLP, San Francisco, California, Bond Counsel with respect to the Bonds, under existing law and assuming compliance with certain covenants in the documents pertaining to the Bonds, and requirements of the Internal Revenue Code of 1986, as amended, as described herein, interest on the Bonds is not includable in the gross income of the owners of the Bonds for federal income tax purposes and is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. Interest on the Bonds, however, is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability. In the further opinion of Bond Counsel, interest on the Bonds is exempt from personal income taxes imposed by the State of California. See "TAX MATTERS" herein.

LOS ANGELES UNIFIED SCHOOL DISTRICT
(County of Los Angeles, California)

$250,000,000	$550,000,000	$150,000,000
General Obligation Bonds	General Obligation Bonds	General Obligation Bonds
Election of 2002,	Election of 2004,	Election of 2005,
Series D (2009)	Series I (2009)	Series F (2009)
measure K	measure R	measure Y

Dated: Date of Delivery **Due: As shown on the inside cover**

The $250,000,000 Los Angeles Unified School District (County of Los Angeles, California) General Obligation Bonds, Election of 2002, Series D (2009) (the "Measure K Series D Bonds"), the $550,000,000 Los Angeles Unified School District (County of Los Angeles, California) General Obligation Bonds, Election of 2004, Series I (2009) (the "Measure R Series I Bonds") and the $150,000,000 Los Angeles Unified School District (County of Los Angeles, California) General Obligation Bonds, Election of 2005, Series F (2009) (the "Measure Y Series F Bonds" and, collectively with the Measure K Series D Bonds and the Measure R Series I Bonds, the "Bonds") are general obligation bonds issued by the Los Angeles Unified School District (the "District"). The Bonds are being issued to finance school facilities projects and pay the costs of issuance incurred in connection with the issuance of the Bonds, as more fully described herein. See "PLAN OF FINANCE" herein.

The Board of Supervisors of the County of Los Angeles has the power and is obligated to levy ad valorem taxes upon all property subject to taxation by the District, without limitation as to rate or amount (except as to certain personal property which is taxable at limited rates), for the payment of the principal of and interest on the Bonds all as more fully described herein.

Interest on the Bonds is payable on July 1, 2009 and semiannually thereafter on each January 1 and July 1. Principal of the Bonds is payable on the dates and in the amounts as set forth on the inside cover page hereof. The Bonds will be issued in book-entry form only, in denominations of $5,000 principal amount or any integral multiple thereof and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Owners will not receive certificates representing their interests in the Bonds. Payments of principal of, premium, if any, and interest on the Bonds will be made by U.S. Bank National Association, as agent for the County of Los Angeles, the Paying Agent for the Bonds, to DTC, which is obligated to remit such payments to its DTC Participants for subsequent disbursement to the beneficial owners of the Bonds. See APPENDIX C – "BOOK-ENTRY ONLY SYSTEM" attached hereto.

The Bonds are subject to redemption prior to maturity as described herein. See "THE BONDS—Redemption of the Bonds" herein.

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR GENERAL REFERENCE ONLY. IT IS NOT INTENDED TO BE A SUMMARY OF THE SECURITY OR TERMS OF THIS ISSUE. INVESTORS ARE ADVISED TO READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

The Bonds will be offered when, as and if issued by the District and received by the Underwriters, subject to the approval of legality by Sidley Austin LLP, San Francisco, California, Bond Counsel. Certain legal matters will be passed upon for the District by its Disclosure Counsel, Hawkins Delafield & Wood LLP, Los Angeles, California and by the District's General Counsel and for the Underwriters by their counsel, Quateman LLP, Los Angeles, California. Tamalpais Advisors, Inc. – Kelling, Northcross & Nobriga, A Joint Venture, is serving as Financial Advisor to the District in connection with the issuance of the Bonds. The Bonds, in book-entry form, will be available for delivery through DTC in New York, New York on or about February 19, 2009.

Barclays Capital **Morgan Stanley & Co. Incorporated**

De La Rosa & Co. **Stone & Youngberg** **Backstrom McCarley Berry & Co., LLC**

Date of the Official Statement: February 4, 2009

MATURITY DATES, PRINCIPAL AMOUNTS, INTEREST RATES, INITIAL PUBLIC OFFERING PRICES OR YIELDS AND CUSIP NUMBERS

$250,000,000 Measure K Series D Bonds

$154,445,000 Serial Bonds
Base CUSIP Number†: 544646

Maturity Date	Principal Amount	Interest Rate	Yield	CUSIP Suffix†
July 1, 2009	$ 3,100,000	2.500%	0.580%	RS3
January 1, 2010	1,800,000	2.500	0.630	RT1
July 1, 2010	4,215,000	2.500	1.400	RU8
July 1, 2011	6,145,000	3.000	2.030	RV6
July 1, 2012	6,330,000	3.000	2.250	RW4
July 1, 2013	6,520,000	2.500	2.420	RX2
July 1, 2014	6,680,000	5.000	2.690	RY0
July 1, 2015	7,015,000	3.250	2.900	RZ7
July 1, 2016	7,245,000	3.125	3.100	SA1
July 1, 2017	7,470,000	4.000	3.340	SB9
July 1, 2018	7,770,000	5.000	3.580	SC7
July 1, 2019	8,155,000	5.000	3.840	SD5
July 1, 2020*	8,565,000	5.000	4.110	SE3
July 1, 2021*	8,995,000	5.000	4.390	SF0
July 1, 2022	700,000	4.500	4.540	SG8
July 1, 2022*	8,745,000	5.000	4.540	SH6
July 1, 2023	725,000	4.700	4.710	SJ2
July 1, 2023*	9,185,000	5.250	4.710	SK9
July 1, 2024*	10,430,000	5.250	4.850	SL7
July 1, 2025*	10,975,000	5.250	4.960	SM5
July 1, 2026	11,550,000	5.000	5.050	SN3
July 1, 2027	12,130,000	5.000	5.120	SP8

$26,135,000 5.200% Term Bond due July 1, 2029 — Yield 5.200%; CUSIP†: 544646SQ6
$21,230,000 5.300% Term Bond due January 1, 2034 — Yield 5.350%; CUSIP†: 544646SR4
$48,190,000 5.000% Term Bond due January 1, 2034 — Yield 5.350%; CUSIP†: 544646SS2

* Priced to optional call date of July 1, 2019 at par.

† CUSIP is a registered trademark of American Bankers Association. CUSIP data herein is provided by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. CUSIP data herein is provided for convenience of reference only. The District and the Underwriters take no responsibility for the accuracy of such data

$550,000,000 Measure R Series I Bonds

$338,540,000 Serial Bonds
Base CUSIP Number†: 544646

Maturity Date	Principal Amount	Interest Rate	Yield	CUSIP Suffix†
July 1, 2009	$ 6,300,000	2.500%	0.580%	ST0
January 1, 2010	3,750,000	2.500	0.630	SU7
July 1, 2010	8,705,000	2.500	1.400	SV5
July 1, 2011	12,720,000	3.000	2.030	SW3
July 1, 2012	13,100,000	3.000	2.250	SX1
July 1, 2013	13,495,000	5.000	2.420	SY9
July 1, 2014	36,355,000	5.000	2.690	SZ6
July 1, 2015	15,990,000	5.000	2.900	TA0
July 1, 2016	4,930,000	5.000	3.100	TB8
July 1, 2017	5,170,000	5.000	3.340	TC6
July 1, 2018	17,290,000	5.000	3.580	TD4
July 1, 2019	18,155,000	5.000	3.840	TE2
July 1, 2020*	19,065,000	5.000	4.110	TF9
July 1, 2021*	20,020,000	5.000	4.390	TG7
July 1, 2022*	21,020,000	5.250	4.540	TH5
July 1, 2023*	22,120,000	5.250	4.710	TJ1
July 1, 2024*	23,285,000	5.000	4.850	TK8
July 1, 2025*	24,445,000	5.000	4.960	TL6
July 1, 2026	25,670,000	5.000	5.050	TM4
July 1, 2027	26,955,000	5.000	5.120	TN2

$58,015,000 5.000% Term Bond due July 1, 2029 —Yield 5.200%; CUSIP†: 544646TP7
$153,445,000 5.000% Term Bond due January 1, 2034 —Yield 5.350%; CUSIP†: 544646TQ5

* Priced to optional call date of July 1, 2019 at par.

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$150,000,000 Measure Y Series F Bonds

$92,755,000 Serial Bonds
Base CUSIP Number†: 544646

Maturity Date	Principal Amount	Interest Rate	Yield	CUSIP Suffix†
July 1, 2009	$1,745,000	2.500%	0.580%	TR3
January 1, 2010	1,035,000	2.500	0.630	TS1
July 1, 2010	2,465,000	4.000	1.400	TT9
July 1, 2011	3,610,000	3.000	2.030	TU6
July 1, 2012	3,720,000	5.000	2.250	TV4
July 1, 2013	3,905,000	2.500	2.420	TW2
July 1, 2014	4,000,000	5.000	2.690	TX0
July 1, 2015	4,200,000	5.000	2.900	TY8
July 1, 2016	4,415,000	4.000	3.100	TZ5
July 1, 2017	4,590,000	4.000	3.340	UA8
July 1, 2018	4,775,000	3.600	3.580	UB6
July 1, 2019	4,945,000	5.000	3.840	UC4
July 1, 2020*	5,190,000	4.125	4.110	UD2
July 1, 2021*	5,405,000	5.000	4.390	UE0
July 1, 2022*	5,675,000	5.000	4.540	UF7
July 1, 2023*	5,960,000	5.250	4.710	UG5
July 1, 2024*	6,275,000	5.250	4.850	UH3
July 1, 2025*	6,600,000	5.250	4.960	UJ9
July 1, 2026	6,950,000	5.000	5.050	UK6
July 1, 2027	7,295,000	5.000	5.120	UL4

$15,705,000 5.000% Term Bond due July 1, 2029 —Yield 5.200%; CUSIP†: 544646UM2
$41,540,000 5.000% Term Bond due January 1, 2034 —Yield 5.350%; CUSIP†: 544646UN0

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* Priced to optional call date of July 1, 2019 at par.

† CUSIP is a registered trademark of American Bankers Association. CUSIP data herein is provided by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. CUSIP data herein is provided for convenience of reference only. The District and the Underwriters take no responsibility for the accuracy of such data.

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 BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS, 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 BONDS 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 BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR HAS THE RESOLUTION BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS.

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

The District maintains a website. 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 Bonds.

LOS ANGELES UNIFIED SCHOOL DISTRICT

DISTRICT BOARD OF EDUCATION

District	Member	Term Ending
2	Mónica García, President	June 30, 2009
1	Marguerite Poindexter LaMotte	June 30, 2011
3	Tamar Galatzan	June 30, 2011
4	Marlene Canter	June 30, 2009
5	Yolie Flores Aguilar	June 30, 2011
6	Julie Korenstein	June 30, 2009
7	Richard Vladovic	June 30, 2011

DISTRICT OFFICIALS

Ramon C. Cortines, Superintendent
Roberta Fesler, General Counsel
David Holmquist, Chief Operating Officer
Megan K. Reilly, Chief Financial Officer
Joseph A. Mehula, Chief Facilities Executive
Timothy S. Rosnick, Controller

BOND COUNSEL

Sidley Austin LLP
San Francisco, California

DISCLOSURE COUNSEL

Hawkins Delafield & Wood LLP
Los Angeles, California

FINANCIAL ADVISOR

Tamalpais Advisors, Inc. – Kelling, Northcross & Nobriga, A Joint Venture
Sausalito, California and Oakland, California

PAYING AGENT

U.S. Bank National Association, as agent for the
Treasurer and Tax Collector of the County of Los Angeles
Los Angeles, California

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LOS ANGELES UNIFIED SCHOOL DISTRICT
(County of Los Angeles, California)

$250,000,000 **General Obligation Bonds** **Election of 2002, Series D** **(2009)**	**$550,000,000** **General Obligation Bonds** **Election of 2004, Series I** **(2009)**	**$150,000,000** **General Obligation Bonds** **Election of 2005, Series F** **(2009)**

INTRODUCTION

This Introduction is only a brief description of, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page through the appendices hereto, and the documents summarized or described herein. The offering of the Bonds to potential investors is made only by means of the entire Official Statement. A full review should be made of the entire Official Statement.

Purpose

This Official Statement, which includes the cover page through the appendices hereto, is provided to furnish information in connection with the sale of $250,000,000 aggregate principal amount of Los Angeles Unified School District (County of Los Angeles, California) General Obligation Bonds, Election of 2002, Series D (2009) (the "Measure K Series D Bonds"), $550,000,000 aggregate principal amount of Los Angeles Unified School District (County of Los Angeles, California) General Obligation Bonds, Election of 2004, Series I (2009) (the "Measure R Series I Bonds") and $150,000,000 aggregate principal amount of Los Angeles Unified School District (County of Los Angeles, California) General Obligation Bonds, Election of 2005, Series F (2009) (the "Measure Y Series F Bonds" and, collectively with the Measure K Series D Bonds and the Measure R Series I Bonds, the "Bonds").

The District

The Los Angeles Unified School District (the "District"), encompassing approximately 710 square miles, is located in the western section of Los Angeles County (the "County") 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 territory which includes residential and industrial areas. The District was formed in 1854 as the Common Schools for the City of Los Angeles and became a unified school district in 1960. The District is the second largest public school district in the United States and is the largest public school district in the State of California (the "State"). Additional information on the District is provided in Appendices A and B hereto. See APPENDIX A – "DISTRICT FINANCIAL AND DEMOGRAPHIC INFORMATION" and APPENDIX B – "SELECTED INFORMATION FROM AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2007 AND SELECTED INFORMATION FROM UNAUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2008" attached hereto.

Authority and Purpose for Issuance of the Bonds

The Bonds are issued pursuant to provisions of Section 1(b)(3) of Article XIIIA of the State Constitution, Chapter 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") and pursuant to resolutions adopted by the Board of Education of the District and the Board of Supervisors of the County as described below.

Pursuant to Section 1(b)(3) of Article XIIIA of the State Constitution, certain school facilities bond measures may be approved by 55% of the voters of the district voting on the proposition.

Measure K Series D Bonds. The Measure K Series D Bonds are being issued pursuant to the Act, the authorization received by the District at an election held on November 5, 2002 and approved by at least 55% of the voters of the District voting on Measure K, to issue bonds in an amount not to exceed $3.35 billion (the "Measure K Authorization") to finance new construction, acquisition, rehabilitation and upgrading of school facilities for specifically identified school facilities projects (the "Measure K Projects"), a resolution adopted by the Board of Education of the District on October 14, 2008 and a resolution adopted by the Board of Supervisors of the County on November 5, 2008 (collectively, the "Measure K Series D Resolution").

The District has previously issued three series of general obligation bonds pursuant to the Measure K Authorization in the aggregate principal amount of $2.75 billion. The Measure K Series D Bonds are the fourth series of bonds to be issued under the Measure K Authorization. Following the issuance of the Measure K Series D Bonds, the District will have $350 million remaining under the Measure K Authorization. The proceeds of the Measure K Series D Bonds will be applied to fund the costs of various components of the Measure K Projects. See "PLAN OF FINANCE" herein.

Measure R Series I Bonds. The Measure R Series I Bonds are being issued pursuant to the Act, the authorization received by the District at an election held on March 2, 2004 and approved by at least 55% of the voters of the District voting on Measure R, to issue bonds in an amount not to exceed $3.87 billion (the "Measure R Authorization") to finance new construction, acquisition, rehabilitation and upgrading of school facilities for specifically identified school facilities projects (the "Measure R Projects") and a resolution adopted by the Board of Education of the District on October 14, 2008 and a resolution adopted by the Board of Supervisors of the County on November 5, 2008 (collectively, the "Measure R Series I Resolution").

The District has previously issued eight series of general obligation bonds pursuant to the Measure R Authorization in the aggregate principal amount of $2.05 billion. The Measure R Series I Bonds are the ninth series of bonds to be issued under the Measure R Authorization. Following the issuance of the Measure R Series I Bonds, the District will have $1.27 billion remaining under the Measure R Authorization. The proceeds of the Measure R Series I Bonds will be applied to fund the costs of various components of the Measure R Projects. See "PLAN OF FINANCE" herein.

Measure Y Series F Bonds. The Measure Y Series F Bonds are being issued pursuant to the provisions of the Act, the authorization received by the District at an election held on November 8, 2005 and approved by at least 55% of the voters of the District voting on Measure Y, to issue bonds in an amount not to exceed $3.985 billion (the "Measure Y Authorization") to finance new construction, acquisition, rehabilitation and upgrading of school facilities for specifically identified school facilities projects (the "Measure Y Projects") and a resolution adopted by the Board of Education of the District on October 14, 2008 and a resolution adopted by the Board of Supervisors of the County on November 5, 2008 (collectively, the "Measure Y Series F Resolution" and together with the Measure K Series D Resolution and the Measure R Series I Resolution, the "Resolution").

The District has previously issued five series of general obligation bonds pursuant to the Measure Y Authorization in the aggregate principal amount of $694.4 million. The Measure Y Series F Bonds are the sixth series of bonds to be issued under the Measure Y Authorization. Following the issuance of the Measure Y Series F Bonds, the District will have $3.14 billion remaining under the Measure Y Authorization. The proceeds of the Measure Y Series F Bonds will be applied to fund the costs of various components of the Measure Y Projects. See "PLAN OF FINANCE" herein.

Security and Sources of Payment for the Bonds

The Bonds are general obligation bonds issued by the District; the Board of Supervisors of the County has the power and is obligated to annually levy *ad valorem* taxes upon all property subject to taxation by the District, without limitation as to rate or amount (except as to certain personal property which is taxable at limited rates), for the payment of the principal of and interest on the Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" herein.

Tax Matters

In the opinion of Sidley Austin LLP, San Francisco, California, Bond Counsel for the Bonds, under existing law and assuming continuing compliance with certain covenants in the Resolution and the Tax Certificate to be executed by the District on the date of issuance of the Bonds and the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), regarding the use, expenditure and investment of proceeds of the Bonds and the timely payment of certain investment earnings to the United States, interest on the Bonds is not includable in the gross income of the owners of the Bonds for federal income tax purposes. Failure to comply with such covenants and requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. In the further opinion of Bond Counsel, interest on the Bonds is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. Interest on the Bonds, however, is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability. In the further opinion of Bond Counsel, interest on the Bonds is exempt from personal income taxes imposed by the State of California. See "TAX MATTERS" herein.

Other Information

This Official Statement contains brief descriptions of, among other things, the District, the Resolution and certain matters relating to the security for the Bonds. Such descriptions and information do not purport to be comprehensive or definitive. All references herein to documents are qualified in their entirety by reference to such documents. Copies of such documents are available for inspection at the District by request to the Chief Financial Officer at (213) 241-7888 and, following delivery of the Bonds, will be on file, as applicable, at the corporate trust office of U.S. Bank National Association, as agent for the County, the Paying Agent for the Bonds (the "Paying Agent"), in Los Angeles, California.

PLAN OF FINANCE

Measure K Series D Bonds

The proceeds of the Measure K Series D Bonds will be applied to fund the costs of various components of the Measure K Projects in accordance with the ballot measure for the Measure K Authorization as follows: "To improve local schools and relieve classroom overcrowding, shall Los Angeles Unified School District repair, renovate, acquire, lease school buildings, classrooms, libraries, restrooms, science laboratories, capital projects; upgrade fire/security systems, earthquake retrofitting, lighting, heating; acquire library books; eliminate hazards of asbestos, lead paint; upgrade wiring for computers; build neighborhood schools, by issuing $3.35 billion in bonds, at legal interest rates, with guaranteed annual financial audits, citizens' oversight committee, no money for administrators' salaries?" The Measure K Authorization includes a number of specifically identified school facilities and other projects that may be funded with the proceeds of the Measure K bonds.

The Measure K Projects generally include (i) construction of new neighborhood schools, (ii) the repair and rehabilitation of existing facilities, including the installation of heating, asbestos removal, seismic upgrades, earthquake retrofitting, lighting and major repairs of plumbing, ventilation and roofing systems, electrical upgrades and the construction or rehabilitation of special facilities such as libraries and science labs, (iii) improvement of technology systems, and (iv) provision of library books.

Measure R Series I Bonds

The proceeds of the Measure R Series I Bonds will be applied to fund the costs of various components of the Measure R Projects in accordance with the ballot measure for the Measure R Authorization as follows: "To reduce overcrowding and improve learning, shall the Los Angeles Unified School District: continue repair/upgrade of aging classrooms, restrooms; build neighborhood schools, early education centers; improve security systems, fire/earthquake safety; purchase library books; upgrade computer technology; eliminate asbestos, lead paint hazards; create small learning communities; construct/upgrade science laboratories, other buildings by issuing $3.87 billion in bonds, at legal interest rates, with annual independent audits, citizens' oversight, no money for administrators' salaries?" The Measure R Authorization includes a number of specifically identified school facilities, refinancing and other projects that can be funded with the proceeds of Measure R bonds.

The Measure R Projects generally include (i) construction of new neighborhood schools, (ii) repair and rehabilitation of existing facilities, including the installation of air conditioning and heating, asbestos removal, seismic upgrades and major repairs of plumbing, ventilation and roofing systems, electrical upgrades and the construction or rehabilitation of special facilities such as libraries, science labs and physical education facilities, (iii) refinancing of existing certificates of participation payments for school repair and other construction projects, (iv) improvement of technology systems, and (v) provision of library books and improvement of adult education, early childhood education and charter school facilities and other programs such as campus safety.

Measure Y Series F Bonds

The proceeds of the Measure Y Series F Bonds will be applied to fund the costs of various components of the Measure Y Projects in accordance with the ballot measure for the Measure Y Authorization as follows: "To reduce overcrowding and improve learning, shall the Los Angeles Unified School District: continue repair/upgrade of aging/deteriorating classrooms, restrooms; build up-to-date, energy efficient neighborhood schools; early childhood education centers; upgrade fire/earthquake safety, emergency response equipment; purchase library books; upgrade computer technology; eliminate asbestos, lead paint hazards by issuing $3.985 billion in bonds, at legal interest rates; with guaranteed annual financial/performance audits, citizens' oversight, no money for administrators' salaries?" Measure Y includes a number of specifically identified school facilities, refinancing and other projects that can be funded with the proceeds of the bonds.

The Measure Y Projects authorized to be funded include, among other things, (i) the construction of new neighborhood schools, (ii) the rehabilitation and modernization of existing facilities, (iii) provision of equipment to new schools, classrooms and libraries, (iii) satisfaction of any portion of a legally required reserve fund for ongoing and major maintenance to school buildings for projects contained in Measure Y, (iv) replacement of other sources of funding for Projects, including refinancing existing certificates of participation that initially funded certain Measure Y Projects, and (v) the improvement of adult education, early childhood education and charter school facilities and other programs such as campus safety.

Summary of Projects and Targeted Funding Amounts

On November 7, 2008, eligible voters within the District approved the issuance by the District of general obligation bonds in an amount not to exceed $7.0 billion (the "Measure Q Authorization"). The table below summarizes the major categories of $18.2 billion of projects identified pursuant to Measure K, Measure R, Measure Y and Measure Q authorized to be funded pursuant to their respective authorizations and the District's expected allocation of bond proceeds to each major category of projects, some of which are expected to be funded from future bond issuances. In addition, the District has previously issued all of the $2.4 billion of general obligation bonds authorized by voters pursuant to Proposition BB (the "Proposition BB Authorization") in 1997 to fund land acquisition, school construction and modernization and technology projects. At least $8.9 billion of State matching funds and other revenue sources including Proposition BB Authorization bond proceeds have or are expected to be allocated to the Measure K Projects, the Measure R Projects, the Measure Y Projects and projects to fund pursuant to the Measure Q Authorization. Accordingly, the total program sources of funds are expected to be approximately $28 million. See Appendix A – "STATE FUNDING OF EDUCATION – State Budget – Proposed Governor's Budget for Fiscal Year 2009-10" attached hereto for a discussion of the State's expected allocations of State matching funds.

Los Angeles Unified School District
Summary of Measure K Projects, Measure R Projects, Measure Y Projects and Measure Q Projects and Target Funding Amounts
(in millions)

Category of Project	Measure K[(1)] (2002)	Measure R[(2)] (2005)	Measure Y[(3)] (2006)	Measure Q[(4)] (2008)
School Construction	$2,580	$1,857	$1,900	$1,130
Repair	526	1,563	1,180	2,680
Refinancing of Certificates of Participation Payments	--	150	90	--
Technology	66	140	325	1,925
School Facility Upgrades and Library Acquisitions	38	53	5	--
Early Childhood Education	80	50	100	150
Adult Education	--	25	50	125
Charter Schools	50	20	50	450
Joint Use	10	--	--	--
Audit Process	--	10	10	40
Safety - Police Dispatch	--	2	--	--
Oversight of Bond Projects	--	--	50	--
Innovation Fund	--	--	90	--
Replacement of Special Education Buses	--	--	25	--
Added Resources to Low Performing Schools	--	--	10	--
Green Technology	--	--	--	500
Total	$3,350	$3,870	$3,985	$7,000

(1) As of January 1, 2009, bond proceeds have financed $2.75 billion of Measure K Projects, some of which are not yet complete. State matching funds have also been allocated to the Measure K Projects.

(2) As of January 1, 2009, bond proceeds have financed $2.05 billion of Measure R Projects, some of which are not yet complete. State matching funds have also been allocated to the Measure R Projects.

(3) As of January 1, 2009, bond proceeds have financed $694.4 million of Measure Y Projects, some of which are not yet complete. State matching funds have also been allocated to the Measure Y Projects.

(4) The District expects to begin issuing general obligation bonds pursuant to the Measure Q Authorization in Fiscal Year 2009-10. See Appendix A – "District Financial Information – District Debt – General Obligation Bonds" attached hereto.

Source: Los Angeles Unified School District.

Future Financings

The District currently anticipates issuances of additional series of general obligation bonds under its Measure K Authorization, Measure R Authorization, Measure Y Authorization and Measure Q Authorization over the next several years to finance various elements of the District's New Schools Construction Strategic Execution Plan, Existing Facilities Strategic Execution Plan, Information Technology Infrastructure Strategic Execution Plan and CFO Strategic Execution Plan. The District's New Schools Construction Strategic Execution Plan consists of budgets and priorities for proposed new schools and additions. The District's Existing Facilities Strategic Execution Plan includes all major repair and modernization projects planned or under construction by the District's Existing Facilities branch. The Information Technology Infrastructure Strategic Execution Plan includes budgets, scopes and schedules of projects within the District's Information Technology Infrastructure Program. The CFO Strategic Execution Plan, provides the scope of work, cost plan and proposed schedule for certain certificates of participation refinancing projects within the District.

Bond Oversight Committee

As required by the Act, the Board of Education of the District has appointed a Citizens' Oversight Committee, composed of 13 members representing numerous community groups, to inform the public concerning the spending of Measure K, Measure R, Measure Y and Measure Q Authorization bond funds. The Citizens' Oversight Committee also informs the public concerning the spending of funds attributable to the Proposition BB Authorization, although Proposition BB was approved under statutes other than the Act. See APPENDIX A – "DISTRICT FINANCIAL AND DEMOGRAPHIC INFORMATION—DISTRICT FINANCIAL INFORMATION—District Debt" attached hereto. The Citizens' Oversight Committee meets periodically in order to review all matters relating to the District's general obligation bonds and the projects proposed to be funded therefrom and to make recommendations to the Board of Education of the District regarding such matters. See APPENDIX A – "DISTRICT FINANCIAL AND DEMOGRAPHIC INFORMATION—CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS—Proposition 39" attached hereto.

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

Los Angeles Unified School District
School Construction Bond Citizens' Oversight Committee
(As of January 1, 2009)

Member	**Community Group Represented**
Constance Rice, Chairperson	Controller's Office, City of Los Angeles
Scott Folsom, Vice Chairperson	Tenth District Parent Teacher Student Association
David Crippins, Secretary	L.A. Area Chamber of Commerce
Elizabeth Bar-El	LAUSD Student Parent Representative
Charles Bergson	LAUSD Student Parent Representative
Christopher Espinosa	Mayor's Office, City of Los Angeles
David Jenkins	Associated General Contractors of California
Lynda Levitan	Thirty-First District Parent Teacher Student Association
Anastacio Medina	American Lung Association
Richard Slawson	Los Angeles Co. Federation of Labor, AFL-CIO
Betty Valles	AARP Legislative Team
Virginia Tanzmann	American Institute of Architects
Wendy Watanabe	County of Los Angeles Auditor-Controller

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds with respect to the Bonds are as follows:

Estimated Sources of Funds	Measure K Series D	Measure R Series I	Measure Y Series F
Aggregate Principal Amount	$250,000,000.00	$550,000,000.00	$150,000,000.00
Net Original Issue Premium	3,089,584.60	8,978,048.00	1,061,376.55
Total Sources	$253,089,584.60	$558,978,048.00	$151,061,376.55
Estimated Uses of Funds			
Deposit to Building Fund	$248,888,375.55	$547,552,053.69	$149,332,505.29
Deposit to Debt Service Fund	3,089,584.60	8,978,048.00	1,061,376.55
Underwriters' Discount	898,466.56	1,978,998.94	539,599.97
Costs of Issuance(1)	213,157.89	468,947.37	127,894.74
Total Uses	$253,089,584.60	$558,978,048.00	$151,061,376.55

(1) Includes fees of Bond Counsel, Disclosure Counsel, Paying Agent and Financial Advisor, rating agency fees, printing fees, auditor fees for performance and/or financial audits relating to the Bonds, and other miscellaneous expenses.

THE BONDS

General Provisions

The Bonds will be issued in book-entry form only, without coupons, in denominations of $5,000 principal amount or any integral multiple thereof and, when issued, will be initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Owners will not receive physical certificates representing their interest in the Bonds purchased, except in the event that use of the book-entry system for the Bonds is discontinued. Payments of principal of, premium, if any, and interest on the Bonds are payable by the Paying Agent to DTC, which is obligated in turn to remit such payments to its DTC Participants for subsequent disbursement to the beneficial owners of Bonds. For information about the securities depository and DTC's book-entry system, see APPENDIX C – "BOOK-ENTRY ONLY SYSTEM" attached hereto.

The Bonds will be dated the date of delivery thereof. The Bonds mature in the years and amounts set forth on the inside cover page hereof. Interest with respect to the Bonds is payable on January 1 and July 1 of each year (each, an "Interest Payment Date"), commencing July 1, 2009. Interest on the Bonds will be computed on the basis of a 360-day year of twelve 30-day months. Each Bond will bear interest from the Interest Payment Date next preceding the date of authentication thereof, unless it is authenticated during the period after the Record Date (defined below) immediately preceding any Interest Payment Date to and including such Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or unless it is authenticated on or before the Record Date preceding the first Interest Payment Date, in which event it shall bear interest from its date. "Record Date" shall mean the 15th day of the month preceding an Interest Payment Date whether or not such day is a business day.

The interest on each Bond is payable in lawful money of the United States of America to the person whose name appears on the bond registration books of the Paying Agent, as the registered owner thereof as of the close of business on the applicable Record Date, whether or not such day is a business day. If the book-entry system is discontinued, interest will be paid (1) by check mailed on each Interest

Payment Date (or the next business day, if the Interest Payment Date does not fall on a business day) to each registered owner at such registered owner's address as it appears on such registration books or at such address as the registered owner may have filed with the Paying Agent, for that purpose or (2) in immediately available funds (for example, by wire transfer) to any registered owner of at least $1,000,000 of outstanding Bonds who has requested in writing such method of payment of interest on the Bonds prior to the close of business on the applicable Record Date.

Redemption of the Bonds

Measure K Series D Bonds

Optional Redemption. The Measure K Series D Bonds maturing on or before July 1, 2019, will not be subject to redemption prior to their respective stated maturity dates. The Measure K Series D Bonds maturing on or after July 1, 2020, will be subject to redemption prior to their respective stated maturity dates, at the option of the District, from any source of available funds, as a whole or in part on any date on or after July 1, 2019, at a redemption price equal to 100% of the principal amount thereof, together with accrued interest, if any, to the redemption date.

Mandatory Sinking Fund Redemption. The Measure K Series D Term Bond maturing on July 1, 2029 (the "2029 Measure K Series D Term Bond ") is also subject to mandatory sinking fund redemption prior to the stated maturity in part (by lot) at a redemption price equal to 100% of the principal amount to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium, in the principal amounts and on the dates as follows:

Mandatory Redemption Date	Mandatory Sinking Fund Payment
July 1, 2028	$12,735,000
July 1, 2029†	13,400,000

† Maturity

The Measure K Series D Term Bond maturing on January 1, 2034 and bearing interest at 5.30% (the "2034 5.30% Measure K Series D Term Bond") is also subject to mandatory sinking fund redemption prior to the stated maturity in part (by lot) at a redemption price equal to 100% of the principal amount to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium, in the principal amounts and on the dates as follows:

Mandatory Redemption Date	Mandatory Sinking Fund Payment
July 1, 2030	$4,245,000
July 1, 2031	4,245,000
July 1, 2032	4,245,000
July 1, 2033	4,245,000
January 1, 2034†	4,250,000

† Maturity

The Measure K Series D Term Bond maturing on January 1, 2034 and bearing interest at 5.00% (the "2034 5.00% Measure K Series D Term Bond") is also subject to mandatory sinking fund redemption prior to the stated maturity in part (by lot) at a redemption price equal to 100% of the principal amount to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium, in the principal amounts and on the dates as follows:

Mandatory Redemption Date	Mandatory Sinking Fund Payment
July 1, 2030	$ 9,850,000
July 1, 2031	10,565,000
July 1, 2032	11,320,000
July 1, 2033	12,110,000
January 1, 2034†	4,345,000

† Maturity

The principal amount of each mandatory sinking fund payment shown above will be reduced proportionately by the amount of the 2029 Measure K Series D Term Bond, 2034 5.30% Measure K Series D Term Bond or 2034 5.00% Measure K Series D Term Bond, as applicable, (or any portion thereof) optionally redeemed prior to the mandatory redemption date shown above.

Measure R Series I Bonds

Optional Redemption. The Measure R Series I Bonds maturing on or before July 1, 2019, will not be subject to redemption prior to their respective stated maturity dates. The Measure R Series I Bonds maturing on or after July 1, 2020, will be subject to redemption prior to their respective stated maturity dates, at the option of the District, from any source of available funds, as a whole or in part on any date on or after July 1, 2019, at a redemption price equal to 100% of the principal amount thereof, together with accrued interest, if any, to the redemption date.

Mandatory Sinking Fund Redemption. The Measure R Series I Term Bond maturing on July 1, 2029 (the "2029 Measure R Series I Term Bond") is also subject to mandatory sinking fund redemption prior to the stated maturity in part (by lot) at a redemption price equal to 100% of the principal amount to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium, in the principal amounts and on the dates as follows:

Mandatory Redemption Date	Mandatory Sinking Fund Payment
July 1, 2028	$28,300,000
July 1, 2029†	29,715,000

† Maturity

The Measure R Series I Term Bond maturing on January 1, 2034 (the "2034 Measure R Series I Term Bond") is also subject to mandatory sinking fund redemption prior to the stated maturity in part (by lot) at a redemption price equal to 100% of the principal amount to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium, in the principal amounts and on the dates as follows:

Mandatory Redemption Date	Mandatory Sinking Fund Payment
July 1, 2030	$31,200,000
July 1, 2031	32,760,000
July 1, 2032	34,400,000
July 1, 2033	36,120,000
January 1, 2034†	18,965,000

† Maturity

The principal amount of each mandatory sinking fund payment shown above will be reduced proportionately by the amount of the 2029 Measure R Series I Term Bond or the 2034 Measure R Series I Term Bond, as applicable, (or any portion thereof) optionally redeemed prior to the mandatory redemption date shown above.

Measure Y Series F Bonds

Optional Redemption. The Measure Y Series F Bonds maturing on or before July 1, 2019, will not be subject to redemption prior to their respective stated maturity dates. The Measure Y Series F Bonds maturing on or after July 1, 2020, will be subject to redemption prior to their respective stated maturity dates, at the option of the District, from any source of available funds, as a whole or in part on any date on or after July 1, 2019, at a redemption price equal to 100% of the principal amount thereof, together with accrued interest, if any, to the redemption date.

Mandatory Sinking Fund Redemption. The Measure Y Series F Term Bond maturing on July 1, 2029 (the "2029 Measure Y Series F Term Bond") is also subject to mandatory sinking fund redemption prior to the stated maturity in part (by lot) at a redemption price equal to 100% of the principal amount to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium, in the principal amounts and on the dates as follows:

Mandatory Redemption Date	Mandatory Sinking Fund Payment
July 1, 2028	$7,660,000
July 1, 2029†	8,045,000

† Maturity

The Measure Y Series F Term Bond maturing on January 1, 2034 (the "2034 Measure Y Series F Term Bond") is also subject to mandatory sinking fund redemption prior to the stated maturity in part (by lot) at a redemption price equal to 100% of the principal amount to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium, in the principal amounts and on the dates as follows:

Mandatory Redemption Date	Mandatory Sinking Fund Payment
July 1, 2030	$8,445,000
July 1, 2031	8,870,000
July 1, 2032	9,310,000
July 1, 2033	9,780,000
January 1, 2034†	5,135,000

† Maturity

The principal amount of each mandatory sinking fund payment shown above will be reduced proportionately by the amount of the 2029 Measure Y Series F Term Bond or the 2034 Measure Y Series F Term Bond, as applicable, (or any portion thereof) optionally redeemed prior to the mandatory redemption date shown above.

Selection of Bonds for Redemption. If less than all of the Bonds of a series are called for redemption, the Bonds of such series will be redeemed in inverse order of maturities or as otherwise directed by the District, and if less than all of any given maturity of a series of Bonds are called for redemption, the portions of the Bonds of such series of a given maturity to be redeemed will be determined by lot.

Notice of Redemption. Notice of redemption of any Bond will be given by the Paying Agent. Notice of any redemption of Bonds will be mailed postage prepaid, not less than 30 nor more than 60 days prior to the redemption date (i) by first class mail to the respective Owners thereof at the addresses appearing on the bond registration books; (ii) by secured mail to all organizations registered with the Securities and Exchange Commission as securities depositories; (iii) to at least two information services of national recognition which disseminate redemption information with respect to municipal securities; and (iv) as may be further required in accordance with the Continuing Disclosure Certificate of the District. See APPENDIX E – "PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE" attached hereto.

Each notice of redemption will contain the following information: (i) the date of such notice; (ii) the name of the Bonds and the date of issue of the Bonds; (iii) the redemption date; (iv) the redemption price; (v) the dates of maturity of the Bonds to be redeemed; (vi) if less than all of the Bonds of any maturity are to be redeemed, the distinctive numbers of the Bonds of each maturity to be redeemed; (vii) in the case of Bonds redeemed in part only, the respective portions of the principal amount of the Bonds of each maturity to be redeemed; (viii) the CUSIP number, if any, of each maturity of Bonds to be redeemed; (ix) a statement that such Bonds must be surrendered by the Owners at the principal corporate trust office of the Paying Agent, or at such other place or places designated by the Paying Agent; and (x) notice that further interest on such Bonds will not accrue after the designated redemption date. The actual receipt by the Owner of any Bond or by any securities depository or information service of notice of redemption will not be a condition precedent to redemption, and failure to receive such notice, or any defect in the notice given, will not affect the validity of the proceedings for the redemption of such series of Bonds or the cessation of interest on the date fixed for redemption.

Effect of Redemption. When notice of redemption has been given as described above, and when the redemption price of the Bonds called for redemption is set aside for such purpose, the Bonds designated for redemption shall become due and payable on the specified redemption date and interest shall cease to accrue thereon as of the redemption date. The Owners of such Bonds so called for redemption after such redemption date shall look for the payment of such Bonds and the redemption premium thereon, if any, only to the Debt Service Fund or the escrow fund established for such purpose.

Defeasance

If at any time the District shall pay or cause to be paid or there shall otherwise be paid to the Owners of any or all outstanding Bonds of a series, all of the principal, interest and premium, if any, represented by such Bonds, at the times and in the manner provided in such Bonds and the Resolution, or as otherwise provided by law consistent therewith, then such Owners shall cease to be entitled to the obligation of the District described below under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—General Description" herein and such obligation and all agreements and covenants of the District and the County to such Owners under such Bonds and the Resolution shall thereupon be satisfied and discharged and shall terminate, except only that the District shall remain liable for payment of all principal, interest and premium, if any, represented by such Bonds, but only out of monies on deposit in the Debt Service Fund for such Bonds, or otherwise held in trust for such payment.

All or any portion of the outstanding maturities of Bonds of a series may be defeased prior to maturity in the following ways:

(i) by irrevocably depositing with the Paying Agent an amount of cash which together with amounts then on deposit in the Debt Service Fund for such Bonds is sufficient to pay all Bonds of such series outstanding and designated for defeasance, including all principal and interest and redemption premium, if any; or

(ii) by irrevocably depositing with the Paying Agent noncallable United States Obligations (as defined below) together with cash, if required, in such amount as will, in the opinion of an independent certified public accountant, together with interest to accrue thereon and monies then on deposit in the Debt Service Fund for such Bonds, together with the interest to accrue thereon, be fully sufficient to pay and discharge all Bonds of such series outstanding and designated for defeasance (including all principal thereof and interest and redemption premiums, if any, thereon) at or before their maturity date.

"United States Obligations" shall mean:

(i) Direct and general obligations of the United States of America (including state and local government series), or obligations that are unconditionally guaranteed as to principal and interest by the United States of America, including (in the case of direct and general obligations of the United States of America) evidences of direct ownership of proportionate interests in future interest or principal payments of such obligations. Investments in such proportionate interests must be limited to circumstances wherein (a) a bank or trust company acts as custodian and holds the underlying United States Obligations; (b) the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor of the underlying United States Obligations; and (c) the underlying United States Obligations are held in a special account, segregated from the custodian's general assets, and are not available to satisfy any claim of the custodian, any person claiming through the custodian, or any person to whom the custodian may be obligated; provided that such obligations are rated or assessed "AAA" by Standard & Poor's ("S&P") or "Aaa" by Moody's Investors Service ("Moody's"); and

(ii) Non-callable obligations of government sponsored agencies that are rated "AAA" by S&P or "Aaa" by Moody's but are not backed by the full faith and credit of the U.S. Government. These include the following: (a) Farm Credit System (formerly known as the Federal Land Banks, Intermediate Credit Banks and Bank for Cooperatives) Consolidated Systemwide bonds and notes; (b) Federal Home Loan Banks Consolidated Debt Obligations; and (c) Resolution Funding Corp. Debt Obligations.

