NEW ISSUE – BOOK-ENTRY-ONLY | **RATINGS: †**

Standard & Poor's: A+
Moody's: A2

In the opinion of Sidley Austin LLP, San Francisco, California, Special Counsel with respect to the Certificates, under current law and assuming compliance with certain covenants in the documents pertaining to the Certificates, and requirements of the Internal Revenue Code of 1986, as amended, as described herein, the portion of each Lease Payment due under the Lease designated as and comprising interest with respect to the Certificates is not includable in the gross income of the owners of the Certificates 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. Such portion of each Lease Payment, 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 Special Counsel, the portion of each Lease Payment due under the Lease designated as and comprising interest with respect to the Certificates is exempt from personal income taxes imposed by the State of California. See "Tax Matters" herein.

$69,685,000
Refunding Certificates of Participation
2010 Series A
(Multiple Properties Project)
Evidencing Proportionate and Undivided Interests of the Owners Thereof in Lease Payments to be made by the
LOS ANGELES UNIFIED SCHOOL DISTRICT

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

The Refunding Certificates of Participation 2010 Series A (Multiple Properties Project) (the "Certificates") are being executed and delivered pursuant to a Trust Agreement, dated as of January 1, 2010 (the "Trust Agreement"), by and among the Los Angeles Unified School District (the "District"), the LAUSD Financing Corporation (the "Corporation") and U.S. Bank, N.A., as trustee (the "Trustee").

The Certificates evidence proportionate and undivided interests in the lease payments (the "Lease Payments") to be made by the District pursuant to that certain Lease Agreement, dated as of January 1, 2010 (the "Lease"), by and between the District and the Corporation, pursuant to which the District leases from the Corporation certain real property and all the improvements thereon or to be located thereon, as more particularly described herein (the "Property"). See "Security and Sources of Payment for the Certificates – Lease Payments" herein. The proceeds of the Certificates will be applied to (i) refinance the 1997 Series A Certificates and the 1998 Series A Certificates (each as defined herein), (ii) fund the Debt Service Reserve Fund for the Certificates and (iii) pay costs of issuance incurred in connection with the Certificates. See "Plan of Financing" herein.

Interest represented by the Certificates is payable on June 1 and December 1 of each year, commencing on June 1, 2010. The Certificates will be delivered as fully-registered certificates registered in the name of a nominee of The Depository Trust Company ("DTC"), which will act as securities depository for the Certificates. Purchases of the Certificates may be made in book-entry form only. Beneficial owners of the Certificates will not receive physical delivery of such Certificates. Payments of the principal amount of, premium, if any, and interest on the Certificates will be made to DTC by the Trustee. Disbursement of payments to DTC Participants is the responsibility of DTC and disbursement of payments to the beneficial owners is the responsibility of DTC Participants. See "The Certificates" herein and Appendix F – "Book-Entry System" attached hereto.

The Certificates are not subject to optional prepayment. The Certificates are subject to extraordinary prepayment prior to their respective stated maturities, as described herein. See "The Certificates – Prepayment" herein.

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

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

The Certificates will be offered when, as and if executed and delivered, and received by the Underwriters, subject to the approval as to their legality by Sidley Austin LLP, San Francisco, California, Special Counsel to the District, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by their counsel, Fulbright & Jaworski L.L.P., Los Angeles, California, and for the District by the General Counsel to the District and by its Disclosure Counsel, Sidley Austin LLP, San Francisco, California. First Southwest Company and Annette Yee and Company are serving as Co-Financial Advisors to the District in connection with the issuance of the Certificates. It is expected that the Certificates in definitive form will be available for delivery through the facilities of DTC in New York, New York, on or about January 27, 2010.

Piper Jaffray & Co. | **BofA Merrill Lynch**

Dated: January 13, 2010

† See "RATINGS" herein.

$69,685,000
Refunding Certificates of Participation
2010 Series A
(Multiple Properties Project)
Evidencing Proportionate and Undivided Interests of the Owners
Thereof in Lease Payments to be made by the
LOS ANGELES UNIFIED SCHOOL DISTRICT

MATURITY SCHEDULE

BASE CUSIP No.[†]: 544648

Maturity (December 1)	Principal Amount	Interest Rate	Yield	CUSIP Suffix[†]
2010	$ 6,905,000	1.000%	0.470%	SK5
2011	7,045,000	3.000	1.130	SL3
2012	650,000	2.000	1.830	SD1
2012	6,605,000	3.000	1.830	SM1
2013	1,300,000	3.000	2.240	SE9
2013	6,205,000	4.000	2.240	SN9
2014	1,385,000	3.000	2.630	SF6
2014	6,410,000	4.000	2.630	SP4
2015	300,000	3.250	3.120	SG4
2015	7,845,000	5.000	3.120	SQ2
2016	1,125,000	4.000	3.650	SH2
2016	7,430,000	5.000	3.650	SR0
2017	1,215,000	4.000	4.000	SJ8
2017	15,265,000	5.000	4.000	SS8

† CUSIP Copyright 2009, American Bankers Association. CUSIP numbers herein are provided by Standard & Poor's CUSIP Service Bureau, a division of the McGraw-Hill Companies, Inc., and are set forth herein for convenience of reference only. The District, the Corporation, the Trustee and the Underwriters assume no responsibility for the accuracy of such numbers.

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

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

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

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

THE CERTIFICATES HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR HAS THE 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 Certificates.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Board of Education

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

District Officials

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

Special Counsel

Sidley Austin LLP
San Francisco, California

Disclosure Counsel

Sidley Austin LLP
San Francisco, California

Co-Financial Advisors

First Southwest Company
Santa Monica, California

Annette Yee and Company
Carmel, California

Verification Agent

Causey Demgen & Moore Inc.
Denver, Colorado

Trustee

U.S. Bank, N.A.
Los Angeles, California

$69,685,000
Refunding Certificates of Participation
2010 Series A
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Evidencing Proportionate and Undivided Interests of the Owners
Thereof in Lease Payments to be made by the
LOS ANGELES UNIFIED SCHOOL DISTRICT

INTRODUCTION

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

General

This Official Statement, including the cover page and the Appendices attached hereto (the "Official Statement"), provides certain information concerning the sale and delivery of the Refunding Certificates of Participation 2010 Series A (Multiple Properties Project) (the "Certificates"). The Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of January 1, 2010 (the "Trust Agreement"), by and among the Los Angeles Unified School District (the "District"), the LAUSD Financing Corporation (the "Corporation") and U.S. Bank, N.A., as trustee (the "Trustee") to (i) refinance Variable Rate Certificates of Participation (Belmont Learning Complex) 1997 Series A (the "1997 Series A Certificates") and Refunding Certificates of Participation (Multiple Properties Project) 1998-A (the "1998 Series A Certificates" and, together with the 1997 Series A Certificates, the "Prior Certificates"), (ii) fund the Debt Service Reserve Fund for the Certificates and (iii) pay costs of issuance incurred in connection with the Certificates. See "Plan of Financing" herein.

The District leases certain real property and all improvements thereon or to be located thereon, as more particularly described herein (the "Property"), to the Corporation pursuant to a Site and Facilities Lease, dated as of January 1, 2010 (the "Site Lease"), by and between the District and the Corporation. The District leases the Property from the Corporation pursuant to a Lease Agreement, dated as of January 1, 2010 (the "Lease"), by and between the District and the Corporation. The Certificates evidence proportionate and undivided interests in the lease payments (the "Lease Payments") to be made by the District pursuant to the Lease. See "Security and Sources of Payment for the Certificates" herein.

The District

The District, encompassing approximately 710 square miles, is located in the western section of 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"). As of July 30, 2008, the total population within the District's boundaries was estimated to be approximately 4,839,918. 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, 2008" attached hereto.