Application and Investment of Bond Proceeds

The portion of the proceeds from the sale of the Bonds that are being applied to finance new construction, acquisition, rehabilitation and upgrading of school facilities and acquisition of equipment will be deposited with the County to the credit of the Los Angeles Unified School District Building Fund established pursuant to the Resolution for the respective series of Bonds (collectively, the "Building Fund"). See "PLAN OF FINANCE" and "ESTIMATED SOURCES AND USES OF FUNDS" herein. Such net proceeds and interest earnings on the investment of moneys held in the Building Fund, except as required to be rebated to the United States Treasury, will be retained in the Building Fund and used only for capital expenditures eligible under the Authorization for the respective series of Bonds.

The original issue premium received by the District from the sale of any series of Bonds will be deposited in the Debt Service Fund established for such series of Bonds (collectively, the "Debt Service Fund") (see "ESTIMATED SOURCES AND USES OF FUNDS" herein) and used only for payment of interest on the Bonds. Except as required to be rebated to the United States Treasury, interest earned on the investment of moneys held in the Debt Service Fund will be retained in the Debt Service Fund and used to pay interest on the respective series of Bonds when due. The remaining proceeds from the sale of the Bonds will be used to pay underwriters' discount and costs of issuance as set forth in "ESTIMATED SOURCES AND USES OF FUNDS" herein.

Moneys in the Debt Service Fund and the Building Fund will initially be invested by the County Treasurer in the Los Angeles County Investment Pool. See APPENDIX F – "LOS ANGELES COUNTY TREASURY POOL" attached hereto. Moneys in the Building Fund and the Debt Service Fund may also be invested at the request of the District by the County Treasurer in the Local Agency Investment Fund in the State treasury, any investment authorized pursuant to Section 53601 of the State Government Code, or in investment agreements, including guaranteed investment contracts, which comply with the requirements of each rating agency then rating the Bonds necessary to maintain the then-current ratings on the Bonds.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

General Description

The Bonds are general obligation bonds issued by the District. The Board of Supervisors of the County has the power and is obligated to levy *ad valorem* taxes upon all property subject to taxation by the District, without limitation as to rate or amount (except as to certain personal property which is taxable at limited rates), for the payment of the principal of and interest on the Bonds. Such taxes are in addition to other taxes levied upon property within the District. Such taxes, when collected, will be placed by the County in the Debt Service Fund for the respective series of Bonds, which is required to be maintained by the County, and such taxes will be used solely for the payment of principal of and interest on such Bonds.

Fiscal Year Debt Service

The following table sets forth the semi-annual debt service obligations in each Fiscal Year for all of the District's outstanding general obligation bonds, including the Bonds. See APPENDIX A – "DISTRICT FINANCIAL AND DEMOGRAPHIC INFORMATION—DISTRICT FINANCIAL INFORMATION—District Debt" attached hereto.

Los Angeles Unified School District
General Obligation Bonds, Semi-Annual Debt Service Schedule[(1)]
(in millions)

		Measure K Series D Bonds			Measure R Series I Bonds			Measure Y Series F Bonds			Aggregate	
Payment Date	Outstanding General Obligation Bonds[(2)]	Principal	Interest	Semi-Annual Debt Service	Principal	Interest	Semi-Annual Debt Service	Principal	Interest	Semi-Annual Debt Service	Semi-Annual Debt Service	Fiscal Year Total
07/01/09	$412.52	$3.10	$4.29	$7.39	$6.30	$9.76	$16.06	$1.75	$2.60	$4.34	$440.32	--
01/01/10	165.92	1.80	5.82	7.62	3.75	13.23	16.98	1.04	3.52	4.55	195.07	$635.39
07/01/10	378.58	4.22	5.80	10.01	8.71	13.19	21.89	2.47	3.51	5.97	416.45	--
01/01/11	161.06	--	5.74	5.74	--	13.08	13.08	--	3.46	3.46	183.33	599.78
07/01/11	384.27	6.15	5.74	11.89	12.72	13.08	25.80	3.61	3.46	7.07	429.02	--
01/01/12	155.67	--	5.65	5.65	--	12.89	12.89	--	3.40	3.40	177.61	606.63
07/01/12	394.57	6.33	5.65	11.98	13.10	12.89	25.99	3.72	3.40	7.12	439.66	--
01/01/13	149.88	--	5.56	5.56	--	12.69	12.69	--	3.31	3.31	171.43	611.09
07/01/13	394.77	6.52	5.56	12.08	13.50	12.69	26.18	3.91	3.31	7.21	440.24	--
01/01/14	143.93	--	5.47	5.47	--	12.35	12.35	--	3.26	3.26	165.02	605.26
07/01/14	398.44	6.68	5.47	12.15	36.36	12.35	48.71	4.00	3.26	7.26	466.57	--
01/01/15	137.53	--	5.31	5.31	--	11.44	11.44	--	3.16	3.16	157.44	624.01
07/01/15	397.99	7.02	5.31	12.32	15.99	11.44	27.43	4.20	3.16	7.36	445.11	--
01/01/16	130.93	--	5.19	5.19	--	11.04	11.04	--	3.06	3.06	150.22	595.33
07/01/16	408.76	7.25	5.19	12.44	4.93	11.04	15.97	4.42	3.06	7.47	444.64	--
01/01/17	123.96	--	5.08	5.08	--	10.92	10.92	--	2.97	2.97	142.93	587.57
07/01/17	423.19	7.47	5.08	12.55	5.17	10.92	16.09	4.59	2.97	7.56	459.39	--
01/01/18	116.47	--	4.93	4.93	--	10.79	10.79	--	2.88	2.88	135.07	594.46
07/01/18	439.05	7.77	4.93	12.70	17.29	10.79	28.08	4.78	2.88	7.65	487.48	--
01/01/19	108.33	--	4.74	4.74	--	10.36	10.36	--	2.79	2.79	126.21	613.69
07/01/19	457.58	8.16	4.74	12.89	18.16	10.36	28.51	4.95	2.79	7.73	506.71	--
01/01/20	99.75	--	4.53	4.53	--	9.90	9.90	--	2.67	2.67	116.86	623.57
07/01/20	475.19	8.57	4.53	13.10	19.07	9.90	28.97	5.19	2.67	7.86	525.11	--
01/01/21	90.47	--	4.32	4.32	--	9.43	9.43	--	2.56	2.56	106.78	631.89
07/01/21	498.67	9.00	4.32	13.31	20.02	9.43	29.45	5.41	2.56	7.96	549.40	--
01/01/22	80.34	--	4.09	4.09	--	8.93	8.93	--	2.42	2.42	95.79	645.18
07/01/22	514.35	9.45	4.09	13.54	21.02	8.93	29.95	5.68	2.42	8.10	565.93	--
01/01/23	69.98	--	3.86	3.86	--	8.38	8.38	--	2.28	2.28	84.49	650.43
07/01/23	519.82	9.91	3.86	13.77	22.12	8.38	30.50	5.96	2.28	8.24	572.33	--
01/01/24	59.22	--	3.60	3.60	--	7.80	7.80	--	2.13	2.13	72.75	645.07
07/01/24	521.49	10.43	3.60	14.03	23.29	7.80	31.08	6.28	2.13	8.40	575.00	--
01/01/25	48.36	--	3.33	3.33	--	7.21	7.21	--	1.96	1.96	60.86	635.87
07/01/25	485.86	10.98	3.33	14.30	24.45	7.21	31.66	6.60	1.96	8.56	540.38	--
01/01/26	38.11	--	3.04	3.04	--	6.60	6.60	--	1.79	1.79	49.53	589.92
07/01/26	457.57	11.55	3.04	14.59	25.67	6.60	32.27	6.95	1.79	8.74	513.17	--
01/01/27	48.50	--	2.75	2.75	--	5.96	5.96	--	1.61	1.61	58.82	571.99
07/01/27	324.57	12.13	2.75	14.88	26.96	5.96	32.92	7.30	1.61	8.91	381.27	--
01/01/28	148.18	--	2.45	2.45	--	5.29	5.29	--	1.43	1.43	157.34	538.62
07/01/28	194.85	12.74	2.45	15.18	28.30	5.29	33.59	7.66	1.43	9.09	252.71	--
01/01/29	13.73	--	2.12	2.12	--	4.58	4.58	--	1.24	1.24	21.66	274.38
07/01/29	198.07	13.40	2.12	15.52	29.72	4.58	34.29	8.05	1.24	9.28	257.17	--
01/01/30	9.25	--	1.77	1.77	--	3.84	3.84	--	1.04	1.04	15.89	273.06
07/01/30	199.35	14.10	1.77	15.86	31.20	3.84	35.04	8.45	1.04	9.48	259.74	--
01/01/31	4.60	--	1.41	1.41	--	3.06	3.06	--	0.83	0.83	9.89	269.63
07/01/31	127.39	14.81	1.41	16.22	32.76	3.06	35.82	8.87	0.83	9.70	189.13	--
01/01/32	1.64	--	1.03	1.03	--	2.24	2.24	--	0.61	0.61	5.51	194.64
07/01/32	68.08	15.57	1.03	16.60	34.40	2.24	36.64	9.31	0.61	9.92	131.23	--
01/01/33	--	--	0.64	0.64	--	1.38	1.38	--	0.37	0.37	2.39	133.62
07/01/33	--	16.36	0.64	16.99	36.12	1.38	37.50	9.78	0.37	10.15	64.64	--
01/01/34	--	8.60	0.22	8.82	18.97	0.47	19.44	5.14	0.13	5.26	33.52	98.16
Total	$11,180.82	$ 250.00	$ 189.32	$439.32	$550.00	$416.94	$966.94	$150.00	$ 112.16	$262.16	$12,849.24	$12,849.24

(1) Reflects debt service on all of the District's outstanding general obligation bonds and general obligation refunding bonds as of the date of delivery of the Bonds.
(2) Excludes the Bonds.

Assessed Valuation of Property Within the District

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

State law provides, among other things, for accelerated recognition and taxation of increases in real property assessed valuation upon change in ownership of property or completion of new construction. Accordingly, each school district is to receive, on a timely basis and in proportion to its average daily attendance, allocations of revenue from such accelerated taxation remaining after allocations to each redevelopment agency in the county 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.

On March 29, 2007, the District filed a writ of mandate against the County of Los Angeles Auditor-Controller and other defendants, including all of the redevelopment agencies within the District's jurisdiction, seeking to direct the adoption of the proper allocation formula for property tax increment derived from redevelopment areas subject to the Community Redevelopment Law Reform Act of 1993 ("AB 1290"). The writ also seeks damages for unpaid tax increment revenue already owed to the District. The District has estimated the amount of tax increment revenue at issue to be $2.4 billion over the next 45 years. The trial court denied the District's request for a writ and this matter is likely to be appealed.

Taxable property is shown at full cash value on the tax rolls and the tax rate is expressed as $1 per $100 of taxable value. See APPENDIX A – "DISTRICT FINANCIAL AND DEMOGRAPHIC INFORMATION—CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS—Legislation Implementing Article XIIIA" attached hereto.

In Fiscal Year 2007-08, the County's total assessed valuation, taking into account adjustments based on decline-in-value, increased by $77.0 billion or approximately 6.9 percent, to $1.1 trillion dollars. Under State law, a property owner can file a claim for a temporary reduction in assessed value when a property suffers a decline-in-value, which is deemed to have occurred when the current market value of the property is less than the assessed value as of January 1. The County Assessor reported that there were approximately 14,200 assessment appeals in the County in Fiscal Year 2007-08. Decline-in-value changes and other adjustments reduced the County's total assessed valuation by approximately $11.0 billion during Fiscal Year 2007-08. In Fiscal Year 2006-07, decline-in-value changes and other adjustments reduced the County's total assessed valuation by approximately $298 million.

Foreclosures in the County increased by approximately 3,200 in Fiscal Year 2007-08 to approximately 15,000. The County Assessor has stated that this is significantly lower than foreclosures in neighboring counties and in the Central Valley of California. Further, the County Assessor processed approximately 437,700 changes of ownership in Fiscal Year 2007-08 compared to approximately 457,300 in Fiscal year 2006-07. The County Assessor reported that construction permits in the County dropped from approximately 97,100 in Fiscal Year 2006-07 to approximately 90,400 in Fiscal Year 2007-08. In Fiscal Year 2008-09, the District's total secured and unsecured assessed valuation is $474.8 billion. The assessed valuation of property in the District for each Fiscal Year from Fiscal Years 1999-2000 through 2008-09 is set forth below.

Los Angeles Unified School District
Historical Gross Assessed Valuation of Taxable Property
Fiscal Years 1999-2000 through 2008-09
(full cash value, $ in thousands)

Fiscal Year Ended June 30	Secured[1]	Unsecured	Total	Increase From Prior Year	Percent Increase
2000	$218,916,146	$18,927,746	$237,843,892	$14,481,456	6.5%
2001	233,797,971	20,142,603	253,940,574	16,096,682	6.8
2002	249,496,423	22,018,503	271,514,926	17,574,352	6.9
2003	266,383,265	21,142,670	287,525,935	16,011,009	5.9
2004	287,673,344	20,855,436	308,528,780	21,002,845	7.3
2005	311,419,822	20,505,315	331,925,137	23,396,357	7.6
2006	343,302,944	20,566,535	363,869,479	31,944,342	9.6
2007	382,212,502	20,396,335	402,608,837	38,739,358	10.6
2008	419,052,509	21,861,881	440,914,390	38,305,553	9.5
2009	451,191,875	23,597,923	474,789,798	33,875,408	7.7

(1) Includes utility valuations.

Source: Los Angeles Unified School District Comprehensive Annual Financial Report for Fiscal Years 1999-2000 through 2006-07. Los Angeles County Auditor-Controller for Fiscal Year 2007-08 and Fiscal Year 2008-09.

Tax Rates, Levies, Collections and Delinquencies

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* 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 Bonds.

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

Proposition 13 and its implementing legislation impose the function of property tax allocation on counties in the State, except for levies to support voted debt prior to enactment of Proposition 13, and prescribe how levies on countywide property values are to be shared with local taxing entities within each county.

The County levies a 1% property tax on behalf of all taxing agencies in the County. The taxes collected are allocated on the basis of a formula established by State law enacted in 1979. Under this formula, the County and all other taxing entities receive a base year allocation plus an allocation on the basis of "situs" growth in assessed value (new construction, change of ownership, inflation) prorated among the jurisdictions which 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 general *ad valorem* and unitary taxes assessed on a County-wide basis. The secured tax levy also includes the District's share of special voter approved *ad valorem* taxes assessed on a District-wide basis, such as the *ad valorem* taxes assessed for the District bonds issued pursuant to the Proposition BB Authorization, the Measure K Authorization, the Measure R Authorization, the Measure Y Authorization and the Measure Q Authorization. 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 businesses exemptions from *ad valorem* property taxation, such exemptions are not included in the total secured tax levy.

The following table shows real property tax levies, collections and delinquencies and the total tax rate in the District from Fiscal Years 1997-98 through 2006-07.

Los Angeles Unified School District
Summary of Property Tax Levies, Collections and Tax Rates
Fiscal Years 1997-98 through Fiscal Year 2006-07
($ in thousands)

Fiscal Year Ended June 30	Total Tax Levy	ERAF Funds[1]	Tax Collections[2]	Delinquent & Other Unpaid Tax Levies[3]	Current Delinquency Rate[4]	Total District Tax Rate[5]
1998	$ 442,619	$ 428,745	$ 832,010	$ 33,855	4.07%	1.012017%
1999	486,496	420,226	834,727	22,342	2.68	1.024749
2000	532,436	434,175	941,023	19,589	2.08	1.031528
2001	583,508	465,002	1,037,958	29,973	2.89	1.040765
2002	652,455	493,649	1,125,788	29,264	2.60	1.048129
2003	656,436	536,530	1,190,192	13,881	1.17	1.036973
2004	821,820	576,038	1,386,560	34,987	2.52	1.077145
2005	929,248	171,052[6]	1,091,325	34,128	3.13	1.088839
2006	991,275	76,068[6]	1,026,351	30,963	3.02	1.084346
2007	1,173,752	--	1,134,757	101,640	8.96	1.106814

(1) ERAF funds are added to tax levies received by the District and are subject to adjustment annually pursuant to the State Budget. See APPENDIX A – "DISTRICT FINANCIAL AND DEMOGRAPHIC INFORMATION–STATE FUNDING OF EDUCATION–General."
(2) Includes collections from taxes assessed in prior years.
(3) Beginning in 2001, the District has participated in a countywide delinquent tax financing program through which the District has sold its delinquent tax revenues and received 100% of the delinquent amount plus a premium. The District may, but is not obligated to, continue to participate in the delinquent tax financing program in the future.
(4) Delinquent and other unpaid tax levies divided by total tax collections.
(5) Includes applicable aggregate tax rate related to the District's outstanding general obligation bonds.
(6) The Fiscal Year 2004-05 State Budget Act provided for a significant portion of all school district ERAF funds to be shifted to cities and counties. The State backfilled these funds by increasing State aid to schools in Fiscal Year 2004-05 and subsequent years.

Sources: Los Angeles Unified School District Comprehensive Annual Financial Report for Fiscal Years ended June 30, 1998 through 2007.

The table below sets forth the tax rates for all outstanding general obligation bonds and general obligation refunding bonds issued pursuant to the Proposition BB, Measure K, Measure R and Measure Y Authorizations for Fiscal Years 2000-01 through Fiscal Year 2008-09, including the Bonds. The amounts for Fiscal Years 2000-01 through 2006-07 are included in the column "Total District Tax Rate" in the prior table.

Los Angeles Unified School District
General Obligation Bond Tax Rates
Fiscal Years 2000-01 through Fiscal Year 2008-09
(per $100,000 of Assessed Valuation)

Fiscal Year	Proposition BB	Measure K	Measure R	Measure Y
2000-01	$40.40	--	--	--
2001-02	48.13	--	--	--
2002-03	36.87	--	--	--
2003-04	46.97	$30.01	--	--
2004-05	50.55	31.97	$ 6.18	--
2005-06	42.75	29.16	12.33	--
2006-07	38.69	29.49	36.63	$ 3.45
2007-08	37.70	37.27	33.66	14.67
2008-09	32.17	35.58	38.91	18.06

Source: Los Angeles Unified School District.

Largest Taxpayers in the District

The 20 largest secured taxpayers in the District for Fiscal Year 2007-08 are set forth below.

Los Angeles Unified School District
Largest Local Secured Taxpayers
Fiscal Year 2007-08

	Property Owner[1]	Primary Land Use	Assessed Valuation	Total [2]
1.	Douglas Emmet Realty Funds	Office Building	$ 2,544,804,269	0.61%
2.	Arden Realty LP	Office Building	1,658,297,240	0.40
3.	Universal Studios LLC	Motion Picture Studio	1,370,736,318	0.33
4.	Anheuser Busch Inc.	Industrial	959,063,655	0.23
5.	Warner Bros. Entertainment Inc.	Motion Picture Studio	601,232,082	0.14
6.	Maguire Partners 355 S. Grand LLC	Office Building	555,772,904	0.13
7.	One Hundred Towers LLC	Office Building	554,615,514	0.13
8.	Duesenberg Investment Co.	Office Building	550,446,845	0.13
9.	CA Colorado Center LLC	Office Building	452,157,840	0.11
10.	Trizec 333 LA LLC	Office Building	429,000,000	0.10
11.	Topanga Plaza LP	Regional Mall	422,150,409	0.10
12.	Paramount Pictures Corp.	Motion Picture Studio	415,280,982	0.10
13.	Rreef America REIT II Corp. BBBB	Office Building	412,839,900	0.10
14.	Twentieth Century Fox Film Corp.	Motion Picture Studio	370,348,931	0.09
15.	Trizec 601 Figueroa LLC	Office Building	362,000,000	0.09
16.	Walt Disney Productions Inc.	Motion Picture Studio	359,690,602	0.09
17.	Century City Mall LLC	Regional Mall	330,470,642	0.08
18.	AP Properties Ltd.	Office Building	317,385,437	0.08
19.	1999 Stars LLC	Office Building	313,153,362	0.07
20.	Sunstone Century Star LLC	Hotel	306,018,927	0.07
			$13,285,465,859	3.17%

(1) Excludes taxpayers with values derived from mineral rights or a possessory interest. Historically, among the top 10 taxpayers within the District are landowners with primary land use of oil and gas production, including Atlantic Richfield Company, Tosco Corporation and Ultramar Inc., which are not reflected in the table above.
(2) Percentages reflect total 2007-08 Local Secured Assessed Valuation of $418,972,148,688, 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.

TAX MATTERS

General

In the opinion of Sidley Austin LLP, San Francisco, California, Bond Counsel, based on existing law and assuming continuing compliance with certain covenants in the Resolution and the Tax Certificate executed by the District on the date of issuance of the Bonds and the requirements of the Code regarding the use, expenditure and investment of proceeds of the Bonds and the timely payment of certain investment earnings to the United States, interest on the Bonds is not includable in the gross income of the owners of the Bonds for federal income tax purposes. Failure to comply with such covenants and requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. Interest on the Bonds is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. Interest on the Bonds, however, is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability.

In the further opinion of Bond Counsel, interest on the Bonds is exempt from personal income taxes imposed by the State.

Ownership of, or the receipt of interest on, tax-exempt obligations may result in collateral tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with excess passive income, individual recipients of Social Security or Railroad Retirement benefits, taxpayers that may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and taxpayers who may be eligible for the earned income tax credit. Bond Counsel expresses no opinion with respect to any collateral tax consequences and, accordingly, prospective purchasers of the Bonds should consult their tax advisors as to the applicability of any collateral tax consequences.

Certain requirements and procedures contained or referred to in the Resolution or other documents pertaining to the Bonds may be changed, and certain actions may be taken under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. Sidley Austin LLP will render no opinion as to the effect on the exclusion from gross income of interest on the Bonds for federal income tax purposes of any action taken or omitted to be taken relating to such covenants or requirements without the approval of such firm or in reliance upon the advice of counsel other than such firm.

The proposed form of opinion of Bond Counsel is attached hereto as Appendix D.

Original Issue Discount

The excess, if any, of the amount payable at maturity of any maturity of the Bonds purchased as part of the initial public offering over the issue price thereof constitutes original issue discount. The amount of original issue discount that has accrued and is properly allocable to an owner of any maturity of the Bonds with original issue discount (a "Discount Bond") will be excluded from gross income for federal income tax purposes to the same extent as interest on the Bonds. In general, the issue price of a maturity of the Bonds is the first price at which a substantial amount of Bonds of that maturity was sold (excluding sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers) and the amount of original issue discount accrues in accordance with a constant yield method based on the compounding of interest. A purchaser's adjusted basis in a Discount Bond is to be increased by the amount of such accruing discount for purposes of determining taxable gain or loss on the sale or other disposition of such Discount Bonds for federal income tax purposes. A portion of the original issue discount that accrues in each year to an owner of a Discount Bond which is a corporation will be included in the calculation of the corporation's federal alternative minimum tax liability. In addition, original issue discount that accrues in each year to an owner of a Discount Bond is included in the calculation of the distribution requirements of certain regulated investment companies and may result in some of the collateral federal income tax consequences discussed above. Consequently, owners of any Discount Bond should be aware that the accrual of original issue discount in each year may result in an alternative minimum tax liability, additional distribution requirements or other collateral federal tax consequences although the owner of such Discount Bond has not received cash attributable to such original issue discount in such year.

The accrual of original issue discount and its effect on the redemption, sale or other disposition of a Discount Bond that is not purchased in the initial offering at the first price at which a substantial amount of such substantially identical Bonds is sold to the public may be determined according to rules that differ from those described above. An owner of a Discount Bond should consult his tax advisor with respect to the determination for federal income tax purposes of the amount of original issue discount with respect to such Discount Bond and with respect to state and local tax consequences of owning and disposing of such Discount Bond.

Original Issue Premium

Certain of the Bonds may be purchased in the initial offering for an amount in excess of their principal amount (hereinafter, the "Premium Bonds"). The excess, if any, of the tax basis of a purchaser of a Premium Bond (other than a purchaser who holds a Premium Bond as inventory, stock in trade or for sale to customers in the ordinary course of business) over the principal amount of such Premium Bond is "bond premium." Bond premium is amortized for federal income tax purposes over the term of a Premium Bond based on the purchaser's yield to maturity in the Premium Bond, except that in the case of a Premium Bond callable prior to its stated maturity, the amortization period and the yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such Premium Bond. A purchaser of a Premium Bond is required to decrease his or her adjusted basis in such Premium Bond by the amount of bond premium attributable to each taxable year in which such purchaser holds such Premium Bond. The amount of bond premium attributable to a taxable year is not deductible for federal income tax purposes; however, bond premium is treated as an offset to qualified stated interest on such Premium Bonds. Purchasers of Premium Bonds should consult their tax advisors with respect to the precise determination for federal income tax purposes of the amount of bond premium attributable to each taxable year and the effect of bond premium on the sale or other disposition of a Premium Bond, and with respect to the state and local tax consequences of owning and disposing of a Premium Bond.

Future Developments

Future legislative proposals, if enacted into law, regulations, rulings or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to State or local income taxation, or otherwise prevent the owners of the Bonds from realizing the full current benefit of the tax status of such interest. Further, legislation or regulatory actions and proposals may affect the economic value of the federal or State tax exemption or the market value of the Bonds.

Prospective purchasers of the Bonds should consult their tax advisors regarding any pending or proposed federal or state tax legislation, regulations, rulings or litigation, as to which Sidley Austin LLP expresses no opinion.

Information Reporting

Interest paid on the Bonds will be subject to information reporting in a manner similar to interest paid on taxable obligations. Although such reporting requirement does not, in and of itself, affect the excludability of such interest from gross income for federal income tax purposes, such reporting requirement causes the payment of interest on the Bonds to be subject to back-up withholding if such interest is paid to registered owners who (a) are not "exempt recipients," and (b) either fail to provide certain identifying information (such as the beneficial owner's taxpayer identification number) in the required manner or have been identified by the IRS as having failed to report all interest and dividends required to be shown on their income tax returns. Generally, individuals are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients. Amounts withheld under the backup withholding rules from a payment to a beneficial owner would be allowed as a refund or a credit against such beneficial owner's federal income tax liability provided the required information is furnished to the IRS.

LEGAL MATTERS

Continuing Disclosure

The District has covenanted for the benefit of the holders and beneficial owners of the Bonds 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 2007-08, and to provide notices of the occurrence of certain enumerated events, if material. The District will provide the Annual Report to Digital Assurance Certification, L.L.C. ("DAC"), as dissemination agent, to file with each Nationally Recognized Municipal Securities Information Repository, and with the State information repository, if any. The District will provide the notices of material events to DAC to file with each Nationally Recognized Municipal Securities Information Repository and the State information repository, if any or to any other repository prescribed by the Securities and Exchange Commission. Copies of the District's Annual Reports and notices of material event filings are available at DAC's website, 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 Bonds. The information to be contained in the Annual Report and a notice of material event is set forth in APPENDIX E – "PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the "Rule").

As of the date hereof, the District is in compliance with its continuing disclosure obligations. The District submitted its unaudited financial statements for Fiscal Year 2007-08 to the appropriate repositories in accordance with the District's continuing disclosure undertakings. The District's Comprehensive Annual Financial Report for Fiscal Year 2007-08 is expected to be filed with the appropriate repositories subsequent to the February 25, 2009 deadline therefor set forth in the District's continuing disclosure undertakings. See "FINANCIAL STATEMENTS" herein.

Limitation on Remedies

Enforceability of the rights and remedies of the owners of the Bonds, and the obligations incurred by the District, may become subject to the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, arrangement, moratorium, or similar laws relating to or affecting the enforcement of creditor's rights generally, now or hereafter in effect, equity principles which may limit the specific enforcement under State law of certain remedies, the exercise by the United States of America of the powers delegated to it by the United States Constitution, the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose and the limitations on remedies against joint powers authorities in the State. Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the owners of the Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation, or modification of their rights.

On January 24, 1996, the United States Bankruptcy Court for the Central District of California held in the case of *County of Orange v. Merrill Lynch* that a California statute providing for a priority of distribution of property held in trust conflicted with, and was preempted by, federal bankruptcy law. In that case, the court addressed the priority of the disposition of moneys held in a county investment pool upon bankruptcy of the county and held that a State statute purporting to create a priority secured lien on a portion of such moneys was ineffective unless such funds could be traced. The County on behalf of the District is expected to be in possession of the annual *ad valorem* taxes and certain funds to repay the Bonds and may invest these funds in the County's Treasury Pool, as described in APPENDIX F – "LOS ANGELES COUNTY TREASURY POOL" attached hereto. Accordingly, in the event the District or the County were to petition for the adjustment of its debts under Chapter 9 of the federal bankruptcy code, a court might hold that the owners of the Bonds do not have a valid lien on the taxes when collected and deposited in the applicable Debt Service Fund where such amounts are deposited in the Treasury Pool, and such lien may not provide the owners of the Bonds with a priority interest in such amounts. In that circumstance, unless such owners could "trace" the funds, the owners would be only unsecured creditors of the District. There can be no assurance that the Owners could successfully so "trace" such taxes on deposit in the applicable Debt Service Fund where such amounts are invested in the County Treasury Pool.

No Litigation

No litigation is pending or threatened concerning the validity of the Bonds, and a certificate to that effect will be furnished to purchasers at the time of the original delivery of the Bonds. The District is not aware of any litigation pending or threatened questioning the political existence of the District or contesting the District's ability to receive *ad valorem* taxes or to collect other revenues or contesting the District's ability to issue the Bonds.

There are a number of lawsuits and claims pending against the District. In the opinion of the District, the aggregate amount of the uninsured liabilities of the District under these lawsuits and claims will not materially affect the finances of the District.

Legality for Investment in the State

Under provisions of the State Financial Code, the Bonds are legal investments for commercial banks in the State to the extent that the Bonds, in the informed opinion of said bank, are prudent for the investment of funds of depositors, and, under provisions of the State Government Code, are eligible for security for deposits of public moneys in the State.

Certain Legal Matters

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Sidley Austin LLP, San Francisco, California, Bond Counsel, and certain other conditions. A complete copy of the proposed form of opinion of Bond Counsel is contained in Appendix D hereto. Certain legal matters will be passed upon for the District by the General Counsel to the District and for the Underwriters by their counsel Quateman LLP, Los Angeles, California.

FINANCIAL STATEMENTS

The District's Fiscal Year 2006-07 Comprehensive Annual Financial Report ("Fiscal Year 2006-07 CAFR"), including its general purpose financial statements for the Fiscal Year ended June 30, 2007, and the District's unaudited actuals for Fiscal Year 2007-08 are attached as Appendix B. Difficulties associated with new computer programs resulted in a delay of approximately twelve months in the reporting of the District's finances for the Fiscal Year ended June 30, 2007. Further, the District did not file its Fiscal Year 2007-08 Comprehensive Annual Financial Report by the December 15, 2008 deadline required by the State. Currently, the District expects to file its Fiscal Year 2007-08 Comprehensive Annual Financial Report in June 2009. See Appendix A – "Los Angeles Unified School

District Financial and Demographic Information – District Financial Information – Significant Accounting Policies, System of Accounts and Audited Financial Statements", " – Information Technology Implementation Problems" and "– *Reconciliation of Fiscal Year 2006-07 Financial Results*" attached hereto.

The basic financial statements of the District for the Fiscal Year ended June 30, 2007, certain sections of which are included in Appendix B to this Official Statement, have been audited by KPMG LLP, 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 KPMG LLP to the inclusion of its report as Appendix B. KPMG LLP, 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 addressed in that report. KPMG LLP also has not performed any procedures relating to this Official Statement. The District's CAFR for Fiscal Year 2007-08 is expected to be filed with the appropriate repositories subsequent to the deadline therefor set forth in the District's continuing disclosure undertakings.

As of the date hereof, the District is in compliance with its continuing disclosure undertakings. The District submitted its unaudited financial statements for Fiscal Year 2007-08 to the appropriate repositories in accordance with the District's continuing disclosure undertakings. The District's Comprehensive Annual Financial Report for Fiscal Year 2007-08 is expected to be filed with the appropriate repositories subsequent to the February 25, 2009 deadline therefor set forth in the District's continuing disclosure undertakings. See "LEGAL MATTERS-Continuing Disclosure" herein.

MISCELLANEOUS

Ratings

Moody's and S&P have assigned their municipal bond ratings of "Aa3" and "AA-", respectively, to the Bonds. The District has furnished to each rating agency certain materials and information with respect to itself and the Bonds. Generally, rating agencies base their ratings on such information and materials and on their own investigations, studies and assumptions. Each rating reflects only the view of the respective rating agency, and any explanation of the significance of such rating may be obtained only from the issuing rating agency furnishing the same, at the following addresses: Moody's Investors Service, Inc., 7 World Trade Center at 250 Greenwich Street, New York, New York 10007, telephone: (212) 533-0300 and Standard & Poor's, 55 Water Street, New York, New York 10041, telephone: (212) 438-2124. There is no assurance that any such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating agency, if, in its judgment, circumstances so warrant. Any such downward revision or withdrawal of any such rating may have an adverse effect on the market price of the Bonds.

Financial Advisor

The District has retained Tamalpais Advisors, Inc. – Kelling, Northcross & Nobriga, A Joint Venture, as Financial Advisor (the "Financial Advisor") in connection with the execution and delivery of the Bonds and certain other financial matters. The Financial Advisor is not obligated to undertake and has not undertaken to make an independent verification of the accuracy, completeness or fairness of the information contained in this Official Statement. The Financial Advisor represents two independent financial advisory firms and is not engaged in the business of underwriting, trading or distributing municipal securities or other negotiable instruments.

Underwriting

The Bonds are being purchased by the underwriters listed on the front cover hereof (collectively, the "Underwriters", for whom Barclays Capital Inc. is acting as representative). The Underwriters have agreed to purchase the Measure K Series D Bonds at the purchase price of $252,191,118.04 (which is equal to the aggregate principal amount of the Measure K Series D Bonds, plus a net original issue premium of $3,089,584.60 and less an underwriters' discount of $898,466.56).

The Underwriters have agreed to purchase the Measure R Series I Bonds at the purchase price of $556,999,049.06 (which is equal to the aggregate principal amount of the Measure R Series I Bonds, plus a net original issue premium of $8,978,048.00 and less an underwriters' discount of $1,978,998.94).

The Underwriters have agreed to purchase the Measure Y Series F Bonds at the purchase price of $150,521,776.58 (which is equal to the aggregate principal amount of the Measure Y Series F Bonds, plus a net original issue premium of $1,061,376.55 and less an underwriters' discount of $539,599.97).

Pursuant to the Bond Purchase Agreement by and among the Representative, the District and the County, the Underwriters will purchase all of the Bonds if any of the Bonds are purchased. The Underwriters may offer and sell the Bonds to certain dealers and others at prices or yields different from the initial public offering prices or yields stated on the inside cover page of this Official Statement. The initial public offering prices or yields may be changed from time to time by the Underwriters.

Additional Information

The purpose of this Official Statement is to supply information to prospective buyers of the Bonds. Quotations from and summaries of the Bonds, the Resolution and the constitutional provisions, statutes and other documents described herein do not purport to be complete, and reference is made to said documents, constitutional provisions and statutes for full and complete statements of their provisions. Copies of such documents are available for inspection at the District by request to the Chief Financial Officer at (213) 241-7888, and following delivery of the Bonds will be on file at the corporate trust office of the Paying Agent.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not a contract or agreement between the District and the purchasers or owners of any of the Bonds.

Execution and Delivery

The District has duly authorized the execution and delivery of this Official Statement.

LOS ANGELES UNIFIED SCHOOL DISTRICT

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

APPENDIX A

LOS ANGELES UNIFIED SCHOOL DISTRICT
FINANCIAL AND DEMOGRAPHIC INFORMATION

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DISTRICT FINANCIAL AND DEMOGRAPHIC INFORMATION

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 and demographics. Investors must read the entire Official Statement, including this Appendix A, to obtain information essential to making an informed investment decision. The Los Angeles Unified School District's General Obligation Bonds, Election of 2002, Series D (2009) (the "Measure K Series D Bonds"), General Obligation Bonds, Election of 2004, Series I (2009) (the "Measure R Series I Bonds") and Election of 2005, Series F (2009) (the "Measure Y Series F Bonds" and, collectively with the Measure K Series D Bonds and the Measure R Series I Bonds, the "Bonds") are payable from the proceeds of an ad valorem tax levied by the County of Los Angeles (the "County") and are not payable from the General Fund of the District (the "District General Fund"). See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" in the forepart of this Official Statement. See "GLOSSARY OF CERTAIN TERMS AND ABBREVIATIONS" for a description of certain terms and abbreviations used in this Appendix A.

DISTRICT GENERAL INFORMATION

District Organization

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 territory which includes residential and industrial areas. The boundaries for the District are about 80% coterminous with the City, with the remaining 20% included in unincorporated County areas and smaller neighboring cities. The District was formed in 1854 as the Common Schools for the City and became a unified school district in 1960.

District Governance; Senior Management

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

Ramon C. Cortines, Superintendent of Schools. Mr. Ramon Cortines was appointed to serve as the Superintendent on January 1, 2009. Prior to his appointment as Superintendent, Mr. Cortines served as the District's Senior Deputy Superintendent. From 2006 to 2008, Mr. Cortines served as the Deputy Mayor for Education, Youth and Families for the City of Los Angeles. Mr. Cortines has been Executive of the Pew Network for Standards-Based Reform at Stanford University since 1996. From March to August 1997, Mr. Cortines served as the acting Assistant Secretary for the federal Office for Educational Research and Improvement. From February through August of 1993, he served as Assistant Secretary (designate) for Intergovernmental and Interagency Affairs and for Human Resources in the United States Department of Education. He also served on the National Policy Board for Higher Education. From 1993 to 1995, Mr. Cortines served as the Chancellor of the New York City Public School System. In December 1992, Mr. Cortines chaired a Department of Education transition team for then President-Elect Bill Clinton. Since 1956, Mr. Cortines has served as Superintendent for six school districts, including the Pasadena Unified School District for eleven years, the San Jose Unified School District for two years and the San Francisco Unified School District for six years. In 2000, Mr. Cortines served as Interim

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

Roberta Fesler, General Counsel. Ms. Fesler was appointed to serve as General Counsel to the District in June 2008. She began her career in the County Counsel's Office as a Deputy County Counsel in 1974. Throughout her career, Ms. Fesler served in various levels of management with the District and with the County. In 1985, Ms. Fesler began advising the County and various departments within the County and members of the Board of Supervisors on legal matters regarding the County. Since 1997, Ms. Fesler has served as Senior Assistant County Counsel for the Office of the County Counsel. For eleven years, Ms. Fesler served the District through a unit of the County Counsel's Office, which served as general counsel for the District. As General Counsel for the District, Ms. Fesler is responsible for administering the legal activities of the District's legal staff and outside legal firms. In addition, she coordinates the District's legal affairs, conducts litigation for the District and participates in trials related to matters of major importance to the District. Ms. Fesler holds a Bachelor of Arts in political science from University of California - Santa Barbara and a Juris Doctorate from the UCLA School of Law.

David Holmquist, Chief Operating Officer. Mr. Holmquist was appointed Chief Operating Officer in March 2008, after serving as the Interim Chief Operating Officer since July 1, 2007. His duties as Chief Operating Officer include managing the offices of the Information Technology Division, Crisis Counseling and Intervention Services, School Police, Human Resources, Environmental Health and Safety, the Transportation Branch, Food Services, the Procurement Services Group, Risk Management and Insurance Services, Staff Relations, Planning, Assessment and Research, and various school operations. He supervises approximately 15,000 employees of the District ranging from part-time workers to executive level positions. Prior to his appointment as Interim Chief Operating Officer, Mr. Holmquist served as the Chief Risk Officer from 2006 to 2007 and as the Director of Risk Management and Insurance Services from 2003 to 2006. Mr. Holmquist also 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 the Safety Coordinator for the City of Fullerton from 1986 to 1987. He was awarded the Associate in Risk Management (ARM) designation in 1987 and his Chartered Property Casualty Underwriter (CPCU) designation in 1997. Mr. Holmquist has received numerous recognitions for his professional accomplishments including having been a seven time recipient of the National Safety Council's Industry Safety Award for loss control efforts. Mr. Holmquist earned a Bachelor of Science Degree in Business Administration from Oregon State University in 1983 and his Juris Doctor 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 also 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 Bachelors 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.

Timothy S. Rosnick, Controller. Mr. Rosnick was appointed Controller in September 2008, after serving as the District's Interim Controller. Mr. Rosnick joined the District in October 2006. He served as the District's Director of Accounting Controls from October 2006 through June 2007 and most recently served as 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 Bachelors of Arts with Distinction in Economics and received a Master's of Business Administration from the University of Texas at Austin. Mr. Rosnick is a member of the California Association of School Business Officials and the Government Finance Officers Association.

Facilities and Staff

As of June 30, 2007, the District operated 437 elementary schools, 74 middle/junior high schools, 61 senior high schools, 59 options schools, ten multi level schools, 17 special education schools, 22 magnet schools and 138 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, 27 primary school centers, and one newcomer school. In addition, as of June 30, 2007, there were 10 dependent charter schools operated by the District and 93 fiscally independent charter schools within the District's boundaries. The District currently has 137 fiscally independent charter schools. The District has certain fiscal oversight and other responsibilities with respect to both dependent and independent charter schools. However, independent charter schools receive their funding directly from the State of California (the "State") and function as separate local educational agencies, including having control over their staffing and budget. For these reasons, information regarding enrollment, average daily attendance, budgets and other financial information relating to independent charter schools is not included in the District's audit reports or in this Official Statement unless otherwise noted.