The Corporation

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

Authorization

Pursuant to and in accordance with resolutions of the Board of Education of the District and the Board of Directors of the Corporation adopted on November 10, 2009, the District and the Corporation have authorized the execution, sale and delivery of the Certificates, approved the execution of the Lease, the Site Lease, the Trust Agreement, the Escrow Agreements (as defined below) and the Corporation has also approved the form of the Assignment Agreement.

Plan of Refunding

Concurrently with the delivery of the Certificates, the Prior Certificates outstanding in the amount of $64,905,000 will be refunded.

The refunding of the 1997 Series A Certificates will be accomplished by drawing upon the existing irrevocable direct-pay letter of credit (the "Letter of Credit") issued by The Bank of New York Mellon (the "LOC Bank"). A portion of the proceeds from the Certificates will be set aside in an interest bearing account and used to re-pay the LOC Bank for the draw upon the Letter of Credit.

The refunding of the 1998 Series A Certificates will be accomplished by depositing a portion of the proceeds from the Certificates into an escrow fund established under an Escrow Agreement, dated January 27, 2010 (the "Escrow Agreement"), by and between the District and U.S. Bank, N.A., as escrow agent (the "Escrow Agent"). The amount of funds deposited into the escrow fund, together with interest earnings thereon, will be sufficient to prepay all of the 1998 Series A Certificates on the prepayment date, at a prepayment price equal to 100.5% of the principal evidenced by the 1998 Series A Certificates to be prepaid plus accrued interest evidenced thereby to the prepayment date. See "PLAN OF FINANCING." Upon the deposit into the escrow fund as described above, the District will be discharged from all obligations with respect to the 1998 Series A Certificates. The mathematical computations used to determine the sufficiency of the escrow deposit will be verified by the Verification Agent (defined herein). See "VERIFICATION AGENT."

Security and Source of Payment for the Certificates

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

Pursuant to an Assignment Agreement, dated as of January 1, 2010 (the "Assignment Agreement"), by and between the Trustee and the Corporation, the Corporation assigned to the Trustee, for the benefit of the Owners of Certificates all of its rights, title and interest in and to the Lease, including the right to receive Lease Payments under the Lease. See Appendix C – "Summary of Principal Legal Documents – The Lease" and "– Trust Agreement" attached hereto.

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

The District's obligation to make Lease Payments may be abated in whole or in part during any period in which, by reason of material damage, destruction, taking by eminent domain or condemnation, the District does not have substantial use and occupancy of the Property which is the subject of the Lease. Failure of the District to make Lease Payments during any such period shall not constitute a default under the Lease, the Trust Agreement or the Certificates. However, during periods of abatement, any moneys in the Lease Payment Fund or in the Reserve Fund and amounts, if any, received from rental interruption insurance are available to pay Lease Payments. There is no remedy of acceleration of Lease Payments over the term of the Lease. See "Security and Sources of Payment for the Certificates – Lease Payments" and "– Abatement" herein.

The Certificates

The Certificates will be executed and delivered in the form of fully registered certificates in principal amounts of $5,000 each or any integral multiple thereof. The Certificates will be dated their date of delivery and mature on December 1 in the years set forth on the inside cover page hereof. The interest represented by the Certificates will represent the sum of the portions of the Lease Payments designated as interest components coming due on the Interest Payment Dates in each year. The principal represented by the Certificates will represent the sum of the portions of the Lease Payments designated as principal components coming due on the Principal Payment Date in each year. Interest represented by the Certificates is payable on June 1 and December 1 of each year, commencing on June 1, 2010.

The Certificates will be issued in book-entry form only and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Certificates. Individual purchases of the Certificates will be made in book-entry form only. Purchasers of the Certificates will not receive certificates representing their ownership interests in the Certificates purchased. Principal and interest payments represented by the Certificates are payable directly to DTC by the Trustee. Upon receipt of payments of principal and interest, DTC will in turn distribute such payments to the beneficial owners of the Certificates. See "The Certificates – General" herein and Appendix F – "Book-Entry System" attached hereto.

Tax Matters

In the opinion of Sidley Austin LLP, San Francisco, California, Special Counsel with respect to the Certificates, under current law and assuming compliance with certain covenants in the documents pertaining to the Certificates, and requirements of the Internal Revenue Code of 1986, as amended, as described herein, the portion of each Lease Payment due under the Lease designated as and comprising interest with respect to the Certificates is not includable in the gross income of the owners of the Certificates 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. Such portion of each Lease Payment, 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 Special Counsel, the portion of each Lease Payment due under the Lease designated as and comprising interest with respect to the Certificates is exempt from personal income taxes imposed by the State of California. See "Tax Matters" herein.

Continuing Disclosure

The District has agreed to provide, or cause to be provided, by electronic submission to the Municipal Securities Rulemaking Board ("MSRB") through the Electronic Municipal Market Access ("EMMA") system, for purposes of Rule 15c2-12(b)(5) (the "Rule") adopted by the Securities and Exchange Commission certain annual financial information and operating data and, in a timely manner, notice of certain material events. These covenants have been made in order to assist the Underwriters in complying with the Rule. See "Continuing Disclosure" herein for a description of the specific nature of the annual report and notice of material events and summary description of the terms of the disclosure agreement pursuant to which reports are to be made.

Forward-Looking Statements

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

Miscellaneous

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

The description herein of the Trust Agreement, the Lease, the Site Lease and the Assignment Agreement and any other agreements relating to the Certificates are qualified in their entirety by reference to such documents, and the descriptions herein of the Certificates are qualified in their entirety by the form thereof and the information with respect thereto included in the aforementioned documents. See Appendix C – "Summary of Principal Legal Documents" attached hereto. Copies of the documents are on file and available for inspection at the Corporate Trust Office of the Trustee at U.S. Bank, N.A., Attn: Corporate Trust Services, 633 West 5th Street, 24th Floor, Los Angeles, California 90017.

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

The presentation of information, including tables of receipt of revenues, is intended to show recent historical information and is not intended to indicate future or continuing trends in the financial position or other affairs of the District. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future.

PLAN OF FINANCING

General

The proceeds of the Certificates will be applied to (i) refinance the 1997 Series A Certificates and the 1998 Series A Certificates, (ii) fund the Debt Service Reserve Fund for the Certificates and (iii) pay costs of issuance incurred in connection with the Certificates.

The Property

Pursuant to the Site Lease and the Lease, the District will lease the Property or any other additional or substitution property set forth in the Lease, to the Corporation and lease such property back from the Corporation.

The Property consists of the following properties and all improvements located thereon:

Property	Location	Net Acreage	Estimated Value*
William R. Anton Elementary School	831 North Bonnie Beach Place Los Angeles, California 90063	3.18 acres	$92,358,634
South Region Elementary School No. 1	118, 122, 124, 128 88th Street; 101, 112, 116, 117, 120, 121, 124, 128, 129, 132, 133 89th Street; 117, 121, 125, 129, 133 90th Street; 8901, 8907, 8911, 8915, 8919 South Main Street, Los Angeles, California 90003	4.76 acres	$84,599,809

The Lease Payments are subject to abatement in any year to the extent that the Lease Payments in such year exceed the fair rental value of the portion of the Property with respect to which the District has use and occupancy. The William R. Anton Elementary School was placed in service in September 2009, and such property is currently used and occupied by the District. As a condition to the closing of the Certificates, the District will deliver a certificate providing that as of the date of closing of the Certificates, the fair market rental value of the William R. Anton Elementary School for each fiscal year of the District beginning in the District's 2009-2010 fiscal year through and including the District's 2016-2017 fiscal year exceeds the Lease Payments to be payable with respect to the Certificates in each of such fiscal years. Approximately 97% of

* The estimated value of each Property has been determined by the District based upon estimated value of the real property plus the cost of construction.

the construction of the South Region Elementary School No. 1 has been completed, and the District expects that such facility will be placed in service and available for use and occupancy by the District at the beginning of the 2010-2011 school year. The District may make Lease Payments allocable to the South Region Elementary School No. 1 that in each year to the extent that such allocable portion of the Lease Payments does not exceed the fair rental value of the South Region Elementary School No. 1 in such year. The District will deliver a certificate to the Trustee upon completion of construction of the South Region Elementary School No. 1 to the effect that the aggregate fair market rental value of the William R. Anton Elementary School and the South Region Elementary School No. 1 for the District's 2017-2018 Fiscal Year exceeds the Lease Payments to be payable with respect to the Certificates in such fiscal year.

The amount of the annual Lease Payments does not exceed the annual fair rental value of the Property. For a discussion of insurance coverage required to be maintained by the District on the Property, see "Security and Sources of Payment for the Certificates – Insurance" herein.

Pursuant to the Lease, and subject to the conditions set forth therein, the District may amend the Lease to substitute additional real property and facilities for the Property, or to remove real property and facilities from the definition of Property, upon compliance with all of the conditions set forth in the Lease. After a substitution or removal, the part of the Property for which the substitution or removal has been effected will be released from the leasehold thereunder.

ESTIMATED SOURCES AND USES OF FUNDS

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

Sources:	
Principal Amount of Certificates	$69,685,000.00
Prior Lease Payments Fund	2,555.51
Original Issue Premium	3,771,115.55
Total Sources	$73,458,671.06
Uses:	
Deposit to Escrow Fund	$65,474,596.77
Deposit to Debt Service Reserve Fund	7,345,611.56
Deposit to Costs of Issuance Fund(1)	638,462.73
Total Uses	$73,458,671.06

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

THE CERTIFICATES

The following is a summary of certain provisions of the Certificates. Reference is made to the Certificates for the complete text thereof and to the Trust Agreement for a more detailed description of such provisions. The discussion herein is qualified by such reference. See Appendix C – "Summary of Principal Legal Documents" attached hereto.

General

The Certificates will be dated their date of delivery and principal with respect to the Certificates will be payable on the dates set forth on the inside cover page of this Official Statement. The interest represented by the Certificates will represent the sum of the portions of the Lease Payments designated as interest components coming due on the Interest Payment Dates in each year. The principal represented by the Certificates will represent the sum of the portions of the Lease Payments designated as principal components coming due on the Principal Payment Date in each year. Interest with respect to the Certificates will be payable semiannually on each June 1 and December 1 of each year, commencing on June 1, 2010 (each, an "Interest Payment Date") and will be computed on the basis of a 360-day year of twelve 30-day months.

The Certificates will be registered in the name of Cede & Co., the nominee of DTC, and held in DTC's book-entry system. So long as the Certificates are held in the book-entry system, DTC or its nominee will be the registered owner of the Certificates for all purposes of the Trust Agreement and the Certificates. For purposes of this Official Statement, DTC or its nominee, and its successors and assigns, are referred to as the "Securities Depository". So long as the Certificates are held in book-entry form through DTC, all payments with respect to principal of, premium, if any, and interest on each Certificate will be made pursuant to DTC's rules and procedures. See Appendix F – "Book-Entry System" attached hereto.

Prepayment

Optional Prepayment. The Certificates are not subject to optional prepayment.

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

Selection of Certificates for Prepayment. Whenever provision is made in the Trust Agreement for the prepayment of Certificates and fewer than all Outstanding Certificates are called for prepayment, the Trustee will select Certificates for prepayment from the Outstanding Certificates of such Series not previously called for prepayment pursuant to the Trust Agreement, among maturities selected by the District and designated in writing to the Trustee at least sixty (60) days prior to the prepayment date and by lot within any maturity. The Trustee will promptly notify the District and the Corporation in writing of the Certificates so selected for prepayment.

Notice of Prepayment. Notice of any such prepayment will be given by the Trustee on behalf and at the expense of the District by registered or otherwise secure mail or delivery service, postage prepaid, or by facsimile transmission, confirmed by telephone, to DTC and, by electronic submission to MSRB through the EMMA system or any other entity designated or authorized by the MSRB or Securities and Exchange Commission, in accordance with then current guidelines, at least thirty (30) days but not more than sixty (60) days prior to the prepayment date; *provided*, that neither failure to receive such notice nor any defect in any notice so mailed shall affect the sufficiency of the proceedings for the prepayment of such Certificates.

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

Certificate to be prepaid, together with interest accrued to said date and prepayment premium, if any, and that from and after such date interest with respect thereto shall cease to accrue and be payable.

Effect of Prepayment. Notice of prepayment having been given, and if the money for the prepayment price (including the interest and prepayment premium, if any, to the applicable date of prepayment) are set aside in the applicable account within the Prepayment Fund, the Certificates to be prepaid shall become due and payable on said date of prepayment, and, upon presentation and surrender thereof at the Principal Office, said Certificates shall be paid at the unpaid prepayment price with respect thereto, plus interest accrued and unpaid to said date of prepayment. All Certificates paid at maturity or prepaid prior to maturity pursuant to the provisions of the Trust Agreement shall be cancelled upon surrender thereof and destroyed.

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

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

SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES

Lease Payments

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

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

The District's obligation to make Lease Payments may be abated in whole or in part during any period in which, by reason of material damage, destruction, taking by eminent domain or condemnation, the District does not have substantial use and occupancy of the Property which is the subject of the Lease.

Failure of the District to make Lease Payments during any such period shall not constitute a default under the Lease, the Trust Agreement or the Certificates.

The Trustee, pursuant to the Trust Agreement, will receive Lease Payments for the benefit of the Owners. Lease Payments are scheduled to be sufficient to pay, when due, amounts designated as principal and interest represented by the Certificates. Except as expressly provided in the Trust Agreement, the Trustee will not have any obligation or liability to the Owners with respect to the payment when due of the Lease Payments by the District, or with respect to the performance by the District or the Corporation of the other agreements and covenants required to be performed by them, respectively contained in the Lease or in the Trust Agreement. Additional Payments payable by the District under the Lease include, among others, amounts sufficient to pay certain taxes and assessments and insurance premiums, and certain administrative costs.

The Lease Payments shall be payable from any source of available funds of the District, subject to the provisions of the Lease and the Trust Agreement. The covenants on the part of the District contained in the Lease shall be deemed to be and shall be construed to be duties imposed by law and it shall be the duty of each and every public official of the District to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the District to carry out and perform the covenants and agreements in the Lease agreed to be carried out and performed by the District.

There shall be no right under any circumstances to accelerate the Lease Payments or otherwise declare any Lease Payments not then in default to be immediately due and payable. Each and every covenant of the Lease to be kept and performed by the District is a condition of the Lease and upon the breach thereof the Trustee may exercise any and all rights of entry and re-entry upon the Property, and also, at its option, with or without such entry, may terminate the Lease pursuant to the terms thereof; provided, that no such termination shall be effected either by operation of law or acts of the parties thereto, except only in the manner provided in the Lease. In the event of any Event of Default or Default referred to in the Lease and notwithstanding any re-entry by the Trustee, the District shall, as provided in the Lease, continue to remain liable for the payment of the Lease Payments and/or damages for breach of the Lease and the performance of all conditions therein contained and, in any event such Lease Payments and/or damages shall be payable to the Trustee at the time and in the manner as provided in the Lease.

Lease Payments Schedule. The Lease requires that each year's semi-annual Lease Payments thereunder be deposited with the Trustee, as assignee of the Corporation, no later than three business days prior to June 1 or December 1, as applicable, for the Certificates (the "Lease Payment Dates") which are scheduled to be sufficient to pay, when due, amounts designated as principal and interest represented by the Certificates, subject to the provisions of the Lease regarding abatement in the event of material loss of use of any portion of the Property and prepayment of Lease Payments. See "Risk Factors – Abatement" and "The Certificates – Prepayment" herein.

A table of Lease Payments under the Lease is set forth below.