As of June 30, 2007, the District employed approximately 48,364 certificated (full-time equivalent) employees, approximately 33,043 classified (full-time equivalent) employees and approximately 18,520 non-regular employees. The District also employs part-time and temporary employees.

Enrollment

General. K-12 School Enrollment (as defined below) was 653,215 for Fiscal Year 2007-08 and is estimated to be approximately 630,977 for Fiscal Year 2008-09.

The following Table A-1 sets forth the population of the District and school enrollment information for the District from Fiscal Year 1999-2000 through Fiscal Year 2008-09. In Table A-1 below, "School Enrollment" includes enrollment for all schools operated by the District, including graded and ungraded enrollment in K-12 schools, adult education schools and early education centers, and "K-12 School Enrollment" includes all School Enrollment less enrollment in adult education schools and early education centers. Changes in School Enrollment may not correspond to similar changes in K-12 School Enrollment due to increases or decreases in enrollment for adult education and early education centers.

TABLE A-1

Los Angeles Unified School District
Population and School Enrollment Figures
Fiscal Years 1999-2000 through 2008-09
(in thousands)

Fiscal Year Ended June 30	Population of District[1]	School Enrollment in District[2] [3]	K-12 School Enrollment [3]
2000	4,675	875	711
2001	4,637	889	723
2002	4,503	907	737
2003	4,660	905	747
2004	4,718	879	727
2005	4,776	847	718
2006	4,785	877	698
2007	4,825	860	674
2008	NA	NA	653
2009	NA	NA	631

(1) For Fiscal Years 1999-2000 through 2006-07, data is based on estimates of City and County population as set forth in the Los Angeles Unified School District Comprehensive Annual Financial Report for the Fiscal Year 2006-07.

(2) For Fiscal Years 1999-2000 through 2006-07, data includes adult education and early education centers enrollment as set forth in the Los Angeles Unified School District Comprehensive Annual Financial Report for the Fiscal Year 2006-07.

(3) Beginning in Fiscal Year 2003-04, enrollment figures do not include fiscally independent charter schools. Data for Fiscal Years 2007-08 and 2008-09 are estimated as provided in the Fiscal Year 2008-09 Final Adopted Budget.

Sources: Los Angeles Unified School District Comprehensive Annual Financial Reports for the Fiscal Years 1997-98 through 2006-07; Los Angeles Unified School District Final Adopted Budget for Fiscal Year 2008-09 and the District.

K-12 School Enrollment. As set forth in Table A-1 above, the District's K-12 School Enrollment figure is expected to decrease in Fiscal Year 2008-09 to approximately 630,977. The District anticipates, based on certain demographic information, that total K-12 School Enrollment, which excludes enrollment at the 137 fiscally independent charter schools, will continue to decrease annually over the next several years. Declining enrollment will result in reduced revenue from a variety of funding sources, including but not limited to reduction of the District's revenue limit and other revenue sources from the State, including categorical funds and State lottery funds. See "STATE FUNDING OF EDUCATION—General." Moreover, declining enrollment may entail other cost implications, including a decline in expenditures at a slower rate than any corresponding decline in revenue. Despite declining enrollment and the anticipated completion of the New School Construction Program (defined below), the District estimates that many schools in the District will still accommodate a significant number of students above the State average for similar schools and that more than 200,000 students will still be placed in portable classrooms in Fiscal Year 2014-15.

Academic Performance and Instructional Initiatives

During the last nine years, the District has made substantial progress regarding its students' performance on the California Academic Performance Index ("API"), the State's basic measurement of academic progress. Although the District's mean API scores for elementary schools, middle schools and high schools are lower than statewide mean API scores, the District's mean scores in all three areas have improved significantly since 1999 and have increased during that time at a higher rate than have Statewide mean scores. The District attributes its improved API performance to the implementation of a focused academic curriculum with rigorous standards in the core subjects, including reading and mathematics. Examples of actions taken to implement this curriculum include the establishment of a standards-based proscriptive common reading program in more than 430 elementary schools, expansion of summer institutes and advanced courses available to teachers (particularly focused on reading, secondary literacy and mathematics), assignment of literacy and mathematics coaches to all school sites, and adoption of periodic, diagnostic assessments to evaluate student learning progress and identify areas of need.

Despite these academic gains, in March 2005, the District was deemed a Program Improvement District based on measures established under the federal No Child Left Behind Act of 2001 (the "NCLB Act"). Under the NCLB Act, a state is required to identify a local educational agency ("LEA") for improvement ("Program Improvement") if the LEA fails to make adequate yearly progress ("AYP"), evaluated by state standards, for two consecutive years. The State evaluates AYP based on, among other things, a LEA's (1) percentage participation rates in English-language arts and mathematics assessments measured LEA-wide, by grade span (grades two through five, grades six through eight and grade ten) and by numerically significant subgroups within grade spans, (2) graduation rate criteria LEA-wide, if a LEA has high school students and (3) percentage of students performing at or above the proficient level in English-language arts and mathematics (also measured LEA-wide, by grade span and by subgroups), as compared to performance targets established under the NCLB Act. The District believes that the reason for this designation relates mainly to the academic performance of the District's special education students and students for whom English is not their native language ("English Learners").

In addition, the NCLB Act requires that each LEA identified for Program Improvement take a variety of actions, including but not limited to developing or revising an improvement plan, promptly implementing that plan and informing parents of the LEA's Program Improvement status. Failure to achieve AYP in three consecutive years will result in corrective action by the state education agency. As of February 2008, the State had identified 97 school districts, independent charter schools and county offices of education in California, including the District, for Program Improvement Year 3 Corrective Action due to their respective failures to meet or exceed AYP goals for four consecutive years. The District has adopted a LEA Program Improvement Plan designed to address these academic performance concerns and has received additional categorical funding from the State for this purpose. In March 2008, pursuant to Section 52055.57(c)(1)(F) of the Education Code, the State Superintendent of Public Instruction recommended that the State Board of Education require each LEA to institute and fully implement a new curriculum that is based on State academic content and achievement standards, including providing appropriate professional development based on scientifically-based research for all relevant staff, that offers substantial promise of improving educational achievement for high priority pupils. In 2008, the District received a \$15 million grant to develop and implement a new curriculum. 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 to jeopardize the availability of federal or State categorical funding.

Petitions with LACOE and CCSDO

Petitions have been occasionally filed with LACOE to divide portions of the District into smaller school districts. In addition, the County Committee on School District Organization (the "CCSDO") has been periodically requested to approve petitions to form school districts within the District. Pursuant to

Education Code Section 35730.1, the evaluation of such petitions requires extensive review of 10 critical factors, including equitable division of assets and liabilities and compliance with socio-economic diversity requirements and existing legal mandates. Under Education Code Section 35736, an equitable allocation of existing District debt obligations, including the Bonds, would be required in any division of the District. As of the date of this Official Statement, there are no petitions pending with LACOE or CCSDO to divide the District. The District is unable to predict whether any petitions to create school districts within the District will be filed or the impact that any such petitions would have on the District.

Williams Settlement Agreement; Funding for the New School Construction Program

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

The *Williams* case was settled in 2004. The settlement provided for several legislative proposals to ensure that all students will have books in specified subjects and that their schools be clean and in safe condition. On September 29, 2004, Governor Schwarzenegger signed laws implementing the legislative proposals set forth in the settlement, including (i) Senate Bill 550 and Assembly Bill 2727, which establish minimum standards for school facilities, teacher quality and instructional materials, and an accountability system to enforce these standards; (ii) Assembly Bill 1550, which requires the elimination of the use of the multi-track, year-round school calendar, known as Concept 6, with a shortened school year by July 1, 2012; (iii) Assembly Bill 3001, which encourages the placement of qualified teachers in low performing schools, ensures the proper training of teachers of English Learners, and streamlines the process for highly qualified teachers from out-of-state to teach in California schools; and (iv) Senate Bill 6, the School Facilities Needs Assessment Grant Program, which provides up to $800 million beginning in Fiscal Year 2005-06 for school districts in the State to address emergency facility repair projects and approximately $25 million in Fiscal Year 2004-05 to assess the condition of schools in the bottom three API deciles. Under this legislation, the District received approximately $4.9 million for assessment of the condition of its schools in Fiscal Year 2004-05, did not receive any funds under this legislation in Fiscal Year 2005-06 and received approximately $276,645 in Fiscal Year 2006-07.

In addition, the District received in Fiscal Year 2007-08 $102 million for 88 schools under Senate Bill 1133, the "Quality Education Investment Act of 2006", which was signed into law by Governor Schwarzenegger on September 29, 2006 to implement the terms of the *CTA, et al. v. Schwarzenegger, et al.* settlement and discharge the outstanding balance of the maintenance factor regarding Proposition 98 funding that was due, but not provided in fiscal years 2004-05 and 2005-06. The District expects the funding for eligible K-3 grade students to increase from $333 per pupil in Fiscal Year 2007 08 to $500 per pupil in Fiscal Year 2013-14, the funding for eligible 4-8 grade students to increase from $600 per pupil in Fiscal Year 2007-08 to $900 per pupil in Fiscal Year 2013-14, and for funding for eligible 9-12 grade students to increase from $667 per pupil in Fiscal Year 2007-08 to $1000 per pupil in Fiscal Year 2013-14. The District expects total funding from Senate Bill 1133legislation of $147.5 million in Fiscal Year 2008-09.See "STATE FUNDING OF EDUCATION – State Budget" herein.

Pursuant to the terms of the settlement agreement and in accordance with the *Williams* legislation, in December 2004, the Board adopted a construction plan that prioritizes school construction to ensure all schools are removed from the Concept 6 calendar by July 1, 2012 (the "New School Construction Program"). The New School Construction Program is a multi-year capital improvement program that is the major component of the District's effort to relieve overcrowding in its schools by returning students to a traditional two-semester calendar. Currently, the District is experiencing a decline in enrollment that is expected to continue through 2015, when a significant increase in the number of students entering kindergarten is expected. Under current projections, which are based upon birthrates in the County and weighted cohort modeling, and currently mandated class size limits, the District estimates that its schools will have a 16% vacancy rate by 2012. As of January 1, 2009, the New School Construction Program's cost is $12.5 billion and the New School Construction Program is expected to provide facilities for approximately 6,600 classrooms by the end of the year 2012. State and local bond measures and other funding sources provide revenues for this program. Previously, the New School Construction Program was experiencing a $1.6 billion shortfall due to increasing construction and land costs and limited access to State matching funds. In the past year, legislation enabled access to anticipated State matching funds, and the real estate and construction markets have moderated. As a result, the New School Construction Program is now fully funded. See Appendix A – "DISTRICT FINANCIAL INFORMATION – Future Financings" herein and "PLAN OF FINANCE - Summary of Projects and Targeted Funding Amounts" and " – Future Financings" in the forepart of this Official Statement.

On December 17, 2008, the State's Pooled Money Investment Board (the "Investment Board") announced that it will halt $3.8 billion in financing for infrastructure projects including, among other things, construction of new schools and upgrades at older school campuses in the State. The District estimates that the Investment Board's decision will stop new infrastructure loans, bar increases to existing loans and generally prohibit agencies from accessing additional funds under existing loans through June 2009. On January 16, 2009, the Investment Board authorized the State to allocate $650 million for infrastructure projects through June 30, 2009. The State's Department of Finance, which is charged with determining which projects will receive this allocation, is expected to present its report at the Investment Board's meeting in February 2009. The Investment Board is expected to allocate approximately $500 million to contract work that had already been performed and $150 million to expenses relating to bond-funded administrative costs. Prior to the December 17, 2008 announcement, the District expected to receive approximately $900 million in State funds for projects that had been approved and are under construction. If the release of State funds continues for an extended period, the District will use available general obligation bond funds to cover the cash requirements.

Information Technology Implementation Problems

In 2003, the Board authorized funding of $133 million of information technology projects (the "Information Technology Projects") to integrate student and school-related information and to replace the District's legacy technology systems, which were originally developed in the 1960s and updated in the 1990s, to consolidate more than 60 different operating systems onto a single platform. In May 2005, the Board authorized an increase in the budget of $12 million for the purchase of computers, printers and related equipment for school offices to be funded with the proceeds of certificates of participation. In June 2007, the Board of Education approved an additional $37.5 million of certificates of participation to complete the payroll and financial reporting components of the Information Technology Projects. The first phase of the Information Technology Projects was funded from $88.3 million of proceeds of certificates of participation executed and delivered in June 2003 and available moneys of the District. The second phase of the Information Technology Projects was funded from $93.95 million of proceeds of certificates of participation executed and delivered in November 2007.

On June 27, 2005, the District commenced the implementation of an enterprise resource planning system called Business Tools for Schools ("BTS") to begin implementation of various components of the Information Technology Projects. The finance component of BTS was released on July 1, 2006 and included integration of general ledger, accounts receivable and grants management functions. Budget development functions, originally planned for release with the finance component, were released in

March 2007. Implementation of the finance and budget development components proceeded as scheduled.

The human resources and payroll component of BTS was released on January 1, 2007 and was intended to integrate job applicant tracking, payroll processing, time and attendance reporting, and benefits administration functions. Upon its release, the human resources and payroll component encountered significant operational difficulties generated by software configurations and customizations that did not, among other things, adequately replicate and account for the complex and varied job assignments, pay scales, pay periods and pension benefits characteristic of the District's employees, particularly its teachers. Difficulties with BTS resulted initially in a number of employees being underpaid, overpaid or not paid at all, and a smaller number of employees were inaccurately categorized for purposes of determining pension and social security payments due to CalPERS, PARS or STRS (each as herein defined), which caused underpayments or overpayments to PERS, STRS and the Social Security program. The District approved an additional \$27.5 million to complete BTS implementation for the payroll component of the Information Technology Projects and \$10 million for the retention of an additional technology consulting group to help implement the software fixes. The payroll system is currently operating within industry standards, with errors reduced to approximately 0.16% of total paychecks, and employees have been or will be properly categorized for pension and social security payment purposes.

The implementation problems, which mostly affected payment of salaries of the District's teachers, delayed reconciliation of the District's financial statements for Fiscal Year 2006-07, including an estimated \$58.9 million in net overpayment of employees, of which as of July 1, 2008 \$24.6 million has been returned to the District. The District forgave approximately \$15.2 million in overpayments for those whose overpayment was less than \$250; this significantly reduced the number of individual cases necessary to be reviewed. The District continues to work toward collecting the remaining \$19 million balance of the net overpayment in services with affected employees. In addition, \$19 million may be reflected as an accrual in the Fiscal Year 2007-08 audit. The implementation problems may result in a net cost of approximately \$3.5 million in pension and social security payments. In November 2008, the District and Deloitte Consulting entered into a settlement agreement relating to the payroll system. Pursuant to the settlement, Deloitte Consulting paid \$8.25 million to the District in December 2008 and agreed to forgive outstanding invoices. BTS implementation problems have not affected the District's receipt of revenues or the timely payment of its vendors and debt obligations and are not expected to adversely affect the District's ability to pay its debt obligations and perform its other obligations payable from the District's General Fund as and when due. See "– *Significant Accounting Policies, System of Accounts and Audited Financial Statements* – Reconciliation of Fiscal Year 2006-07 Financial Results".

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 Aid (as defined below) 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."

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 property taxes, is allocated based on the average daily attendance ("ADA") of each school district for either the current or preceding school year. Each school district receives a portion of the local property taxes that are collected within its district boundaries. Generally, the State's apportionment of revenue limit aid ("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.

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. 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. The Fiscal Year 2008-09 State Budget Act (defined herein) contains a proposal by Governor Schwarzenegger to securitize future lottery revenues, which could impact distributions to public education within the State. See "STATE FUNDING OF PUBLIC EDUCATION – State Budget – Fiscal Year 2008-09 State Budget" herein.

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 State and local sources. 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 (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 property tax revenues 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-2 sets forth the District's revenue limit per unit of ADA from Fiscal Year 1999-2000 through Fiscal Year 2006-07 and the projected revenue limit per unit of ADA for Fiscal Years 2007-08 and 2008-09 based upon the District's Final Adopted Budget for Fiscal Year 2008-09.

TABLE A-2

Los Angeles Unified School District
Revenue Limit Per Unit of Average Daily Attendance
Fiscal Years 1999-2000 to 2008-09

Fiscal Year Ended June 30	K-12 Base Limit[(1)]	Adult Total Limit[(2)]
2000	$4,342.13	$2,022.90
2001	4,480.13	2,101.66
2002	4,654.13	2,196.82
2003	4,747.13	2,242.12
2004	4,835.13	2,242.12
2005	4,968.66	2,292.26
2006	5,179.66	2,389.22
2007	5,544.56	2,530.66
2008	5,796.56[(3)]	2,645.30[(3)]
2009	5,797.41[(4)]	2,473.36[(4)]

(1) The K-12 Base Limit figures represent the funded revenue limits.
(2) The Adult Total Limit figures represent the funded revenue limits for adult educational programs.
(3) Based on enacted State Budget Act of 2008.
(4) Based on the 2008-09 May Revision State Budget.

Sources: Los Angeles Unified School District Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2007 for Fiscal Years 1999-2000 through 2006-07, Los Angeles Unified School District Final Adopted Budget for Fiscal Year 2008–09 for Fiscal Years 2007-08 and 2008-09.

In Fiscal Year 1999-2000 and in Fiscal Years 2003-04 through 2005-06, actual amounts received by the District under the revenue limit were reduced by a deficit factor applied by the State to school districts Statewide as set forth in Table A-3 below. The State Budget Acts for Fiscal Years 2006-07 and 2007-08 included funds to eliminate the revenue limit deficit factor. The 2008-09 State Budget Act (defined herein) calls for a cost of living adjustment ("COLA") of 0.68%, which amount is significantly below the Fiscal Year 2008-09 statutory COLA of 5.66%. The 2008-09 State Budget Act establishes a new deficit factor for the foregone COLA, which creates a statutory commitment to use Proposition 98 funds at some point in the future to raise revenue limits to the level they would have been absent the reduction in Fiscal Year 2008-09. See " – Proposition 98" below. The deficit factor contained in the 2008-09 State Budget Act is estimated to be 4.71% which reduces the COLA for Fiscal Year 2008-09 to the Fiscal Year 2007-08 Base Revenue Limit per average daily attendance.

The Governor has proposed to eliminate the 0.68% COLA set forth in the Fiscal Year 2008-09 State Budget Act due to the State's current fiscal status. The District has reserved $22.6 million for the potential ongoing loss of the 0.68% COLA pursuant to a recommendation made by LACOE.

TABLE A-3

Los Angeles Unified School District
Deficit Factor
Fiscal Years 1999-2000 to 2008-09

Fiscal Year Ended June 30	Deficit Factor
2000	6.996%
2001	0.000
2002	0.000
2003	0.000
2004	3.002
2005	2.143
2006	0.892
2007	0.000
2008	1.000
2009	0.946

Source: Los Angeles Unified School District.

The following Table A-4 sets forth the COLA from Fiscal Years 1999-2000 through 2008-09 as reflected in the State Budget Acts with respect to Fiscal Years 1999-2000 to 2008-09. The COLA for Fiscal Year 2008-09 is based upon the Consumer Price Index for Urban Wage Earners and Clerical Workers and is estimated to be approximately 5.66%.

TABLE A-4

Los Angeles Unified School District
Cost-of-Living Adjustment
Fiscal Years 1999-2000 to 2008-09

Fiscal Year Ended June 30	Cost of Living Adjustment
2000	1.41%
2001	3.17
2002	3.87
2003	2.00
2004	1.86
2005	2.41
2006	4.23
2007	5.92
2008	4.53
2009	5.66[1]

(1) COLA for Fiscal Year ending June 30, 2009 is based on the District's Fiscal Year 2008-09 Final Adopted Budget and does not reflect Governor's Schwarzenegger's proposed withdrawal of the 0.68% COLA set forth in the Fiscal Year 2008-09 State Budget Act (defined herein). See Table A-3 herein.

Sources: State Budget Acts for Fiscal Year 1999-2000 through Fiscal Year 2007-08.

The District's ADA record for each of the Fiscal Years 1999-2000 through 2008-09 is set forth in Table A-5 below:

TABLE A-5

Los Angeles Unified School District
Annual Average Daily Attendance
Fiscal Years 1999-2000 to 2008-09

	Average Daily Attendance[1]			
Fiscal Year Ended June 30	K-12[2]	Dependent Charter Schools	Adult Education Program	Total
2000	654,664	–	77,745	732,409
2001	642,713	19,952	77,628	740,293
2002	656,306	20,010	86,372	762,688
2003	661,615	17,681	86,841	766,137
2004	666,169	5,143[3]	87,293	758,605
2005	654,308	5,990	86,307	746,605
2006	633,013	5,958	83,593	722,564
2007	614,487	5,936	90,347	710,770
2008[4]	612,655	6,504	91,256	710,415
2009[4][5]	596,994	6,960	93,071	697,025

(1) Prior to Fiscal Year 2000-01, the State did not require the District to distinguish between regular schools and charter schools in calculating the ADA.
(2) Includes non-public school special education students.
(3) Decrease primarily attributable to dependent charter schools converting to regular District schools or to independent charter schools.
(4) Estimated by the District's Budget Service and Financial Planning Division. With declining enrollment, the District's revenue limit funds in each of Fiscal Years 2004-05 through 2008-09 are based upon the respective prior fiscal year's ADA.
(5) Budgeted.

Sources: Los Angeles Unified School District Comprehensive Annual Financial Report for Fiscal Years 1999-2000 through 2006-07, and the District's 2008-09 Final Adopted Budget.

Historically, approximately 85% of the District's annual General Fund revenues have consisted of payments from or under the control of the State. As part of the Fiscal Year 1992-93 State budget resolution, the State required counties, cities and special districts to shift property tax revenues to school districts by contributing to the Education Revenue Augmentation Fund ("ERAF") in lieu of direct payments to school districts from the State's General Fund (the "State General Fund"). This transfer is commonly referred to as the "ERAF" shift. The Fiscal Year 1993-94 State Budget Act required a similar shift of property taxes to school districts from local government entities, which shift of property taxes has since continued. The Fiscal Year 2004-05 State Budget Act included a $1.3 billion ERAF shift in local 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 to pay debt service on the State's economic recovery bonds. In addition, $2.8 billion was reduced from property tax allocations to school districts to replace the shift of vehicle license fee revenues from local governments to the State. The State General Fund offsets both transfers to hold school districts and community colleges harmless. As a result of these property tax shifts, the share of District revenues that come from the State fluctuates. Nevertheless, the influence of the State in the District's funding is substantial. Regardless of the shifts in property tax revenues in recent years, and the potential decrease in such revenues, certain levels of funding are guaranteed as described in " – Proposition 98" below.

Charter School Funding

A charter school is a public school authorized by a school district, county office of education or the Board of Education of the State. A proposed charter school submits a petition to one of these entities for approval and that petition details the operations of the charter school. State law requires that charter petitions be approved if they comply with the statutory criteria. The District has certain fiscal oversight and other responsibilities with respect to both dependent 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. Dependent charter schools receive their funding from the District and are included in the District's budgets and audit reports. In Fiscal Year 2007-08, there were more than 100 charter schools in operation in the District. In Fiscal Year 2007-08, the ADA for the District's dependent charter schools was 6,504.

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.

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 XIIIB of the State Constitution, primarily by guaranteeing K-14 schools a minimum share of State General Fund revenues. Under Proposition 98 (as modified by Proposition 111, which was enacted on June 5, 1990), there are currently three tests which determine the minimum level of K-14 funding. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS" herein.

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

2007-08 and is fully funded in the Fiscal Year 2008-09 State Budget Act. Proposition 98 also contains provisions transferring certain State tax revenues in excess of the revenue limit to K-14 schools under Article XIIIB of the State Constitution. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS—Proposition 98" below for further descriptions of the minimum funding tests under Proposition 98 and the impact of Proposition 98 on K-14 education funding.

State Budget

General. The District's operating income consists primarily of two components, the State Aid portion funded from the State General Fund and a locally generated portion derived from the District's share of the 1% local *ad valorem* property tax authorized by the State Constitution. School districts may be eligible for other special categorical funding, including for State and federal programs. The District receives approximately 85% of its District General Fund revenues from funds of or controlled by the State. As a result, decreases in State revenues, or in State legislative appropriations made to fund education, may significantly affect District operations.

The 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, a final budget must be adopted by a two-thirds vote of each house of the State Legislature by no later than June 15 and the Governor must sign the adopted budget by no later than June 30. The budget becomes law upon the signature of the Governor. In recent years, the State's final budget has not been timely adopted. The Fiscal Year 2008-09 State Budget Act was signed into law by the Governor on September 23, 2008, subsequent to the deadline therefor.

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

State Budget for Fiscal Year 2008-09. On September 23, 2008, Governor Schwarzenegger signed into law the State Budget Act for Fiscal Year 2008-09 (the "Fiscal Year 2008-09 State Budget Act"). Due to significant negotiation and revision prior to its ultimate adoption, the Fiscal Year 2008-09 State Budget Act was adopted subsequent to the statutory deadline of June 30.

The Fiscal Year 2007-08 State Budget Act projected a State General Fund balance at the end of Fiscal Year 2007-08 of $3.3 billion and a total reserve of $4.1 billion. The Fiscal Year 2008-09 State Budget Act projected ending Fiscal Year 2007–08 with a State General Fund balance of $4.0 billion, of which $885 million was reserved for the liquidation of encumbrances and $3.1 billion was deposited in a reserve for economic uncertainties.

The Fiscal Year 2008-09 State Budget Act reports that the State General Fund began Fiscal Year 2008-09 with a balance of $4.0 billion. The Fiscal Year 2008-09 State Budget Act projects State General Fund revenues and transfers for Fiscal Year 2008-09 of $102.0 billion, a decrease of approximately 1.0% of the anticipated revenues and transfers for Fiscal Year 2007-2008, and State General Fund expenditures of $103.4 billion, an increase of approximately 0.06% above the anticipated expenditures for Fiscal Year 2007-08. The Fiscal Year 2008-09 State Budget Act projects ending Fiscal Year 2008-09 with a State General Fund balance of $2.6 billion, of which $885 million will be reserved for the liquidation of encumbrances and $1.7 billion will be deposited in a reserve for economic uncertainties.

The Governor's economic forecasts for Fiscal Year 2008-09 reflect weaker economic performance throughout the country and the State. The Fiscal Year 2008-09 State Budget Act addresses a projected $24.3 billion budget shortfall which was identified in the Governor's May Revision to the Proposed 2008-09 Budget with a combination of cuts in expenditures and projections of increased revenues. The Fiscal Year 2008-09 State Budget Act includes vetoes on behalf of the Governor in the amount of $510 million of spending approved by the State Legislature. The Fiscal Year 2008-09 State Budget Act contained a proposal to increase the State's Budget Stabilization Account (the "BSA") from 5% of State General Fund expenditures to 12.5%. In addition, the Fiscal Year 2008-09 State Budget Act proposes an annual transfer to the BSA of 3% of the State General Fund and the elimination of the ability to suspend such annual transfers. During economic downturns, when the State Constitution permits funds to be drawn from the BSA, such transfers would not occur. Further, the State would only be permitted to transfer funds from the BSA if (1) actual revenues during such fiscal year are below a specified level and (2) funds transferred from the BSA to the State General Fund are appropriated in a stand-alone bill.

In addition, the Fiscal Year 2008-09 State Budget Act includes the Governor's proposal to set forth a ballot measure to modernize the State lottery and securitize future lottery proceeds. During a special session of the State Legislature in November 2008, the State Legislature agreed to place such proposal on the ballot for consideration by the voters. Beginning in Fiscal Year 2009-10, pending approval by the voters of such ballot measure, annual appropriations from the State General Fund would replace the allocation of lottery revenues to public education. The Fiscal Year 2008-09 State Budget Act projects that additional revenues will be used to pay down debt and fill a reserve fund in future years. Each of the entities currently receiving lottery funding would be provided funds from the State General Fund equal to the amount of lottery revenue such entity received in Fiscal Year 2008-09, adjusted each year by the change in average daily attendance or full time equivalent students, as applicable, and by the change in State per capita personal income.

The Fiscal Year 2008-09 State Budget Act contains the following major components relating to K-12 education funding:

1. Cost of Living Adjustments – The Fiscal Year 2008-09 State Budget Act includes a $244.3 million augmentation to provide a 0.68% COLA for school apportionments ($239.8 million for school district revenue limits and $4.5 million is for county office of education revenue limits). The Fiscal Year 2008-09 State Budget Act does not provide a COLA for categorical programs.

2. Property Tax Revenues – The Fiscal Year 2008-09 State Budget Act projects $14.4 billion in property tax revenues for school districts and county offices of education in Fiscal Year

2008-09, an increase of $1.0 billion from the estimated property tax revenues in Fiscal Year 2007-08. Estimates of property tax revenues in Fiscal Year 2008-09 reflect the inclusion of redevelopment agency pass-through provisions enacted with the Fiscal Year 2008-09 State Budget Act.

3. Property Tax Pass-Through Legislation – Due to, among other things, a recent report by the State Controller's Office stating that redevelopment agencies in the State have not been passing through the full amount of property tax increment revenues to local taxing jurisdictions, the Fiscal Year 2008-09 State Budget Act includes legislation requiring redevelopment agencies to report all payments and obligations to local taxing jurisdictions from Fiscal Year 2003-04 through the current fiscal year for verification. Pursuant to such legislation, if approved, redevelopment agencies will be required to remit any outstanding obligations to local taxing jurisdictions; however, monies owed to school districts that offset State costs for apportionments will be deposited in the respective county's ERAF. This legislation also requires a one-time shift of $350 million from redevelopment agencies to the respective county's Educational Revenue Augmentation Fund and estimates that the transfer will total $98 million in Fiscal Year 2008-09.

4. *Williams* Settlement – The Fiscal Year 2008-09 State Budget Act provides a transfer in the amount of $101 million to the Emergency Repair Account established under the *Williams* settlement agreement. Such transfer will bring total transfers authorized to fund school facility emergency repair projects pursuant to the *Williams* settlement agreement to $392 million.

5. Student and Teacher Longitudinal Data Systems – The Fiscal Year 2008-09 State Budget Act includes $25.4 million to support the development of the California Longitudinal Pupil Achievement Data System and related school information services programs. The Fiscal Year 2008-09 State Budget Act estimates that total funding for these programs since Fiscal Year 2006-07, including support for each district's transition to the longitudinal system in the summer of 2010, will be $78.7 million.

6. Proposition 98 Settle-Up Payments – The Fiscal Year 2008-09 State Budget Act defers $150 million in settle-up payments that would have been appropriated to reduce outstanding costs incurred by school districts and community college districts for unfunded mandated programs. The Fiscal Year 2008-09 State Budget Act authorizes $402 million in settle-up funds to continue the Quality Education Investment Act of 2006, which funds are designated to reduce class sizes and improve teacher quality and training, and to improve counselor-to student ratios in low-performing high schools.

7. State Teacher's Retirement Plan – The Fiscal Year 2008-09 State Budget Act includes a package designed to increase benefits for retired teachers, which includes: (i) an increase up to 85% non-vested purchasing power protection for participating teachers receiving payments from the Supplemental Benefit Maintenance Account; (ii) an annual State General Fund contribution to the Supplemental Benefit Maintenance Account of 2.5% of teacher payroll less $66.4 million in Fiscal Year 2008-09, $70 million in Fiscal Year 2009-10, $71 million in Fiscal Year 2010-11 and $72 million in each subsequent fiscal year; (iii) a shift from a lump sum payment on July 1 of each fiscal year to semi-annual payments on November 1 and April 1; (iv) payments of $57 million for four fiscal years beginning in Fiscal Year 2009-10 to pay for interest accrued from a lawsuit in Fiscal Year 2007-08 concerning the State's one-time reduction of payments to CalSTRS' Supplemental Benefit Maintenance Account in Fiscal Year 2003-04; (v) an extended payroll reporting period to October 25 with the ability to amend the report until April 15 of each year; and (vi) an additional appropriation of up to $3 million in Fiscal Year 2009-10 to account for payroll reporting errors in prior fiscal years.

8. Immediate Intervention Underperforming Schools Program – The Fiscal Year 2008-09 State Budget Act eliminates the $6 million approved by the State Legislature that allocates funds to non-Title I Immediate Intervention Underperforming Schools Program school. Such schools include certain

schools in the bottom half of the API rankings have not met API improvement targets set forth in the State Education Code and are still subject to State sanctions. In addition, operation staff of such schools may be assigned to work with an intervention team or receive additional assistance from the State.

9. Enrollment – The Fiscal Year 2008-09 State Budget Act includes an increase of $269 million for enrollment growth. This increase is funding due primarily to higher than estimated attendance and is reflected in school district revenue limits and community college apportionments.

Events Subsequent to the Adoption of the Fiscal Year 2008-09 State Budget Act. The State reported that State General Fund revenue collections for September 2008 had fallen $928 million below forecast. Further, the State Department of Finance projects that State General Fund revenues will be approximately $102.4 billion in Fiscal Year 2007-08, $91.3 Billion in Fiscal Year 2008-09, and $89.5 billion in Fiscal Year 2009-2010. These revised projections reflect reductions from estimates in the Fiscal Year 2008-09 State Budget Act by approximately $567 million in Fiscal Year 2007-08, $10.7 billion in Fiscal Year 2008-09, and $13 billion in Fiscal Year 2009-10.

In November 2008, the Governor called a special session of the State Legislature (the "November Special Session") and proposed a number of spending reductions and revenue increases to address the budget deficit. The Governor's November Special Session proposals include spending reductions totaling $4.9 billion and revenue increases totaling $4.7 billion. Additional budgetary constraints may result from litigation regarding the prison health-care system. The receiver appointed by a federal court in *Plata v. Schwarzenegger* to oversee the State's prison healthcare system filed a motion asking the court to hold the Governor and State Controller in contempt of court for failing to fund prison healthcare capital projects. The receiver requested the judge order the State to pay contracts totaling $8 billion to fund such projects. In December 2008, the State's Attorney General filed a claim in federal court requesting the federal receiver make a public disclosure of his construction plan. In addition, the State's Attorney General filed a motion requesting the federal court overturn a lower court's decision that required the State to pay the first $250 million of an $8 billion settlement to build more prisons.

On December 1, 2008, the Governor declared a fiscal emergency due to worsening economic conditions. In addition, on December 10, 2008, the Governor stated that, absent corrective action, the State would end Fiscal Year 2008-09 with a budget deficit in the amount of $14.8 billion.

Legislative Analyst's Office Analysis of the 2008–09 Budget Act. In November 2008, the Legislative Analysts Office (the "LAO") released a report entitled "California Spending Plan 2008-09; The Budget Act and Related Legislation" (the "LAO Spending Plan Report"), which provides an analysis by the LAO of the Fiscal Year 2008-09 State Budget Act. The LAO Spending Plan Report is available on the LAO website at www.lao.ca.gov. Information on the website is not incorporated herein by reference.

The LAO states that the Fiscal Year 2008-09 State Budget Act, combined with proposals set forth in the November Special Session in February 2008, contains approximately $24 billion in one-time solutions to close the budget gap and projects a State General Fund reserve of $1.7 billion at the end of Fiscal Year 2008-09. Key revenue solutions to close the budget gap have included, among other things, the sale of an additional $3.3 billion in Economic Recovery Bonds during the spring of 2008, acceleration of tax payments (estimated payments and limited liability company fee payments), changes to the State's accounting practices to accrue $1.9 billion earlier, enforcement of new penalties on corporations for underpayment of taxes, suspension of net-operating loss deductions for two years for larger companies and restrictions on larger companies on the use of specified business-related tax credits in 2008 and 2009. The LAO states that the budget solutions are one-time in nature and the State will continue to face multibillion dollar operating shortfalls in the coming years absent corrective action. Further, the LAO states that the effects of economic slowdown which has occurred throughout the United States threaten the viability of the Fiscal Year 2008-09 State Budget Act.

Legislative Analyst's Office Analysis of the Governor's November Special Session Proposals. On November 11, 2008 the LAO released a report entitled "Overview of the Governor's Special Session Proposals" (the "LAO Special Session Overview"), which provided an analysis of the Governor's proposals made during the November Special Session, which included tax increases, spending reductions and modifications related to cash management, stimulating the economy, unemployment insurance and mortgages. The LAO states that, absent corrective action, the State will face annual budget shortfalls in the range of $22 billion through 2013-14. According to the LAO, the revenue assumptions underlying the Fiscal Year 2008-09 State Budget Act are overly optimistic. The LAO projects the drop in State revenues will be approximately $25 billion over the next two years.

The Governor proposed spending reductions to, among other things, Proposition 98 funding, Medi-Cal, social services such as CalWORKS and higher education. According to the LAO, the Governor's November Special Session proposals could decrease the projected budget gap in Fiscal Year 2008-09 and Fiscal Year 2009-10 and leave $169 million in reserve. However, the LAO projects that the State's budget deficit will grow again after programs such as the Governor's proposed three-year sales tax increase terminate. According to the LAO Special Session Overview, the Governor's proposals, if enacted, could reduce the State's budget deficit through Fiscal Year 2013-14 by roughly 50%.

The LAO recommends the State Legislature take action to generate savings in Fiscal Year 2008-09 that could carry-over into Fiscal Year 2009-10. Such action could allow local governments and public entities more time to plan and mitigate adverse effects of reductions or program changes. Further, the LAO recommends that the Legislature consider carefully the duration of the Governor's proposed tax increases and that any such increase should be in effect for at least a three-year period. The LAO recommends, among other things, increasing vehicle license fees by 1% and making such increase the foundation of a program realignment with local governments. The LAO proposes that the $1.6 billion allocated from the State to criminal justice and mental health programs be realigned to counties and supported by the revenues raised by the increased vehicle license fees and most of the vehicle license fees revenue currently retained by the Department of Motor Vehicles.

Legislative Analyst's Office Projections Through 2013-14. On November 20, 2008 the LAO released a report entitled "California's Fiscal Outlook: LAO Projections, 2008-09 Through 2013-14" (the "LAO Projections"). The LAO Projections provide a further analysis of the LAO Special Session Overview and projections of the State General Fund revenue and expenditures through Fiscal Year 2013-14 (the "Forecast Period").

According to the LAO, the continuation of the credit crisis and the decline in stock prices will erode the State's revenue collections. Further, the LAO Projections state that without corrective action, State General Fund revenues and transfers will decline by $8.7 billion in Fiscal Year 2008-09, $6.9 billion in Fiscal Year 2009-10, and will increase modestly through Fiscal Year 2013-14. The LAO estimates that State General Fund expenditures will increase from $104.5 billion in Fiscal Year 2008-09 to $106.3 billion in Fiscal Year 2009-10. The LAO projects that through the Forecast Period annual rates of increase in spending in major program areas will be as follows: Proposition 98 spending at 2.2%, Medi-Cal at 6.1%, In-Home Support Services at 7.9%, Department of Corrections and Rehabilitation at 2.6% (taking into consideration court-ordered increases in healthcare costs and salary increases) and debt-service expenses for general obligation and lease-revenue bonds at 9.9%.

The LAO recommends that the State Legislature take early action, decrease spending and increase revenue, create solutions that have ongoing impacts, restructure State programs to increase efficiency and curb additional borrowing by the State in order to balance the budget for the current Fiscal Year and Fiscal Year 2009-10.

Proposed Governor's Budget for Fiscal Year 2009-10. On December 31, 2008, the Governor released the 2009-10 Governor's Budget General Fund Proposals (the "2009-10 Proposed Budget"). The proposals set forth in the 2009-10 Proposed Budget are in addition to those proposals announced during the November Special Session. The 2009-10 Proposed Budget estimates that the State will end Fiscal Year 2008-09 with a $14.8 billion State General Fund deficit which, if unaddressed, could increase to $41.6 billion by the end of Fiscal Year 2009-10. The 2009-10 Proposed Budget projects that, presuming the adoption of the proposals included in the 2009-10 Proposed Budget, Fiscal Year 2008-09 will end with revenues and transfers of $91.1 billion, expenditures of $92.4 billion and a State General Fund balance of $1 billion, all attributable to the reserve for liquidation of encumbrances, and Fiscal Year 2009-10 will end with revenues and transfers of $97.7 billion, expenditures of total $95.5 billion and a State General Fund balance of $3.2 billion, of which $1 billion is attributable to the reserve for liquidation of encumbrances and $2.2 billion is attributable to the State's available reserve.

The 2009-10 Proposed Budget addresses the projected deficit through spending reductions, revenue increases, accounting changes and debt issuances, including issuing $4.7 billion in revenue anticipation notes and applying proceeds thereof to the Fiscal Year 2008-09 deficit, reducing the value of the dependent credit for income tax purposes beginning with the 2009 tax year to increase tax receipts by $1.4 billion annually, assuming $5 billion in anticipated proceeds associated with the securitization of lottery revenues (subject to voter approval), redirecting $500 million in revenues from Proposition 10's cigarette tax and Proposition 63's income tax surcharge to the State General Fund (subject to voter approval), and reducing K-14 education spending obligations by deferring $2.8 billion in Fiscal Year 2008-09 costs, enacting several accounting changes and allowing school districts to shorten the school year by up to five days in Fiscal 2009-10. In order to increase revenues, the 2009-10 Proposed Budget proposes, among other things, a temporary State sales tax increase of 1.5 cents and an extension of the State sales and use tax to include additional services, an increase of 5 cents on the alcohol excise tax.

The 2009-10 Proposed Budget projects that the California economy will experience negative growth in 2009, followed by weak growth in 2010 and additional growth in 2011 and personal income will increase by 2% in 2009, 2.1% in 2010, and 4.6% in 2011, as compared to 3.7% in 2008. The 2009-10 Proposed Budget reflects for 2009 an assumed State personal income growth of 2.0% (lowered from the 2.2% projected during the November Special Session) and an expected decline in employment of 1.6% (increased from the 1.2% projected during the November Special Session). The State's unemployment rate increased to 8.4% in November 2008 from 5.9% in January 2008.

Certain of the features of the 2009-10 Proposed Budget affecting school districts include the following:

1. The 2009-10 Proposed Budget reduces the $41.9 billion allocated to Proposition 98 spending pursuant to the Fiscal Year 2008-09 State Budget Act to $35.8 billion.