LEASE PAYMENTS

Lease Payment Dates	Certificates Principal	Certificates Interest	Total Lease Payments
June 1, 2010	-	$ 932,428.34	$ 932,428.34
December 1, 2010	$ 6,905,000.00	1,353,525.00	8,258,525.00
June 1, 2011	-	1,319,000.00	1,319,000.00
December 1, 2011	7,045,000.00	1,319,000.00	8,364,000.00
June 1, 2012	-	1,213,325.00	1,213,325.00
December 1, 2012	7,255,000.00	1,213,325.00	8,468,325.00
June 1, 2013	-	1,107,750.00	1,107,750.00
December 1, 2013	7,505,000.00	1,107,750.00	8,612,750.00
June 1, 2014	-	964,150.00	964,150.00
December 1, 2014	7,795,000.00	964,150.00	8,759,150.00
June 1, 2015	-	815,175.00	815,175.00
December 1, 2015	8,145,000.00	815,175.00	8,960,175.00
June 1, 2016	-	614,175.00	614,175.00
December 1, 2016	8,555,000.00	614,175.00	9,169,175.00
June 1, 2017	-	405,925.00	405,925.00
December 1, 2017	16,480,000.00	405,925.00	16,885,925.00
Total	$69,685,000.00	$15,164,953.34	$84,849,953.34

Debt Service Reserve Fund

The Debt Service Reserve Fund shall be held by the Trustee and shall be kept separate and apart from all other funds held by the Trustee. The Debt Service Reserve Fund must be funded in the amount of the Debt Service Reserve Requirement and must be used and withdrawn by the Trustee solely for the purposes and at the times specified in the Trust Agreement. The "Debt Service Reserve Requirement" is, as of the date of calculation, the least of (1) the maximum aggregate annual Lease Payments payable under the Lease during the then-current and all remaining Certificate Years the Certificates are to remain Outstanding, (2) 125% of the average annual aggregate Lease Payments payable under the Lease for the then-current and any remaining Certificate Years the Certificates are to remain Outstanding, or (3) 10% of the principal amount evidenced by the Certificates; provided, however, that if the Certificates have original issue discount or premium that exceeds two percent (2%) of the stated principal amount due at maturity including any original issue premium attributable exclusively to underwriters' compensation, the initial offering prices to the public shall be used in lieu of the stated principal amount for purposes of the 10% limitation. The Debt Service Reserve Requirement for the Certificates is $7,345,611.56 which will initially be funded with a portion of the proceeds of the Certificates.

Insurance

The Lease provides that the District will maintain or cause to be maintained, throughout the term of this Lease Agreement, insurance policies, including a standard comprehensive general insurance policy or policies in protection of the Corporation, the District and the Trustee and their respective members, officers, agents and employees. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance coverage carried by the District, and may be maintained through the Corporation or in the form of self-insurance by the District. Said policy or policies shall provide coverage in the minimum liability limits of $1,000,000 for personal injury or death of each person and $3,000,000 for personal injury or deaths of two or more persons in each accident or event, and in a minimum amount of $1,000,000 (subject to a deductible clause not to exceed $500,000 per occurrence) for damage to property resulting from each accident or event. Such liability and property damage insurance may, however, be in the form of a single limit policy in the amount of $3,000,000 covering all such risks.

The Lease provides that the District will secure and maintain, or cause to be secured and maintained, insurance against the risks and in the amounts set forth in the Lease. Such insurance includes “all risk” insurance against loss or damage to the Property, which must be maintained at any time in an amount per occurrence (the “Per Occurrence Amount”) at least equal to the lesser of 100% of the replacement value of the Property or 100% of the remaining Lease Payments evidencing and representing principal with respect to the Certificates. The Net Proceeds of such insurance shall be applied as provided in the Lease.

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

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

The Lease provides that the District will provide, from moneys in the Costs of Issuance Fund or at its own expense, on the date of delivery of the Certificates or as soon thereafter as practicable, an ALTA or CLTA title insurance policy covering, and in the amount of not less than the principal amount of the Certificates, insuring all of the fee title of the District in the Property, the leasehold estate of the Corporation in the Property and the leasehold estate of the District in the Property securing the Certificates, subject only to permitted encumbrances, with the Trustee as additional insured and loss payee. The Net Proceeds of such title insurance shall be applied as provided in the Lease.

The District shall maintain or cause to be maintained, during the entire term of the Lease, with insurers of recognized responsibility (or through the District’s current program of self-insurance with respect to certain insurance required by the Lease) all coverage required under the Lease. The District may not change its program of self-insurance for any insurance required under the Lease. Certain policies of insurance required by the Lease shall be obtained from an insurance provider licensed to do business in the State and rated “A” or better by A.M. Best & Company, and shall provide that all proceeds thereunder shall be payable to the District and the Trustee as insureds and applied as provided in the Lease. The District shall pay or cause to be paid when due the premiums for all insurance policies required by the Lease.

For additional information regarding the District's risk management programs, see Appendix A - "District Financial and Demographic Information – District Financial Information" and Appendix C - "Summary of Principal Legal Documents - The Lease" attached hereto.

Abatement

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

The Lease Payments with respect to the Certificate shall be abated during any period in which, by reason of damage, destruction, non-completion or other event (other than by eminent domain which is hereinbefore provided for), there is substantial interference with the use and occupancy by the District of the Property or any portion thereof (other than any portions of the Property as specified in the Lease), and the District waives certain benefits of the California Civil Code and any and all other rights to terminate the Lease by virtue of any such interference, and the Lease shall continue in full force and effect. The extent of such abatement shall be agreed upon by the District and the Corporation such that the resulting Lease Payments represent fair consideration for the use and occupancy of the portions of the Property not damaged, destroyed, incomplete or otherwise unavailable for use and occupancy by the District. Such abatement shall continue for the period commencing with such damage, destruction, non-completion or other event and ending with the substantial completion of the work of repair or reconstruction or of completion of the Property or of the regained availability of use and occupancy. In the event of any such damage, destruction, non-completion or non-availability, the Lease shall continue in full force and effect and the District waives any right to terminate the Lease by virtue of any such damage, destruction, non-completion or unavailability.

Notwithstanding the foregoing, there will be no abatement of Lease Payments under Section 6.3 of the Lease by reason of damage, destruction, non-completion or unavailability of all or a portion of the Property to the extent that: (i) the fair rental value of the portions of the Property not damaged, destroyed, incomplete or otherwise unavailable for use and occupancy by the District, based upon the opinion of an MAI appraiser with expertise in valuing such properties or other appropriate method of valuation, is equal to or greater than the unpaid principal component of the Lease Payments; or (ii) (a) the proceeds of rental interruption insurance or (b) amounts in the Insurance and Condemnation Fund and/or the Lease Payment Fund are available to pay Lease Payments which would otherwise be abated under Section 6.3 of the Lease, it being hereby declared that such proceeds and amounts constitute special funds for the payment of the Lease Payments.

Substitution

The District has the option at any time and from time to time during the Term of the Lease, to substitute other land or facilities for the Property or a portion thereof, or to add additional land to the Property, provided that the District satisfied all of the conditions precedent to such substitution or addition under the Lease.

Release

The District has the option at any time and from time to time during the Term of the Lease to release any portion of the Property, provided that the District satisfies all of the conditions precedent to such release under the Lease. See Appendix C - "Summary of Principal Legal Documents – The Lease" attached hereto.

No Additional Encumbrances

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

Investment of Funds

The proceeds of the Certificates will be held under the Trust Agreement and invested as provided thereunder. See Appendix C - "Summary of Principal Legal Documents – Trust Agreement" attached hereto.

THE DISTRICT

A description of the District, including information concerning its finances and organization, its major revenue sources, funds, liabilities and indebtedness, and certain factors affecting its finances and operations, is set forth in Appendix A hereto and excerpts from the District's audited financial statements for the fiscal year ended June 30, 2008 is set forth in Appendix B hereto.

THE CORPORATION

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

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

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

Mónica García, President
Yolie Flores Aguilar, Vice President
Megan K. Reilly, Treasurer
Timothy S. Rosnick, Secretary

RISK FACTORS

The following factors, along with all other information in this Official Statement, should be considered by potential investors in evaluating the Certificates.

Not a Pledge of Taxes

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

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

Additional Obligations of the District

The District has the capability to enter into other obligations which may constitute additional charges against its General Fund. To the extent that additional obligations are incurred by the District, the funds available to make Lease Payments may be decreased.

The Lease Payments and other payments due under the Lease (including payment of costs of repair and maintenance of the Property, taxes and other governmental charges levied against the Property) are payable from funds lawfully available to the District. In the event that the amounts which the District is obligated to pay in a fiscal year exceed the District's revenues for such year, the District may choose to make some payments rather than making other payments, including Lease Payments, based on the perceived needs of the District. The same result could occur if, because of California Constitutional limits on expenditures, the District is not permitted to appropriate and spend all of its available revenues.

Current and Future Obligations

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

Limited Recourse on Default

The enforcement of any remedies provided in the Lease and Trust Agreement could prove both expensive and time-consuming. Although the Lease provides that, if the District defaults the Trustee may repossess the Property and relet it, portions of the Property may not be easily recoverable, and even if recovered, could be of little value to others. Additionally, the Trustee may have limited ability to relet the Property to provide a source of rental payments sufficient to pay the principal represented by the Certificates. The Trustee is not empowered to sell the Property for the benefit of the Owners. In addition, due to the essential government functions of the Property, it is not certain whether a court would permit the exercise of the remedies of repossession and re-letting with respect thereto.

Default; Remedies Upon Default; No Right of Acceleration

There is no remedy of acceleration of the total Lease Payments due over the term of the Lease, nor is the Trustee empowered to sell the Property and use the proceeds of such sale to prepay the Certificates or pay debt service thereon. The District shall remain liable and agrees to keep or perform all covenants and conditions contained in the Lease to be kept or performed by the District and, to pay the rent to the end of the term of the Lease and further agrees to pay such rent and/or rent deficiency punctually at the same time and in the same manner as provided in the Lease for the payment of rent hereunder (without acceleration). The Trustee would be required to seek a separate judgment each year for that year's defaulted Lease Payments. Any such suit for money damages would be subject to limitations on legal remedies against school districts in the State.

Abatement

The amount of the annual Lease Payments does not exceed the annual fair rental value of the Property. The Lease Payments with respect to the Certificate will be abated during any period in which, by reason of damage, destruction, non-completion or other event (other than by eminent domain which is hereinbefore provided for), there is substantial interference with the use and occupancy by the District of the Property or any portion thereof (other than any portions of the Property described in the Lease), and the District waives certain benefits of the California Civil Code and any and all other rights to terminate the Lease by virtue of any such interference, and the Lease shall continue in full force and effect. The extent of such abatement shall be agreed upon by the District and the Corporation such that the resulting Lease Payments represent fair consideration for the use and occupancy of the portions of the Property not damaged, destroyed, incomplete or otherwise unavailable for use and occupancy by the District. Such abatement shall continue for the period commencing with such damage, destruction, non-completion or other event and ending with the substantial completion of the work of repair or reconstruction or of completion of the Property or of the regained availability of use and occupancy. In the event of any such damage, destruction, non-completion or non-availability, the Lease shall continue in full force and effect and the District waives any right to terminate the Lease by virtue of any such damage, destruction, non-completion or unavailability. Such abatement will commence with such damage, destruction, non-completion or taking and end with the substantial completion of the replacement or repair.

The District will also procure and maintain, or cause to be maintained, throughout the Term of the Lease rental interruption insurance to cover loss, total or partial, of the use of any part of the Property during the Term of the Lease with respect to the Property in an amount equal to twenty-four (24) months of Lease Payments for such Property (calculated assuming that the annual Lease Payment amount determined in accordance with the Trust Agreement consists of twelve equal monthly deposits). The Net Proceeds of such insurance shall be paid to the Trustee and deposited in the Lease Payment Fund and shall be credited towards the payment of the Lease Payments pursuant to the Trust Agreement.

Notwithstanding the foregoing, the resulting Lease Payments may not be sufficient to pay the remaining principal and interest with respect to the Certificates.

Any abatement of rental payments shall not be considered an Event of Default under the Lease. Such abatement will continue for the period commencing with the date of such damage, destruction, title defect or condemnation and ending with the substantial completion of the work of repair or replacement of the portions of the Property, so damaged, destroyed, rendered defective or condemned.

Constitutional School Funding Guarantee

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

Seismic Events; Force Majeure

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

Operation of the Property may also be at risk from other events of force majeure, such as damaging storms, floods, fires and explosions, strikes, sabotage, riots and spills of hazardous substances, among other events. The District cannot predict what force majeure events may occur in the future. For additional information regarding the District's risk management programs, see Appendix A – "District Financial and Demographic Information – Insurance" and Appendix C – "Summary of Principal Legal Documents – The Lease" attached hereto.

No Liability of Corporation to the Owners

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

Hazardous Substances

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

State Funding of Education

Historically, a large portion of the District's annual general fund revenues have consisted of payments from the State. For a detailed discussion of the State's funding of education see APPENDIX A – "STATE FUNDING OF EDUCATION."

TAX MATTERS

General

In the opinion of Sidley Austin LLP, San Francisco, California, Special Counsel, based on current law, and assuming compliance with certain covenants in the Trust Agreement, the Lease, the Tax Certificate of the District with respect to the Certificates (the "Tax Certificate") and certain other documents pertaining to the Certificates and requirements of the Internal Revenue Code of 1986, as amended (the "Code"), regarding the use, expenditure and investment of proceeds of the Certificates and the timely payment of certain investment earnings to the United States, the portion of each Lease Payment due under the Lease designated as and comprising interest with respect to the Certificates is not includable in the gross income of the owners of the Certificates for federal income tax purposes. Failure to comply with such covenants and requirements may cause the portion of each Lease Payment due under the Lease designated and comprising interest with respect to the Certificates to be included in gross income retroactively to the date of execution and delivery of the Certificates.

In the further opinion of Special Counsel, the portion of each Lease Payment due under the Lease designated as and comprising interest with respect to the Certificates is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. Such portion of each Lease Payment, however, is included in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability.

Ownership of, or the receipt of interest on or with respect to, 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. Special Counsel expresses no opinion with respect to any collateral tax consequences and, accordingly, prospective purchasers of the Certificates should consult their tax advisors as to the applicability of any collateral tax consequences.

Certain requirements and procedures contained or referred to in the Trust Agreement, the Lease, the Tax Certificate or other documents pertaining to the Certificates 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. Special Counsel expresses no opinion as to the effect of any change to any document pertaining to the Certificates 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 Sidley Austin LLP with respect to the exclusion from gross income of the portion of each Lease Payment designated as and comprising interest with respect to the Certificates for federal income tax purposes.

Original Issue Premium

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

Information Reporting and Backup Withholding

Interest paid on or with respect to tax-exempt obligations is subject to information reporting in a manner similar to interest paid on taxable obligations. While this reporting requirement does not, by itself, affect the excludability of interest from gross income for federal income tax purposes, the reporting requirement causes the payment of interest with respect to the Certificates to be subject to backup withholding if such interest is paid to beneficial owners that (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 are exempt recipients. Amounts withheld under the backup withholding rules from a payment to a beneficial owner are allowed as a refund or credit against such beneficial owner's federal income tax liability so long as the required information is furnished to the IRS.

Future Developments

Future legislative proposals, if enacted into law, regulations, rulings or court decisions may cause interest with respect to the Certificates to be subject, directly or indirectly, to federal income taxation or to State or local income taxation, or may otherwise prevent beneficial owners 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 Certificates.

Prospective purchasers of the Certificates should consult their tax advisors regarding pending or proposed federal or state tax legislation, regulations, rulings or litigation, as to which Special Counsel expresses no opinion.