2. The 2009-10 Proposed Budget proposes State General Fund expenditures for K-12 agencies, including the Department of Education, the California State Library, Teacher Credentialing Commission and others at approximately $1.2 billion in Fiscal Year 2008-09 and $1.3 billion in Fiscal Year 2009-10, reflecting an increase of $111.4 million, or 9.4%.

3. The 2009-10 Proposed Budget proposes to reduce the Proposition 98 minimum guarantee for Fiscal Year 2008-09 for programs that do not directly reduce program spending in the current year. These include: (i) the multi-year deferral of $2.6 billion of school district revenue limit and payments to be made

under the State's class-size reduction program for kindergarten through the third grade from April 2009 to July 2009; (ii) the use of $1.1 billion in settle-up monies, owed in satisfaction of prior year Proposition 98 minimum guarantees which were under-appropriated for school district revenue limit costs; (iii) the use of $618.7 million of the State's Public Transportation Account and Mass Transportation Fund resources for the Home-to-School Transportation program; (iv) elimination of the $247.1 million COLA included in the Fiscal Year 2008-09 State Budget Act; and (v) a further decrease of $1.6 billion to school district and county office of education revenue limits to bring Proposition 98 funding to the minimum guarantee for 2008-09.

4. The 2009-10 Proposed Budget includes proposals, which the Governor believes will minimize impacts to essential classroom instruction by: (i) authorizing local education agencies to transfer any categorical allocations received to their general fund for any purpose, without dollar limitation; (ii) reducing required contributions into restricted routine maintenance accounts from 3% of a local education agency's general fund expenditures to 1% in Fiscal Year 2008-09 and Fiscal Year 2009-10; (iii) eliminating the State's Deferred Maintenance Program matching requirements of one-half of 1% of revenue limit funding; (iv) reducing budget reserve requirements in half for at least Fiscal Year 2008-09 and Fiscal Year 2009-10; and (v) utilizing prior-year restricted fund reserves, with certain limitations, for any purpose in the current year.

5. The 2009-10 Proposed Budget proposes to eliminate $2.5 billion for statutory and discretionary COLA for K-12 education programs for Fiscal Year 2009-10.

6. The 2009-10 Proposed Budget proposes a reduction of $1.5 billion to school district and county office of education revenue limits to bring Proposition 98 funding to the minimum guarantee for Fiscal Year 2009-10.

7. The 2009-10 Proposed Budget proposes a decrease of $1.1 billion of funding for K-12 school districts in Fiscal Year 2009-10, which will correspond with a proposal to allow school districts to reduce the school year by five days.

8. The 2009-10 Proposed Budget proposes a decrease of $114.2 million to eliminate the High Priority Schools Grant Program.

9. The 2009-10 Proposed Budget proposes an increase of $891.6 million to replace the allocation of revenues from the State lottery revenues to school districts and county offices of education with Proposition 98 funds from the State General Fund pursuant to Chapter 764, Statutes of 2008.

10. The 2009-10 Proposed Budget proposes an increase of $65 million to fund Special Education Behavior Intervention plans.

11. The Governor has proposed a net increase of $13.4 million for K-12 mandates, which includes an increase of $6.3 million for mandated costs related to inter-district and intra-district transfers and an increase of $7.1 million for mandated costs related to the State's high school exit exam. The 2009-10 Proposed Budget proposes to suspend all education mandates with the exception of the aforementioned mandates.

LAO Analysis of the 2009-10 Proposed Budget. On January 8, 2009, the LAO released a report entitled "Overview of the Governor's Budget" (the "2009 LAO Budget Overview"), which provides an analysis by the LAO of the 2009-10 Proposed Budget.

In the 2009 LAO Budget Overview, the LAO states that the 2009-10 Proposed Budget is generally reasonable but will be subject to risks associated with further deterioration of the economy and costs that the State is likely to incur but are not included in the 2009-10 Proposed Budget. Such costs include, among other things, interest associated with the issuance of revenue anticipation notes and funding for the June 2009 special election. The LAO also states that the 2009-10 Proposed Budget relies heavily on State borrowing that is subject to voter approval, the favorable resolution of legal questions and access to credit markets. The LAO recommends that the State Legislature, among other things, adjusting the timing of the special election to provide an opportunity to develop alternatives in the event the proposed ballot measures are defeated, adopting more strategic programmatic reductions and revenue increases, and adopting more ballot proposals to generate additional savings, provide greater budgetary flexibility and reduce legal risks.

LAO Cash Flow Report. On January 14, 2009, the LAO released a report entitled "California's Cash Flow Crisis" (the "State Cash Flow Report"), which provided an analysis of the State's ability to meet its payment obligations for the first few months of calendar year 2009. The LAO states that the State's cash flows have deteriorated steadily since the end of calendar year 2007 due to, among other things, sharply weakened State General Fund revenues and limited access to credit markets. Further, the LAO projects that the State will have $3.2 billion in available cash at the end of January 2009, but warns that this amount will be insufficient to ensure that the State General Fund continues normal cash flow operations with currently budgeted appropriations through the end of Fiscal Year 2008-09.

The State Cash Flow Report acknowledges plans to issue revenue anticipation notes and revenue anticipation warrants in the current fiscal year may improve the State's cash flow situation. However, the LAO warns that the weak status of credit markets, the State's financial problems and the lack of consensus among State officials with respect to balancing the State's budget make it unlikely that the State can issue a significant amount of revenue anticipation notes or revenue anticipation warrants. Although access to credit markets limits the State's cash flow solutions, the LAO states that the State will not go bankrupt. The State Controller has broad discretion and authority to determine which payments the State will make in a timely manner and which payments will be delayed.

In the offering documents used in connection with the State's revenue anticipation notes in calendar year 2008, the State listed its priority of payments as (i) payments, as and when due, to support public schools and public higher education system (as provided in Section 8 of Article XVI of the State Constitution); (ii) principal and interest payments on the State's general obligation bonds and general obligation commercial paper notes; (iii) repayments from the State General Fund to special and other funds for internal cash flow borrowing; (iv) payment of State employees' wages and benefits, including State payments to pension and other employee benefit trust funds; (v) State Medi-Cal claims; (vi) payments on lease-revenue bonds; and (vii) any amounts required to be paid by the courts. The LAO concludes that the sooner the State Legislature and Governor begin to address the State's fiscal crisis, the shorter the duration and the less the severity of the State's cash crisis will be.

Additional Information; Future State Budgets. Information about the State budget and State spending for education is regularly available at various State-maintained websites. Text of the State budget may be found at the website of the Department of Finance, www.dof.ca.gov, under the heading "2009-10 Budget". Various analyses of the budget may be found at the website of the LAO at www.lao.ca.gov. In addition, various State official statements, many of which contain a summary of the current and past State budgets and the impact of those budgets on school districts in the State, may be found via the website of the State Treasurer, www.treasurer.ca.gov. The information presented in these websites is not incorporated by reference in this Official Statement.

The District cannot predict what actions will be taken in the current year or future years by the State Legislature and the Governor to address future State budget deficits or surpluses. Future State budgets will be affected by national and State economic conditions and other factors over which the District has no control. To the extent that the State budget process results in reduced revenues to the District, the District will be required to make adjustments to its budgets.

State Funding of Schools Without a State Budget

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

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

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 certify, based upon the available information, that the district can project a positive ending balance for each of the three fiscal years. The CDE imposes a uniform budgeting and accounting format for school districts.

Under current law, a school district governing board must file with the county superintendent of schools a budget by June 30 immediately prior to each Fiscal Year (referred to herein as the "Provisional Budget"). School districts using a dual adoption process must revise and re-adopt its budget by September 8 of each Fiscal Year (referred to herein as the "Final Adopted Budget"). After approval of the Final Adopted Budget, the school district's administration may submit budget revisions for governing board approval during the Fiscal Year.

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

Furthermore, county offices of education are required to review school district budgets, complete the budget review checklist, and conduct an analysis of any budget item that does not meet the established standards and criteria. 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. By November 30, every school district must have an adopted and approved budget, or the county superintendent of schools will impose one.

The District has utilized a dual adoption process for its budget through Fiscal Year 2008-09. The first adoption is referred to as the "Provisional Budget" that is adopted on or prior to June 30 each year for the Fiscal Year starting July 1. The second adoption is referred to as the "Final Adopted Budget" that is due to LACOE on or before September 8 each year. The Board adopted its Fiscal Year 2008-09 Provisional Budget on June 24, 2008 and adopted its Final Adopted Budget for Fiscal Year 2008-09 on September 8, 2008 (the "Fiscal Year 2008-09 Final Adopted Budget"). Beginning in Fiscal Year 2009-10, the District will follow the single adoption process.

Fiscal Year 2008-09 Final Adopted Budget. The District's Fiscal Year 2008-09 Final Adopted Budget projects a District General Fund beginning balance of \$574.3 million, revenues of \$6.8 billion, total estimated expenditures of \$6.9 billion and an ending balance of \$464.6 million. The District General Fund beginning balance of \$574.3 million includes \$72.4 million for the mandatory 1% Reserve for Economic Uncertainties, \$386.0 million of funds designated and/or restricted either by statute or by District policy, \$10.9 million reserved for inventories and revolving cash funds, and \$49.2 million from the unreserved undesignated balance from Fiscal Year 2007-08. See "DISTRICT FINANCIAL INFORMATION – District Fiscal Policies" herein.

The District's Fiscal Year 2008-09 Final Adopted Budget does not reflect the revenue assumptions set forth in the Fiscal Year 2008-09 State Budget Act because the Fiscal Year 2008-09 State Budget Act was not adopted in a timely manner. Instead, the District's Fiscal Year 2008-09 Final Adopted Budget reflects the revenue assumptions contained in the Governor's revised proposed State budget for Fiscal Year 2008-09, which he delivered on May 14, 2008 (the "May Revision Budget"). The District is continuing to work toward finalizing its Fiscal Year 2007-08 revenue and expenditure information. See "DISTRICT GENERAL INFORMATION – Information Technology Problems" herein and "FINANCIAL STATEMENTS" in the forepart of this Official Statement. The District anticipates that the actual Fiscal Year 2007-08 beginning and ending balance, and Fiscal Year 2008-09 beginning balances will be close to but not exactly the same as those contained in the Fiscal Year 2008-09 Final Adopted Budget.

In the Fiscal Year 2008-09 Final Adopted Budget, the District's K-12 school enrollment excluding fiscally-independent charter schools is projected to decrease an estimated 22,238 in Fiscal Year 2008-09 to approximately 630,977. This decrease is partially offset by growth of 8,329 in fiscally-independent charter schools. Declining enrollment statutes enable the District to claim Fiscal Year 2008-09 revenue limit funding based on the ADA for Fiscal Year 2007-08. The full extent of revenue losses attributable to enrollment declines are expected to occur in special education, lottery, and other funding sources, as those funding sources are not afforded the same benefit that is provided for revenue limit funding by the Education Code's declining enrollment statutes.

In the Fiscal Year 2008-09 Final Adopted Budget, the Base Revenue Limit, the largest unrestricted District General Fund revenue source, is projected to generate $3.54 billion in Fiscal Year 2008-09. The District's Fiscal Year 2008-09 Final Adopted Budget reflects the May Revision Budget's zero COLA for the revenue limit, the State-funded portion of Special Education and for State-funded categorical programs. The Fiscal Year 2008-09 State Budget Act includes a 5.66% COLA and 5.357% deficit rate. Based on these factors, the District's 2008-09 funded Base Revenue Limit per unit of ADA is projected to be $5,797.41. However, due primarily to declining enrollment, revenue limit funding is projected to decrease by approximately $109.9 million from the amount budgeted for Fiscal Year 2007-08. The loss in revenues for declining enrollment districts typically exceeds the cost savings resulting from the decreased enrollment following the first year of enrollment decline. In connection with the Governor's proposals to reduce the State's budget deficit for Fiscal Year 2008-09 and the projected budget deficit for Fiscal Year 2009-10, the Governor has proposed rescinding the statutory COLA set forth in the Fiscal Year 2008-09 State Budget Act.

For Fiscal Year 2007-08, the District estimated that the special education program would require $618.3 million in District General Fund support, and that K–3 class-size reduction programs would require approximately $80 million. For Fiscal Year 2008-09, the District estimates that the special education program will require $699.9 million in District General Fund support and that K-3 class-size reduction programs will require approximately $94.5 million.

The District's Fiscal Year 2008-09 Final Budget included reductions and redirections of funds totaling approximately $427.1 million for Fiscal Year 2008-09 and more than $1.1 billion in reductions and redirections of funds over subsequent fiscal years to balance the District's budget. The Superintendent recommended and the Board approved the elimination of approximately 680 administrative positions, net spending reductions in other areas and small increases in fee revenues in order to eliminate the budget deficit. The District's Fiscal Year 2008-09 Final Adopted Budget projects a balanced budget for Fiscal Year 2008-09.

In the District's First Interim Report for Fiscal Year 2008-09, the District projects a positive undesignated ending balance of $25.9 million but a negative undesignated ending balance of $82.2 million in Fiscal Year 2009-10 and $198.1 million in 2010-11. The District has stated that it must generate additional revenues or make additional spending reductions beginning in Fiscal Year 2009-10 in order to attain a positive undesignated ending balance in Fiscal Year 2009-10 and Fiscal Year 2010-11. See "*– Significant Accounting Policies, System of Accounts and Audited Financial Statements – District's First Interim Report for Fiscal Year 2008-09*" herein. Any changes to the financial data in the District's projections could result in upward or downward estimates of the necessary budget reductions. In December 2008, the Superintendent announced he will propose between $200 million and $400 million in mid-year budget cuts for Fiscal Year 2008-09, and will propose approximately $700 million in reductions during the following two Fiscal Years. In addition, the Superintendent has stated that he will ask all local school districts within the District to cut their expected Fiscal Year 2009-10 budgets by 50%. Further, the Superintendent announced a plan to cut the budget of the District's headquarters by 30%, which is approximately $108 million. In January 2009, the District Board authorized the District's human resources department to send dismissal notices to up to 2,300 nonpermanent teachers with the least seniority as part of budget cuts. Nevertheless, the District does not expect to dismiss any teachers during the Fiscal Year 2008-09 school year, but may approve additional mid-year budget cuts for Fiscal Year 2008-09 pending the resolution of the 2009-10 Proposed Budget. The District may dismiss teachers and other personnel prior to the Fiscal Year 2009-10 school year if the District's outlook of revenues and expenditures does not improve. The UTLA has stated that it will oppose any workforce reductions.

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

The following Table A-6 sets forth the District's Final Adopted Budgets for the District General Fund for Fiscal Year 2005-06 through Fiscal Year 2008-09.

TABLE A-6

Los Angeles Unified School District
Final Adopted Budgets for Fiscal Year 2005-06 through Fiscal Year 2008-09
for the District General Fund
($ in millions)

	Final Adopted Budget 2005-06	Final Adopted Budget 2006-07	Final Adopted Budget 2007-08	Final Adopted Budget 2008-09
Beginning Balance[1]	$ 349.6	$ 434.5	$ 518.3	$ 574.3
Revenue:				
State Apportionment	$ 2,883.9	$2,880.5	$2,912.0	$2,761.1
Property Taxes	668.0	782.3	741.2	780.4
Total Revenue Limit Revenues[2]	$3,551.9	$3,662.8	$3,653.2	$3,541.5
Federal	$1,016.6	$ 936.1	$ 905.7	$ 830.8
Other State	1,986.7	2,274.3	2,336.4	2,169.0
Other Local	93.1	105.6	139.8	148.0
Other Sources	86.8	128.0	124.4	102.8
Total Revenue[2]	$6,735.0	$7,106.7	$7,159.5	$6,792.0
Total Beginning Balance and Revenue[2]	$7,084.6	$7,541.3	$7,677.9	$7,366.3
Expenditures:				
Certificated Salaries	$3,008.5	$3,137.2	$3,376.7	$3,203.7
Classified Salaries	883.4	971.1	977.7	998.1
Employee Benefits	1,328.5	1,347.8	1,346.9	1,301.5
Books and Supplies	404.9	672.3	589.7	467.7
Other Operating Expenses	610.5	733.8	763.7	817.2
Capital Outlay	52.8	76.7	60.9	41.1
Other Outgo/Other Uses	437.4	54.9	91.9	72.5
Total Expenditures[2]	$6,726.0	$6,993.8	$7,207.6	$6,901.7
Ending Balance[2]	$ 358.6	$ 547.4	$ 470.2	$ 464.6

(1) Actual beginning balance for each Fiscal Year, except for Fiscal Year 2007-08 and 2008-09 which are unaudited estimates that have been revised to reflect refinements of Fiscal Year 2006-07 expenditures in selected programs.
(2) Total may not equal sum of components due to rounding.

Sources: Los Angeles Unified School District Final Adopted Budgets for Fiscal Years 2005-06 through 2008-09.

The following Table A-7 summarizes the originally budgeted revenues and expenditures, the modified budget for revenues and expenditures and the projected year-end amounts, including the projected year-end District General Fund Balance as reported in the First Interim Financial Report for Fiscal Year 2008-09.

TABLE A-7

Los Angeles Unified School District
Fiscal Year 2008-09
District General Fund, Regular Program
Summary of Balances, Revenues and Expenditures
($ in millions)[1]

	Fiscal Year 2008-09 Final Adopted Budget	First Interim Report (December 2008)
Beginning Balance	$ 573.3	$ 573.3
Revenues/Other Sources	5,917.1	5,863.2
Expenditures/Other Uses	5,907.8	5,906.8
Operating Surplus (Deficit)	9.3	(43.6)
Ending Balance	$ 582.6	$ 529.7

(1) Totals may not add due to rounding.

Source: Controller, Los Angeles Unified School District.

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. KPMG LLP, Los Angeles, California, serves as independent auditor to the District through the audit for Fiscal Year 2006-07 and excerpts of its report for Fiscal Year ended June 30, 2007 are attached hereto as APPENDIX B. The District is required to file its audit report for the preceding fiscal year with the State Controller's Office, the CDE and the County Superintendent of Schools by December 15. The District filed its audit report for the Fiscal Year ended June 30, 2006 in compliance with such requirement, but the audit report for the Fiscal Year ending June 30, 2007 was filed later than such requirement. See "– Audited Financial Statements and Account Policies" herein. Simpson and Simpson CPA, Los Angeles, California will assume the duties of independent auditor commencing with the audit for Fiscal Year 2007-08. The District expects to file its audit report for the Fiscal Year ended June 30, 2008 in June 2009 subsequent to the December 15, 2008 deadline therefor. See APPENDIX B – "SELECTED INFORMATION FROM AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2007 AND SELECTED INFORMATION FROM UNAUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2008."

State Financial Accountability and Oversight Provisions. 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, that 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 conditions of the school district and his or her proposed remedial actions and to take all actions that are necessary to ensure that the school district meets its financial obligations. The county office of education reviews the interim reports and certifications made by school districts and may change certification to qualified or negative if necessary. If a school district has a qualified or negative certification report in any year, the district may not issue non-voter approved debt instruments in that fiscal year or in the next succeeding fiscal year, unless the county office of education, using criteria from the State Superintendent of Public Instruction, determines repayment is probable. The Board approved the Second Interim Report for Fiscal Year 2006-07 on March 13, 2007 and the submission of a positive certification to LACOE, with which LACOE concurred.

District's First Interim Report, Second Interim Report and June Report for Fiscal Year 2007-08. The District filed its Fiscal Year 2007-08 First Interim Report (the "Fiscal Year 2007-08 First Interim") by December 15, 2007 with a positive certification and filed its Fiscal Year 2007-08 Second Interim Financial Report (the "Fiscal Year 2007-08 Second Interim") by March 17, 2008 with a qualified certification. The District submitted a qualified certification to LACOE in connection with the Fiscal Year 2007-08 Second Interim because the Board was not able to timely communicate to the county superintendent of schools the specific actions the Board was willing to take in connection with the development of the District's budget for Fiscal Year 2008-09 to eliminate any financial shortfalls for that fiscal year and the following fiscal year. The submission of a qualified certification in connection with the Fiscal Year 2007-08 Second Interim resulted in increased oversight of the District by LACOE, including the requirement that the District submit on June 1, 2008 an update to the Second Interim Financial Report for the Fiscal Year 2007-08 reflecting data as of April 30, 2008. In June 2008, the District submitted a third report (the "June Report") to LACOE to provide an additional update with regard to its projected financial status. The June Report projected that the District would end Fiscal Year 2007-08 with an ending balance of $518 million, which amount represented an increase of $32.8 million from the ending balance of $485.7 million reflected in the Second Interim.

District's First Interim Report for Fiscal Year 2008-09. The District filed its Fiscal Year 2008-09 First Interim Report (the "Fiscal Year 2008-09 First Interim") by December 15, 2008, the deadline therefor, which report is based upon actual results through October 31, 2008. Financial projections included in the Fiscal Year 2008-09 First Interim reflect a positive undesignated reserve for Fiscal Year 2008-09 but negative balances for each of Fiscal Years 2009-10 and 2010-11. The Fiscal Year 2008-09 First Interim projects a negative undesignated ending balance of $82.2 million in Fiscal Year 2009-10 and a negative undesignated ending balance of $198.1 million in Fiscal Year 2010-11. The District submitted a qualified certification to LACOE in connection with the Fiscal Year 2008-09 First Interim and the Board committed to provide the County superintendent of schools with the specific actions the Board is willing to take in connection with the development of the District's budget for Fiscal Year 2009-10 to eliminate any financial shortfalls for said fiscal year and the following fiscal year.

Audited Financial Statements and Accounting Policies. Independently audited financial reports are prepared annually in conformity with generally accepted accounting principles for educational institutions. The annual audit report is generally available about six months after the June 30 close of each fiscal year. However, implementation difficulties associated with the payroll component of the Projects resulted in delayed reporting of the District's finances for the fiscal year ended June 30, 2007, which, in turn, affected the timely delivery of the District's comprehensive annual financial report for Fiscal Year 2006-07 (the "Fiscal Year 2006-07 CAFR") to LACOE by the December 15, 2007 deadline set forth in Section 41020 of the Education Code and will delay the Fiscal Year 2007-08 audit. The District currently expects the Fiscal Year 2007-08 audit to be completed by the end of June 2009. See "DISTRICT GENERAL INFORMATION – Information Technology Implementation Problems" and "DISTRICT FINANCIAL INFORMATION – Significant Accounting Policies, System of Accounts and Audited Financial Statements – *Reconciliation of Fiscal Year 2006-07 Financial Results*". For selected excerpts from the District's most recent available audited and unaudited financial statements, see APPENDIX B – "SELECTED INFORMATION FROM AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2007 AND SELECTED INFORMATION FROM UNAUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2008".

GASB published its Statement No. 34 "Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments" on June 30, 1999. Statement No. 34 provides guidelines to auditors, state and local governments and special purpose governments, such as school districts and public utilities, on new requirements for financial reporting for all governmental agencies in the United States. Generally, the basic financial statements and required supplementary information should include (i) Management's Discussion and Analysis; (ii) financial statements prepared using the economic measurement focus and the accrual basis of accounting; and (iii) fund financial statements prepared using the current financial resources measurement focus and the modified accrual method of accounting; and (iv) required supplementary information.

The requirements of Statement No. 34 were effective in three phases based on a government's total annual revenues (excluding extraordinary items) for the first fiscal year ending after June 15, 1999. The District was first required to implement Statement No. 34 for the Fiscal Year 2001-02 audited financial statements. See APPENDIX B – "SELECTED INFORMATION FROM AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2007 AND SELECTED INFORMATION FROM UNAUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2008" for the District's Management's Discussion and Analysis for Fiscal Year 2006-07. See also "DISTRICT FINANCIAL INFORMATION—Other Post-Employment Benefits" for a description of the recent GASB Statement No. 45, with which the District is required to comply beginning in Fiscal Year 2007-08.

The District uses fund accounting and maintains governmental funds, proprietary funds and fiduciary funds. The District's General Fund is the chief operating fund of the District. For a description of the other major funds of the District, see the description thereof contained in APPENDIX B – "SELECTED INFORMATION FROM AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2007 AND SELECTED INFORMATION FROM UNAUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2008".

The following Table A-8 sets forth the District's audited District General Fund revenues, expenditures and fund balances for the Fiscal Years ended June 30, 2004 through June 30, 2007 and the unaudited District General Fund results for the Fiscal Year ended June 30, 2008.

TABLE A-8

Los Angeles Unified School District
Statement of Revenues, Expenditures and District General Fund Balances[1]
Fiscal Years Ended June 30, 2004 through June 30, 2008
($ in millions)

	Fiscal Year 2003-04	Fiscal Year 2004-05	Fiscal Year 2005-06	Fiscal Year 2006-07[2]	Fiscal Year 2007-08[2][3]
Beginning Balance	$ 579.0	$ 324.0	$ 349.6	$ 434.5	$ 695.2
Revenues:					
State Apportionment	$2,105.4	$2,592.9	$2,791.7	$2,912.3	$2,817.7
Property Taxes	1,195.4	839.0	777.6	811.3	806.4
Total Revenue Limit Revenues	$3,300.8	$3,431.9	$3,569.3	$3,723.6	$3,624.1
Federal	720.2	796.9	889.5	775.6	756.4
Other State	1,749.1	1,890.0	1,915.1	2,302.1	2,304.5
Other Local	78.0	85.7	98.1	120.3	123.7
Other Sources	27.9	257.5	100.7	72.4	139.6
Total Revenue	$5,876.0	$6,461.9	$6,572.7	$6,994.0	$6,948.3
Total Beginning Balance and Revenues	$6,455.0	$6,785.9	$6,922.3	$7,428.5	$7,643.5
Expenditures					
Certificated Salaries	$2,919.4	$2,977.2	$3,051.0	$3,214.5	$3,314.6
Classified Salaries	880.4	870.9	897.9	981.1	1,054.2
Employee Benefits	1,196.5	1,228.2	1,292.2	1,314.0	1,318.0
Books and Supplies	352.1	368.7	435.9	373.9	435.3
Other Operating Expenses	575.4	555.1	616.8	708.0	764.9
Capital Outlay	44.3	53.8	63.1	34.8	37.0
Other Outgo/Other Uses[4]	162.8	382.4	130.9	107.0	62.3
Total Expenditures	$6,131.0	$6,436.3	$6,487.8	$6,733.3	$6,986.3
Ending Balance	$ 324.0	$ 349.6	$ 434.5	$ 695.2	$ 657.2

(1) Totals may not add due to rounding.
(2) Amounts for Fiscal Years 2006-07 and 2007-08 as set forth in the Preliminary Official Statement dated January 15, 2009 did not include as revenues of the District amounts for Transfers In, Transfers - support costs, a loan from the California Energy Commission, and capital leases, as applicable, and did not include as expenditures of the District amounts for Transfers-out, Debt Service and Other Outgo, as applicable. Such previously excluded amounts are reflected above.
(3) Unaudited
(4) Includes Operating Transfers and Support Costs transferred back to the District General Fund.

Sources: District's audited financial statements for Fiscal Years 2003-04 through 2006-07 and District's 2007-08 Unaudited Actual Financial Report.

Reconciliation of Fiscal Year 2006-07 Financial Results. Implementation difficulties associated with the human resources and payroll components of the Projects (see "DISTRICT GENERAL

INFORMATION – Information Technology Implementation Problems") resulted in the delayed reporting of the District's finances for the fiscal year ended June 30, 2007 and the delayed submission of the District's Statements of Unaudited Actuals for Fiscal Year 2006–07 that were due to LACOE by September 14, 2007, pursuant to Section 42100 of the Education Code. Such delays affected the timely delivery of the District's comprehensive annual financial report for Fiscal Year 2006-07 (the "Fiscal Year 2006-07 CAFR") to LACOE by the December 15, 2007 deadline set forth in Section 41020 of the Education Code.

The District completed the reconciliation of its finances for Fiscal Year 2006-07 on November 26, 2007, filed its Fiscal Year 2007-08 First Interim by December 15, 2007, the deadline therefor, filed its Fiscal Year 2007-08 Second Interim by March 15, 2008, the deadline therefor, and published its Fiscal Year 2006-07 CAFR in December 2008. The District filed its Fiscal Year 2008-09 First Interim by December 15, 2008, the deadline therefor and expects to publish its Fiscal Year 2007-08 CAFR in June 2009. The District submitted a qualified certification to LACOE in connection with the Fiscal Year 2008-09 First Interim. See "– *District's First Interim Report for Fiscal Year 2008-09*" for a description of the financial projections included in the Fiscal Year 2008-09 First Interim.

The District complied with the continuing disclosure undertakings with respect to its outstanding debt obligations by filing with the appropriate repositories unaudited financial statements for Fiscal Year 2006-07 by the deadline therefor set forth in the District's continuing disclosure undertakings. The District filed its Comprehensive Annual Financial Report for the Fiscal Year 2006-07, which includes the audited financial statements for Fiscal Year 2006-07 in December 2008, all in accordance with such undertakings. As of the date hereof, the District is in compliance with its continuing disclosure obligations. The District submitted its unaudited financial statements for Fiscal Year 2007-08 to the appropriate repositories in accordance with the District's continuing disclosure undertakings. The District's Comprehensive Annual Financial Report for Fiscal Year 2007-08 is expected to be filed with the appropriate repositories subsequent to the February 25, 2009 deadline therefor set forth in the District's continuing disclosure undertakings. See "LEGAL MATTERS-Continuing Disclosure" herein.

Collective Bargaining

In March 2007, a three year labor agreement was reached between the District and UTLA and AALA that provides for a one year 6% salary increase retroactive to July 1, 2006, with salary re-openers in Fiscal Years 2007-08 and 2008-09. The District is currently negotiating with the UTLA to reach an agreement with respect to, among other things, wages and benefits. In September 2008, negotiation teams for the District and the UTLA agreed to proceed to mediation and jointly applied to the Public Employment Relations Board for a formal declaration of "impasse" in order to apply the impasse procedures set forth under the State's Government Code. In November 2008, the District presented its "last best offer" to UTLA regarding health and welfare benefits for calendar years 2009 through 2011. UTLA officials have informed the District that a work stoppage may occur in the event the labor agreement with the UTLA is not resolved by January or February 2009. The District settled with a majority of the other bargaining units for Fiscal Year 2007-08 for a one year 6% salary increase. Employees in the school police bargaining unit received a 10% salary increase for Fiscal Year 2007-08.

The District is currently in negotiations with SEIU – Local 99 for Fiscal Year 2007-08 and Fiscal year 2008-09. Negotiations with Unit A (School Police), Unit D (Office – Technical and Business Services) and Unit S (Classified Supervisors) were completed for Fiscal Year 2007-08, and such Units agreed to receive no salary increases. Negotiations with Unit A (School Police) and the California School Employees Association have not begun for Fiscal Year 2008-09. The District is currently in negotiations with Unit S (Classified Supervisors) and Teamsters for Fiscal Year 2008-09. Negotiations with Unit B (Instructional Aides), Unit C (Operations – Support Services), Unit F (Teacher Assistants) and Unit G

(Playground Aides) for Fiscal Year 2007-08 will be encompassed in the successor contract negotiations for Fiscal Years 2008 through 2011. Labor agreements with Unit H (Sergeants and Lieutenants) Unit E (Skilled Crafts) have not settled yet for Fiscal Year 2007-08 and Fiscal Year 2008-09. Collective bargaining with the above-listed unions regarding salaries is being negotiated and will continue in Fiscal Year 2008-09. The labor agreement with AALA has settled for Fiscal Year 2008-09.

The District is currently in negotiations with all unions regarding health and welfare benefits. The District is seeking a multi-year contract that defines the District's contribution towards health and welfare benefits for active and retired employees. The District expects that its last, best offer under these negotiations would limit its contribution through calendar year 2011 for the mid-priced health plan.

The District allocated resources in its Fiscal Year 2007-08 Final Adopted Budget sufficient to meet its obligations with respect to its outstanding labor agreements and expects to maintain the minimum 5% reserve required under the District's reserves policy.

Retirement Systems

The District participates in the California State Teachers' Retirement System ("STRS"). This defined benefit plan basically covers all full-time certificated District employees and some classified District employees, which are District employees employed in a position that does not require a teaching credential from the State. Employees and the District contribute 8% and 8.25%, respectively, of gross salary expenditures to STRS. The District's regular employer contribution to STRS for Fiscal Year 2008-09 is projected to be at least equal to its contribution for Fiscal Year 2007-08, after adjusting for specially funded categorized programs. Benefit provisions are established by State legislation in accordance with the State Teachers' Retirement Law.

Set forth in Table A-9 below is the District's annual contributions to STRS for Fiscal Years 2002-03 through 2006-07 and the estimated annual contributions for Fiscal Years 2007-08 and 2008-09. Historically, the District has paid all of its portion of required STRS annual contributions.

TABLE A-9

Los Angeles Unified School District
Annual Regular STRS Contributions
Fiscal Years 2002-03 through 2008-09
($ in millions)

Fiscal Year	District Contributions(1)
2002-03	$237.0
2003-04	241.2
2004-05	245.3
2005-06	251.5
2006-07	263.0
2007-08(2)	230.6
2008-09(3)	255.2

(1) Amounts set forth for Fiscal Years 2002-03 through 2006-07 include payments to STRS for pension costs associated with the District's specially funded programs. Amounts set forth for Fiscal Years 2007-08 and 2008-09 do not reflect the allocation to be made of STRS costs for specifically funded programs.
(2) Estimated.
(3) Budgeted.

Sources: Los Angeles Unified School District Comprehensive Annual Financial Reports for Fiscal Years 2003-04 through 2006-07; Los Angeles Unified School District 2007-08 Final Adopted Budget for Fiscal Year 2007-08, and Los Angeles Unified School District 2008-09 Final Adopted Budget.

The District also participates in the State Public Employees' Retirement System ("CalPERS"). This defined benefit plan covers classified personnel who work four or more hours per day. Benefit provisions are established by State legislation in accordance with the Public Employees' Retirement Law. The District's regular employer contribution (including PERS Recapture as described in footnote (2) in Table A-10 below) to CalPERS for Fiscal Year 2006-07 was approximately $125.6 million excluding the District's specially funded programs. The District's estimated regular employer contribution to CalPERS for Fiscal Year 2007-08 is projected to be equal to $134.2 million excluding the District's specially-funded programs. 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, then the State will reduce the District's revenue limit for that year by the amount of the difference between the District's contribution calculated based on a contribution rate of 13.02% of gross salary expenditures and the District's actual contribution. Moreover, if the required contribution rate is greater than 13.02% for a given year, then the State will provide additional revenue limit 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.

Set forth in Table A-10 below is the District's regular annual contributions to CalPERS for Fiscal Years 2002-03 through Fiscal Year 2006-07 and the budgeted annual contributions for Fiscal Years 2007-08 and 2008-09. Historically, the District has paid all required CalPERS annual contributions.

TABLE A-10

Los Angeles Unified School District
Annual CalPERS Regular Contributions
Fiscal Years 2002-03 through 2008-09
($ in millions)

Fiscal Year	District Contributions[(1)(2)]
2002-03	$111.1
2003-04	134.3
2004-05	136.2
2005-06	137.1
2006-07	125.6
2007-08[(3)]	134.2
2008-09[(4)]	127.6

(1) Amounts set forth for Fiscal years 2002-03 through 2005-06 include payments to CalPERS for pension costs associated with the District's regular and specially funded programs. Amounts set forth for Fiscal Years 2006-07 through 2008-09 do not reflect the allocation to be made for specifically-funded programs.

(2) Includes "PERS Recapture." Pursuant to State law, the State is allowed to recapture the savings corresponding to a lower PERS rate by reducing a school district's revenue limit apportionment by the amount of the school district's PERS savings in that year. Such recapture has occurred in each Fiscal Year since 1982-83.

(3) Unaudited.

(4) Budgeted.

Sources: Los Angeles Unified School District Comprehensive Annual Financial Report for the Fiscal Years 2002-03 through 2006-07, Los Angeles Unified School District 2007-08 Final Adopted Budget for Fiscal Year 2007-08, and Los Angeles Unified School District 2008-09 Final Adopted Budget for Fiscal Year 2008-09.

Both CalPERS and STRS are operated on a Statewide basis and, based on publicly available information, both STRS and CalPERS have unfunded liabilities. Additional funding of STRS by the State and the inclusion of adjustments to such State contributions based on consumer price changes were provided for in 1979 Statutes, Chapter 282. The amounts of the pension/award benefit obligation (CalPERS) or unfunded actuarially accrued liability (STRS) will vary from time to time depending upon actuarial assumptions, rates of return on investments, salary scales, and levels of contribution. Historically, the State has paid any increased STRS contribution necessary to pay any unfunded actuarial accrued liability, with the school district employer contribution rate remaining at 8.25%. The District is unable to predict what the amount of liabilities will be in the future, or the amount of the contributions which the District may be required to make.

The respective unfunded actuarial accrued liabilities of CalPERS and STRS as of their most recent actuarial valuation are set forth in Table A-11 below. The individual funding progress for the District itself is not available from STRS.

TABLE A-11

Actuarial Value of CalPERS and STRS Retirement Systems

Name of Plan	Excess of Actuarial Value of Assets Over Actuarial Accrued Liabilities (Unfunded Actuarial Accrued Liability)
Public Employee's Retirement Fund (CalPERS)[1]	$(29.098) billion
State Teachers' Retirement Fund Defined Benefit Program (STRS)[2]	(18.702) billion

(1) Based on actuarial valuations as of June 30, 2006, using individual entry age normal cost method and 29 year remaining amortization period. Actuarial assumptions included an assumed 7.75% investment rate of return, projected salary increases of 3.25% to 19.95%, projected 3.00% inflation and projected 2-5% post-retirement benefit increases. Reflects a funded ratio of 87.2%.

(2) Based on actuarial valuations as of June 30, 2007, using entry age normal cost method. Actuarial assumptions included an assumed 8.00% investment rate of return and 6.00% interest on accounts, projected salary increases of 4.25%, projected 3.25% inflation and projected 2.00% post-retirement benefit increases. Reflects a funded ratio of 87%.

Sources: CalPERS Comprehensive Annual Financial Report Year Ended June 30, 2007 and STRS Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2008.

Set forth in Table A-12 below is the funded status of STRS and CalPERS for Fiscal Years 2002-03 through 2006-07.

TABLE A-12

Funded Status of STRS and CalPERS
Fiscal Years 2002-03 through 2006-07

Fiscal Year	STRS	CalPERS
2002-03[1]	85.0%	87.7%
2003-04[1]	85.0	87.3
2004-05	86.0	87.3
2005-06	87.0	87.2
2006-07	89.0	NA[2]

(1) Figures were revised on an estimated basis in 2006 to reflect data corrections.

(2) Actuarial valuation not prepared or estimated.

Sources: STRS Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2008 and CalPERS Comprehensive Annual Financial Report Year Ended June 30, 2007.

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

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

On July 1, 1992, the District joined the Public Agency Retirement System ("PARS"), a multiple-employer retirement trust. This defined contribution plan covers the District's part-time, seasonal, temporary and other employees not otherwise covered by CalPERS or STRS, but whose salaries would otherwise be subject to Social Security tax. Benefit provisions and other requirements are established by District management based on agreements with various bargaining units. The District's contribution to PARS for Fiscal Year 2006-07 and Fiscal Year 2007-08 totaled approximately $3.5 million and $5.0 million, respectively.

Set forth in Table A-13 below is the District's annual PARS contributions for Fiscal Years 2004-05 through 2008-09.

TABLE A-13

Los Angeles Unified School District
Annual PARS Contribution
Fiscal Years 2003-04 through 2008-09
($ in millions)

Fiscal Year	District Contribution(1)
2004-05	$6.6
2005-06	6.8
2006-07	3.5
2007-08(2)	5.0
2008-09(3)	5.5

(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 Fiscal Year 2008-09.
(2) Unaudited.
(3) Budgeted.

Sources: Los Angeles Unified School District Comprehensive Annual Financial Report the Fiscal Year Ended June 30, 2007 for Fiscal Year 2004-05 and 2005-06 and Los Angeles Unified School District 2007-08 Final Budget for Fiscal Years 2007–08 and 2008-09.

For additional information regarding the District's pension and retiree health care programs and costs, see the District's financial statements for Fiscal Year 2006-07 contained in APPENDIX B – "SELECTED INFORMATION FROM AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2007 AND SELECTED INFORMATION FROM

UNAUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2008."

Other Post-Employment Benefits

In addition to employee health care costs, the District provides post-employment health care benefits in accordance with collective bargaining agreements. As of July 1, 2007, there are approximately 35,000 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 amount paid by the District General Fund for such benefits was $159.1 million in Fiscal Year 2002-03, $174.2 million in Fiscal Year 2003-04, $179.3 million for Fiscal Year 2004-05 and $192.9 million in Fiscal Year 2005-06. The District paid approximately $233.5 million for post-employment health care benefits for Fiscal Year 2006-07. The amount included in the District's 2007-08 Final Adopted Budget for the District General Fund for retiree health care benefits in Fiscal Year 2007-08 is $210.3 million. The estimated cost of retiree health care benefits in Fiscal Year 2008-09 will be at least $241 million and remains subject to approval by the Board. The District estimates that such costs could be as high as $270 million depending on the outcome of negotiations with the various unions. See "DISTRICT FINANCIAL INFORMATION – Collective Bargaining" herein.

On June 21, 2004, the Governmental Accounting Standards Board ("GASB") released its *Governmental Accounting Standards Board Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Statement No. 45 establishes standards for the measurement, recognition and display of post-employment healthcare as well as other forms of post-employment benefits, such as life insurance, when provided separately from a pension plan expense or expenditures and related liabilities in the financial reports of state and local governments. Under Statement No. 45, governments will be required to: (i) measure the cost of benefits, and recognize other post-employment benefits expense, on the accrual basis of accounting in periods that approximate employees' years of service; (ii) provide information about the actuarial liabilities for promised benefits associated with past services and whether, or to what extent, those benefits have been funded; and provide information useful in assessing potential demands on the employer's future cash flows. The District's post-employment health benefits fall under Statement No. 45. The effective date of the Statement No. 45 reporting requirements for the District is Fiscal Year 2007-08 (the first fiscal year period beginning after December 15, 2006).