CERTAIN LEGAL MATTERS

The validity of the Certificates and certain other legal matters are subject to the approval of Sidley Austin LLP, Special Counsel, and certain other conditions. A complete copy of the proposed form of opinion of Special Counsel is contained in Appendix D hereto. Certain legal matters will be passed upon for the Underwriters by their counsel, Fulbright & Jaworski L.L.P. and for the District by the General Counsel to the District.

FINANCIAL STATEMENTS

The basic financial statements of the District for the Fiscal Year ended June 30, 2008, certain sections of which are included in Appendix B to this Official Statement, have been audited by Simpson & Simpson, independent certified public accountants, as stated in their report appearing in Appendix B. The District has not requested nor has the District obtained the consent of Simpson & Simpson to the inclusion of its report as Appendix B. Simpson & Simpson, 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. Simpson & Simpson also has not performed any procedures relating to this Official Statement.

Excerpts from the District's fiscal year 2007-08 Comprehensive Annual Financial Report ("CAFR"), including its general purpose financial statements for the fiscal year ended June 30, 2008 is included in Appendix B to this Official Statement. Difficulties associated with new payroll computer systems resulted in a delay of approximately twelve months in the reporting of the District's finances for the fiscal years ended June 30, 2007 and June 30, 2008. Further, the delay of the fiscal year 2006-07 CAFR was a contributing factor in the District's failure to file its fiscal year 2007-08 CAFR by the December 15, 2008 deadline required by the State. The District filed its unaudited financial results for the fiscal year ended June 30, 2009 in November 2009. The District expects to file its fiscal year 2008-09 CAFR in February 2010 subsequent to the December 15, 2009 deadline required by the State. See APPENDIX A – "DISTRICT FINANCIAL INFORMATION – Significant Accounting Policies, System of Accounts and Audited Financial Statements" and "DISTRICT GENERAL INFORMATION – Information Technology Implementation Problems" attached hereto.

LITIGATION

No litigation is pending or threatened against the District or the Corporation concerning the validity of the Certificates. The District is not aware of any litigation pending or threatened questioning the political existence of the District or the Corporation or contesting the District's ability to execute and deliver the Certificates or pay the Lease Payments pursuant to the Lease. There are a number of lawsuits and claims pending against the District. Other than as described in this section and in Appendix A, the District does not believe that any of these proceedings could have a material adverse impact upon the financial condition of the District.

RATINGS

Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc. ("S&P") have assigned their ratings of "A2" and "A+," respectively, to the Certificates. Such ratings reflect only the views of such organizations and explanations of the significance of such ratings may be obtained only from the organizations at: Standard and Poor's Ratings Services, 55 Water Street, New York, New York 10041, telephone number (212) 438-2000; Moody's Investors Service, Inc. 7 World Trade Center, 250 Greenwich Street, New York, New York 10007-2796, telephone number (212) 553-0317. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by the respective rating agencies, if in the judgment of such rating agency circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Certificates.

UNDERWRITING

The Certificates are being purchased by Piper Jaffray & Co. ("Piper"), on behalf of itself and Merrill Lynch, Pierce, Fenner & Smith Incorporated (collectively, the "Underwriters"), pursuant to a Purchase Contract with the District (the "Purchase Contract"). The Underwriters have agreed, subject to certain conditions, to purchase the Certificates at a price of $73,151,717.54 (representing the principal amount of the Certificates, plus an original issue premium of $3,771,115.55, less an Underwriters' discount of $304,398.01). The Purchase Contract relating to the Certificates provides that the Underwriters will purchase all of the Certificates if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Purchase Contract, the approval of certain legal matters by counsel and certain other conditions. The Underwriters may offer and sell the Certificates to certain dealers and others at prices lower than the offering prices stated on the inside cover page. The offering prices may be changed from time to time by the Underwriters.

Piper has entered into an agreement (the "Distribution Agreement") with Advisors Asset Management, Inc. ("AAM") for the distribution of certain municipal securities offerings, including the Certificates, allocated to Piper at the original offering prices. Under the Distribution Agreement, Piper will share with AAM a portion of the fee or commission, exclusive of management fees, paid to Piper.

VERIFICATION AGENT

Upon execution and delivery of the Certificates, Causey Demgen & Moore Inc. (the "Verification Agent"), a firm of independent certified public accountants, will deliver a report stating that the firm has (i) verified the sufficiency of the escrow fund established with respect to the 1998 Series A Certificates to prepay in full the principal, premium and interest with respect to the 1998 Series A Certificates on the date of prepayment thereof, and (ii) verified the sufficiency of the prepayment fund, established by the trust agreement securing the 1997 Series A Certificates, to re-pay the LOC Bank for the draw upon the Letter of Credit that supports the 1997 Series A Certificates.

CO-FINANCIAL ADVISORS

First Southwest Company and Annette Yee and Company are employed as Co-Financial Advisors to the District (the "Co-Financial Advisors") in connection with the execution and delivery of the Certificates. The Co-Financial Advisors' fee for services rendered with respect to the sale of the Certificates is contingent upon the execution and delivery of the Certificates. The Co-Financial Advisors do not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Certificates or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

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

CONTINUING DISCLOSURE

The District has covenanted for the benefit of the holders and beneficial owners of the Certificates 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 2008-09, 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 the Municipal Securities Rulemaking Board ("MSRB"), or any other entity designated or authorized by the Securities and Exchange Commission to receive reports until otherwise designated by the MSRB or the Securities and Exchange Commission. Filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at http://emma.msrb.org. The District will provide the notices of material events to DAC to file with the MSRB. 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 Certificates. The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth in Appendix E – "Form of Continuing Disclosure Certificate" attached hereto. These covenants have been made in order to assist the Underwriters in complying with the Rule.

The District's annual update to the District's contract with United Teachers of Los Angeles for Fiscal Years 2004-05 and 2005-06 were filed late by the District. The District provided notice of its failure to file such items on a timely basis with the Nationally Recognized Securities Information Repository and the MSRB, through DAC. As of the date hereof, the District is in compliance with its continuing disclosure obligations.

MISCELLANEOUS

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

[Signature Page Follows]

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

LOS ANGELES UNIFIED SCHOOL DISTRICT

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

APPENDIX A

DISTRICT FINANCIAL INFORMATION

The information contained herein as Appendix A to this Official Statement has been obtained from the Los Angeles Unified School District.

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DISTRICT GENERAL INFORMATION

District Organization

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

District Governance; Senior Management

The District is governed by a seven-member Board of Education (the "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. 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 as a trustee 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).

David Holmquist, Interim General Counsel. Mr. Holmquist has been appointed to serve as Interim General Counsel effective October 1, 2009. As Interim General Counsel for the District, Mr. Holmquist is responsible for administering the legal activities of the District's legal staff and outside legal firms. In addition, he coordinates the District's legal affairs, conducts litigation for the District and participates in trials related to matters of major importance to the District. Prior to his appointment as Interim General Counsel, Mr. Holmquist has served as Chief Operating Officer, Chief Risk Officer and as the Director of Risk Management and Insurance Services. 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. Mr. Holmquist earned a Bachelor of Science Degree in Business Administration from Oregon State University in 1983 and his Juris Doctorate 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.

James Morris, Chief Operating Officer. Dr. Morris was appointed Chief Operating Officer in September 2009. His duties as Chief Operating Officer include managing the offices of the District's 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 and various school operations. Dr. Morris supervises approximately 15,000 employees of the District ranging from part-time workers to executive level positions. Dr. Morris began his career in the District in 1980 and has worked as a teacher, an assistant principal and a principal in south and east Los Angeles as well as the San Fernando Valley. He also worked for several years as the Assistant Superintendent of Instruction and was instrumental in implementing some of the District's successful instructional reform initiatives. He has served as Chief of Staff for three superintendents over the course of the last five years and Local District Superintendent for District 2 in the District. As a Local District Superintendent, Dr. Morris supervised 100 schools and more than 100,000 students and families in the east and northeast San Fernando Valley. Dr. Morris holds a Bachelor of Arts degree from the State University of New York at Buffalo, a Master's degree in Educational Administration from California State University Los Angeles and a Doctorate in Education from University of California – Los Angeles.

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 Government Finance Officers Association.

Facilities and Staff

As of June 30, 2009 the District operated 437 elementary schools, 76 middle/junior high schools, 68 senior high schools, 60 options schools, 11 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 and 28 primary school centers. In addition, as of June 30, 2009, there were 11 affiliated charter schools operated by the District and 138 fiscally independent charter schools within the District's boundaries. The District currently has 153 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, 2009, the District employed approximately 46,133 certificated (full-time equivalent) employees, approximately 33,773 classified (full-time equivalent) employees and approximately 19,030 non-regular employees. The District also employs part-time and temporary employees.

Academic Performance and Instructional Initiatives

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

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

In addition, the NCLB Act requires that each LEA identified for Program Improvement take a variety of actions, including but not limited to developing or revising an improvement plan, promptly implementing that plan and informing parents of the LEA's Program Improvement status. Failure to achieve AYP in three consecutive years will result in corrective action by the state education agency. As of August 2009 the State had identified 92 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. 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 the Los Angeles County Office of Education (the "LACOE") to divide portions of the District into smaller school districts. In addition, the County

Committee on School District Organization (the "CCSDO") has been periodically requested to approve petitions to form school districts within the District. Pursuant to Education Code Section 35730.1, the evaluation of such petitions requires extensive review of 10 critical factors, including equitable division of assets and liabilities and compliance with socio-economic diversity requirements and existing legal mandates. Under Education Code Section 35736, an equitable allocation of existing District debt obligations 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 to establish minimum standards for school facilities, teacher quality and instructional materials and an accountability system, require the elimination of the use of the multi-track, year-round school calendar, known as Concept 6, with a shortened school year by July 1, 2012, encourage the placement of qualified teachers in low performing schools, ensure the proper training of teachers of English Learners, streamline the process for highly qualified teachers from out-of-state to teach in California schools, address emergency facility repair projects and assess the condition of schools in the bottom three API deciles.

Pursuant to the terms of the settlement agreement and in accordance with the Williams legislation, in December 2004, the Board adopted a construction plan that prioritizes school construction and revised the allocation of Measure R funding to ensure all schools are removed from the Concept 6 calendar by July 1, 2012 (the "New School Construction Program"). As of July 1, 2009, the New School Construction Program's cost is $12.5 billion and the New School Construction Program is expected to provide, among other things, 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. As of the date of this Official Statement, the New School Construction Program is fully funded.

In addition, the District estimates it received $145.4 million, based on the June 2009 Report (defined herein), in Fiscal Year 2008-09 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 reports that funding for eligible students in the grades K-3 is $500 per pupil, the funding for eligible students in the grades 4-8 is $900 per pupil, and the funding for eligible students in the grades 9-12 is $1,000 per pupil. The District expects total funding from Senate Bill 1133 legislation of $142.9 million, including $84.3 million in unexpended balances carried forward from Fiscal Year 2008-09, in Fiscal Year 2009-10. See "STATE FUNDING OF EDUCATION – State Budget" herein.

Information Technology Implementation Problems

Between 2003 and 2007, the District financed with approximately $182 million of certificates of participation and available moneys of the District information technology projects (the "Information Technology Projects") to integrate student and school-related information and to replace the District's legacy technology systems to consolidate more than 60 different operating systems onto a single platform. 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. Implementation of the finance and budget development components of the Information Technology projects proceeded without problems.

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 CalPERS, 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, and employees have been properly categorized for pension and social security payment purposes.

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 financial obligations as and when due. The implementation problems led to delayed reconciliation of the District's Financial Statements for Fiscal-Year 2006-07 and subsequent fiscal years. The District's Financial Statements for its Fiscal Year 2007-08 were issued on August 15, 2009, and the District anticipates that the issuance of its Financial Statements for Fiscal Year 2008-09 will be issued in February 2010. See "– Significant Accounting Policies, System of Accounts and Audited Financial Statements – *Reconciliation of Financial Results*" herein for a description of the effects upon the District's financial reports caused, in part, by the BTS implementation problems.

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" herein.

Historically, approximately 85% of the District's annual General Fund (the "District General Fund") revenues have consisted of payments from or under the control of the State. Payments made to K-

12 public schools and public colleges and universities are priority payments for State funds and are expected to be made prior to other State payment obligations. Although the State Constitution protects the priority of payments to K-12 schools, college and universities, it does not protect the timing of such payments and other obligations may be scheduled to be paid in advance of those dates on which payments to school districts are scheduled to be made.

School districts in the State have historically received most of their revenues under a formula known as the "revenue limit." Each school district's revenue limit, which is funded by State moneys and local 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. In the District's 2008-09 Fiscal Year, approximately 50% of the District's operating revenues were derived from the revenue limit.

Since 2002, the State has deferred certain State Aid payments to school districts from one fiscal year to the next fiscal year in order to manage the State's cash flow. Such deferments were extended and new deferrals are set forth in the Revised 2009-10 State Budget Act (defined herein). The Revised 2009-10 State Budget Act provides for deferrals of State aid to school districts within the fiscal year, together with deferrals of approximately $609 million from the District's 2009-10 Fiscal Year to subsequent fiscal years.

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

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 for a given fiscal year (when appropriation of funds in the State's annual budget for revenue limits or for any categorical program is not sufficient to pay all claims for State Aid, a deficit factor is applied to reduce the allocation of State Aid to the amount appropriated). Third, the current year's revenue limit per ADA for each school district is multiplied by such school district's ADA for the current or prior year. For a school district with declining enrollment, the current year's revenue limit per ADA is multiplied by the school district's ADA for the prior year. This has been the case for the District in recent years, thereby providing a cushion until the District's cost structure adjusts to lower ADA. Fourth, revenue limit add-ons are calculated for each school district if such school district qualified for the add-ons. Add-ons include the necessary small school district adjustments, meals for needy pupils and small school district transportation, and are added to the revenue limit for each qualifying school district. Finally, local 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-1 sets forth the District's revenue limit per unit of ADA from Fiscal Year 2000-01 through Fiscal Year 2008-09 and the projected revenue limit per unit of ADA for Fiscal Year 2009-10 based upon the District's Final Adopted Budget for Fiscal Year 2009-10.

TABLE A-1

Los Angeles Unified School District
Revenue Limit Per Unit of Average Daily Attendance
Fiscal Years 2000-01 to 2009-10

Fiscal Year	K-12 Base Limit(1)	Adult Total Limit(2)
2000-01	$4,480.13	$2,101.66
2001-02	4,654.13	2,196.82
2002-03	4,747.13	2,242.12
2003-04	4,835.13	2,242.12
2004-05	4,968.66	2,292.26
2005-06	5,179.66	2,389.22
2006-07	5,544.56	2,530.66
2007-08	5,796.56	2,645.30(5)
2008-09	5,645.07(3)	NA(5)
2009-10	4,961.48(3)(4)	NA(5)

(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) Estimate reflects the Revised 2009-10 State Budget Act.
(4) Does not reflect the revenue limit reduction in the amount of $250 per ADA contained in the Revised 2009-10 State Budget Act. See "STATE FUNDING OF EDUCATION – State Budget – Revised State Budget for Fiscal Year 2009-10" herein.
(5) Beginning with Fiscal Year 2007-08, the principal apportionment for Adult Education is no longer a revenue limit item due to a State determination that such amounts are more appropriately classified as "other State apportionments."

Sources: Los Angeles Unified School District Comprehensive Annual Financial Report for the Fiscal Year 2007-08 for Fiscal Years 2000-01 through 2007-08, Los Angeles Unified School District Final Adopted Budget for Fiscal Year 2009-10 for Fiscal Year 2009-10; and the Los Angeles Unified School District.