The most recent actuarial report prepared for the District is its "Actuarial Valuation and Review of Other Postemployment Benefits (OPEB) as of June 30, 2007 in accordance with GASB Statements No. 43 and 45," dated April 3, 2008 (the "Postemployment Valuation"). The Postemployment Valuation sets forth the District's actuarial valuation of post-employment medical benefits as of June 30, 2007 for its employees and retirees. The Postemployment Valuation sets forth the liabilities of the post-employment benefit plan assuming that the recently adopted Statement Nos. 43 and 45 are effective for the Fiscal Year ending June 30, 2007. The market value of plan net assets as of June 30, 2007 is estimated to be $0. The Postemployment Valuation reports that, as of July 1, 2007, the actuarial accrued liability ("AAL") of the District's post-retirement health and welfare benefits program is approximately $10.56 billion. This amount is $570 million greater than what was determined in the District's "Actuarial Valuation and Review of Other Postemployment Benefits (OPEB) as of June 30, 2005". The District attributes such increase to, among other things, an increase in the number of active employees who will become eligible for other postemployment benefits. The Postemployment Valuation recommended an annual contribution of $1,088,523,000, or 23.6% of the District's payroll, for Fiscal Year 2007-08.

The District has been and is expected to continue to review the Postemployment Valuation, in conjunction with the District's obligations under its post-employment benefit plan, to determine, among other things, its course of action with respect to post-employment benefit contributions and what other post-employment benefit liability must be reported. In the opinion of District management, any further increase in the District's AAL as described in the Postemployment Valuation will not adversely affect the District's ability to pay debt service on the Bonds.

The LAO, in a report dated February 24, 2005 entitled "Analysis of the 2005-06 Budget Bill," acknowledged the release of GASB Statement No. 45 and noted that the liabilities faced by some school districts are very large - so large as to potentially threaten such school districts' ability to operate in the future. The LAO report identified the District, among others, as a school district for whom such "costs are not yet at a stage that will seriously erode the district's ability to function, but which is experiencing rapidly increasing annual costs for such benefits." The LAO report further recommended that the State Legislature require county offices of education and school districts to take steps to address the long-term retiree health benefit liabilities of school districts.

Insurance

The District maintains various excess property, casualty and fidelity insurance programs, which are self-insured, with varying self-insured retentions. The District's excess property coverage is provided currently through its membership in the Public Entity Property Insurance Program ("PEPIP"), an insurance pool comprised of certain cities, counties and school districts. The District maintains excess property insurance on all District facilities under a combination of self-insurance retentions and varying sublimits through the excess insurance policies of PEPIP. The current self-insured retention for fire loss damage for excess property coverage is $500,000 per occurrence and the policy limit is $1 billion. The District maintains what it considers to be adequate reserves to cover losses within the self-insurance retention. District General Fund resources are used to pay for property loss insurance and uninsured repairs for property damage. In addition to the above excess property policies, the District purchases a separate Boiler and Machinery policy with $100 million in occurrence limits and a Fidelity Crime policy with $1,000,000 in occurrence limits.

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

The District is self-insured for its Workers' Compensation Program. Workers' compensation claims paid in Fiscal Years 2003-04, 2004-05, 2005-06, 2006-07 and 2007-08 totaled approximately $116.3 million, $112.4 million, $96.8 million, $86.4 million and $80.7 million, respectively. The lower amount of claims is the result of workers' compensation reforms implemented by the State as well as District activities to improve investment earnings on the workers' compensation fund balances, improve third party management of claims and reduce workers' compensation fraud. Separate funds are used to account for amounts set aside to pay claims incurred and related expenditures under the respective insurance programs.

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

The District implemented an Owner Controlled Insurance Program ("OCIP") on May 1, 2006 (OCIP II) after the expiration of its initial Owner Controlled Insurance Program. OCIP II covers new construction and renovation projects funded by school bonds. Under an OCIP, the District provides general liability and workers' compensation insurance coverage to enrolled construction contractors. Builder's risk and CPL coverage are also provided. The benefits derived from the large buying power of an OCIP, along with centralized risk management and safety creates savings that accrue for the District. Under the District's OCIP II, workers' compensation coverage with statutory limits, and primary and excess liability coverage with limits of $100 million have been underwritten by six major insurance carriers. In addition, buildings under construction and renovation with project values under $50 million, a portion of the costs of which are financed with the proceeds of District general obligation bond issues, are covered under PEPIP. Builder's risk coverage for projects with construction values under $50 million are currently covered by PEPIP. Builders risk coverage for projects, with construction values above $50 million, is currently covered under individual policies underwritten by various carriers. Savings to the District from May 1, 2006 through May 1, 2013 are estimated in the range of approximately $68 million to $117 million.

Liabilities for loss and loss adjustment expenses under each of the District's insurance programs include the accumulation of estimates for losses reported prior to the balance sheet date, estimates of losses incurred but not reported and estimates of expenses for investigating and adjusting reported and unreported losses. Such liabilities are estimates of the future expected settlements and are based upon analysis of historical patterns of the number of incurred claims and their values. The District believes that, given the inherent variability in any such estimates, the aggregate liabilities are within a reasonable range of adequacy. Individual reserves are continually monitored and reviewed, and, as settlements are made or reserves adjusted, differences are reflected in current operations. For additional information regarding the District's insurance programs, see the District's financial statements for Fiscal Year 2006-07 contained in APPENDIX B APPENDIX B – "SELECTED INFORMATION FROM AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2007 AND SELECTED INFORMATION FROM UNAUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2008."

District Fiscal Policies

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

The Debt Management Policy is required to be reviewed annually. The most recent review was completed in May 2008 with no material policy changes. 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 as of July 1, 2007 divided by District General Fund appropriations for Fiscal Year 2006-07. The District's current actual maximum fiscal year COPs debt service is $47.9 million, which is below the $105 million cap, and is 0.5% of District General Fund appropriations for Fiscal Year 2006-07, which is below the 2.0% to 2.5% policy range. A target may be increased only through Board authorization each time a new debt is proposed, but is not intended to exceed the ceiling established in the Debt Management Policy.

The Debt Management Policy limits unhedged variable rate debt to 20% of outstanding COPs or $100 million, whichever is less, and the debt ratios and benchmarks to those set forth in Tables A-14 and A-15 below.

In August 2008, the LAUSD Administration Building Finance Corporation issued its Refunding Certificates of Participation 2008 Series A (Administration Building Project) and 2008 Series B Certificates (Administration Project III) in the aggregate principal amount of $120,950,000 to refinance its Certificates of Participation, 2005 Series A (Administration Building Project) and Refunding Certificates of Participation, 2005 Series B (Administration Building Project III). As of January 1, 2009, the District had $328.0 million of outstanding COPs (net of economically defeased COPs), of which $199.1 million are variable rate COPs. The District's average daily District General Fund unrestricted cash balance is projected to be $388 million for Fiscal Year 2008-09. Accordingly, the District believes that interest rate exposure on its variable rate COPs is naturally hedged by this cash position.

Table A-14 below sets forth the debt factors for COPs which are to be repaid from the District General Fund or other internal District resources.

TABLE A-14

Los Angeles Unified School District
Debt Management Policy – Debt Factors
(as of June 30, 2007)[1]

Debt Factor	Target[2]	Ceiling[2]	Actual	Over (Under) Policy Ceiling
COPs Debt Service Limit (gross)	2.0% of District General Fund Expenditures	2.5% of District General Fund Expenditures	.49%	(2.01%)
Annual COPs Gross Debt Service Cap[3]	Not applicable	$105 million	$47.9 million	($57.1 million)
Unhedged Variable Rate Debt as % of total COPs Debt	Not applicable	20%	0%	(20%)

(1) Information in Table A-14 is as set forth in the District's Debt Report submitted on May 27, 2008 for the Fiscal Year ended June 30, 2007.
(2) "District General Fund Expenditures" includes said amounts based upon the District's Fiscal Year 2006-07 Final Adopted Budget.
(3) May increase with each approved issuance of COPs.

Source: Los Angeles Unified School District.

Table A-15 below sets forth the benchmark debt burden ratios that recognize the combined direct debt and overall debt of the District. Table A-15 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 Table A-15 and the large size of the District's bonding program relative to other large school districts, the District's debt burden ratios are not unexpectedly higher than most of the benchmarks values. Even though some of the other large school districts have school funding mechanisms different than the District's and may have budgets that are considerably smaller than the District's, the District believes that the "large, highly-rated" school district cohort to be the most appropriate cohort group against which it should be compared.

TABLE A-15

Los Angeles Unified School District
Policy Benchmarks for District's Direct and Overall Debt
(As of June 30, 2007)[1]

Debt Burden Ratio	Benchmark	Benchmark's Value	LAUSD Actual
Direct Debt to Assessed Value	Moody's Median for Aa Rated School Districts With Student Population Above 200,000	1.10%	1.71%
	Standard & Poor's Mean for AA Rated School Districts With Student Population Above 150,000	1.50%	
Overall Debt to Assessed Valuation	Moody's Median for Aa Rated School Districts With Student Population Above 200,000	2.60%	3.05%
	Standard & Poor's Mean for AA Rated School Districts With Student Population Above 150,000	3.20%	
Direct Debt Per Capita	Standard & Poor's Median for AA Rated School Districts With Student Population Above 150,000	$ 736	$ 1,428
	Standard & Poor's Mean for AA Rated School Districts With Student Population Above 150,000	$ 847	
Overall Debt Per Capita	Standard & Poor's Median for AA Rated School Districts With Student Population Above 150,000	$ 1,665	$ 2,554
	Standard & Poor's Mean for AA Rated School Districts With Student Population Above 150,000	$ 2,639	

(1) Information in Table A-15 is as set forth in the District's Debt Report submitted on May 27, 2008 for the Fiscal Year ended June 30, 2007.

Source: Los Angeles Unified School District.

Budget and Finance Policy. On June 22, 2004, the Board adopted a Budget and Finance Policy that took effect on July 1, 2005. The purposes of the Budget and Finance Policy are to establish best practices for the District's budget process and to establish a reserves policy for District operations, liabilities and asset/equipment replacement. The purpose of the operating reserves is to set aside monies for current year obligations. These reserves include the Reserve for Anticipated Balances, the Reserve for Revolving Cash, Stores, and Prepaid Expenses, the Emergency Reserve, and the Reserve for Economic

Uncertainties. The purpose of the liability reserves is to set aside monies for future obligations of the District. Liability reserves include the Liability Self Insurance Account Reserve, the Workers' Compensation Fund Unfunded Liability Reserve, and the Health & Welfare Fund Retirement Benefits for Employees Reserve. The Budget and Finance Policy also includes the creation of a new reserve, the Special Reserve for Equipment Replacement.

Under State law, the District is required to maintain only one of the operating reserves, the Reserve for Economic Uncertainties. In the District's Fiscal Year 2008-09 Final Adopted Budget, this reserve is funded at the current legally mandated minimum of 1.0%, or approximately $72.4 million. The other reserves may be funded and phased in annually based on the Board's actions, although the Chief Financial Officer of the District has not recommended any such funding at present.

District Debt

General Obligation Bonds. Pursuant to Sections 15106 and 17422 of the Education Code, the District's bonding capacity for general obligation bonds is 2.5% of taxable property value in the District and as of Fiscal Year 2008-09 was approximately $11.9 billion. The District's unused bonding capacity is approximately $4.8 billion, prior to the issuance of the Bonds. The District may not issue general obligation debt without voter approval. From July 1997 through March 2003, the District issued the entire amount of general obligation bonds pursuant to a $2.4 billion authorization approved by voters in the April 8, 1997 election ("Proposition BB"). A $3.35 billion general obligation bond authorization was approved by the voters on November 5, 2002 ("Measure K"). The District has issued $2.75 billion of Measure K general obligation bonds. A $3.87 billion general obligation bond authorization was approved by the voters on March 2, 2004 ("Measure R"). The District has issued $2.05 billion aggregate principal amount of Measure R bonds. A $3.985 billion general obligation bond authorization also was approved by the voters on November 8, 2005 ("Measure Y"). The District has issued $694.385 million aggregate principal amount of Measure Y bonds. At an election held on November 7, 2008, at least 55% of the votes cast by eligible voters within the District approved the issuance by the District of general obligation bonds in an amount not to exceed $7.0 billion (the "Measure Q Authorization"). The District expects to begin issuing general obligation bonds pursuant to the Measure Q Authorization in Fiscal Year 2009-10. Bonds issued pursuant to the Measure Q Authorization will finance new construction and acquisition, rehabilitation and upgrading of school facilities for specifically identified school facilities projects. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – ARTICLE XIIIA OF THE STATE CONSTITUTION" herein.

As described in the text of each of the ballots of Measure K, Measure R, Measure Y and Measure Q the Board does not guarantee that the respective Measure K bonds, Measure R bonds, Measure Y bonds and Measure Q bonds will provide sufficient funds to allow completion of all potential projects listed in connection with said measures. Certain projects and their budgets may be adjusted according to evolving District needs and priorities and economic circumstances such as greater than anticipated inflation of construction costs. The Citizen's Bond Oversight Committee regularly reviews the potential bond projects and budgets and provides non-binding advice to the 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 following Table A-16 sets forth the voter authorized and unissued amounts for Proposition BB, Measure K, Measure R, Measure Y and Measure Q, prior to the issuance of the Bonds.

TABLE A-16

Voter Authorized Amounts
($ in thousands)

	Proposition BB Bonds	Measure K Bonds	Measure R Bonds	Measure Y Bonds	Measure Q Bonds
Authorization Amount	$2,400,000[(1)]	$3,350,000[(2)]	$3,870,000	$3,985,000	$7,000,000
Authorized but Unissued	0	600,000	1,820,000	3,290,615	7,000,000

(1) Proceeds of six refunding bond issues refunded $1,350.885 million aggregate principal amount of the Proposition BB Bonds. See Table A-17 below.
(2) Proceeds of three refunding bond issues refunded $1,582.895 million aggregate principal amount of the Measure K Bonds. See Table A-18 below.

Source: Los Angeles Unified School District.

The following Tables A-17, A-18, A-19 and A-20 set forth the outstanding bonds issued under Proposition BB, Measure K, Measure R and Measure Y, respectively.

TABLE A-17

Proposition BB (Election of 1997) Bonds

Bonds Issued	Aggregate Principal Amount ($ in thousands)	Outstanding Amount as of January 1, 2009 ($ in thousands)	Date of Issue
Series A Bonds	$356,000[1] [2]	$ 103,125	July 22, 1997
Series B Bonds	350,000[2] [3]	13,180	August 25, 1998
Series C Bonds	300,000[1] [2] [3]	19,755	August 10, 1999
Series D Bonds	386,655[1] [2] [3]	23,555	August 3, 2000
Series E Bonds	500,000[1] [4] [6]	93,435	April 11, 2002
2002 Refunding Bonds[7]	258,375	254,085	April 17, 2002
Series F Bonds	507,345[5]	322,205	March 13, 2003
2004 Refunding Bonds[7]	219,125	218,225	December 21, 2004
2005 Refunding Bonds[7]	467,675	467,675	July 20, 2005
2006 Refunding Bonds, Series B[7]	254,544	249,308	November 15, 2006
2007 Refunding Bonds, Series A-2[7]	136,055	136,055	January 31, 2007
2007 Refunding Bonds, Series B[7]	24,845	24,650	February 22, 2007
		$1,925,253	

(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) $231.23 million principal amount of the Series E Bonds were refunded with proceeds of the 2006 Refunding Bonds, Series B.
(5) $129.51 million principal amount of the Series F Bonds were refunded with proceeds of the 2007 Refunding Bonds, Series A.
(6) $25.79 million principal amount of the Series E Bonds were refunded with proceeds of the 2007 Refunding Bonds, Series B.
(7) Refunding bonds are not counted against the bond authorization limit.

Source: Los Angeles Unified School District.

TABLE A-18

Measure K (Election of 2002) Bonds

Bonds Issued	Aggregate Principal Amount ($ in thousands)	Outstanding Amount as of January 1, 2009 ($ in thousands)	Date of Issue
Series A Bonds	$2,100,000[1][2][3]	$ 486,295	March 5, 2003
2006 Refunding Bonds, Series A[4]	132,325	132,325	February 22, 2006
2006 Refunding Bonds, Series B[4]	320,361	312,647	November 15, 2006
2007 Refunding Bonds, Series A-1[4]	1,153,195	1,143,160	January 31, 2007
Series B Bonds	500,000	488,020	February 22, 2007
Series C Bonds	150,000	145,675	August 16, 2007
		$2,708,122	

(1) $131.94 million principal amount of the Series A Bonds were refunded with proceeds of the 2006 Refunding Bonds, Series A.
(2) $330.15 million principal amount of the Series A Bonds were refunded with proceeds of the 2006 Refunding Bonds, Series B.
(3) $1,120.81 million principal amount of the Series A Bonds were refunded with proceeds of the 2007 Refunding Bonds, Series A-1.
(4) Refunding bonds are not counted against the bond authorization limit.

Source: Los Angeles Unified School District.

TABLE A-19

Measure R (Election of 2004) Bonds

Bonds Issued	Aggregate Principal Amount ($ in thousands)	Outstanding Amount as of January 1, 2009 ($ in thousands)	Date of Issue
Series A Bonds	$ 72,630	$ 19,505	September 23, 2004
Series B Bonds	60,475	13,135	September 23, 2004
Series C Bonds	50,000	44,615	September 23, 2004
Series D Bonds	16,895	4,410	September 23, 2004
Series E Bonds	400,000	348,460	August 10, 2005
Series F Bonds	500,000	475,925	February 16, 2006
Series G Bonds	400,000	368,880	August 17, 2006
Series H Bonds	550,000	529,975	August 16, 2007
		$1,804,905	

Source: Los Angeles Unified School District.

TABLE A-20

Measure Y (Election of 2005) Bonds

Bonds Issued	Aggregate Principal Amount ($ in thousands)	Outstanding Amount as of January 1, 2009 ($ in thousands)	Date of Issue
Series A Bonds	$ 56,785	$ 51,460	February 22, 2006
Series B Bonds	80,200	68,130	February 22, 2006
Series C Bonds	210,000	202,450	February 22, 2006
Series D Bonds	47,400	43,975	February 22, 2006
Series E Bonds	300,000	291,925	August 16, 2007
		$657,940	

Source: Los Angeles Unified School District.

Certificates of Participation. As of January 1, 2009, the District had outstanding lease obligations issued in the form of certificates of participation in the aggregate principal amount of $328 million, excluding certificates of participation that are economically defeased. Outstanding lease obligations represent approximately $646 million in total debt service (including payments made for Fiscal Year 2008-09), based upon certain assumed interest rates for the District's variable rate lease obligations. The following Table A-21 sets forth the District's gross lease obligations with respect to its outstanding certificates of participation.

TABLE A-21

Los Angeles Unified School District
Certificates of Participation Lease Obligations Debt Service Schedule[1] [2]
($ in thousands)

Fiscal Year Ending June 30	Paid From District General Fund	Paid From Developer Fees[3]	Fiscal Year Total Debt Service
2009	$ 35,145	$ 14,269	$ 49,415
2010	33,130	13,916	47,046
2011	33,104	13,918	47,022
2012	33,094	12,783	45,877
2013	30,514	12,766	43,281
2014	30,505	14,196	44,701
2015	30,491	8,879	39,370
2016	28,072	8,844	36,916
2017	28,061	8,796	36,856
2018	28,047	8,842	36,889
2019	15,590	2,216	17,806
2020	15,594	2,219	17,813
2021	15,587	2,213	17,799
2022	15,048	2,211	17,259
2023	15,039	2,212	17,251
2024	14,401	2,212	16,613
2025	14,331	2,209	16,540
2026	14,581	2,199	16,779
2027	14,570	0	14,570
2028	14,559	0	14,559
2029	14,540	0	14,540
2030	12,416	0	12,416
2031	12,400	0	12,400
2032	12,392	0	12,392
Total	$511,210	$134,900	$646,109

(1) The District has assumed certain interest rates, but has excluded remarketing, liquidity, letter of credit and trustee administration fees for the variable rate lease obligations included in Table A-21 above.
(2) Although the District has economically defeased certain lease obligations, the lease payments shown above reflect the gross (not net) obligations of the District.
(3) In the event that insufficient developer fees are available to pay the indicated lease obligations, the District General Fund is obligated to pay said obligations, subject to the terms of the applicable leases.

Source: Los Angeles Unified School District.

Other Long Term Obligations. The following Table A-22 summarizes the District's estimated other long-term obligations as of June 30, 2007.

TABLE A-22

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

	Balance as of June 30, 2007
Claims and judgments[(1)]	$ 567,571
Compensated absences	68,765
Revolving loan and other loans	1,850
State school building fund	591
Capital leases payable	5,261
Arbitrage payable	11,966
TOTAL	$ 656,004

(1) Includes the total claims liabilities recorded for medical, dental, liability and workers' compensation. Beginning with Fiscal Year ended June 30, 2004, 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.

Source: Estimated by Los Angeles Unified School District.

Future Financings

The District anticipates that it will continue to incur additional obligations to finance new construction and rehabilitation of equipment and facilities necessitated by the District's growth.

General Obligation Bonds. Prior to the issuance of the Bonds, the District has $600 million authorized and unissued general obligation bond authorization remaining under Measure K, $1.82 billion authorized and unissued general obligation bond authorization remaining under Measure R, $3.2906 billion authorized and unissued general obligation bond authorization remaining under Measure Y and $7.0 billion authorized and unissued general obligation bond authorization remaining under Measure Q. The District currently anticipates annual or semi-annual issuances of additional series of general obligation bonds under its Measure K authorization, Measure R authorization, Measure Y authorization and Measure Q authorization over the next several years to finance various elements of the District's capital plan. The District expects to issue up to $950 million of general obligation bonds pursuant to the Measure K, Measure R and Measure Y authorizations, as described in the forepart of this Official Statement. The District may issue refunding bonds to refund outstanding general obligation bonds from time to time, depending on market conditions.

Certificates of Participation. The District expects that, from time to time, additional capital projects may be approved by the Board for funding through the execution and delivery of certificates of participation.

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 2008, the District issued its 2008-2009 Tax and Revenue Anticipation Notes, Series A (the "2008 TRAN") in a principal amount of $500,000,000. The 2008 TRAN matures on June 30, 2009. The 2008 TRAN was issued for the purpose of financing seasonal cash flow requirements for District General Fund revenues and expenditures.

Overlapping Debt Obligations

Set forth on Table A-23 on the following page is the Debt Report prepared by California Municipal Statistics Inc. and dated January 1, 2009. 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-23 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-23) 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-23
Los Angeles Unified School District
Schedule of Direct and Overlapping Bonded Debt
As of January 1, 2009

2008-09 Assessed Valuation:	$474,789,798,067
Redevelopment Incremental Valuation:	45,141,978,099
Adjusted Assessed Valuation:	$429,647,819,968

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable (1)	Debt 1/1/09	
Los Angeles County Flood Control District	46.522%	$ 46,154,476	
Metropolitan Water District	22.724	74,356,337	
Los Angeles Community College District	81.926	1,625,088,232	
Pasadena Area Community College District	0.001	773	
Los Angeles Unified School District	**100.000**	**7,096,220,000**	(2)
City of Los Angeles	99.919	1,297,033,551	
Other Cities	Various	46,754,107	
Palos Verdes Library District	5.079	419,779	
City Community Facilities Districts	100.000	137,135,000	
Los Angeles Metropolitan Transportation Agency Benefit Assessment Districts	100.000	22,170,000	
City of Los Angeles Landscaping and Special Tax Assessment Districts	99.919	99,899,016	
City of Los Angeles Assessment District No. 1	100.000	5,889,867	
Other City and Special District 1915 Act Bonds	100.000	26,225,000	
Los Angeles County Regional Park & Open Space Assessment District	45.795	113,056,406	
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$10,590,402,544	
DIRECT AND OVERLAPPING GENERAL FUND DEBT:			
Los Angeles County General Fund Obligations	45.795%	$ 432,394,396	
Los Angeles County Pension Obligations	45.795	161,315,360	
Los Angeles County Superintendent of Schools Certificates of Participation	45.795	7,283,358	
Pasadena Area Community College District Certificates of Participation	0.001	29	
Los Angeles Unified School District Certificates of Participation	100.000	484,576,710	
City of Los Angeles General Fund and Judgment Obligations	99.919	1,809,223,341	
Other City General Fund and Pension Obligations	Various	171,113,817	
Los Angeles County Sanitation District Nos. 1,2,3,4,5,8,9,16 & 23 Authorities	Various	52,391,996	
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		$3,118,299,007	
Less: **Los Angeles Unified School District (amount set-aside in Building Fund to make payments on 2000 Series A Qualified Zone Academy Bonds)**		**22,201,702**	
Los Angeles Unified School District (economic defeasance of 2005 Qualified Zone Academy Bonds resulting from investment agreement)		**10,000,000**	(3)
City self-supporting bonds		12,033,354	
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT		$3,074,063,951	
GROSS COMBINED TOTAL DEBT		$13,708,701,551	(4)
NET COMBINED TOTAL DEBT		$13,664,466,495	

(1) Based on 2007-08 ratios.
(2) Excludes the Bonds.
(3) The guaranteed investment agreement ("GIC") used for part of the defeasance was terminated in August 2008 due to the rating downgrade of the GIC provider. The District may need to contribute more funds to redeem the 2005 Qualified Zone Academy Bonds, depending upon the amount of ongoing investment returns.
(4) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2008-09 Assessed Valuation:

Direct Debt ($7,096,220,000)1.49%

Total Overlapping Tax and Assessment Debt 2.23%

Ratios to Adjusted Assessed Valuation:

Gross Combined Direct Debt ($7,580,796,710) 1.76%

Net Combined Direct Debt ($7,548,595,008) 1.76%

Gross Combined Total Debt 3.19%
Net Combined Total Debt 3.18%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/08: $285,328

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING 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 XIIIA of the State Constitution

On June 6, 1978, California voters approved Proposition 13 ("Proposition 13"), which added Article XIIIA to the State Constitution ("Article XIIIA"). Article XIIIA, as amended, limits the amount of any *ad valorem* tax on real property to 1% of the full cash value thereof, except that additional *ad valorem* taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978 and on bonded indebtedness approved by a two-thirds vote on or after July 1, 1978, for the acquisition or improvement of real property. Proposition 39, approved by California voters on November 7, 2000, provides an alternative method of seeking voter approval for bonded indebtedness (see "Proposition 39" below). Article XIIIA 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." This full cash value may be increased at a rate not to exceed 2% per year to account for inflation.

Article XIIIA has subsequently been amended to permit reduction of the "full cash value" base in the event of declining property values caused by damage, destruction or other factors, to provide that there would be no increase in the "full cash value" base in the event of reconstruction of property damaged or destroyed in a disaster, and in other minor or technical ways.

Legislation Implementing Article XIIIA

Legislation has been enacted and amended a number of times since 1978 to implement Article XIIIA. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter approved indebtedness). The 1% 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 2% annual adjustment are allocated among the various jurisdictions in the "taxing area" based upon their respective "situs." Local agencies and school districts share the growth of "base" revenue from the tax rate area. Each year's growth allocation becomes part of each agency's allocation the following year. Article XIIIA effectively prohibits the levying of any other *ad valorem* property tax above the 1% limit except for taxes to support indebtedness approved by the voters as described above.

All taxable property is shown at full cash value on the tax rolls. Consequently, the tax rate is expressed as $1 per $100 of taxable value. All taxable property value included in this Official Statement, including the forepart to this Official Statement, is shown at 100% of cash value (unless noted differently) and all tax rates reflect the $1 per $100 of taxable value.

Article XIIIB 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 XIIIB to the State Constitution ("Article XIIIB"). In June 1990, Article XIIIB was amended by the voters through their approval of Proposition 111. Under Article XIIIB, 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 XIIIB 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 XIIIB, 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.

Article XIIIC and Article XIIID 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 XIIIC and XIIID to the State Constitution, which contain a number of provisions affecting the ability of local agencies, including school districts, to levy and collect both existing and future taxes, assessments, fees and charges.

Article XIIID deals with assessments and property related fees and charges. Article XIIID explicitly provides that nothing in Article XIIIC or XIIID 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 62

On November 4, 1986, California voters adopted Proposition 62, a statutory initiative which amended the Government Code of the State by the addition of Sections 53720 and 53730. Proposition 62 requires that (i) any local tax for general governmental purposes (a "general tax") must be approved by a majority vote of the electorate; (ii) any local tax for specific purposes (a "special tax") must be approved by a two-thirds vote of the electorate; (iii) any general tax must be proposed for a vote by two-thirds of the legislative body; and (iv) proceeds of any tax imposed in violation of the vote requirements must be deducted from the local agency's property tax allocation. Provisions applying Proposition 62 retroactively from its effective date to 1985 are unlikely to be of any continuing importance; certain other restrictions were already contained in the Constitution.

Most of the provisions of Proposition 62 were affirmed by the 1995 State Supreme Court decision in *Santa Clara County Local Transportation Authority v. Guardino* (the "Santa Clara Decision"), which invalidated a special sales tax for transportation purposes because fewer than two-thirds of the voters voting on the measure had approved the tax. Following the State Supreme Court's decision upholding Proposition 62, several actions were filed challenging taxes imposed by public agencies since the adoption of Proposition 62, which was passed in November 1986. On June 4, 2001, the State Supreme Court released its decision in one of these cases, *Howard Jarvis Taxpayers Association v. City of La Habra, et al.* (the "La Habra Decision"). In this case, the court held that a public agency's continued imposition and collection of a tax is an ongoing violation, upon which the statute of limitations period begins anew with each collection. The court also held that, unless another statute or constitutional rule provided differently, the statute of limitations for challenges to taxes subject to Proposition 62 is three years. Accordingly, a challenge to a tax subject to Proposition 62 may only be made for those taxes received within three years of the date the action is brought.

Although by its terms Proposition 62 applies to school districts, the District has not experienced any substantive adverse financial impact as a result of the passage of this initiative, the Santa Clara Decision or the La Habra Decision.

Proposition 98

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

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

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

Proposition 39

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

Proposition 1A

Proposition 1A (SCA 4) ("Proposition 1A"), proposed by the State Legislature in connection with the 2004-05 State Budget and approved by the voters in November 2004, provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. Proposition 1A generally prohibits the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any fiscal year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of both houses of the State Legislature. Proposition 1A provides, however, that beginning in Fiscal Year 2008-09, the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe State financial hardship, the shift is approved by two-thirds of both houses and certain other conditions are met. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also provides that if the State reduces the vehicle license fee rate, 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.

State School Facilities Bonds

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

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

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

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

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

Proposition 1D makes $3.3 billion available for the reconstruction or modernization of existing public school facilities. Districts would be required to pay 40% of project costs from local resources.

Proposition 1D directs a total of $1.0 billion to school districts with schools 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 1D also makes a total of $29 million available to fund joint-use projects. Proposition 1D includes $3.1 billion to construct new buildings and related infrastructure, alter existing buildings and purchase equipment for use in these buildings for California's public higher education systems. The measure allocates $890 million to the University of California campuses and $690 million to the California State University campuses and $1.5 billion to California community colleges. The Governor and the State Legislature will select specific projects to be funded by the bond proceeds. In December 2008, the Investment Board announced plans to stop lending money for projects throughout the State. See "Williams Settlement Agreement and the New School Construction Program" herein.

The District applies for apportionments from State bond initiatives and historically has received funding from such State bond initiatives. No assurances can be given that the District will continue to apply for apportionments from current or future State bond initiatives or that the District will continue to receive funding from State bond initiatives for which it applies.

Future Initiatives

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

REGIONAL ECONOMY

The general information in this section concerning the City and the County is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the Bonds are an obligation of the City or the County.

Income

The following Table A-24 summarizes the median household income for the City, the County, the State and the nation for the years 2002 through 2006.

TABLE A-24

Median Household Income[1]
For Years 2003 through 2007

Year	City of Los Angeles	County of Los Angeles	State of California	United States
2003	$40,733	$44,674	$50,220	$43,564
2004	40,682	45,958	51,185	44,684
2005	42,667	48,248	53,629	46,242
2006	44,445	51,315	56,645	48,451
2007	46,292	52,628	58,361	50,007

(1) Estimated.

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

Set forth in Table A-25 below is the distribution of income by certain income groupings per household for the City, the County and the State.

TABLE A-25

Income Groupings 2007(1)
(Percent of Households)

Income Per Household	City of Los Angeles	County of Los Angeles	State of California
$24,999 & Under	28.1%	23.8%	20.6%
25,000-49,999	24.9	23.9	22.7
50,000 & Over	47.0	52.3	56.7

(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-26 below summarizes the status of wage and salary employment in the County from calendar years 2003 through 2007.

TABLE A-26

Labor Force and Employment in Los Angeles County[1]

	2003	2004	2005	2006	2007
Civilian Labor Force[2]	4,759,100	4,770,800	4,816,000	4,850,700	4,921,200
Employment	4,427,100	4,460,500	4,559,500	4,620,800	4,675,300
Unemployment	332,000	310,300	256,500	229,900	245,900
Unemployment Rate	7.0%	6.5%	5.3%	4.7%	5.0%
Wage and Salary Employment[3]:					
Farm	7,800	7,600	7,400	7,600	7,800
Natural Resources and Mining	3,800	3,800	3,700	4,000	4,400
Construction	134,600	140,200	148,700	157,500	157,200
Manufacturing	500,000	483,600	471,700	461,700	447,100
Trade, Transportation and Utilities	774,900	781,600	795,400	814,100	819,600
Information	202,300	211,900	207,600	205,600	209,200
Financial Activities (Finance, Insurance, Real Estate)	239,800	241,600	244,000	248,800	245,000
Business and Professional Services	559,900	562,400	576,100	598,900	605,700
Education and Health Services	460,400	467,000	471,300	478,700	488,300
Leisure and Hospitality	362,600	372,800	377,800	388,600	397,400
Other Services	145,500	144,700	144,300	145,200	147,100
Government	599,300	587,100	583,700	589,400	594,800
Total	3,990,800	4,004,100	4,031,600	4,100,100	4,123,600

(1) Columns may not add to totals due to independent rounding. All information updated per March 2007 Benchmark.
(2) Based on place of residence.
(3) Based on place of work.

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

Commercial Activity

The following Table A-27 sets forth the history of taxable transactions in the County for the years 2003 through 2007.

TABLE A-27

County of Los Angeles
Taxable Transactions
($ in thousands)

	2003	2004	2005	2006	2007[(1)]
Retail Stores:					
Apparel Stores	$ 4,356,666	$ 4,806,681	$ 5,248,349	$ 5,526,656	$ 5,829,390
General Merchandise Stores	11,749,089	12,592,214	13,176,715	13,729,150	12,122,397
Specialty Stores	12,107,226	13,026,931	13,840,030	14,332,982	N/A
Food Stores	4,240,110	4,222,270	4,532,723	4,680,320	4,911,939
Eating/Drinking Places	11,151,772	12,035,694	12,904,310	13,751,189	14,473,199
Household Furnishings and Appliances	3,719,168	4,030,834	4,263,142	4,307,020	4,287,090
Building Materials	6,016,548	7,310,663	7,701,383	7,871,880	7,494,731
Automotive	24,307,334	26,518,947	28,525,468	29,161,994	17,156,218
Other Retail Stores	1,778,813	1,952,451	2,079,035	2,193,002	15,886,806
Retail Store Total	$ 79,426,726	$ 86,496,685	$ 92,271,155	$ 95,554,193	$ 96,095,711
Business and Personal Services	5,066,634	5,275,051	5,414,432	5,390,537	5,408,543
All Other Outlets	29,192,062	30,761,368	33,036,786	35,217,822	36,316,164
Total All Outlets	$113,685,422	$122,533,104	$130,722,373	$136,162,552	$137,820,418
Number of permits	289,892	295,398	298,083	295,701	290,344

(1) In early 2007 the 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 are not comparable with data from prior years.

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

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 major employers in the County are set forth below in Table A-28.

TABLE A-28

County of Los Angeles
Major Non-Governmental Employers

Employer	Product/Service	Employees
Kaiser Permanente	Health care provider	36,500
Northrop Grumman Corp.	Aerospace/Defense design and manufacturing	20,500
Bank of America Corp.	Banking and financial services	17,442
Boeing Co.	Aerospace high technology	15,250
Kroger Co.	Grocery retailer	14,000
Target Corp.	Retailer	12,600
University of Southern California	Private university	12,498
Vons	Grocery retailer	10,981
The Home Depot	Home improvement specialty retailer	10,450
Cedars-Sinai Medical Center	Medical center	9,878
AT&T Inc.	Telecommunications, data	9,270
Wells Fargo	Banking and financial services	9,029
ABM Industries Inc.	Facility services, janitorial, parking, security, engineering and lighting	9,000
California Institute of Technology	Private university and Jet Propulsion Laboratory	8,607
Providence Health & Services	Acute medical, surgical, transition care	7,600
Catholic Healthcare West	Hospitals	7,300
Amgen Inc.	Biotechnology	6,800
Long Beach Memorial Medical Center	Regional hospital	5,340
UPS	Delivery services	5,100
Toyota Motor Sales U.S.A. Inc.	Automobile sales, distribution and customer service	4,515
Lockheed Martin Corp.	Research, design, development and manufacture of advanced technologies	4,500
Washington Mutual	Banking and financial services	4,400
Adventist Health	Hospitals	4,176
Children's Hospital Los Angeles	Hospital	4,057
Time Warner Cable	Telecommunications, data	3,100

(1) Los Angeles Business Journal estimate.

Source: Los Angeles Business Journal, "The Lists 2008" from the August 20, 2008 issue.

Construction

The following Table A-29 sets forth the valuation of permits for residential buildings and new single-family and multi-family dwelling units in the City for the years 2004 to 2008.

TABLE A-29

City of Los Angeles
Permit Valuations and Units of Construction
2004 to 2008
(dollars in thousands)

Year	Residential Valuation	New Single Family Dwelling Units	New Multi-Family Dwelling Units	Total Units
2004	$2,560,906	1,878	10,362	12,240
2005	2,629,470	2,001	9,549	11,550
2006	3,194,070	2,427	13,487	15,914
2007	2,673,705	1,774	8,994	10,768
2008	1,782,492	820	6,694	7,514

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.

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

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

"CCSDO" means the County Committee on School District Organization.

"CDE" means the California Department of Education.

"COLA" means cost-of-living adjustments, which is used in determining the District's revenue limit.

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

"LACOE" means the Los Angeles County Office of Education.

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

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

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

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

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

"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, 2007 AND SELECTED INFORMATION FROM UNAUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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LOS ANGELES UNIFIED SCHOOL DISTRICT
LOS ANGELES, CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR FISCAL YEAR ENDED JUNE 30, 2007

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LOS ANGELES UNIFIED SCHOOL DISTRICT
LOS ANGELES, CALIFORNIA

COMPREHENSIVE
ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2007

MR. DAVID L. BREWER III
SUPERINTENDENT OF SCHOOLS

MS. MEGAN K. REILLY
CHIEF FINANCIAL OFFICER

MR. TIMOTHY S. ROSNICK
CONTROLLER

PREPARED BY
ACCOUNTING AND DISBURSEMENTS DIVISION

333 S. BEAUDRY AVENUE
LOS ANGELES, CALIFORNIA 90017

LOS ANGELES UNIFIED SCHOOL DISTRICT
Comprehensive Annual Financial Report
Year Ended June 30, 2007

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LOS ANGELES UNIFIED SCHOOL DISTRICT

Comprehensive Annual Financial Report

Year Ended June 30, 2007

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INTRODUCTORY SECTION

LOS ANGELES UNIFIED SCHOOL DISTRICT
Accounting and Disbursements Division

DAVID L. BREWER III
Superintendent of Schools

MEGAN K. REILLY
Chief Financial Officer

TIMOTHY S. ROSNICK
Controller

V. LUIS BUENDIA
Deputy Controller

December 5, 2008

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, 2007, 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.

This report is presented in five sections:

I. Introductory

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

II. Financial

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

III. Supplementary

This section includes combining financial statements for nonmajor funds, schedules for capital assets and long-term obligations, and informational schedules for General Fund, Adult Education Fund, and Child Development Fund.

IV. Statistical

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

V. State and Federal Compliance Information

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

Profile of the Los Angeles Unified School District

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

As of June 30, 2007, the District is operating 437 elementary schools, 74 middle/junior high schools, 61 senior high schools, 59 options schools, ten multi level schools, 17 special education schools, 22 magnet schools and 138 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, 27 primary school centers, and one newcomer school. The District is governed by a seven-member Board of Education elected by District to serve alternating four-year terms. As of June 30, 2007, the District employed 48,364 certificated, 33,043 classified, and 18,520 nonregular employees. Enrollment as of October 2006 was 673,500 students in K-12 schools, 145,768 students in adult schools and centers, and 11,052 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

As the 2008-2009 fiscal year began in July, the projected State deficit was $24.2 billion due to reduced revenue expectations and rising costs of programs, and the California legislature was in deliberations on balancing the State Budget. The State Budget was passed after an 85 day budget impasse. The large deficit was closed primarily through one-time revenue solutions and the absence of inflationary adjustments for many state programs.

The 2008-2009 State budget provided a Proposition 98 funding level of $58.1 billion, which fully funded the minimum guarantee. Funding for K-12 education in 2008-09 was essentially the same as in the 2007-2008 school year, despite rising costs. Categorical programs were funded at their base 2007-2008 funding levels and revenue limit income, the Districts major source of unrestricted income, had a small cost of living adjustment (COLA) of 0.68%. At the time the budget was signed, there was concern that the State's revenue assumptions were tenuous and there loomed a multibillion-dollar shortfall for the 2009-2010 budget.

The District passed a balanced 2008-2009 budget and accompanying multi-year forecast based on the Governor's May Revision assumptions. The budget plan contained solutions to address a projected three year deficit $1.1 billion in the General Fund Regular Program. Since that time, the revenue picture has changed dramatically.

Within weeks of the State budget passage, the national financial and credit markets and state revenues deteriorated far beyond the assumptions in the budget. The California Legislative Analyst Office (LAO) has estimated a year end deficit of $8.4 billion for 2008-2009, if no actions are taken. For 2009-2010, because of the continued reduction in revenues and spending increases, the LAO projects a deficit of $19.4 billion. Beyond 2009-2010, the LAO foresees an annual deficit in excess of $22.0 billion if no corrective actions are taken.

The Legislature has been called into Special Session by the Governor to address the deteriorating fiscal picture. The Governor has stated that they must address this shortfall now in order to prevent a cash crisis that would jeopardize vital state services.

The Governor has proposed utilization of the $1.7 billion reserve, $4.5 billion of budget cuts, and $4.7 billion of revenue increases. K-12 education, which comprises 41% of the State budget is proposed to be reduced by $2.2 billion. The $2.2 billion reduction is comprised mainly of elimination of the 0.68% COLA and additional revenue limit reduction of $1.791 billion. The total revenue limit reduction is $2.035 billion. The $1.791 billion base reduction is equivalent to approximately a -4.9% reduction in the district's revenue limit.

The Governor proposes to provide school districts with almost complete flexibility in their categorical program funding in 2008-2009 and 2009-2010 to help offset their loss in revenue limit funding. The Legislature is deliberating the Governor's proposal at the time of this printing.

In addition, the District's ongoing financial challenges remain, which include the rising cost of employee health benefits and the impact of declining enrollment, and result in revenue reductions exceeding cost savings. The District will continue to work to address these challenges and respond to the persistently grim economic forecast.

Superintendent's Strategic Plan: Improvement of Teaching and Learning

The Los Angeles Unified School District's mission is to provide high quality instruction and a coherent and rigorous curriculum in every classroom to facilitate student learning and achievement.

In collaboration with teachers, administrators, classified staff, students in secondary schools, and community members, the Superintendent has developed the following strategies in line with this mission statement:

Strategy 1: Use a research-based, coherent, and rigorous standards-based curriculum that meets the needs of diverse learners as a tool that ensures they will be college-prepared and career-ready.

Strategy 2: Build learning communities in which teachers, and those who support them, use data in a reflective cycle of continuous improvement to develop their skills in delivering high-quality, personalized instruction that ensures learning for all students in all classrooms.

Strategy 3: Build school and District leadership teams that share common beliefs, values, and high expectations for all adults and students and that support a cycle of continuous improvement to ensure high-quality instruction in their schools.

Strategy 4: Build at each school a community of informed and empowered parents, teachers, staff, and community partners who work collaboratively to support high-quality teaching and learning.

Strategy 5: Build personalized school environments where students and adults are physically and emotionally safe and secure and, as a result, where learning opportunities and personal achievement can be optimized for all.

Strategy 6: Design and implement District and school organizational and support structures to improve school performance.

Strategy 7: Design and implement systems of reporting, accountability, and incentives as ways to measure outcomes and promote continuous improvement.

Proposition BB Bonds

Proposition BB, authorized the District to issue general obligation bonds in an amount not to exceed $2.4 billion. The first issue known as Series "A" was sold in July 1997 at a par value of $356 million. The second issue known as Series "B" was sold in August 1998 at a par value of $350 million. The third issue known as Series "C" was sold in August 1999 at a par value of $300 million. A fourth issue known as Series "D" was sold in August 2000 at a par value of $386.7 million. A fifth issue known as Series "E" was sold in April 2002 at a par value of $500 million. A sixth issue known as Series "F" was sold in March 2003 at a par value of $507.345 million. In April 2002, parts of Series B, C, and D in the aggregate total of $262 million were refunded by a $258.4 million issue of 2002 General Obligation Refunding Bonds. In December 2004, parts of Series A, C, D, and E in the aggregate total of $215.7 million were refunded by a $219.125 million issue of 2004 General Obligation Refunding Bonds. In July 2005, parts of Series A, B, C, and D in the aggregate total of $485.95 million were refunded by a $467.675 million issue of 2005 General Obligation Refunding Bonds. In November 2006, part of Series E in the amount of $231.225 million was refunded from 2006 General Obligation Refunding Bonds Series B. In January 2007, part of Series F in the amount of $129.510 million was refunded from 2007 General Obligation Refunding Bonds Series A-1 and A-2. In February 2007, part of Series E in the amount of $25.790 million was refunded from 2007 General Obligation Refunding Bonds Series B.

The purpose of the issuance of the Bonds is to provide needed health and safety improvements to more than 800 deteriorating school buildings and 15,000 classrooms, including upgrading electrical wiring and plumbing; repairing decaying roofs and walls; earthquake retrofitting and asbestos removal; providing infrastructure for computer technology and science laboratories; providing air conditioning for classrooms; enhancing student safety with lighting, fences, and security systems; funding and/or providing matching funds for construction and additions at several schools and the building of 100 new schools to reduce class size and decrease busing. The Board of Education also established a Blue Ribbon Citizens' Oversight Committee to ensure that the proceeds of the bond issues are used for the purposes stated in the resolution which placed the Proposition BB on the April 1997 ballot. The Blue Ribbon Citizen's Oversight Committee's responsibilities include the following: 1) meeting at least quarterly to review expenditures of the bond proceeds; 2) reporting findings quarterly to the Board and to the public; 3) recommending improvements to District processes and procedures as they relate to scheduling, planning, and completion of projects and 4) reporting immediately to the Board any substantial expenditures of bond proceeds in conflict with the purposes approved by the Board and the contracts established with the schools. The Blue Ribbon Citizen's Oversight Committee is also responsible for the oversight of the District's general obligation bonds issued pursuant to Proposition 39 and consists of 14 members representing governmental entities, agencies and organizations.

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

General Obligation Bonds – Proposition 39

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

On the November 5, 2002 ballot, Measure K was approved and authorized the District to issue up to $3.35 billion of General Obligation Bonds. These funds would be used to: build new neighborhood schools, repair aging and deteriorating classrooms, improve early childhood programs, upgrade safety and technology, expand public charter schools, develop joint use projects in collaboration with city, state, federal, and private agencies, and provide for library books at new schools and improve library technology. The District issued the first series of these bonds, designated as "Los Angeles School District General Obligation Bonds, Election of 2002, Series A (2003)" in February 2003 at a par value of $2.1 billion. Part of Series "A" were refunded as follows: $131.94 million in February 2006 from 2006 General Obligation Refunding Bonds Series A, $330.15 million in November 2006 from 2006 General Obligation Refunding Bonds Series B, $1,120.8 million in January 2007 from 2007 General Obligation Refunding Bonds Series A-1 and A-2. The District issued Series "B" for $500.0 million on February 22, 2007 and Series "C" for $150.0 million on August 16, 2007. The proceeds of the Bonds would be applied to fund the costs of various components of the Measure K Projects. With the issuance of Series "C", the District has $ 600 million remaining under the Measure K authorization.

Measure R or the Safe and Healthy Neighborhood Schools Improvement Act of 2004 was passed on March 2, 2004. The District was authorized to issue and sell up to $3.87 billion in General Obligation

Bonds (Bonds) to provide financing for the specific school facilities projects subject to all of the accountability safeguards such as annual performance audits until all of the proceeds have been spent in accordance with this measure. All Bond expenditures are subject to review and oversight of the Citizen's Bond Oversight Committee.

Measure R Bonds continue to support the building effort as described in the Strategic Execution Plan (SEP) of the District that establishes priorities to repair and upgrade older schools, to build new neighborhood schools, and to reduce overcrowding. Repairs include "health and safety" projects such as asbestos/lead paint abatement, seismic work, classroom and restroom repair, and fire safety upgrades. In addition, Measure R funds may be used for classroom computer technology upgrades, library books, and the creation of small learning communities to personalize student learning. No Bond money may be used for administrators' salaries or day-to-day operating costs of the District.

The first $212.8 million of Measure R Bonds include premium amounts of $12.8 million and principal amounts of: Series "A" of $72.63 million issued on September 15, 2004, Series "B" of $60.475 million issued on September 15, 2004, Series "C" of $50.0 million issued on September 15, 2004, Series "D" of $16.895 million issued on September 22, 2004, Series "E" of $400.0 million issued on August 10, 2005, Series "F" of $500.0 million issued on February 16, 2006, Series "G" of $400.0 million issued on August 17, 2006, and Series "H" of $550.0 million issued on August 16, 2007. A portion of the proceeds was applied to finance new construction, acquisition, rehabilitation, and upgrading of school facilities and acquisition of equipment. With the issuance of Series "H", the District has $ 1.820 billion remaining under the Measure R authorization.

The first $150 million of the proceeds were used to partially refund principal and interest payments of the 2000 Series B Certificates of Participation (COPs) and the 2002 Series B COPs. Principal payments of $84.94 million and $58.48 million were refunded, respectively. The remaining $50 million was transferred to the Measure R Fund for Measure R projects described in the SEP.

Measure Y or the Safe and Healthy Neighborhood Schools Repair and Construction Act of 2005 was passed on November 8, 2005. It authorized the District to issue and sell up to $3.985 billion in General Obligation Bonds to provide funds for the renovation, modernization, construction, and expansion of school facilities. The District has established a separate Measure Y Building Fund to account for the income and expenditures of the bond proceeds.

The first $394.4 million of Measure Y bonds were issued on February 22, 2006 and include: Series "A" for $56.8 million, Series "B" for $80.2 million, Series "C" for $210.0 million, and Series "D" for $47.4 million. All of the proceeds except for Series "C" were used to advance refund and defease $56.3 million of the 2002 Series B COPs, $78.9 million of the 2003 Series A COPs and $42.0 million of the 2004 Series A and B COPs. The Series "C" proceeds were used to fund school buses and other capital projects. Subsequently, on August 16, 2007, the District issued Series "E" for $ 300.0 million to finance various components of Measure Y projects. With this issuance, the District has $ 3.290 billion remaining under the Measure Y authorization.

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 control adequately safeguards assets and provides 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, under Assembly Bill 1200 (Chapter 1213, Statutes of 1991), has utilized a dual-adoption budget schedule. The District has adopted a Superintendent's Provisional Budget prior to the State-mandated July 1 deadline and a Superintendent's Final Budget no later than September 8. On October 28, 2008, the Board elected to use a single-adoption budget schedule for 2009-2010 which requires Final Budget adoption July 1.

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.

Cash Management

Cash temporarily idle during the year and not needed immediately for operations is invested. Substantially all of the District's cash is deposited in the Los Angeles County treasury. The District is limited by EC §41015 and Government Code Section 53601 to investmenting in: U.S., state, or local government securities or U.S. government guaranteed securities; banker's acceptances or negotiable certificates of deposits issued by a nationally or state-chartered bank or savings and loan association; and commercial paper of "prime quality." These guidelines are followed by the County Treasurer's Office in making pool and specific investments for the District. At June 30, 2007, the District's cash in the county pool was $3,432.7 million.

The District also maintains some cash deposits with various banking institutions. At June 30, 2007, cash deposits, including imprest funds in schools and offices, were $30.6 million. These deposits are either covered by federal depository insurance or collateralized at the rate of 110% of the deposits.

The District also had $63.5 million in cash deposit accounts held by various trustees for the acquisition or construction of fixed assets, for the repayment of long-term debt, and for the repayment of tax and revenue anticipation notes.

Income earned from all cash deposits in 2006-2007 was $236.3 million.

The District maintains various insurance programs, the majority of which are partially or entirely self-insured, while the smaller and/or specialized types of coverage are placed with commercial insurance carriers including excess property coverage ($1 billion above a $500,000 self-insurance retention for 2006-2007) for loss due to fire.

The District is self-insured for its Workers' Compensation Program and partially self-insured for the Liability Insurance (excess coverage of $45 million above a $3 million self-insurance retention for 2006-2007) and Health and Welfare Insurance Programs. Separate Funds are used to account for amounts set aside to pay claims incurred and related expenditures under the respective insurance programs.

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

Such liabilities are estimates of the future expected settlements and are based upon analysis of historical patterns of the number of incurred claims and their values. Individual reserves are continually monitored and reviewed, and as settlements are made, or reserves adjusted, differences are reflected in current operations. (See Note 9 on pages 49 and 50 for a further discussion of Risk Management).

The District has implemented an Owner Controlled Insurance Program (OCIP) covering new construction and renovation projects funded by school bonds. Under an OCIP, owners provide general liability and workers' compensation insurance coverage to construction contractors. Because contractors remove insurance costs from their bids, savings accrue to the owner. Under the District's OCIP program, workers' compensation coverage with statutory limits, and primary general liability and excess liability coverage with limits of $100 million have been underwritten by three major insurance carriers. Savings to the District over the life of the construction program are estimated to be approximately $72 million under OCIP I (05/01/1999 – 05/01/2006) and $117 million under OCIP II (05/01/2006 – 05/01/2013).

The District also has purchased environmental insurance coverage for the construction program. Two policies protect certain contractors and the District from losses resulting from environmental-related incidents occurring during construction, and one policy provides optional coverage to ensure that site clean-up cost overruns are not borne by the District. The limits of coverage on the clean-up cost-cap policy are variable by specific project while the other policies have limits of $50 million each.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Los Angeles Unified School District for its comprehensive annual financial report for the fiscal year ended June 30, 2006. This was the third consecutive year that the Los Angeles Unified School District has achieved this prestigious award. 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.

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 2006-2007 is KPMG LLP. The independent auditors' report on the basic financial statements is presented in the Financial Section of this report on page 1.

Office of the Inspector General

In addition to the independent audit, the District has an Office of the Inspector General (OIG). The OIG reports directly to the Board of Education and is comprised of both auditors and investigators that are authorized to examine any and all functions within the District as well as those entities that do business with the District. The OIG is responsible for detecting and preventing waste, fraud, and abuse; recommending improvements to management controls; and increasing efficiency of operations.

Acknowledgments

We wish to express our appreciation to the Division of Accounting and Disbursement team and the various District divisions who assisted in the preparation of this report.

Respectfully submitted,

David L. Brewer III
Superintendent of Schools

Prepared by:

Timothy S. Rosnick
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, 2006

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

Marlene Canter

Marguerite Poindexter LaMotte

Tamar Galatzan
(Term started July 1, 2007)

Jon Lauritzen
(Term ended June 30, 2007)

David Tokofsky
(Term ended June 30, 2007)

Julie Korenstein

Yolie Flores Aguilar
(Term started July 1, 2007)

Richard Vladovic
(Term started July 1, 2007)

Mike Lansing
(Term ended June 30, 2007)

PRINCIPAL SCHOOL DISTRICT OFFICIALS

David L. Brewer III
Superintendent of Schools

Megan K. Reilly
Chief Financial Officer
(Effective December 3, 2007)

Joseph P. Zeronian
Interim Chief Financial Officer
(July 9, 2007 – March 31, 2008)

Charles A. Burbridge
Chief Financial Officer
(Resigned effective July 10, 2007)

Ramon C. Cortines
Senior Deputy Superintendent

Timothy S. Rosnick
Controller
(Effective June 9, 2008)

Kenji K. Furuya
Interim Controller
(September 6, 2007 – June 30, 2008)

Betty T. Ng
Controller
(Resigned effective September 4, 2007)

LOCAL DISTRICT SUPERINTENDENTS

Jean Brown

Michelle King
(Effective February 19, 2008)

Carmen N. Schroeder

Carol Truscott

Myrna Rivera
(Resigned effective December 31, 2006)

Grace Strauther
(Retired effective June 23, 2007)

Alma Pena-Sanchez
(Effective April 23, 2008)

Richard Alonzo

Martin Galindo

Linda Del Cueto
(Effective July 1, 2007)

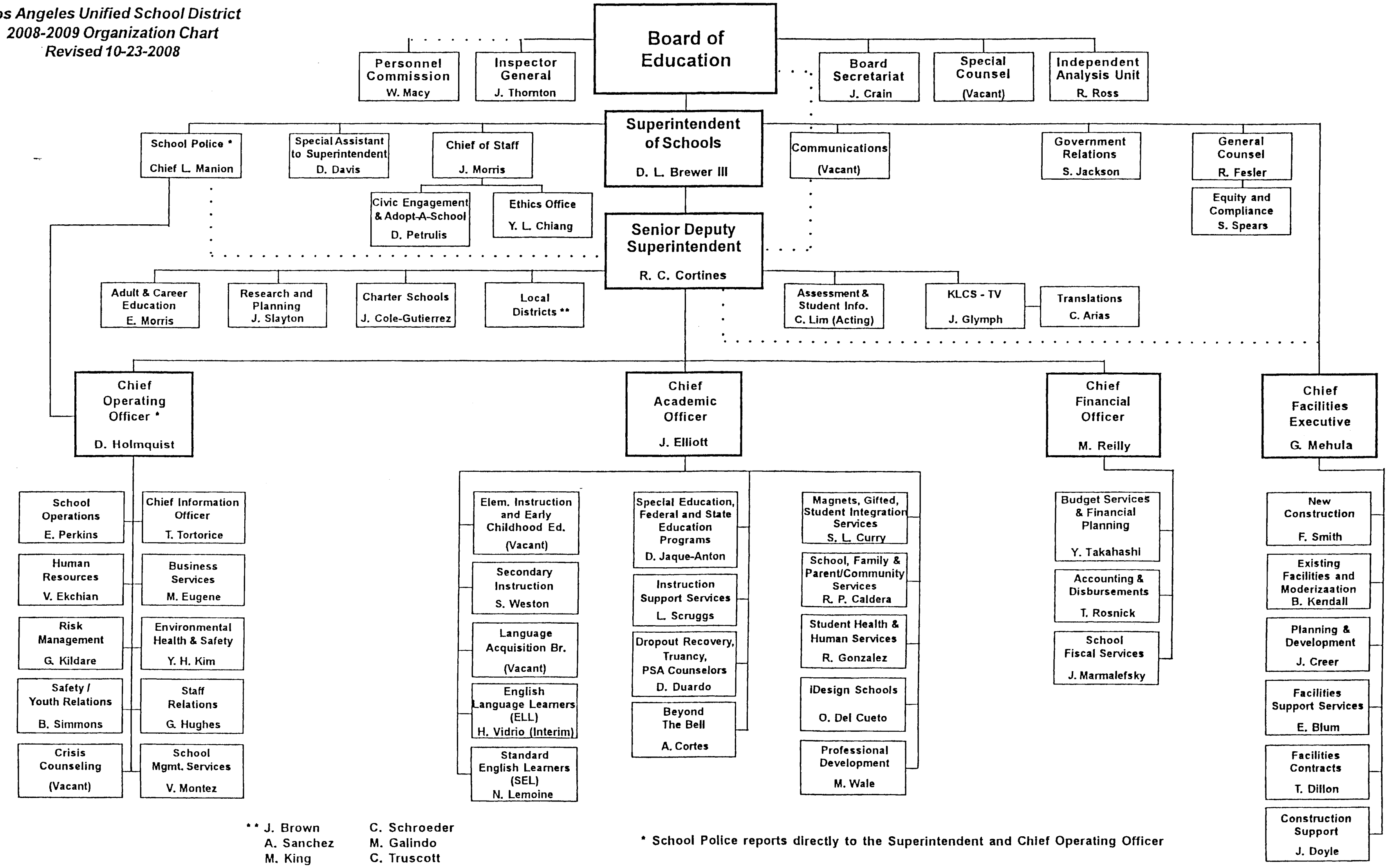
Sue Shannon
(Retired effective June 30, 2006)

James Morris
(July 1, 2006 – March 21, 2008)

Los Angeles Unified School District

Organization of Central Support System

Los Angeles Unified School District
2008-2009 Organization Chart
Revised 10-23-2008



** J. Brown, A. Sanchez, M. King, R. Alonzo, C. Schroeder, M. Galindo, C. Truscott, L. Del Cueto

* School Police reports directly to the Superintendent and Chief Operating Officer

FINANCIAL SECTION

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KPMG LLP
Suite 2000
355 South Grand Avenue
Los Angeles, CA 90071-1568

Independent Auditors' 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, 2007, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the Education Audit Appeals Panel's *Standards and Procedures for Audits of California K-12 Local Educational Agencies*. 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, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2007, 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 U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2008 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 3 through 14 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles.

We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, the supplementary information section, the statistical section, and the state and federal compliance information section are presented for the 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 not a required part of the basic financial statements. The supplementary information listed in the supplementary section (pages 63 to 119) and the information on pages 179 to 184 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 taken as a whole. The information in the introductory section, the supplemental information section, the statistical section, and pages 186 to 188 in the state and federal compliance information section have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

KPMG LLP

December 5, 2008

As management of the Los Angeles Unified School District (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, 2007. 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-ix of this report.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by $5.2 billion (net assets). Of this amount, $396.5 million (unrestricted net assets) may be used to meet the District's ongoing obligations to students and creditors.
- The District's total net assets increased by $1.03 billion from prior year total, primarily due to the revenue increases in operating and capital grants and contributions, property taxes, and State aid formula grants, and unrestricted investment earnings.
- As of the close of the 2007 fiscal year, the District's governmental funds reported combined ending fund balances of $3.1 billion, an increase of $284.1 million from June 30, 2006.
- At the end of the current fiscal year, unreserved fund balance for the General Fund, including designated for economic uncertainties, was $362.1 million, or 5.4% of total General Fund expenditures.
- The District's total long-term obligations increased by $661.6 million (9.4%) during the current fiscal year. The increase resulted primarily from new issues of general obligation bonds partially offset by a decrease in workers' compensation self-insurance claims.

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 15-16 of this report.

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

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

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

The District maintains 23 individual governmental funds. In the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances, separate columns are presented for General fund, District bonds fund, and all others. Individual account data for each of the District bonds and all other nonmajor governmental funds are provided in the form of *combining statements* elsewhere in this report.

The District adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with the budget.

The governmental fund financial statements can be found on pages 17 and 19 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 Workers' Compensation Self-Insurance Fund had a deficit fund balance at the beginning of the fiscal year, but ended the year with a positive balance as a result of reforms enacted by the State as well as aggressive loss control measures undertaken by the District over the past three years.

The proprietary fund financial statements can be found on pages 22-24 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The fiduciary fund financial statements can be found on pages 25-26 of this report.

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 27-61 of this report.

Combining and individual fund schedules and statements. The combining schedules and statements showing the individual District bond accounts and nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund schedules and statements can be found on pages 63-107 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 $5.2 billion at the close of the most recent year.

By far the largest portion of the District's net assets (62.8%) 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.

Approximately 29.7% of the District's net assets ($1.5 billion) represent resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets ($396.5 million) may be used to meet the District's ongoing obligations to students and creditors.

At the end of the 2007 fiscal year, the District is able to report positive balances in all categories of net assets. The same situation held true for the prior fiscal year.

The $1.3 billion increase in capital assets primarily relates to the continuing school construction and modernization projects throughout the District.

Long-term liabilities increased by $661.6 million due to issuance of general obligation bonds, offset by a decrease in self-insurance claims.

(Continued)

Summary Statement of Net Assets (In Thousands)

As of June 30, 2007 and 2006:

	Governmental Activities	
	2007	**2006**
Current Assets	$ 5,379,090	$ 4,931,309
Capital Assets	9,084,998	7,797,753
Total Assets	14,464,088	12,729,062
Current Liabilities	1,544,921	1,497,680
Long-term Liabilities	7,714,758	7,053,181
Total Liabilities	9,259,679	8,550,861
Net Assets:		
Invested in capital assets, net of related debt	3,267,458	2,866,293
Restricted:		
Restricted for debt service	268,111	309,525
Restricted for program activities	1,272,311	779,640
Unrestricted	396,529	222,743
Total Net Assets	$ 5,204,409	$ 4,178,201

Summary Statement of Changes in Net Assets (In Thousands)

As of June 30, 2007 and 2006:

	Governmental Activities 2007	Governmental Activities 2006
Revenues:		
Program Revenues:		
Charges for services	$ 132,737	$ 119,327
Operating grants and contributions	3,178,967	2,971,836
Capital grants and contributions	436,408	374,192
Total Program Revenues	3,748,112	3,465,355
General Revenues:		
Property taxes levied for general purposes	811,282	644,637
Property taxes levied for debt service	444,951	331,097
Property taxes levied for community redevelopment	4,479	1,713
State aid – formula grants	2,901,720	2,781,133
Grants, entitlements, and contributions not restricted to specific programs	531,067	441,396
Unrestricted investment earnings	149,311	138,346
Miscellaneous	12,456	6,386
Total General Revenues	4,855,266	4,344,708
Total Revenues	8,603,378	7,810,063
Expenses:		
Instruction	4,142,927	4,032,673
Support services:		
Support services – students	310,786	298,911
Support services – instructional staff	589,566	650,551
Support services – general administration	56,323	46,913
Support services – school administration	477,168	466,862
Support services – business	123,791	106,523
Operation and maintenance of plant services	638,201	599,899
Student transportation services	168,121	161,395
Data processing services	114,630	115,311
Operation of noninstructional services	288,736	282,992
Facilities acquisition and construction services	104,746	135,827
Other uses	418	799
Interest expense	342,058	285,051
Interagency disbursements	39,371	33,678
Depreciation – unallocated	180,328	130,561
Total Expenses	7,577,170	7,347,946
Changes in Net Assets	1,026,208	462,117
Net assets beginning	4,178,201	3,716,084
Net assets – ending	$ 5,204,409	$ 4,178,201

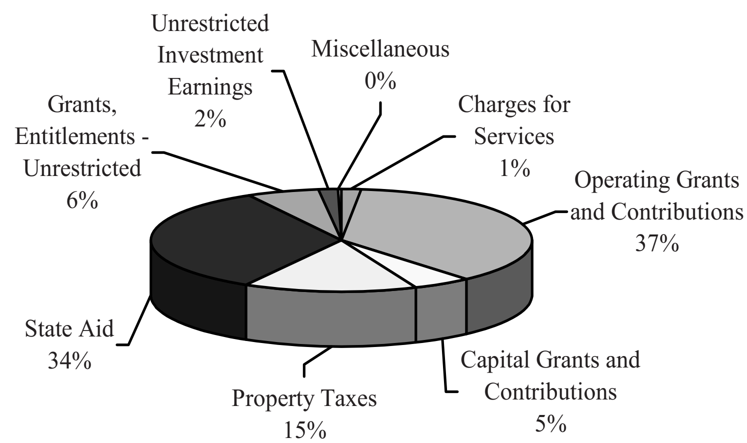
(Continued)

The District's net assets increased by $1.03 billion in the current fiscal year. The major components of this increase are as follows:

- Capital grants and contributions increased by $62.2 million due to higher school facilities apportionments resulting from passage of new State bonds; operating grants and contributions increased by $207.1 million largely from new State grants implemented during the year; and total general revenues increased by $510.6 million primarily due to higher property taxes and State aid apportionments.

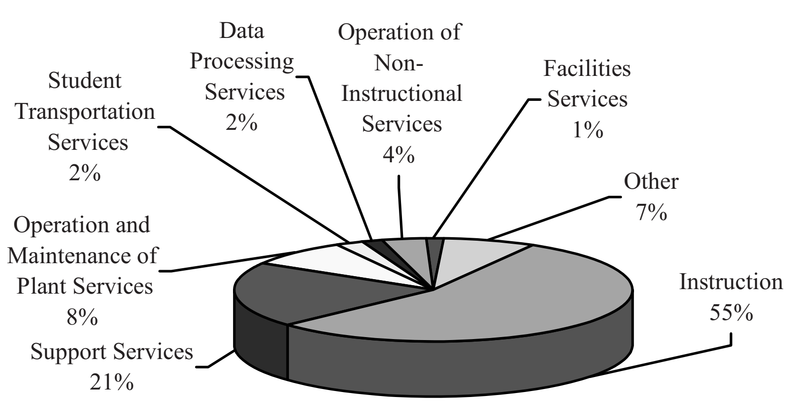
The following graph shows that operating grants and contributions and state aid are the main revenue sources of the District.

Revenues by Source
Year ended June 30, 2007



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

Expenses
Year ended June 30, 2007



Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to facilitate compliance with finance-related requirements.

Governmental funds. The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the District's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of $3.1 billion, an increase of $284.1 million in comparison with the prior year. Approximately 76.5% ($2.4 billion) of this total combined ending fund balance constitutes unreserved fund balance, which is available for spending at the District's discretion. The remaining 23.5% is reserved to indicate that it is not available for new spending because it has already been committed for: debt service ($383.3 million), legally restricted balances ($322.2 million), inventories and prepaid expenses ($15.8 million), and revolving cash ($6.3 million).

The General Fund is the primary operating fund of the District. At the end of the 2007 fiscal year, the unreserved fund balance of the General Fund was $362.1 million, while the total fund balance reached $695.2 million. As a measure of the General Fund's liquidity, it may be useful to compare both the unreserved fund balance and the total fund balance to the total fund expenditures. The unreserved fund balance represents 5.4% of the total General Fund expenditures, while the total fund balance represents 10.4% of that same amount.

The fund balance of the District's General Fund increased by $260.7 million during the current fiscal year as a result of higher revenues from mandated cost reimbursements, new State grants and other State apportionments, partially offset by higher salaries and employee benefits and operating expenditures.

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

		Other Governmental Funds				
	District Bonds	Special Revenue	Debt Service	Other Capital Projects	County School Facilities Bond	Total
Fund balance, June 30, 2007:						
Reserved for:						
Revolving cash and imprest funds	$ 3,300	$ 156	$ —	$ —	$ —	$ 156
Inventories	—	7,715	—	—	—	7,715
Debt service	—	—	383,275	—	—	383,275
Unreserved	949,738	245,129	—	369,299	435,541	1,049,969
Total	953,038	253,000	383,275	369,299	435,541	1,441,115
Fund balance, July 1, 2006	1,100,159	195,045	302,482	428,120	344,922	1,270,569
Increase (decrease) in fund balance	$ (147,121)	$ 57,955	$ 80,793	$ (58,821)	$ 90,619	$ 170,546

The fund balance increased during the current year: for the Special Revenue primarily from unspent Deferred Maintenance apportionment; for the Debt Service, from the deposit into the Bond Interest and Redemption Fund of property taxes levied to pay principal and interest on bond issues; and for the County School Facilities Bonds as a result of apportionments from the State bond proceeds. The fund balance decreased for the District Bonds and Other Capital Projects due to spending for continuing school construction and renovation projects.

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 $95.3 million. The net increase of $259.3 million in the current year is largely the result of lower claims expense in the Workers' Compensation Self-Insurance Fund. This is the result of workers' compensation reforms implemented by the State as well as District activities to improve investment earnings on fund balances, improve third party management of claims, and reduce workers' compensation fraud.

General Fund Budgetary Highlights

Differences between the original 2006-2007 General Fund budget (the 2006-2007 Final Budget adopted by the Board of Education in August of 2006) and the final amended budget resulted in a net decrease to the overall 2006-2007 General Fund ending balance. This net decrease resulted primarily from spending down of balances relating to entitlements carried forward from previous years. The combined increase of $98.2 million in certificated and classified salaries represented fiscal year 2005-2006 salary increases paid in fiscal year 2006-2007 for some employee groups. The increase of $91.6 million in services and other operating expenditures and increase of $38.7 million in the object for other outgo represented budget transfers made for expenditures occurring in other objects as partially reflected in the decrease of $139.0 million in books and supplies expenditures. The District closely reviews its revenue and expenditure data to ensure that a sufficient ending balance is maintained. This review occurs throughout the fiscal year, utilizing the State-mandated first and second interim financial reports, and at year end utilizing the actual revenue and expenditure data for the prior fiscal year.

The $(179.0) million variance in revenues and other financing sources between final budget and actual occurred primarily because multi-year categorical program revenues were budgeted in their entirety but earned only to the extent that expenditures occurred. This accounts for $(244.3) million of the difference. This amount is partially offset by $65.3 million in General Fund, Regular Program revenues above the 2006-07 Final Budget amount. This increase resulted from a number of factors, the most important of which was on unanticipated revenues for mandated cost reimbursements resulting from the State releasing funds that had been withheld in the 2006-07 State Budget and prior years' budgets.

The $(159.3) million variance in books and supplies expenditures and the $(117.3) million variance in services and other operating expenditures between final budget and actual occurred primarily because of underexpenditure in both unrestricted and restricted programs, resulting in part from late receipt of State funds and in part because expenditures in categorical (specially funded) programs were less than the budget. A significant portion of the categorical variances resulted from the factor described in the revenue variance – the full budgeting of expenditures in the first year of a multiyear grant.

Capital Assets and Debt Administration

Capital assets. The District's investment in capital assets for its governmental activities as of June 30, 2007 amounts to $9.1 billion (net of accumulated depreciation), a 16.5% increase from the prior year. This investment in capital assets includes sites, improvement of sites, buildings and improvements, equipment and construction in progress.

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 $2.2 billion.
- Various building additions and modernizations were completed at a cost of $1.6 billion.
- A total of 13 new schools were completed in 2007 of which ten opened in the 2006-2007 and three will be opening their doors during the 2007-2008 school year to new students.

Capital Assets (net of accumulated depreciation)

As of June 30, 2007 and 2006 (in thousands):

	Governmental Activities	
	2007	**2006**
Sites	$ 2,373,208	$ 2,105,429
Improvement of sites	166,422	133,754
Buildings and improvements	4,236,613	2,896,905
Equipment	128,537	115,773
Construction in progress	2,180,218	2,545,892
Total	$ 9,084,998	$ 7,797,753

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

Long-term obligations. At the end of the current fiscal year, the District had total long-term obligations of $7.7 billion. Of this amount, $6.6 billion comprises debt to be repaid by voter-approved property taxes and not the General Fund of the District.

Outstanding Obligations

Summary of long-term obligations is as follows (in thousands):

	Governmental Activities	
	2007	**2006**
General Obligation Bonds	$ 6,645,329	$ 5,803,689
State School Building Aid Fund	591	880
Liability for compensated absences	68,765	78,309
Certificates of Participation (COPs)	413,425	429,974
Capital Lease Obligations	5,261	6,619
Children's Center Facilities Revolving Loan	792	792
California Energy Commission Loan	1,058	1,243
Self-insurance claims	567,571	731,675
Arbitrage Payable	11,966	—
Total	$ 7,714,758	$ 7,053,181

The District's total long-term obligations increased by $661.6 million (9.4%) during the current fiscal year. The key factors in this increase were the issuances of general obligation bonds during the year, offset by the reduction in workers' compensation claims reserves.

During the year, the District issued the following general obligation bonds and general obligation refunding bonds:

- On August 17, 2006, the District issued $400 million of General Obligation Bonds, Election 2004 (Measure R), Series G to fund new school construction, modernization, and other capital projects for the Measure R portion of the bond program.
- On November 15, 2006, the District issued $574.9 million of 2006 General Obligation Refunding Bonds, Series B to advance refund a portion of each of the General Obligation Bonds, Election of 1997 (Prop BB), Series E (2002) and Election of 2002 (Measure R), Series A (2003).
- On January 31, 2007, the District issued $1,153.2 million of 2007 General Obligation Refunding Bonds, Series A-1 to advance refund a portion of the General Obligation Bonds, Election of 2002 (Measure K), Series A (2003). In addition, the District issued $136.1 million of 2007 General Obligation Refunding Bonds, Series A-2 to advance refund a portion of the General Obligation Bonds, Election of 1997 (Prop BB), Series F (2003).
- On February 22, 2007, the District issued $500 million of General Obligation Bonds, Election 2002 (Measure K), Series B to fund new school construction, modernization, and other capital projects for the Measure K portion of the bond program.
- On February 22, 2007, the District issued $24.8 million of 2007 General Obligation Refunding Bonds, Series B to advance refund a portion of General Obligation Bonds, Election of 1997 (Prop BB), Series E (2002).

The District's current underlying ratings on its general obligation bonds are "Aa3", "AA-" and "A+" from Moody's Investors Service (Moody's), Standard and Poor's Ratings Group (S&P) and Fitch Ratings (Fitch), respectively. The District's current underlying ratings on its nonabatable leases (COPs) are "A1", "A+" and "A-" from Moody's, S&P and Fitch, respectively; for abatable leases (COPs), the underlying ratings are "A2", "A+" and "A-" from Moody's, S&P and Fitch, respectively. The District has purchased municipal bond insurance for some of its COPs and bonds. The insured COPs and bonds have received the ratings of "Aaa", "AAA" and "AAA" by Moody's, S&P and Fitch, respectively. Subsequent to June 30, 2007, the ratings associated with certain existing insured District debt were changed due to downgrades of many municipal bond insurers. See Subsequent Events on page 13 for more information.

State statutes limit the amount of general obligation bond debt a unified school district may issue to 2.5% of its total taxable property. The debt limitation for the District as of June 30, 2007 is $10.1 billion, which is in excess of the District's outstanding general obligation bond debt.

Additional information on the District's long-term obligations can be found in Notes 9, 10 and 11 on pages 49-56 of this report.

Subsequent Events, Economic Factors, and Next Year's Budget and Rates

State of California and Los Angeles Unified School District Fiscal Outlook

Governor Arnold Schwarzenegger signed the 2007-2008 State Budget Act on August 24, 2007. The State Budget was balanced without the need for issuances of deficit-financing bonds, and continued to reflect the out-of-court settlement of the *California Teachers' Association v. Schwarzenegger* lawsuit, which was intended to provide to public education its "fair share" of increased 2004-2005 and 2005-2006 State revenues that were initially withheld by the Governor.

The settlement of the lawsuit, and the strength of California's economy, brought about a sizable increase in State funding for public education in 2006-2007. As part of the settlement, $2.9 billion in K-12 funding will be spread over future years, beginning in 2007-2008.

The 2007-2008 State Budget Act provided to public education a fully funded cost-of-living adjustment (COLA) of 4.53%. No new equalization funding was provided, and few new K-12 categorical programs were enacted. The State's financial outlook for 2008-2009 and subsequent out years remains uncertain. The nonpartisan Legislative Analyst's Office (LAO) has estimated that the State will face deficits of $5 billion or more in 2008-2009 and 2009-20010, and continues to stress the need for structural changes in the State's finances. Given the high level of dependency of public education on State revenues, particularly relatively volatile revenue sources such as State income, sales, and property taxes, the District must continue to review the State's finances closely. As always, the District continues its efforts to build a budget that is both fiscally and structurally balanced.

Bond Insurer Rating Changes

In November 2007, bond rating agencies announced that they would be reviewing the financial strength of municipal bond insurers in light of their losses insuring mortgage backed securities. Their analysis resulted in the downgrading of most municipal bond insurers by one or more of the rating agencies.

Bond insurers that insure District bonds were included in the list of downgraded insurers. This caused the ratings on the insured debt to fall to the higher of the bond insurer's new rating or the District's underlying rating.

In addition, three variable-rate Certificates of Participation which were insured by downgraded insurers has experienced markedly higher interest rates of up to 9.95% since the rating downgrades. The District has refinanced two of the COPs to eliminate the bond insurer. The District is currently reviewing alternatives to mitigate the impact of the bond insurer downgrade for the third issue.

Debt Issuances

Since June 30, 2007, the District has issued the following debt:

- On August 16, 2007, the District issued $150 million of Measure K, Series C General Obligation Bonds, $550 million of Measure R, Series H General Obligation Bonds, and $300 million of Measure Y, Series E General Obligation Bonds.
- On November 15, 2007, the District issued $99,660,000 of Certificates of Participation 2007 Series A to fund various Information-Technology projects.

(Continued)

- On December 11, 2007, the District issued $600 million of Tax and Revenue Anticipation Notes. The District made required deposits of $210 million on February 28, 2008, $210 Million on March 28, 2008, and $205.1 million on April 30, 2008 in anticipation of repayment of the TRANs on December 31, 2008.
- On July 31, 2008, the District issued $500 million of Tax and Revenue Anticipation Notes that mature on July 30, 2009 that carry a coupon of 3.00%, and had an arbitrage yield of 1.515%.

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, 2007
(in thousands)

	Governmental Activities
Assets:	
Cash and cash equivalents	$ 3,487,080
Investments	923,425
Property taxes receivable	46,689
Accounts receivable, net	786,845
Accrued interest receivable	70,901
Prepaid expense	15,597
Deferred charges	32,730
Inventories	15,823
Capital assets:	
Sites	2,373,208
Improvement of sites	430,979
Buildings and improvements	5,803,185
Equipment	1,145,089
Construction in progress	2,180,218
Less accumulated depreciation	(2,847,681)
Total Capital Assets, Net of Depreciation	9,084,998
Total Assets	14,464,088
Liabilities:	
Vouchers and accounts payable	374,553
Contracts payable	155,901
Accrued payroll	586,384
Other payables	6,099
Unearned revenue	60,986
Tax and revenue anticipation notes and related interest payable	360,998
Long-term liabilities:	
Portion due within one year	373,698
Portion due after one year	7,341,060
Total Liabilities	9,259,679
Net Assets:	
Invested in capital assets, net of related debt	3,267,458
Restricted for:	
Debt service	268,111
Program activities	1,272,311
Unrestricted	396,529
Total Net Assets	$ 5,204,409

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Statement of Activities

Year Ended June 30, 2007

(in thousands)

Functions/programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Governmental activities:					
Instruction	$ 4,142,927	$ 3,357	$ 1,707,841	$ —	$ (2,431,729)
Support services – students	310,786	—	205,621	—	(105,165)
Support services – instructional staff	589,566	184	472,633	—	(116,749)
Support services – general administration	56,323	—	1	—	(56,322)
Support services – school administration	477,168	—	145,581	—	(331,587)
Support services – business	123,791	10,592	85,947	—	(27,252)
Operation and maintenance of plant services	638,201	4,496	150,877	137,763	(345,065)
Student transportation services	168,121	—	163,325	—	(4,796)
Data processing services	114,630	—	10,135	—	(104,495)
Operation of noninstructional services	288,736	18,886	236,113	—	(33,737)
Facilities acquisition and construction services	104,746	95,222	893	298,645	290,014
Other uses	418	—	—	—	(418)
Interest expense	342,058	—	—	—	(342,058)
Interagency disbursements	39,371	—	—	—	(39,371)
Depreciation – unallocated	180,328	—	—	—	(180,328)
Total Governmental Activities	$ 7,577,170	$ 132,737	$ 3,178,967	$ 436,408	(3,829,058)
General revenues:					
Taxes:					
Property taxes, levied for general purposes					811,282
Property taxes, levied for debt service					444,951
Property taxes, levied for community redevelopment					4,479
State aid – formula grants					2,901,720
Grants, entitlements, and contributions not restricted to specific programs					531,067
Unrestricted investment earnings					149,311
Miscellaneous					12,456
Total General Revenues					4,855,266
Change in Net Assets					1,026,208
Net Assets – Beginning of Year					4,178,201
Net Assets – End of Year					$ 5,204,409

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Balance Sheet
Governmental Funds
June 30, 2007
(in thousands)

Assets:	General	District Bonds	Other Governmental Funds	Total Governmental Funds
Cash in county treasury, in banks, and on hand	$ 788,735	$ 885,652	$ 1,406,457	$ 3,080,844
Cash held by trustee	1,929	300	61,251	63,480
Investments	366,120	206,420	28,285	600,825
Taxes receivable	—	—	46,689	46,689
Accounts receivable – net	675,605	9,045	100,542	785,192
Accrued interest receivable	20,247	17,874	22,652	60,773
Due from other funds	884,036	33,799	10,159	927,994
Inventories	8,108	—	7,715	15,823
Total Assets	$ 2,744,780	$ 1,153,090	$ 1,683,750	$ 5,581,620
Liabilities and Fund Balances:				
Vouchers and accounts payable	$ 280,461	$ 47,924	$ 31,837	$ 360,222
Contracts payable	4,511	97,534	53,856	155,901
Accrued payroll	489,429	1,353	3,950	494,732
Other payables	78,725	3,333	17,544	99,602
Due to other funds	786,219	49,908	76,975	913,102
Deferred revenue	49,202	—	58,473	107,675
Tax and revenue anticipation notes and related interest payable	360,998	—	—	360,998
Total Liabilities	2,049,545	200,052	242,635	2,492,232
Fund Balances:				
Reserved	333,103	3,300	391,146	727,549
Unreserved:				
Designated	278,541	949,738	—	1,228,279
Designated, reported in:				
Special revenue funds	—	—	225,071	225,071
Capital projects funds	—	—	791,714	791,714
Undesignated	83,591	—	—	83,591
Undesignated, reported in:				
Special revenue funds	—	—	20,058	20,058
Capital projects funds	—	—	13,126	13,126
Total Fund Balances	695,235	953,038	1,441,115	3,089,388
Total Liabilities and Fund Balances	$ 2,744,780	$ 1,153,090	$ 1,683,750	$ 5,581,620

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, 2007

(in thousands)

Total Fund Balances – Governmental Funds	$	3,089,388
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 $11,932,679 and the accumulated depreciation is $2,847,681.		9,084,998
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.		46,689
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 fund are included within governmental activities.		95,253
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.		(7,144,649)
Other assets – deferred charges (cost of bond issuance, net of amortization) not reflected in fund financials		32,730
Total Net Assets – Governmental Activities	$	5,204,409

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, 2007
(in thousands)

	General	District Bonds	Other Governmental Funds	Total Governmental Funds
Revenues:				
Revenue limit sources	$ 3,723,602	$ —	$ 169,087	$ 3,892,689
Federal revenues	775,625	—	248,367	1,023,992
Other state revenues	2,302,105	—	551,874	2,853,979
Other local revenues	120,280	71,347	643,902	835,529
Total Revenues	6,921,612	71,347	1,613,230	8,606,189
Expenditures:				
Current:				
Certificated salaries	3,214,486	—	147,989	3,362,475
Classified salaries	981,104	40,416	158,962	1,180,482
Employee benefits	1,314,045	16,164	110,259	1,440,468
Books and supplies	373,908	6,281	127,297	507,486
Services and other operating expenditures	708,039	38,036	39,667	785,742
Capital outlay	34,835	1,091,449	368,650	1,494,934
Debt service – principal	3,753	—	149,505	153,258
Debt service – bond, COPs, and capital leases interest	656	—	284,659	285,315
Debt service – refunding bond issuance cost	—	—	9,665	9,665
Other outgo	46,865	—	—	46,865
Total Expenditures	6,677,691	1,192,346	1,396,653	9,266,690
Excess (Deficiency) of Revenues Over (Under) Expenditures	243,921	(1,120,999)	216,577	(660,501)
Other Financing Sources (Uses):				
Transfers in	60,900	144,305	157,727	362,932
Transfers – support costs	6,242	—	(6,242)	—
Transfers out	(55,669)	(78,147)	(233,110)	(366,926)
Issuance of bonds	—	900,000	—	900,000
Premium on bonds issued	—	7,720	25,929	33,649
Refunding bonds issued	—	—	1,889,000	1,889,000
Premium on refunding bonds issued	—	—	49,073	49,073
Discount on issuance of refunding bonds	—	—	(1,324)	(1,324)
Payment to refunded bonds escrow agent	—	—	(1,927,084)	(1,927,084)
Insurance proceeds – fire damage	2,935	—	—	2,935
Capital leases	2,394	—	—	2,394
Total Other Financing Sources (Uses)	16,802	973,878	(46,031)	944,649
Net Changes in Fund Balances	260,723	(147,121)	170,546	284,148
Fund Balances, July 1, 2006	434,512	1,100,159	1,270,569	2,805,240
Fund balances, June 30, 2007	$ 695,235	$ 953,038	$ 1,441,115	$ 3,089,388

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

Year Ended June 30, 2007

(in thousands)

Total Net Changes in Fund Balances – Governmental Funds	$	284,148
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 ($1,494,934) exceeds depreciation ($207,684) and loss on equipment disposal ($5) in the period.		1,287,245
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.		(2,394)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		153,444
Proceeds of new debt are reported as other financing sources in the governmental funds, but these receipts are considered long-term liabilities in the statement of net assets, including those used to refund older bonds, net of premium/discount amortization.		(2,858,361)
Bond issuance costs are reported as expenditures in the governmental funds, but presented as deferred charges, net of amortization of issuance costs.		15,332
Payments to escrow agents for refunded bonds are reported as other financing uses in the governmental funds, but these payments include defeasement of long-term liabilities in the statement of net assets.		1,927,084
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.		5,329
In the statement of activities, compensated absences are measured by the amounts 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). This year, vacation leave used exceeded the amounts earned.		10,091
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds 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 the interest accrues, regardless of when it is due.		(43,032)
Rebatable arbitrage is recognized in the government wide statements as soon as the underlying event has occurred but not until due and payable in the governmental funds.		(11,966)
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.		259,288
Changes in Net Assets of Governmental Activities	$	1,026,208

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, 2007
(in thousands)

	Budget			Variance with Final Budget – Favorable
	Original	Final	Actual	(Unfavorable)
Revenues:				
Revenue limit sources	$ 3,662,818	$ 3,701,549	$ 3,723,602	$ 22,053
Federal revenues	942,573	943,473	775,625	(167,848)
Other state revenues	2,267,737	2,288,926	2,302,105	13,179
Other local revenues	105,642	104,881	120,280	15,399
Total Revenues	6,978,770	7,038,829	6,921,612	(117,217)
Expenditures:				
Current:				
Certificated salaries	3,137,277	3,222,848	3,214,486	8,362
Classified salaries	971,177	983,764	981,104	2,660
Employee benefits	1,347,831	1,338,164	1,314,045	24,119
Books and supplies	672,279	533,250	373,908	159,342
Services and other operating expenditures	733,811	825,362	708,039	117,323
Capital outlay	76,681	49,243	34,835	14,408
Debt service – principal	4,575	4,575	3,753	822
Debt service – bond, COPs, and capital leases interest	948	948	656	292
Other outgo	8,466	47,197	46,865	332
Total Expenditures	6,953,045	7,005,351	6,677,691	327,660
Excess of Revenues Over Expenditures	25,725	33,478	243,921	210,443
Other Financing Sources (Uses):				
Transfers in	125,978	125,978	60,900	(65,078)
Transfers – support costs	8,627	6,789	6,242	(547)
Transfers out	(49,514)	(57,857)	(55,669)	2,188
Insurance proceeds – fire damage	—	—	2,935	2,935
Capital leases	1,999	1,999	2,394	395
Total Other Financing Sources	87,090	76,909	16,802	(60,107)
Net Changes in Fund Balances	112,815	110,387	260,723	150,336
Fund Balances, July 1, 2006	434,512	434,512	434,512	—
Fund Balances, June 30, 2007	$ 547,327	$ 544,899	$ 695,235	$ 150,336

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, 2007
(in thousands)

Assets:		
Cash in county treasury, in banks, and on hand	$	342,756
Investments		322,600
Accounts receivable – net		1,653
Accrued interest and dividends receivable		10,128
Prepaid expenses		15,597
Due from other funds		37,276
Total Assets		730,010
Liabilities:		
Current:		
Vouchers and accounts payable		14,331
Accrued payroll		449
Other payables		238
Due to other funds		52,168
Estimated liability for self-insurance claims		167,985
Total Current Liabilities		235,171
Noncurrent:		
Estimated liability for self-insurance claims		399,586
Total Liabilities		634,757
Total Net Assets – Unrestricted	$	95,253

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, 2007
(in thousands)

Operating Revenues:		
In-district premiums	$	925,232
Total Operating Revenues		925,232
Operating Expenses:		
Certificated salaries		110
Classified salaries		7,256
Employee benefits		3,161
Supplies		261
Premiums and claims expenses		677,724
Claims administration		14,826
Other contracted services		1,450
Total Operating Expenses		704,788
Operating Income		220,444
Nonoperating Revenues:		
Interest income		34,700
Other local income		150
Transfers in		3,994
Total Nonoperating Revenues		38,844
Change in Net Assets		259,288
Total Net Deficit, July 1, 2006		(164,035)
Total Net Assets June 30, 2007	$	95,253

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, 2007

(in thousands)

Cash Flows From Operating Activities:		
Cash payments to employees for services	$	(8,906)
Cash payments for goods and services		(880,245)
Receipts from assessment to other funds		940,971
Other operating revenue		14
Net Cash Provided By Operating Activities		51,834
Cash Flows From Investing Activities:		
Earnings on investments		30,405
Purchase of investments		53,689
Transfers in		3,994
Other local income		150
Net Cash Provided By Investing Activities		88,238
Net Increase in Cash and Cash Equivalents		140,072
Cash and cash equivalents, July 1		202,684
Cash and cash equivalents, June 30	$	342,756
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income	$	220,444
Adjustments to reconcile operating income to net cash provided by operating activities:		
Changes in operating assets and liabilities:		
(Increase) in accounts receivable		(737)
Decrease in prepaid expense		387
(Increase) in due from other funds		(1,633)
(Decrease) in vouchers and accounts payable		(19,098)
(Decrease) in accrued payroll		(243)
(Decrease) in other payables		(2,427)
Increase in due to other funds		19,245
(Decrease) in estimated liability for self-insurance claims – current		(2,878)
(Decrease) in estimated liability for self-insurance claims – noncurrent		(161,226)
Total Adjustments		(168,610)
Net Cash Provided By Operating Activities	$	51,834

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2007
(in thousands)

	Pension Trust Funds	Agency Fund
Assets:		
Cash in county treasury, in banks, and on hand	$ 18,591	$ 21,128
Investments, at fair value: Money market funds	450	—
Total Assets	19,041	21,128
Liabilities:		
Vouchers and accounts payable	4	—
Other payables	17,802	21,128
Total Liabilities	17,806	21,128
Total Net Assets – Held in Trust	$ 1,235	$ —

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds – Pension Trust Funds
Year Ended June 30, 2007
(in thousands)

Additions:		
Investment income	$	842
Total Additions		842
Deductions:		
Distributions to participants		1
Other contracted services		57
Total Deductions		58
Change in Net Assets		784
Total Net Assets, July 1, 2006		451
Total Net Assets, June 30, 2007	$	1,235

See accompanying notes to basic financial statements.

(1) Summary of Significant Accounting Policies

The Los Angeles Unified School District (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.

(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 17 and 19. 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 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.

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. Included in expenditures is other outgo which includes, among other things, transfers to charter schools in lieu of property taxes which are made by the District at the instruction of the State.

(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.

(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 2006-2007:

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 column represents the total of the following building accounts: Building Account – Bond Proceeds, 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.

Other Governmental Funds

The District has the following nonmajor governmental funds:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than for Capital Projects) that are legally restricted to expenditures for specified purposes. The District maintains the following Special Revenue Funds: Adult Education, Cafeteria, Child Development, and Deferred Maintenance.

Debt Service Funds – Debt Service Funds are used to account for all financial resources intended for the repayment of general long-term debt principal and interest. The District maintains the following Debt Service Funds: Bond Interest and Redemption, Tax Override, and Capital Services.

Capital Projects Funds – Capital Projects Funds are used to account for all financial resources related to the acquisition or construction of major capital facilities and equipment other than those financed by the General and Special Revenue Funds. The District maintains the following nonmajor Capital Projects Funds: Building, State School Building Lease-Purchase, Special Reserve, Special Reserve – FEMA-Earthquake, Special Reserve – FEMA-Hazard Mitigation, Special Reserve – Community Redevelopment Agency, Capital Facilities Account, County School Facilities, County School Facilities – Prop 47, County School Facilities – Prop 55, and County School Facilities – Prop 1D. The District Bonds Fund (Bond Proceeds, Measure K, Measure R, and Measure Y) is reported separately as a major fund in fiscal year 2006-2007.

Proprietary Funds

The District has the following Proprietary Funds:

Internal Service Funds – Internal Service Funds are used to account for all financial resources intended to provide self-insurance services to other operating funds of the District on a cost-reimbursement basis. The District maintains the following Internal Service Funds: Health and Welfare Benefits, Workers' Compensation Self-Insurance, and Liability Self-Insurance. The Health and Welfare Benefits Fund was established in 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:

Pension Trust Funds –Pension Trust Funds are used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, postemployment benefit plans or other employee benefit plans. The District maintains two types of pension trust funds:

> *Annuity Reserve Fund* – The Annuity Reserve Fund accounts for all financial resources used to provide additional retirement benefits to employees who were members of the District Retirement System on June 30, 1972. On November 18, 2003, participant members voted to dissolve the fund and distribute its net assets to the members. The fund's remaining equity as of June 30, 2007 is reserved to pay shares of unlocated participants and for other contingencies.

> *Attendance Incentive Reserve Fund* – The Attendance Incentive Reserve Fund is used to account for 50% of funds from salary savings as a result of reduced costs of absenteeism of the United Teachers of Los Angeles (UTLA) represented employees.

Agency Fund

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

(f) Budgetary Control and Encumbrances

School districts in California are required by Education Code Section 41010 to follow the California School Accounting Manual in preparing reports to the State. The District, under Assembly Bill 1200 (Chapter 1213/Statutes of 1991), has utilized a dual-adoption budget schedule. The District has adopted a Provisional Budget prior to the State-mandated July 1 deadline and a Final Budget no later than September 8. These budgets are revised by the District's Board during the year to give consideration to unanticipated revenues and expenditures (see Note 4 – Budgetary Appropriation Amendments). On October 28, 2008, the Board elected to use a single-adoption budget schedule for 2009-2010 which requires Final Budget adoption July 1.

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, Internal Service, and Pension Trust Funds.

Formal budgetary integration is employed as a management control device during the year for all budgeted funds. The District employs budgetary control by minor (sub) object and by individual program accounts. Expenditures may not legally exceed budgeted appropriations by major object level as follows: Certificated Salaries, Classified Salaries, Employee Benefits, Books and Supplies, Services and Other Operating Expenditures, Capital Outlay, Other Outgo, and Other Financing Uses.

The District utilizes an encumbrance system for all budgeted funds, except Proprietary and Fiduciary Funds, to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid or liabilities are incurred. All encumbrances expire at June 30; however, a reserve representing incomplete contracts is provided for at year end. Appropriation authority lapses at the end of the fiscal year.

(g) Cash and Investments

Cash includes amounts in demand deposits with the Los Angeles County Treasury and various financial institutions, imprest funds in schools and offices, and cafeteria change funds. The District maintains some cash deposits with various banking institutions for collection clearing, check clearing, or revolving fund purposes. The District also maintains deposit accounts held by various trustees for the acquisition or construction of capital assets and for the repayment of long-term debt.

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 the District's investments are stated at fair value based on quoted market prices.

(h) Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided, services rendered, or support to other funds. These receivables or payables are classified as "due from other funds" or "due to other funds" on the governmental funds balance sheet. Interfund balances within governmental activities are eliminated on the government-wide statement of net assets.

(i) Inventories

Inventories consist of expendable materials and supplies held for consumption, which are valued at cost, using the average-cost method. Except for food and cafeteria supplies, which are expended when received, inventories are recorded as expenditures when shipped to schools and offices. Balances of inventory accounts are offset by corresponding reservations of fund balance, which indicate that these amounts are not available for appropriation and expenditure.

(j) Capital Assets

Capital assets, which include sites, improvement of sites, buildings and improvements, equipment, and construction in progress, are reported in the government-wide financial statements. Such assets are valued at historical cost or estimated historical cost unless obtained by annexation or donation, in which case they are recorded at estimated market value at the date of receipt. The District utilizes a capitalization threshold of $25,000.

Projects under construction are recorded at cost as construction in progress and transferred to the appropriate asset account when substantially complete. Costs of major improvements and rehabilitation of buildings are capitalized. Repair and maintenance costs are charged to expense when incurred. Equipment disposed of, or no longer required for its existing use, is removed from the records at actual or estimated historical cost, net of accumulated depreciation.

All capital assets, except land and construction in progress, are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Improvement of sites	20
Buildings	50
Portable buildings	20
Building improvements	20
Furniture and fixtures	20
Playground equipment	20
Food services equipment	15
Transportation equipment	15
Telephone system	10
Reprographics equipment	10
Broadcasting equipment	10
Vehicles	8
Computer system and equipment	5
Office equipment	5

(k) Contracts Payable

Contracts payable include only the portion applicable to work completed and unpaid as of June 30, 2007. All significant incomplete portions of contracts are reported as reserved fund balance commitments at June 30, 2007 total $1.14 billion.

(l) Compensated Absences

All vacation leave is accrued in the government-wide statements when it is incurred. A liability is reported in 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 Public Employees' Retirement System (PERS) may use accumulated sick leave to increase their service years in the calculation of retirement benefits.

An attendance incentive plan was developed and adopted as part of the collective bargaining agreement between the District and UTLA in fiscal year 1992-1993. The objective of the plan is to reduce the cost of absenteeism by rewarding deserving teachers with cash bonuses based on their unused sick leave at the end of the fiscal year. Funding for the plan comes from the undisbursed balance of certain day-to-day substitute teacher accounts.

Annually, 50% of the savings in the account is disbursed as cash payments to eligible teachers and the remaining 50% is deposited in the Attendance Incentive Reserve Fund, to be disbursed in a lump-sum distribution as employees retire or terminate their employment with the District.

(m) Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, 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, while bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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 2006-2007, the District received local property taxes amounting to $811.3 million and State aid amounting to $2,901.7 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.

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Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The county apportions secured property tax revenue in accordance with the alternate method of distributions prescribed by Section 4705 of the California Revenue and Taxation Code. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll, approximately on October 1 of each year. The County Auditor reports the amount of the District's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local revenue limit sources by the District.

The California Department of Education reduces the District's entitlement by the District's local property tax revenue. The balance is paid from the State General Fund, and is known as the State Apportionment. As a result, a receivable has not been recorded for the related property taxes in the general fund as any receivable is offset by a payable on the state apportionment.

The District's base revenue limit is the amount of general purpose revenue, per average daily attendance (ADA), that the District is entitled to by law. This amount is multiplied by the second period ADA to derive the District's total entitlement.

(o) 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 a short-term debt instruments used to finance temporary cash flow deficits in anticipation of receiving taxes and other revenues. On October 19, 2005, the District issued $410.0 million of 2005-2006 Tax and Revenue Anticipation Notes (TRANs) with an overall weighted true interest cost of 2.9% and total premium of $5.6 million. These notes were retired on their due date of October 18, 2006.

On November 9, 2006, the District issued a total of $350.0 million of 2006-2007 TRANs with an overall weighted true interest cost of 3.4% and total premium of $3.2 million. The principal on the notes are payable at maturity on December 3, 2007 and interest on the notes are payable on November 9, 2007 and at maturity on December 3, 2007.

TRANs – Short-Term Notes Payable
(in thousands)

	Principal	Interest	Total
Beginning balance, July 1, 2006	$ 410,000	$ 19,382	$ 429,382
Additions	350,000	10,998	360,998
Deductions	(410,000)	(19,382)	(429,382)
Ending balance, June 30, 2007	$ 350,000	$ 10,998	$ 360,998

(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 $7,144,649 difference are as follows (in thousands):

Bonds payable	$	(6,645,329)
Certificates of participation (COPs)		(413,425)
State school building aid fund payable		(591)
Capital leases payable		(5,261)
Children center facilities revolving loan		(792)
California energy commission loan payable		(1,058)
Compensated absences		(65,709)
Arbitrage payable		(11,966)
Other		(518)
Net adjustment to reduce *total fund balances – governmental funds* to arrive at *net assets – governmental activities*	$	(7,144,649)

(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 *change in net assets of governmental activities* as reported in the accompanying government-wide statement of activities. One element of that reconciliation explains that "Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense." The details of this $1,287,245 difference are as follows (in thousands):

Capital outlay	$	1,494,934
Depreciation expense and loss on disposal		(207,689)
Net adjustment to increase *total fund balances – governmental funds* to arrive at *net assets – governmental activities*	$	1,287,245

Another element of that reconciliation states that "Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets." The details of this $153,444 difference are as follows (in thousands):

General obligation bonds	$	133,100
Certificates of participation		16,130
Capital leases		3,753
California energy commission loan		186
State school building aid fund payable		275
Net adjustment to increase *total fund balances – governmental funds* to arrive at *net assets – governmental activities*	$	153,444

Other material elements of that reconciliation are proceeds of new debt and payments to escrow agents of refunded debt, the details of which are as follows (in thousands):

Details of proceeds of new debt principal:

Bond issuance on new capital projects	$	(900,000)
Bond issuance that refunded bonds		(1,889,000)
Unamortized 2006-2007 bond premium		(80,583)
Unamortized 2006-2007 bond discount		1,307
Amortization of prior year bond premium		9,915
Net adjustment to reduce *total net change in fund balances – governmental funds* to arrive at *change in net assets of governmental activities*	$	(2,858,361)

Details of payments to escrow agents of refunded debt:

Payment to bond escrow agent from proceeds of refunding bonds:		
Principal of refunded debt	$	1,837,485
Deferred charge – bond refunding		89,599
Net adjustment to reduce *total net change in fund balances – governmental funds* to arrive at *change in net assets of governmental activities*	$	1,927,084

(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 $62.5 million. The additional expenditure appropriations were funded by higher than anticipated other financing sources in the General Fund budget.

(5) Cash and Investments

Cash and investments as of June 30, 2007 are classified in the accompanying basic financial statements as follows (in thousands):

Statement of net assets:		
Cash and investments	$	4,347,025
Cash and investments held by trustee		63,480
Subtotal		4,410,505
Fiduciary funds:		
Cash and investments		40,169
Total cash and investments	$	4,450,674

Cash and investments as of June 30, 2007 consist of the following (in thousands):

Cash on hand (cafeteria change funds)	$	77
Deposits with financial institutions and LA County Pool (a)		3,526,722
Investments (b)		923,875
Total cash and investments	$	4,450,674

(a) Deposits with financial institutions include cash in the Los Angeles County Pooled Surplus Investment Fund ($3,432,671), cash held by fiscal agents or trustees ($63,480), and cash deposited with various other financial institutions, including imprest funds in schools and offices ($30,571).

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.

The District's aggregate total balance of deposits with the various banking institutions at June 30, 2007 is $35,134. Of this balance, $20,051 is covered by federal depositary insurance. The uninsured deposits of $15,083 are with financial institutions which are legally required to have government deposits collateralized at the rate of 110% of the deposits, but do not have the collateral held specifically in the District's name.

(b) Investments include funds set aside in a county repayment account for TRANs ($366,120), sinking funds invested by trustees of COPs ($28,285), specific purpose investments arranged by the District with the County Treasurer for internal service funds that are not needed for daily operations ($322,600), investments in the Measure R Building Fund ($206,420), and investment in fiduciary funds ($450).

The funds set aside in the TRANs repayment account is invested in a guaranteed investment contract (GIC) with an interest rate of 5.065% and a maturity date of November 29, 2007. The GIC is rated AA- and Aa1 by Standard & Poor's and Moody's based upon the credit strength of the guarantor (Citigroup Financial Products, Inc.) of the GIC.

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Except for investments by trustees of COPs proceeds, the authority to invest District funds deposited with the county treasury is delegated to the County Treasurer and Tax Collector. Additional information about the investment policy of the County Treasurer and Tax Collector may be obtained from the web site at http://ttax.co.la.ca.us/. The table below identifies some of the investment types permitted in the investment policy:

	Authorized Investment Type	Maximum Maturity	Maximum Total Par Value	Maximum Par Value per Issuer
A.	Obligations of the U.S. government, its agencies and instrumentalities.	None	None	None
B.	Approved Municipal Obligations	5 and 20 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	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	10% per issuer's outstanding CP
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/counterpart
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	

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 limit the weighted average maturity of its portfolio to less than 18 months. As of June 30, 2007, 61% of district funds in the County PSI Fund does not exceed one year. In addition, variable-rate notes that comprised 5.2% 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, 2007, 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.

(6) Receivables/Payables

Receivables by Fund at June 30, 2007 consist of the following (in thousands):

	General	District Bonds	Other Governmental	Internal Service Funds	Total
Taxes	$ —	$ —	$ 46,689	$ —	$ 46,689
Accrued grants and entitlements	634,724	—	85,449	—	720,173
Other	40,881	9,045	15,093	1,653	66,672
Interest and dividend	20,247	17,874	22,652	10,128	70,901
Total Receivables	$ 695,852	$ 26,919	$ 169,883	$ 11,781	$ 904,435

Payables by Fund at June 30, 2007 consist of the following (in thousands):

	General	District Bonds	Other Governmental	Internal Service Funds	Total
Vouchers and accounts	$ 280,461	$ 47,924	$ 31,837	$ 14,331	$ 374,553
Contracts	4,511	97,534	53,856	—	155,901
Accrued payroll	489,429	1,353	3,950	449	495,181
Other	78,725	3,333	17,544	238	99,840
Total payables	$ 853,126	$ 150,144	$ 107,187	$ 15,018	$ 1,125,475

(7) Capital Assets

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

	Balance, June 30, 2006	Increases	Decreases	Balance, June 30, 2007
Governmental activities:				
Capital assets, not being depreciated:				
Sites	$ 2,105,429	$ 267,779	$ —	$ 2,373,208
Construction in progress	2,545,892	1,202,118	(1,567,792)	2,180,218
Total capital assets, not being depreciated	4,651,321	1,469,897	(1,567,792)	4,553,426
Capital assets, being depreciated:				
Improvement of sites	386,968	44,011	—	430,979
Buildings and improvements	4,298,752	1,504,983	(550)	5,803,185
Equipment	1,124,779	43,835	(23,525)	1,145,089
Total capital assets, being depreciated	5,810,499	1,592,829	(24,075)	7,379,253
Less accumulated depreciation for:				
Improvement of sites	(253,214)	(11,343)	—	(264,557)
Buildings and improvements	(1,401,847)	(165,275)	550	(1,566,572)
Equipment	(1,009,006)	(31,066)	23,520	(1,016,552)
Total accumulated depreciation	(2,664,067)	(207,684)	24,070	(2,847,681)
Total capital assets, being depreciated, net	3,146,432	1,385,145	(5)	4,531,572
Governmental activities capital assets, net	$ 7,797,753	$ 2,855,042	$ (1,567,797)	$ 9,084,998

Depreciation expense was charged to the following functions:

Governmental activities:		
Instruction	$	5,748
Support services – students		230
Support services – instructional staff		6,761
Support services – general administration		339
Support services – school administration		3,625
Support services – business		1,546
Operation and maintenance of plant services		3,563
Student transportation services		825
Data processing services		3,497
Operation of noninstructional services		1,222
Depreciation – unallocated		180,328
Total depreciation expense – governmental activities	$	207,684

(8) Retirement Plans

Qualified District employees are covered under either multiple-employer defined benefit retirement plans maintained by agencies of the State of California, a multiple-employer defined contribution retirement benefit plan administered under a Trust and/or single employer retirement benefit plans maintained by the District. 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. The retirement plans maintained by the District are 4) health and medical benefits to retired employees and 5) the Annuity Reserve Fund (dissolved as of November 18, 2003). 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)

The District contributes to the Public Employees' Retirement Fund (PERF), an agent multiple-employer defined benefit pension plan administered by CalPERS. The plan provides 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).

Active plan members are required to contribute 7% (miscellaneous) or 9% (safety) of their monthly salary (over $133.33, if the member participates in Social Security) 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 2006-2007 were 9.124% for miscellaneous and 31.993%

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, 2007, 2006 and 2005.

Schedule of Employer Contributions:

	2007		2006	2005
	Safety	**Miscellaneous**	**Safety and Miscellaneous**	**Safety and Miscellaneous**
District contributions:				
Regular	$ 6,786,357	$ 95,583,769	$ 97,630,133	$ 103,274,562
Annual Savings Recapture – AB 702 Credits	(4,167,524)	27,429,218	18,405,118	12,225,940
Total district contributions	2,618,833	123,012,987	116,035,251	115,500,502
Employee contributions:				
Paid by Employees	290,165	49,559,053	49,825,697	47,503,601
Paid by District	1,655,045	22,413,314	21,032,251	20,671,502
Total employee contributions	1,945,210	71,972,367	70,857,948	68,175,103
Total CalPERS contributions	$ 4,564,043	$ 194,985,354	$ 186,893,199	$ 183,675,605
Percentage of required contributions made	100%	100%	100%	100%

The District's contributions for all members for the fiscal years ended June 30, 2007, 2006 and 2005 were in accordance with the required contribution rates calculated by the CalPERS actuary for each year.

(b) California State Teachers' Retirement System (STRS)

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, 2006, there were approximately 1,400 contributing employers (school districts, community college districts, county offices of education and regional occupational programs). The State of California is a nonemployer contributor to the TRF.

The Plan provides defined retirement benefits based on members' final compensation, age, and years of credited service. In addition, the retirement program provides benefits to members upon disability and to survivors upon the death of eligible members. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes a ten-year trend information showing the progress in accumulating sufficient assets to pay benefits when due. Copies of the STRS annual financial report may be obtained from California State Teachers' Retirement System, P.O. Box 15275, Sacramento, CA 95851-0275.

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 2006-2007 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. Contributions to STRS for fiscal years ended June 30, 2007, 2006 and 2005 are as follows:

	Percentage of applicable member earnings	2007	2006	2005
District contributions	8.25%	$ 262,974,286	$ 251,487,695	$ 245,259,118
Employee contributions (including adjustments)	8.00%	258,877,451	243,589,043	251,139,401
Total STRS contributions	16.25%	$ 521,851,737	$ 495,076,738	$ 496,398,519

The District's contributions to STRS for the fiscal years ended June 30, 2007, 2006 and 2005 were equal to the required contributions at statutory rates.

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 will 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)

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.

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. Upon resignation, retirement, or death prior to retirement, the employee or the beneficiary will receive 100% of the amount credited to the employee account, including any share of net fund gains or losses after payment of administrative expenses. If at the time of distribution the amount in the employee's account is less than $3,500, it will be paid in one lump sum. If the amount is $3,500 or greater, the employee may elect to receive it in a lump sum or leave it with PARS until the normal retirement age (60) is reached and then receive it as a lump sum.

District employees covered under PARS total 42,596 as of June 30, 2007. The District's contributions to the plan for the last three fiscal years are as follows: 2006-2007 – $3,472,503, 2005-2006 – $6,842,716, and 2004-2005 – $6,635,829.

The District's contributions for the fiscal years ended June 30, 2007, 2006, and 2005 were equal to the required contributions.

(d) Health and Welfare Benefits for Retirees

In addition to the pension benefits described in this note, the District provides 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 benefits if they meet the following 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 on or after June 1, 1992 must have at least 80 years combined total of consecutive qualifying service and age.

e. Those hired on or after March 1, 2007 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.

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, 2007, approximately 35,000 retirees now meet these eligibility requirements.

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, recommendation by the District-wide Health and Welfare Committee, and is subject to approval by the Board of Education.

Expenditures are accounted for in the Health and Welfare Benefits Fund. These expenditures consist of retirees' 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. The total District expenditures for health and medical benefits for retired employees during the fiscal year ended June 30, 2007 amounted to $233,532,311.

The Governmental Accounting Standards Board (GASB) adopted Statement No. 45 in 2004, which addresses *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions (OPEB)*. Along with other governmental agencies with total annual revenues of $100 million or more, the District is scheduled to implement the GASB 45 OPEB accounting and reporting requirements beginning in Fiscal Year 2007-2008. In preparation for the implementation of this new requirement, the District engaged the services of an actuarial firm to estimate the costs and financial liabilities offered to its employees. The actuarial method used in estimating the liability is the entry age normal, level dollar 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 portion of the APV attributed to past service is called the Actuarial Accrued Liability (AAL). The significant assumptions used in the computation include a 5% discount rate and a healthcare cost trend of 9% for HMOs and 11% for PPOs in 2008, ultimately declining to 5% in 2017 and 2015 respectively and remaining at that level thereafter. A healthcare cost trend rate of 5% is assumed for dental and vision. Based on the actuarial valuation and review as of June 30, 2007, the best estimate for the AAL of the District's postretirement health care program, which is substantially unfunded and not recorded in the accompanying basic financial statements at June 30, 2007, is as follows (in thousands):

All retirees	$	3,928,766
Active employees		6,634,857
	$	10,563,623

The District will continue to review these actuarial studies, in conjunction with the District's obligations under its plan, to determine what OPEB liability must be reported beginning in the 2007-2008 fiscal year.

(e) Annuity Reserve Fund

The Annuity Reserve Fund is a single-employer defined contribution plan. A defined contribution plan bases benefits solely on amounts contributed to the participant's account. All contributions were made when the Fund was established in 1972. Neither the District nor the employees make any additional contributions to the Fund. All of the original 34,031 eligible employees were vested from the date of establishment of the Fund. An employee's pro rata share of the fund is the ratio of his/her contributions to the retirement system, including interest, to the total of the contributions, including interest, of all participants in the fund, calculated as of June 30, 1972.

District employees eligible to receive additional retirement benefits from the fund are those who, as of June 30, 1972 were:

a. Members on the active and retired rolls, including deferred retirees, of the District Retirement System.

b. Probationary or permanent certificated employees of the District, holding membership in the STRS or CalPERS and making contributions to either System on that date.

On November 18, 2003, members voted to dissolve the fund and distribute its net assets to the members. The fund's remaining equity is reserved to pay shares of unlocated participants and other contingencies.

(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 $3 million self-insurance retention. No settlements exceeded insurance coverage in the last three fiscal years ended June 30, 2007.

The District has implemented an Owner Controlled Insurance Program (OCIP) covering new construction and renovation projects funded by school bonds. Under an OCIP, owners provide general liability and workers' compensation insurance coverage to construction contractors. Because contractors remove insurance costs from their bids, potential savings accrue to the owner. Under the District's program, workers' compensation coverage with statutory limits and primary general liability and excess liability coverage with limits of $100 million have been underwritten by three major insurance carriers.

The District has also purchased environmental insurance coverage for the construction program. Two policies protect certain contractors and the District from losses resulting from environmental related incidents occurring during construction and 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 while the other policies have limits of $50 million each.

Liabilities for loss and loss adjustment expenses under each program 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, 2007, the amount of the total claims liabilities recorded for medical liability and workers' compensation was $567.6 million. During the fiscal year, the District recorded workers' compensation claims liability at reduced levels as a result of legislative changes, accelerated rate of claims closure and a discount rate of 5%. Changes in the reported liabilities since July 1, 2005 are summarized as follows:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	End of Fiscal Year Liability
2006-2007				
Health and welfare benefits	$ 41,050,314	$ 281,873,505	$ (283,360,819)	$ 39,563,000
Workers' compensation	668,456,540	(70,722,164)	(88,418,480)	509,315,896
Liability self-insurance	22,168,976	6,154,628	(9,631,179)	18,692,425
Total	$ 731,675,830	$ 217,305,969	$ (381,410,478)	$ 567,571,321
2005-2006:				
Health and welfare benefits	$ 37,263,855	$ 276,215,096	$ (272,428,637)	$ 41,050,314
Workers' compensation	685,265,378	80,028,303	(96,837,141)	668,456,540
Liability self-insurance	28,642,932	1,918,486	(8,392,442)	22,168,976
Total	$ 751,172,165	$ 358,161,885	$ (377,658,220)	$ 731,675,830

(10) Certificates of Participation, Long-Term Capital Leases, and Operating Leases

The District has entered into Certificates of Participation (COPs) for the acquisition of school sites, relocatable classroom buildings, a new administration building, furniture and equipment, and for various other construction projects as follows:

On December 9, 1997, the District issued variable rate COPs 1997 Series A in the amount of $91,400,000. Interest is payable monthly and has ranged from 0.69% to 5.85% over the life of the COPs. The interest rate on June 30, 2007 was 3.58%. Principal payments are due annually through 2017. The proceeds are to fund the construction of the Vista Hermosa (formerly known as the Belmont Learning Complex).

On May 20, 1998, the District issued COPs 1998 Series A (1993 Ambassador Refunding) in the amount of $60,805,000. Interest is due semiannually ranging from 4.65% to 5.25%. Principal payments are due annually through 2013. The proceeds from the issuance are to finance an escrow fund to prepay the District's 1993 Refunding COPs, to fund a reserve fund, and to pay the costs associated with the issuance of the certificates.

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 September 12, 2000, the District issued COPs 2000 Series B (Multiple Properties Project) in the amount of $172,715,000. Interest is payable semiannually ranging from 4.00% to 5.50% with annual principal payments through 2010. The proceeds are to pay for Internet connectivity, portable classrooms, air-conditioning projects, sports facility improvements, and construction at adult schools.

On November 6, 2001, the District issued COPs 2001 Series B (Beaudry I – Tenant Improvements) 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 March 6, 2002, the District issued the Refunding COPs 2002 Series A (1991 Bravo Refunding) in the amount of $21,655,000. Interest is payable semiannually at 5.00%. Principal payments are payable annually through 2008. The proceeds from the issuance refunded the 1991 Bravo Refunding COPs.

On December 5, 2002, the District issued COPs 2002 Series C (Beaudry 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 11, 2003, the District issued COPs 2003 Series B (Pico Rivera Warehouse) 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 13, 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 2004-2005 and 2005-2006 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 July 13, 2004, the District issued COPs 2004 Series B (Refinancing and Refunding Project I – Federally Taxable) in the amount of $6,925,000. Interest is payable semiannually at 4.25%. The principal payment is payable in full due in 2008. Proceeds are to refund portions of the 2000 Series A (Qualified Zone Academy Bonds) and the 2001 Series C (Beaudry I) COPs. This advance refunding was undertaken to reduce General Fund debt service payments in fiscal years 2004-2005 and 2005-2006 by $6.5 million with an increase to total debt service payments of $1.1 million over the next four years. This issue was partially refunded by Measure Y Series D Bonds in February 2006.

On May 18, 2005, the District issued variable rate COPs 2005 Series A (Administration Building Project) in the amount of $86,525,000. Interest is paid monthly at a weekly rate payable on the first business day of each month commencing on June 1, 2005 through October 1, 2024. Through June 30, 2007, the interest rate has ranged from 1.95% to 3.93% over the life of the COPs. The interest rate on June 30, 2007 was 3.63%. The 2005 A Certificates were used to refund the 2001C COPs in the amount of $84.5 million, which resulted in a net present value savings of approximately $9.4 million based on an assumed variable rate of 3.05% (15-year average of Bond Member Association (BMA)), semiannual interest payments, and 30/360 semiannual compounding.

On May 18, 2005, the District issued variable rate COPs 2005 Series B (Beaudry III) in the amount of $21,340,000. Interest is paid monthly at a weekly rate payable on the first business day of each month commencing on June 1, 2005 through October 1, 2031. Through June 30, 2007, the interest rate has ranged from 1.95% to 3.94%. The interest rate on June 30, 2007 was 3.65%. The 2005 B Certificates were to finance certain property improvements of the District and to fund capitalized interest and fees.

On May 6, 2005, the District issued variable rate COPs 2005 Series C in the amount of $44,225,000. The 2005 C Certificates were initially delivered in a term mode at a rate of 4.00% for a period from the date of delivery through October 1, 2006, payable on April 1 and October 1 commencing October 1, 2005. The Certificate converted to a weekly mode on October 2, 2006. While in a weekly mode, interest is payable on the first business day of each month, maturing on October 1, 2025. Through June 30, 2007, the variable interest rate has ranged from 3.23% to 3.85% over the life of the COPs. The interest rate on June 30, 2007 was 3.68%. The proceeds from the issuance were used to refund the outstanding Refunded 1996 COPs (1996A COPs – ELA/King Drew Refunding) in the amount of $41.95 million as variable bonds. This advance refunding resulted in a net present value savings of $2.9 million based on an assumed variable rate of 3.05% (15-year average of BMA). On December 1, 2005, the District issued COPs 2005 (2004-2005

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.

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 20 years. Some leases are month to month and a few are year to year. The leases expire over the next 13 years subject to renewal option provisions.

The office equipment lease (primarily copiers) is also under various lease terms that range from less than a year to 5 years. The leases expire during the next 5 years.

The total expenditure for all operating leases amounted to $30,562,645 in 2006-2007. The future minimum commitments for noncancelable operating lease of the District as of June 30, 2007 are as follows (in thousands):

	Amount
Fiscal year ending:	
2008	23,291
2009	21,078
2010	18,992
2011	13,626
2012	11,234
2013-2017	36,590
2018-2022	7,840
	$ 132,651

(11) Long-Term Obligations

The following is a summary of changes in long-term obligations for the year ended June 30, 2007 (in thousands):

	Balance, July 1, 2006	Additions	Deductions	Balance, June 30, 2007	Due Within One Year	Interest Expense
General Obligation Bonds*	$ 5,803,689	$ 2,859,668	$ (2,018,028)	$ 6,645,329	$ 179,835	$ 267,383
State School Building Aid Fund Payable	880	30	(319)	591	320	30
Liability for Compensated Absences	78,309	72,123	(81,667)	68,765	2,726	—
Capital Lease Obligations	6,619	2,394	(3,752)	5,261	2,601	656
Certificates of Participation (Note 10)	429,974	2,588	(19,137)	413,425	20,038	16,811
Children Center Facilities Revolving Loan	792	—	—	792	—	—
California Energy Commission Loan	1,243	1	(186)	1,058	193	48
Self-Insurance Claims (Note 9)	731,676	217,306	(381,411)	567,571	167,985	—
Arbitrage Payable	—	11,966	—	11,966	—	—
Total	$ 7,053,182	$ 3,166,076	$ (2,504,500)	$ 7,714,758	$ 373,698	$ 284,928

* Net of unamortized premiums and discounts.

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	Interest	Principal	Interest	Principal	Amortization	Interest
2008	$ 179,835	$ (61,472)	$ 299,070	$ 22,639	$ 15,390	$ 513	$ 54	$ 202,987	$ (61,472)	$ 314,514
2009	196,400	13,293	299,076	19,288	16,861	551	32	216,239	13,293	315,969
2010	219,105	12,829	290,123	18,756	15,844	288	24	238,149	12,829	305,991
2011	189,405	13,291	281,066	19,268	15,027	296	16	208,969	13,291	296,109
2012	198,840	5,941	271,969	43,865	14,099	304	7	243,009	5,941	286,075
2013-2017	1,136,790	71,411	1,198,664	93,165	56,695	410	1	1,230,365	71,411	1,255,360
2018-2022	1,577,520	55,640	867,324	75,775	37,974	79	—	1,653,374	55,640	905,298
2023-2027	1,997,175	23,513	423,148	67,085	22,501	—	—	2,064,260	23,513	445,649
2028-2032	809,810	6,003	70,338	58,845	7,231	—	—	868,655	6,003	77,569
	$ 6,504,880	$ 140,449	$ 4,000,778	$ 418,686	$ 201,622	$ 2,441	$ 134	$ 6,926,007	$ 140,449	$ 4,202,534

The General Obligation Bonds balance of $6,645.3 million, which includes unamortized bond premiums (net of unamortized charges) of $140.4 million, consists of:

(a) six issuances of Proposition BB bonds:

1. Series "A" bonds, sold in July 1997 at $356.0 million par value, of which $18.5 million and $133.2 million were refunded in December 2004 and July 2005, respectively;

2. Series "B" bonds, sold in August 1998 at $350.0 million par value, of which $90.9 million and $150.5 million were refunded in April 2002 and July 2005, respectively;

3. Series "C" bonds, sold in August 1999 at $300.0 million par value, of which $70.8 million, $14.2 million and $124.3 million were refunded in April 2002, December 2004 and July 2005, respectively;

4. Series "D" bonds, sold in August 2000 at $386.7 million par value, of which $101.0 million, $107.2 million and $76.6 million were refunded in April 2002, December 2004 and July 2005, respectively;

5. Series "E" bonds, sold in April 2002 at $500.0 million par value, of which $75.8 million, $231.2 million, and $25.8 million were refunded in December 2004, November 2006 and February 2007, respectively; and

6. Series "F" bonds, sold in March 2003 at $507.3 million par value of which $129.5 million was refunded in January 2007;

(b) two issuances of Measure K bonds:

1. Series "A" bonds, sold in February 2003 at $2.1 billion par value, of which $131.9 million, $330.1 million, and $1.12 billion were refunded in February 2006, October 2006, and January 2007, respectively

2. Series "B" bonds sold in February 2007 at $500.0 million par value;

(c) seven issuances of Measure R bonds:

1. Series "A" bonds at $72.6 million par value, Series "B" bonds at $60.5 million par value, Series "C" bonds at $50.0 million par value and Series "D" bonds at $16.9 million par value, all sold in September 2004 and all of which, except for Series C, were used to partially and fully refund certain certificates of participation;

2. Series "E" bonds, sold in August 2005 at $400.0 million par value;

3. Series "F" bonds, sold in February 2006 at $500.0 million par value; and

4. Series "G" bonds sold in August 2006 at $400.0 million par value;

(d) four issuances of Measure Y bonds sold in February 2006: Series "A" bonds at $56.8 million par value, Series "B" bonds at $80.2 million par value, Series "C" bonds at $210.0 million par value and Series "D" bonds at $47.4 million par value, all of which, except for Series C and $5.7 million of Series D, were used to partially or fully refund certain certificates of participation; and

(e) general obligation refunding bonds: 2004 Series "A-1" and "A-2" sold in December 2004 at $219.1 million par value, 2005 Series "A-1" and "A-2" sold in July 2005 at $467.7 million par value, 2006 Series "A" sold in February 2006 at $132.3 million par value, 2006 Series "B" sold in

October 2006 at $574.9 million par value, 2007 Series “A” sold in January 2007 at $1.289 billion par value, and 2007 Series “B” sold in February 2007 at $24.8 million par value, all of which were used to partially refund certain general obligation bonds as stated above.

During the 2007 fiscal year, as mentioned above, the District issued $1,889.0 million of general obligation refunding bonds to refund $1,837.5 million of Proposition BB and Measure K bonds. The three refundings provided resources to purchase securities that were placed in irrevocable trusts for the purpose of generating resources for future debt service payments on the refunded debt. As a result, the refunded debts are considered defeased and the corresponding liabilities have been removed from the District’s statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by $89.6 million of which $14.7 million has been amortized during fiscal year 2006-2007 for the general obligation refundings. The unamortized balance of $74.9 million is netted against the new debt and will be amortized in fiscal year 2007-2008, which is shorter than the life of the new debt issued.

The advance refunding were undertaken to reduce total debt service payments over the next 21 years by $113.2 million and resulted in an economic gain of $66.4 million.

As of June 30, 2007, the total amount of debt outstanding that is considered defeased is $2.9 billion.

The State School Building Aid Fund payable balance of $0.6 million at June 30, 2007 represents loans under the State Education Code Section 16310 for the replacement or rehabilitation of pre-1933 buildings. These loans are repaid with interest at varying rates, as specified by the State Allocation Board at the time of approval of each project application, from annual tax collections received by the Tax Override Fund. Principal and interest are to be paid in 20 equal annual amounts, not to exceed the amount that would be produced by a property tax levy of 4.375 cents per $100 of assessed value. It is anticipated that these loans will be paid off during the 2008-2009 fiscal year.

The Children Center Facilities Fund 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 2004-2005. An additional $0.06 million was received in fiscal year 2005-2006. 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.

(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. The following is a summary of interfund receivables and payables at June 30, 2007 (in thousands):

Fund Group	Fund	Interfund Receivables	Interfund Payables
General:	Unrestricted	$ 672,931	$ 424,606
	Restricted	211,105	361,613
	Total General	884,036	786,219
Special Revenue:	Adult education	4,755	6,627
	Cafeteria	2,335	13,153
	Child development	1,270	4,310
	Deferred maintenance	—	1,777
	Total Special Revenue	8,360	25,867
Debt Service:	Capital services	—	11,508
Capital Projects:	Building	—	15
	District bonds	33,799	49,908
	State school building lease – purchase	—	26
	Special reserve	533	23,530
	Special reserve – FEMA-earthquake	121	479
	Special reserve – FEMA-hazard mitigation	19	162
	Special reserve – CRA	545	30
	Capital facilities account	152	857
	State bonds	429	14,501
	Total Capital Projects	35,598	89,508
Internal Service:	Health and welfare benefits	13,809	43,171
	Workers' compensation self-insurance	8,430	5,429
	Liability self-insurance	15,037	3,568
	Total Internal Service	37,276	52,168
	Total Interfund Receivables/Payables	$ 965,270	$ 965,270

The outstanding balances of interfund receivables and payables result mainly from timing differences between the dates that interfund exchange of services or reimbursable expenditures occur, transactions are recorded and payments between funds are made. Interfund receivables and payables also arise when transfers are 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.

(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 from funds receiving revenue to funds through which resources are to be expended. Transfers between funds for the year ended June 30, 2007 were as follows (in thousands):

From	To	Purpose		
General	Child development	Support to child development	$	6,926
General	Child development	Medicare Part D subsidy		207
General	Special Reserve	Reimbursement of capital expenditures		109
General	Health and Welfare	Medicare Part D subsidy		3,994
General	Deferred Maintenance	Deferred maintenance allowance 2007		30,188
General	Adult Education	Discretionary block grant		3,898
General	Adult Education	Medicare Part D subsidy		301
General	Capital services	Debt service		9,758
General	Cafeteria	Medicare Part D subsidy		288
Special Reserve	Capital Services	Debt service		1,265
Special Reserve	General	Funding for new financial system		7,167
Special Reserve	General	Funding for capital expenditures		21,733
Special Reserve	Building – Measure K	Reimbursement of capital expenditures		61,228
Special Reserve	Building – Measure R	Reimbursement of capital expenditures		2
Capital Facilities	Capital services	Debt service		22,215
Capital Facilities	SSBldg Lease/Purchase	District match requirement		2,601
County School Facilities	Special Reserve	Reimbursement of capital expenditures		3
County School Facilities	Building – Measure K	Reimbursement of capital expenditures		1
Child Development	General	Routine repair & maintenance contribution		2,000
CSF – Prop 47	Building – Bond Proceeds	Reimbursement of capital expenditures		1,006
CSF – Prop 47	Building – Measure K	Reimbursement of capital expenditures		15
CSF – Prop 55	Special Reserve	Reimbursement of capital expenditures		42,457
CSF – Prop 55	Building – Measure K	Reimbursement of capital expenditures		68,910
CSF – Prop 55	Building – Measure R	Reimbursement of capital expenditures		2,387
SR-FEMA – Earthquake	CSF – Prop 55	Reimbursement of capital expenditures		120
Building – Measure R	Building – Bond Proceeds	Reimbursement of capital expenditures		1
Building – Measure R	County School Facilities	Reimbursement of capital expenditures		1,475
Building – Measure R	Building – Measure K	Reimbursement of capital expenditures		1,563
Building – Measure Y	General	Reimbursement of deferred maintenance match		30,000
Building – Measure Y	Capital Services	Debt service		1,904
Building – Measure Y	Building – Measure K	Reimbursement of capital expenditures		8,864
Building – Measure K	CSF – Prop 47	Reimbursement of capital expenditures		6,105
Building – Measure K	Special Reserve	Reimbursement of capital expenditures		27,907
Building – Measure K	Building – Measure R	Reimbursement of capital expenditures		173
Building – Measure K	Building – Bond Proceeds	Reimbursement of capital expenditures		146
Building – Bond Proceeds	Building – Measure K	Reimbursement of capital expenditures		9
Sub-total				366,926
Adult Education	General	Transfer of support costs		5,596
Child Development	General	Transfer of support costs		646
Total			$	373,168

(13) Fund Equity

The following is a summary of reserved, designated and undesignated fund balances at June 30, 2007 (in thousands):

	General Fund	District Bonds	Other Governmental Funds
Reserved for:			
Revolving and imprest funds	$ 2,836	$ 3,300	$ 156
Inventories	8,108	—	7,715
Debt service	—	—	383,275
Prepaid expenditures	—	—	—
General reserve	1	—	—
Medi-Cal billing option	2,437	—	—
Cops more program	35	—	—
Cal-safe supportive services	108	—	—
School facilities needs assessment program	402	—	—
Certificated staff performance incentive bonus	173	—	—
English language learners, teacher training and student assistance	16,848	—	—
California public school library act of 1998	84	—	—
Lottery instructional material	1,345	—	—
ROC/P apportionment	12,300	—	—
Pupils with disabilities attending ROC/P	4	—	—
School safety and violence prevention grades 8-12	1,833	—	—
Special education	1,667	—	—
Arts and music block grant	8,509	—	—
Arts, music and PE supplies and equipment	54,559	—	—
CAHSEE intensive instruction and services	5,757	—	—
CAHSEE individual intervention materials	672	—	—
Supplemental school counseling grades 7-12	8,776	—	—
Instructional materials:			
Block grant	2,500	—	—
English learner	30	—	—
API Deciles 1 and 2	1,798	—	—
Transportation – home to school	550	—	—
California peer assistance and review program for teachers	5,779	—	—
Math and reading professional development	1,627	—	—
Principals' training	1,506	—	—
Tenth grade counseling	318	—	—
Pupil retention block grant – AB825	3,948	—	—
Targeted instructional improvement block grant – AB825	11,350	—	—
School and library improvement block grant – AB825	18,553	—	—
Discretionary block grant - school site	33,621	—	—
California energy commission loan expenditures	397	—	—
Routine repair and general maintenance	20,330	—	—
Certificates of participation – (acquisition accounts) – proceeds	2,040	—	—
Specially funded programs	102,302	—	—
Total reserved fund balances	333,103	3,300	391,146
Designated for:			
Subsequent year expenditures	207,003	949,738	1,016,785
Economic uncertainties	71,538	—	—
Total designated fund balances	278,541	949,738	1,016,785
Undesignated fund balances	83,591	—	33,184
Total fund balances	$ 695,235	$ 953,038	$ 1,441,115

Reserved fund balances represent those portions not available for expenditure or those portions legally segregated for a specific future use.

Designated fund balances represent those portions segregated to indicate tentative plans for financial resource utilization in a future period.

Undesignated fund balances represent the portion available for appropriation in the next fiscal year.

(14) Contingencies

(a) General

The District has been named as a defendant in numerous lawsuits. These seek, among other things, to require the District to reinstate terminated and laid-off employees, to remedy alleged noncompliance regarding special education schools, and to change existing instructional programs, pupil integration methods, and employment and administration procedures. In certain instances, monetary damages are sought including claims for retroactive pay. Based on the opinion of counsel, management 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 2006-2007 the District entered into approximately 397 contracts with a combined value of $512 million. The durations of the contracts range from one week to three years.

(15) Subsequent Events

Beginning in the summer of 2007, financial markets were negatively impacted by evolving problems with sub-prime mortgages and associated pools of mortgage securities and other structured investment vehicles. By early 2008, the impacts had spread beyond the mortgage sector to commercial banks, investment banks, insurance companies, monoline bond insurers and the credit markets generally. None of the District's operating and nonmajor governmental funds suffered any investment losses in connection with the financial crisis, as such funds are invested in the Los Angeles County Treasurer's Investment Pool or in directed investments that had no exposure to troubled investments or troubled investment products.

The District directs the investment of funds held under trust indentures for various Certificates of Participation issues. The financial crisis affected the $5,618,407.82 guaranteed investment contract (GIC) executed on April 20, 2006 in connection with the lease payment obligations of the $10.0 million 2005 Certificates of Participation (2005-06 Qualified Zone Academy Projects) (2005 COPs). The GIC provider was MBIA, a bond insurer whose ratings were initially lowered to A2 by Moody's Investors Service and then further lowered to Baa1 on November 19, 2008. Under the terms of the GIC, MBIA returned \$5,154,377.70 to U.S. Bank, the trustee for the 2005 COPs, on July 3, 2008.

The financial crisis also affected the guaranteed investment contract (GIC) executed on November 30, 2007 in connection with the \$10.5 million debt service reserve fund for the \$99,660,000 Certificates of Participation, 2007 Series A (2007A COPs). The GIC provider was MBIA. The District negotiated the termination of GIC and U.S. Bank, the trustee for the 2007A COPs, received full payment of the invested funds on October 31, 2008 plus an additional \$450,000 "make whole" amount to compensate the District for losing the relatively high GIC interest rate versus current rates available in the market.

On August 16, 2007, the District issued \$150,000,000 General Obligation Bonds, Election of 2002, Series C (2007), \$550,000,000 General Obligation Bonds, Election of 2004, Series H (2007), and \$300,000,000 General Obligation Bonds, Election of 2005, Series E (2007) at a blended true interest cost of 4.541% and with maturities through July 1, 2032.

On October 31, 2007, the District issued \$99,660,000 Certificates of Participation 2007 Series A (Information Technology Projects) on November 15, 2007 at a true interest cost of 3.83% and with serial maturities through October 31, 2017.

On December 11, 2007, the District issued \$600,000,000 of 2007-2008 Tax and Revenue Anticipation Notes that mature on December 29, 2008, of which \$580,000,000 carry a coupon of 4.00% and \$20,000,000 carry a coupon of 3.75% and had a combined arbitrage yield of 3.148%.

On July 31, 2008, the District issued \$500,000,000 of 2008-2009 Tax and Revenue Anticipation Notes that mature on July 30, 2009 that carry a coupon of 3.00% and had an arbitrage yield of 1.515%.

On August 6, 2008, the District refunded its \$86,525,000 Refunding Certificates of Participation 2005 Series A (Administration Building Project) and its \$21,340,000 Certificates of Participation 2005 Series B (Administration Building Project III) from proceeds of its \$120,950,000 Variable Rate Refunding Certificates of Participation 2005 Series A and B at an estimated blended true interest cost of 3.83% and with annual sinking fund payments through October 1, 2024 for Series A and through October 1, 2031 for Series B. The financial crisis had negatively impacted the interest rates on the 2005 Series A COPs and 2005 Series B COPs, as those series were insured by Ambac Assurance Corporation, a monoline bond insurer that had been downgraded by the rating agencies.

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SELECTED INFORMATION FROM UNAUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Description	Resource Codes	Object Codes	2007-08 Unaudited Actuals Unrestricted (A)	Restricted (B)	Total Fund col. A + B (C)	2008-09 Budget Unrestricted (D)	Restricted (E)	Total Fund col. D + E (F)	% Diff Column C & F
A. REVENUES									
1) Revenue Limit Sources		8010-8099	3,432,591,853.93	191,542,122.45	3,624,133,976.38	3,342,920,438.00	198,586,873.00	3,541,507,311.00	-2.3%
2) Federal Revenue		8100-8299	24,506,479.54	731,879,873.94	756,386,353.48	18,670,666.00	812,055,037.00	830,725,703.00	9.8%
3) Other State Revenue		8300-8599	470,244,139.90	1,834,233,933.16	2,304,478,073.06	432,545,963.00	1,736,483,855.00	2,169,029,818.00	-5.9%
4) Other Local Revenue		8600-8799	108,251,681.71	15,413,457.14	123,665,138.85	126,156,813.00	21,763,754.00	147,920,567.00	19.6%
5) TOTAL, REVENUES			4,035,594,155.08	2,773,069,386.69	6,808,663,541.77	3,920,293,880.00	2,768,889,519.00	6,689,183,399.00	-1.8%
B. EXPENDITURES									
1) Certificated Salaries		1000-1999	1,959,322,980.37	1,355,268,213.54	3,314,591,193.91	1,865,332,272.00	1,338,657,187.00	3,203,989,459.00	-3.3%
2) Classified Salaries		2000-2999	463,220,094.38	591,019,848.91	1,054,239,943.29	432,296,142.00	565,899,562.00	998,195,704.00	-5.3%
3) Employee Benefits		3000-3999	720,463,004.25	597,563,902.08	1,318,026,906.33	677,952,996.00	621,720,715.00	1,299,673,711.00	-1.4%
4) Books and Supplies		4000-4999	113,890,180.73	321,383,560.32	435,273,741.05	75,701,947.00	393,492,221.00	469,194,168.00	7.8%
5) Services and Other Operating Expenditures		5000-5999	258,745,112.13	506,128,755.35	764,873,867.48	143,172,678.00	674,048,968.00	817,221,646.00	6.8%
6) Capital Outlay		6000-6999	15,922,125.57	21,112,454.20	37,034,579.77	13,046,505.00	27,978,856.00	41,025,361.00	10.8%
7) Other Outgo (excluding Transfers of Indirect/ Direct Support Costs)		7100-7299 7400-7499	4,355,344.29	0.00	4,355,344.29	6,242,624.00	0.00	6,242,624.00	43.3%
8) Transfers of Indirect/Direct Support Costs		7300-7399	(198,896,015.53)	192,950,947.81	(5,945,067.72)	(154,250,102.00)	146,253,391.00	(7,996,711.00)	34.5%
9) TOTAL, EXPENDITURES			3,337,022,826.19	3,585,427,682.21	6,922,450,508.40	3,059,495,062.00	3,768,050,900.00	6,827,545,962.00	-1.4%
C. EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES BEFORE OTHER FINANCING SOURCES AND USES (A5 - B9)			698,571,328.89	(812,358,295.52)	(113,786,966.63)	860,798,818.00	(999,161,381.00)	(138,362,563.00)	21.6%
D. OTHER FINANCING SOURCES/USES									
1) Interfund Transfers a) Transfers In		8900-8929	88,420,744.56	44,672,634.41	133,093,378.97	9,595,124.00	84,231,326.00	93,826,450.00	-29.5%
b) Transfers Out		7600-7629	32,835,709.38	31,054,317.65	63,890,027.03	58,264,287.00	15,955,392.00	74,219,679.00	16.2%
2) Other Sources/Uses a) Sources		8930-8979	6,585,012.01	0.00	6,585,012.01	8,999,183.00	0.00	8,999,183.00	36.7%
b) Uses		7630-7699	0.00	0.00	0.00	0.00	0.00	0.00	0.0%
3) Contributions		8980-8999	(861,516,389.18)	861,516,389.18	0.00	(819,031,597.00)	819,031,597.00	0.00	0.0%
4) TOTAL, OTHER FINANCING SOURCES/USES			(799,346,341.99)	875,134,705.94	75,788,363.95	(858,701,577.00)	887,307,531.00	28,605,954.00	-62.3%

Description	Resource Codes	Object Codes	2007-08 Unaudited Actuals Unrestricted (A)	Restricted (B)	Total Fund col. A + B (C)	2008-09 Budget Unrestricted (D)	Restricted (E)	Total Fund col. D + E (F)	% Diff Column C & F
E. NET INCREASE (DECREASE) IN FUND BALANCE (C + D4)			(100,775,013.10)	62,776,410.42	(37,998,602.68)	2,097,241.00	(111,853,850.00)	(109,756,609.00)	188.8%
F. FUND BALANCE, RESERVES									
1) Beginning Fund Balance									
a) As of July 1 - Unaudited		9791	367,014,611.30	328,220,264.44	695,234,875.74	266,239,598.20	390,996,674.86	657,236,273.06	-5.5%
b) Audit Adjustments		9793	0.00	0.00	0.00	0.00	0.00	0.00	0.0%
c) As of July 1 - Audited (F1a + F1b)			367,014,611.30	328,220,264.44	695,234,875.74	266,239,598.20	390,996,674.86	657,236,273.06	-5.5%
d) Other Restatements		9795	0.00	0.00	0.00	(39,746,761.66)	(43,179,519.19)	(82,926,280.85)	New
e) Adjusted Beginning Balance (F1c + F1d)			367,014,611.30	328,220,264.44	695,234,875.74	226,492,836.54	347,817,155.67	574,309,992.21	-17.4%
2) Ending Balance, June 30 (E + F1e)			266,239,598.20	390,996,674.86	657,236,273.06	228,590,077.54	235,963,305.67	464,553,383.21	-29.3%
Components of Ending Fund Balance									
a) Reserve for									
Revolving Cash		9711	2,816,034.51	0.00	2,816,034.51	2,835,289.00	0.00	2,835,289.00	0.7%
Stores		9712	10,482,833.48	1,196,336.00	11,679,169.48	7,913,836.00	194,094.00	8,107,930.00	-30.6%
Prepaid Expenditures		9713	0.00	0.00	0.00	0.00	0.00	0.00	0.0%
All Others		9719	0.00	0.00	0.00	0.00	0.00	0.00	0.0%
General Reserve		9730	1,000.00	0.00	1,000.00	1,000.00	0.00	1,000.00	0.0%
Legally Restricted Balance		9740	0.00	389,022,196.86	389,022,196.86	0.00	226,529,204.67	226,529,204.67	-41.8%
b) Designated Amounts									
Designated for Economic Uncertainties		9770	72,381,948.00	0.00	72,381,948.00	72,381,948.00	0.00	72,381,948.00	0.0%
Designated for the Unrealized Gains of Investments and Cash in County Treasury		9775	0.00	0.00	0.00	0.00	0.00	0.00	0.0%
Other Designations		9780	99,715,903.00	778,142.00	100,494,045.00	45,533,776.00	878,529.00	46,412,305.00	-53.8%
c) Undesignated Amount		9790	80,841,879.21	0.00	80,841,879.21				
d) Unappropriated Amount		9790				99,924,228.54	8,361,478.00	108,285,706.54	

Description	Resource Codes	Object Codes	2007-08 Unaudited Actuals Unrestricted (A)	Restricted (B)	Total Fund col. A + B (C)	2008-09 Budget Unrestricted (D)	Restricted (E)	Total Fund col. D + E (F)	% Diff Column C & F
G. ASSETS									
1) Cash									
a) in County Treasury		9110	73,020,570.15	763,265,575.11	836,286,145.26				
1) Fair Value Adjustment to Cash in County Treasury		9111	0.00	0.00	0.00				
b) in Banks		9120	3,520,840.16	0.00	3,520,840.16				
c) in Revolving Fund		9130	2,816,034.51	0.00	2,816,034.51				
d) with Fiscal Agent		9135	0.00	1,843,938.87	1,843,938.87				
e) collections awaiting deposit		9140	0.00	0.00	0.00				
2) Investments		9150	625,147,500.00	0.00	625,147,500.00				
3) Accounts Receivable		9200	48,381,641.04	1,849,074.50	50,230,715.54				
4) Due from Grantor Government		9290	327,030,607.79	375,416,459.65	702,447,067.44				
5) Due from Other Funds		9310	831,417,704.66	201,969,685.77	1,033,387,390.43				
6) Stores		9320	10,482,833.48	1,196,336.00	11,679,169.48				
7) Prepaid Expenditures		9330	0.00	0.00	0.00				
8) Other Current Assets		9340	0.00	0.00	0.00				
9) Fixed Assets		9400							
10) TOTAL, ASSETS			1,921,817,731.79	1,345,541,069.90	3,267,358,801.69				
H. LIABILITIES									
1) Accounts Payable		9500	680,723,481.44	221,541,807.75	902,265,289.19				
2) Due to Grantor Governments		9590	987,753.90	7,428,232.00	8,415,985.90				
3) Due to Other Funds		9610	358,266,125.93	634,476,913.20	992,743,039.13				
4) Current Loans		9640	615,598,572.16	0.00	615,598,572.16				
5) Deferred Revenue		9650	2,200.16	91,097,442.09	91,099,642.25				
6) Long-Term Liabilities		9660							
7) TOTAL, LIABILITIES			1,655,578,133.59	954,544,395.04	2,610,122,528.63				
I. FUND EQUITY									
Ending Fund Balance, June 30 (must agree with line F2) (G10 - H7)			266,239,598.20	390,996,674.86	657,236,273.06				

APPENDIX C

BOOK-ENTRY ONLY SYSTEM

THE INFORMATION IN THIS APPENDIX C CONCERNING THE DEPOSITORY TRUST COMPANY, NEW YORK, NEW YORK AND ITS BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THE DISTRICT AND THE UNDERWRITERS BELIEVE TO BE RELIABLE, BUT THE DISTRICT AND THE UNDERWRITERS TAKE NO RESPONSIBILITY FOR THE ACCURACY THEREOF.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the District's General Obligation Bonds, Election of 2002, Series D (2009) (the "Measure K Series D Bonds"), General Obligation Bonds, Election of 2004, Series I (2009) (the "Measure R Series I Bonds") and General Obligation Bonds, Election of 2005, Series F (2009) (the "Measure Y Series F Bonds" and, collectively with the Measure K Series D Bonds and the Measure R Series I Bonds, the "Bonds"). The Bonds will be executed and delivered 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 bond certificate will be issued for each coupon for each maturity of each Series of the Bonds, each in the principal amount attributable to such coupon of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org. Information on these websites is not incorporated herein.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("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 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds 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 the Bonds 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 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds 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 the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Certificate documents. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds 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.

Redemption notices shall be sent to DTC. The conveyance of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect Participants and by DTC 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. Any failure of DTC to advise any DTC Participant, or of any DTC Participant or Indirect Participant to notify a Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of the Bonds called for redemption or of any other action premised on such notice. Redemption of portions of the Bonds by the District will reduce the outstanding principal amount of Bonds held by DTC. In such event, DTC will implement, through its book-entry system, a redemption by lot of interests in the Bonds held for the account of DTC Participants in accordance with its own rules or other agreements with DTC Participants and then DTC Participants and Indirect Participants will implement a redemption of the Bonds for the Beneficial Owners.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, 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 the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Paying Agent as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of and interest on the Bonds 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 or the Paying Agent, 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 (nor its nominee) nor the Paying Agent or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments of principal of and interest on the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent, 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.

THE DISTRICT, THE COUNTY, THE PAYING AGENT OR THE UNDERWRITERS CAN NOT AND DO NOT GIVE ANY ASSURANCES THAT DTC, THE PARTICIPANTS OR OTHERS WILL DISTRIBUTE PAYMENTS OF PRINCIPAL OF AND INTEREST ON THE BONDS PAID TO DTC OR ITS NOMINEE AS THE REGISTERED OWNER, OR WILL DISTRIBUTE ANY REDEMPTION NOTICES OR OTHER NOTICES, TO THE BENEFICIAL OWNERS, OR THAT THEY WILL DO SO ON A TIMELY BASIS OR WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT. NONE OF THE DISTRICT, THE COUNTY, THE PAYING AGENT OR THE UNDERWRITERS ARE RESPONSIBLE OR LIABLE FOR THE FAILURE OF DTC OR ANY PARTICIPANT TO MAKE ANY PAYMENT OR GIVE ANY NOTICE TO A BENEFICIAL OWNER WITH RESPECT TO THE BONDS OR AN ERROR OR DELAY RELATING THERETO.

The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

In the event that the book entry system is discontinued as described above, the requirements of the Resolutions will apply.

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APPENDIX D

Upon delivery of the Bonds, Bond Counsel proposes to render its final approving opinion with respect to the Bonds in substantially the following form:

[Closing Date]

Board of Education
Los Angeles Unified School District
Los Angeles, California

LOS ANGELES UNIFIED SCHOOL DISTRICT
(County of Los Angeles, California)

$250,000,000 General Obligation Bonds Election of 2002, Series D (2009)	$550,000,000 General Obligation Bonds Election of 2004, Series I (2009)	$150,000,000 General Obligation Bonds Election of 2005, Series F (2009)

Members of the Board of Education:

We have acted as bond counsel to the Los Angeles Unified School District in connection with the issuance of $250,000,000 Los Angeles Unified School District (County of Los Angeles, California) General Obligation Bonds, Election of 2002, Series D (2009) (the "Measure K Series D Bonds"), $550,000,000 Los Angeles Unified School District (County of Los Angeles, California) General Obligation Bonds, Election of 2004, Series I (2009) (the "Measure R Series I Bonds"), and $150,000,000 Los Angeles Unified School District (County of Los Angeles, California) General Obligation Bonds, Election of 2005, Series F (2009) (the "Measure Y Series F Bonds" and, together with the Measure K Series D Bonds and the Measure R Series I Bonds, the "Bonds"), as authorized by Title 1, Division 1, Part 10, Chapter 1.5 of the California Education Code, a minimum 55% vote of the qualified electors of the Los Angeles Unified School District (the "District") voting at elections held on November 5, 2002, March 2, 2004, and November 8, 2005, respectively, a resolution adopted by the Board of Education of the District on October 14, 2008 (the "District Resolution"), and a resolution of the Board of Supervisors of the County of Los Angeles adopted on November 5, 2008 (the "County Resolution" and, together with the District Resolution, the "Resolutions").

In our capacity as bond counsel, we have reviewed originals or copies certified or otherwise identified to our satisfaction of such documents, certificates, opinions and other matters to the extent we deemed necessary or appropriate to render the opinions set forth herein. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation, and we have assumed, but have not independently verified, that the signatures on all documents and certificates that we reviewed are genuine.

Based on the foregoing, and subject to the limitations and qualifications herein specified, as of the date hereof, and under existing law, we are of the opinion that:

1. The Bonds constitute valid and binding general obligation bonds of the District, payable as to both principal and interest solely from the proceeds of a levy of *ad valorem* taxes on all property subject to such taxes in the District, which taxes are unlimited as to rate or amount.

2. Assuming continuing compliance by the District with certain covenants in the District Resolution, the County Resolution, the Tax Certificate and other documents pertaining to the District's general obligation bonds and requirements of the Internal Revenue Code of 1986, as amended, regarding the use, expenditure and investment of the proceeds of the Bonds and the timely payment of certain investment earnings to the United States, interest on the Bonds is not includable in gross income for federal income tax purposes. Failure to comply with such covenants and requirements may cause interest on the Bonds to be included in federal gross income retroactive to the date of issuance of the Bonds.

3. Interest on the Bonds is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. Interest on the Bonds is, however, included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability.

4. Interest on the Bonds is exempt from personal income taxes imposed by the State of California.

Other than as described herein, we have not addressed and we are not opining on the tax consequences to any person of the investment in, or receipt of interest on, the Bonds. We express no opinion as to the effect of any change to any document pertaining to the Bonds or of any action taken or not taken where such change is made or action is taken or not taken without our approval or in reliance upon the advice of counsel other than ourselves with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes.

With respect to the opinions expressed herein, the rights of the owners of the Bonds and the enforceability thereof are subject to bankruptcy, insolvency, reorganization, arrangement, moratorium and other laws affecting the enforcement of creditors' rights, to the application of equitable principles (regardless of whether such enforceability is considered in equity or at law), to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against school districts in the State of California.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions. Such opinions may be adversely affected by actions taken or events occurring, including a change in law, regulation or ruling (or in the application or official interpretation of any law, regulation or ruling) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions are taken or such events occur, and we have no obligation to update this opinion in light of any such actions or events.

Respectfully submitted,

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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") in connection with the issuance of $250,000,000 aggregate principal amount of "Los Angeles Unified School District General Obligation Bonds, Election of 2002, Series D (2009)"(the "Measure K Series D Bonds"), $ 550,000,000 aggregate principal amount of "Los Angeles Unified School District General Obligation Bonds, Election of 2004, Series I (2009)"(the "Measure R Series I Bonds") and $150,000,000 aggregate principal amount of "Los Angeles Unified School District General Obligation Bonds, Election of 2005, Series F (2009)"(the "Measure Y Series F Bonds" and, together with the Measure K Series D Bonds and the Measure R Series I Bonds, the "Bonds"). The Bonds are being issued pursuant to a resolution (the "Resolution") adopted by the Board of Supervisors of the County of Los Angeles, California (the "County") on November 5, 2008, at the request of the Board of Education of the District by its resolution adopted on October 14, 2008. 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 Bonds 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 Resolution, 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.

"CUSIP Numbers" shall mean the Committee on Uniform Security Identification Procedure's unique identification number for each public issue of a security.

"Beneficial Owner" shall mean any person who (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"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.

"Holder" shall mean either the registered owners of the Bonds, or if the Bonds are registered in the name of The Depository Trust Company or another recognized depository, any applicable participant in such depository system.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"National Repository" or "NRMSIRs" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The NRMSIRs are identified on the SEC website at "http://www.sec.gov/info/municipal/nrmsir.htm". Effective July 1, 2009, NRMSIR shall mean the Municipal Securities Rulemaking Board and information to be submitted pursuant to this Undertaking shall be submitted to the MSRB instead of to one or multiple nationally recognized municipal securities information repositories and state information depositories.

"Participating Underwriters" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Repository" shall mean each National Repository and each State Depository.

"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.

"State Depository" shall mean any public or private repository or entity designated by the State of California as the state depository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Certificate, there is no State Depository. Effective July 1, 2009, information to be submitted pursuant to this Disclosure Certificate shall be submitted, without duplication, to the Municipal Securities Rulemaking Board instead of to a State Depository, if any.

Section 3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent to, not later than 240 days after the end of the District's fiscal year (currently ending June 30), commencing with the report for the 2007-2008 Fiscal Year (which is due not later than February 25, 2009), provide to each Repository 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 5(c).

(b) Not later than fifteen (15) days prior to said date, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If the District is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the Dissemination Agent shall send a notice to each Repository, if any, in substantially the form attached hereto as Exhibit A.

(c) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and each State Depository, if any; and

(ii) (if the Dissemination Agent is other than the District) file a report with the District certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided.

Section 4. Content of Annual Reports. The District's Annual Report shall contain or include by reference the following:

(a) 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 3(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.

(b) To the extent not included in the audited financial statement of the District, the Annual Report shall also include the following:

(i) Adopted general fund budget of the District for the current fiscal year.

(ii) District average daily attendance.

(iii) District outstanding debt.

(iv) Information regarding total assessed valuation of taxable properties within the District, if and to the extent provided to the District by the County.

(v) Information regarding total secured tax charges and delinquencies on taxable properties within the District, if and to the extent provided to the District by the County.

(c) 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, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The District shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

(i) principal and interest payment delinquencies.

(ii) non-payment related defaults.

(iii) modifications to rights of Holders.

(iv) optional, contingent or unscheduled bond calls.

(v) defeasances.

(vi) rating changes.

(vii) adverse tax opinions or events affecting the tax-exempt status of the Bonds.

(viii) unscheduled draws on the debt service reserves reflecting financial difficulties.

(ix) unscheduled draws on the credit enhancements reflecting financial difficulties.

(x) substitution of the credit or liquidity providers or their failure to perform.

(xi) release, substitution or sale of property securing repayment of the Bonds.

The District notes that items (viii), (ix), (x) and (xi) are not applicable to the Bonds.

(b) Whenever the District obtains knowledge of the occurrence of a Listed Event, the District shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the District determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the District shall promptly file a notice of such occurrence with each National Repository or with the Municipal Securities Rulemaking Board, and with the State Depository. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Resolution.

Section 6. 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 Bonds and the 9-digit CUSIP numbers for the Bonds as to which the provided information relates.

Section 7. Termination of Reporting Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 8. 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 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 an 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 prepared by the District pursuant to this Disclosure Certificate.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), 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 Bonds, or the type of business conducted; and

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances.

(c) The amendment or waiver either: (i) is approved by the Holders of the Bonds in the same manner as provided in the resolution for amendments to the Resolution with the consent of Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

(d) 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 5(c), and (ii) the Annual Report for the year in which the change is made shall 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 10. 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 Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. 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 Bonds then outstanding, shall) or any Holders or Beneficial Owners of the Bonds 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 Resolution, 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 12. 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 Bonds.

Section 13. 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 Bonds, and shall create no rights in any other person or entity.

Dated: February 19, 2009

LOS ANGELES UNIFIED SCHOOL DISTRICT

By:____

Megan K. Reilly
Chief Financial Officer

DIGITAL ASSURANCE CERTIFICATION, L.L.C, as Dissemination Agent

By:____
Name: ______________________________
Title: ______________________________

EXHIBIT A

FORM OF NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of District:	Los Angeles Unified School District
Name of Bond Issue:	Los Angeles Unified School District (County of Los Angeles, California) General Obligation Bonds, Election of 2002, Series D (2009); Los Angeles Unified School District (County of Los Angeles, California) General Obligation Bonds, Election of 2004, Series I (2009); and Los Angeles Unified School District (County of Los Angeles, California) General Obligation Bonds, Election of 2005, Series F (2009)
Date of Issuance:	February 19, 2009

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Bonds as required by Section 4 of the Continuing Disclosure Certificate of the District, dated ____________________. [The District anticipates that the Annual Report will be filed by _____________.]

Dated:_______________

DIGITAL ASSURANCE CERTIFICATION, L.L.C.,
as Dissemination Agent

By:_______________________________
Dissemination Agent

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APPENDIX F

LOS ANGELES COUNTY TREASURY POOL

The Treasurer and Tax Collector of the County of Los Angeles (the "Treasurer") manages, in accordance with State Government Code Section 53600 et seq., funds deposited with the Treasurer by County school and community college districts, various special districts and some cities. State law generally requires that all moneys of the County, school districts and certain special districts be held in the County's Treasury Pool (the "Treasury Pool") as described below. The composition and value of investments under management in the Treasury Pool vary from time to time, depending on the cash flow needs of the County and the other public agencies invested in the Treasury Pool, the maturity or sale of investments, purchase of new securities and fluctuations in interest rates generally.

Los Angeles County Pooled Surplus Investments

The Treasurer has the delegated authority to invest funds on deposit in the Treasury Pool. As of December 31, 2008, 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	$ 9.149
Schools and Community Colleges	10.024
Independent Public Agencies	2.096
Total	$21.269

Of these entities, the involuntary participants accounted for approximately 90.15%, and all discretionary participants accounted for 9.85% 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 11, 2008, 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 January 28, 2009, the December 31, 2008 book value of the Treasury Pool was approximately $21.269 billion and the corresponding market value was approximately $21.385 billion.

An internal controls system for monitoring cash accounting and investment practices is in place. The Treasurer's Compliance Auditor, who operates independently from the Investment Officer, reconciles cash and investments to fund balances daily. The Compliance Auditor's staff also reviews each investment trade for accuracy and compliance with the Board adopted Investment Policy. The County Auditor-Controller's Office performs similar cash and investment reconciliations on a quarterly basis and regularly reviews investment transactions for conformance with the approved policies. Additionally, the County's outside independent auditor annually accounts for all investments.

The Treasury Pool is highly liquid. As of December 31, 2008 approximately 48.50% of the investments mature within 60 days, with an average of 523.49 days to maturity for the entire portfolio. The following table identifies the types of securities held by the Treasury Pool as of December 31, 2008.

Type of Investment	% of Pool
U.S. Government and Agency Obligations	44.51%
Certificates of Deposit	17.77
Commercial Paper	33.95
Bankers Acceptances	0.00
Municipal Obligations	0.12
Corporate Notes & Deposit Notes	3.65
Asset Backed Instruments	0.00
Repurchase Agreements	0.00
Other	0.02

Pursuant to Section 27131 of the California Government Code, all counties investing surplus funds may establish a county treasury oversight committee. On January 16, 1996, the Board of Supervisors approved the establishment of the County Treasury Oversight Committee and subsequently confirmed the five committee members nominated by the Treasurer in accordance with that Section. The Committee meets quarterly to review and monitor for compliance the investment policies prepared by the Treasurer.

LOS ANGELES UNIFIED SCHOOL DISTRICT • General Obligation Bonds, Measure K Series D (2009), Measure R Series I (2009) and Measure Y Series F (2009)

LOS ANGELES UNIFIED SCHOOL DISTRICT • BOARD OF EDUCATION •

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