The Revised 2009-10 State Budget Act established a new deficit factor for the cost of living adjustment ("COLA"), which created a statutory commitment to use Proposition 98 funds at some point in the future to raise revenue limits to the level they would have been absent the reduction in Fiscal Year 2008-09. See " – Proposition 98" below. The 18.355% deficit factor is the equivalent of funding the base revenue limit for Fiscal Year 2009-10 at 81.645%. Accordingly, the deficit factor and a one-time revenue limit reduction of $252.83 per unit of ADA will reduce the District's revenue limit funding for Fiscal Year 2009-10 from $6,386.56 per unit of ADA to $4,961.48 per unit of ADA.

The table below sets forth the deficit factor and COLA from Fiscal Years 2000-01 through 2008-09 as reflected in the State Budget Acts with respect to Fiscal Years 2000-01 through 2009-10. The statutory COLA for Fiscal Year 2009-10 is based upon the Consumer Price Index for Urban Wage Earners and Clerical Workers and is estimated to be approximately 4.25%.

TABLE A-2

Los Angeles Unified School District
Deficit Factor and Cost of Living Adjustment
Fiscal Years 2000-01 to 2009-10

Fiscal Year	Deficit Factor	Cost of Living Adjustment
2000-01	0.000%	3.17%
2001-02	0.000	3.87
2002-03	0.000	2.00
2003-04	3.002	1.86
2004-05	2.143	2.41
2005-06	0.892	4.23
2006-07	0.000	5.92
2007-08	0.000	4.53
2008-09	7.844	5.66(1)
2009-10	18.355	4.25(2)

(1) COLA for Fiscal Year 2008-09 is based on the District's Fiscal Year 2008-09 Final Adopted Budget and does not reflect the Original 2009-10 State Budget Act's withdrawal of the 0.68% COLA set forth in the Fiscal Year 2008-09 State Budget Act.
(2) The 4.25% increase of the statutory COLA for Fiscal Year 2009-10 is offset is by a deficit factor of 18.355% on the base revenue limit, which results in a net funded COLA of a negative 7.64%.

Source: Los Angeles Unified School District.

The District's ADA record for each of the Fiscal Years 2000-01 through 2009-10 is set forth in Table A-3 below:

TABLE A-3

Los Angeles Unified School District
Annual Average Daily Attendance
Fiscal Years 2000-01 to 2009-10

	Average Daily Attendance			
Fiscal Year	K-12[(1)(2)]	Affiliated Charter Schools[(3)]	Adult Education Program	Total
2000-01	642,713	19,952	77,628	740,293
2001-02	656,306	20,010	86,372	762,688
2002-03	661,615	17,681	86,841	766,137
2003-04	666,169	5,143[(3)]	87,293	758,605
2004-05	654,308	5,990	86,307	746,605
2005-06	633,013	5,958	83,593	722,564
2006-07	614,487	5,936	90,347	710,770
2007-08	599,799	6,482	93,792	700,073
2008-09	588,961	6,655	98,608	694,224
2009-10	566,985	6,895	101,073	674,953

(1) Includes non-public school special education students.
(2) Includes charter schools that are fiscally affiliated with the District that are funded with block grants.
(3) With declining enrollment, the District's K-12 revenue limit funds in each of Fiscal Years 2004-05 through 2009-10 are based upon the respective prior fiscal year's ADA.
(4) Decrease primarily attributable to affiliated charter schools converting to regular District schools or to independent charter schools.

Sources: Los Angeles Unified School District Comprehensive Annual Financial Report for Fiscal Years 2000-01 through 2007-08, and the District's 2009-10 Final Adopted Budget for Fiscal Years 2008-09 through 2009-10.

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 continued. The manner in which the shift of property taxes has occurred has varied year by year. The Fiscal Year 2004-05 State Budget Act included a \$1.3 billion ERAF shift in local 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.

Proposition 1A (SCA 4) ("Proposition 1A"), proposed by the Legislature in connection with the Fiscal Year 2004-05 Budget Act 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 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. 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. Depending on the amount and timing of the ERAF shift in any given year, a school district's dependence upon the State General Fund may vary. Nevertheless, the influence of the State in the District's funding is substantial. Notwithstanding the shifts in property tax revenues in recent years and the potential decreases 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 affiliated and independent charter schools. However, independent charter schools that receive their funding directly from the State are not included in the District's audit report and function like independent agencies, including having control over their staffing and budgets, which are received directly from the State. Affiliated charter schools receive their funding from the District and are included in the District's budgets and audit reports. In Fiscal Year 2008-09, there were more than 100 fiscally independent and affiliated charter schools in operation in the District. In Fiscal Year 2008-09, the ADA for the District's affiliated charter schools, inclusive of the regular program and special education program, was 6,573.

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 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.

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. The Revised 2009-10 State Budget Act proposes to fully fund the Proposition 98 minimum guarantee in Fiscal Year 2009-10. 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 following discussion of the State's budget has been obtained from publicly available information which the District believes to be reliable; however the District, the Co-Financial Advisors and the Underwriters do not guarantee the accuracy or completeness of this information and have not independently verified such information. Additional information regarding State budgets is available at various State-maintained websites, including www.dof.ca.gov. These websites are not incorporated herein by reference and the District, the Co-Financial Advisors and the Underwriters do not make any representation as to the accuracy of the information provided therein.

The State Budget Process. The State's fiscal year begins on July 1 and ends on June 30. According to the State Constitution, the Governor of the State (the "Governor") is required to propose a budget for the next fiscal year (the "Governor's Budget") to the State Legislature no later than January 10 of each year, 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 Revised 2009-10 State Budget Act, which set forth the State's Budget for Fiscal Year 2009-10, was signed into law by the Governor on July 28, 2009, 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 2009-10. On February 20, 2009, the Governor signed the 2009 State Budget Act (the "Original 2009-10 State Budget Act") to address a then-projected $42 billion shortfall in revenues. The Original 2009-10 State Budget Act estimated Fiscal Year 2008-09 revenues and transfers of $89.37 billion, total expenditures of $94.09 billion and a year-end deficit of $2.34 billion, which includes a $2.37 billion prior-year State General Fund balance, a $3.42 billion withdrawal from the reserve for economic uncertainties and an allocation of $1.08 billion to the reserve for the liquidation of encumbrances. The Original 2009-10 State Budget Act projected Fiscal Year 2009-10 revenues and transfers of $97.73 billion, actual expenditures of $92.21 billion and a year-end surplus of $3.18 billion (net of the $2.34 billion deficit from Fiscal Year 2008-09), of which $1.08 billion would be reserved for the liquidation of encumbrances and $2.10 billion would be deposited in a reserve for economic uncertainties. According to the Legislative Analyst's Office (the "LAO"), the Original 2009-10 State Budget Act relied in particular upon the passage of three measures appearing on the ballot at a special election held in May 2009 (the "Special Election"), which accounted for an aggregate $5.8 billion in additional revenues to the State. None of these measures received the requisite voter approval.

On May 14, 2009, the Governor released the May Revision to the Original 2009-10 State Budget Act (together with the contingency proposals referenced therein, the "May Revision"). The May Revision projected a budget gap of $21.3 billion through the remainder of Fiscal Year 2008-09 and Fiscal Year 2009-10 due to continued shortfalls in revenue collections and increased costs and the failure of five of the six budget-related propositions included in the Special Election, which the May Revision proposed to address through program reductions and additional borrowings. The May Revision included proposals to further reduce Proposition 98 funding for Fiscal Year 2008-09 and 2009-10, further reduce revenue limit apportionments to school districts in such fiscal years, defer payments to school districts from Fiscal Year 2009-10 to 2010-11 and eliminate the High Priority Schools Program.

On May 26, 2009 and on May 29, 2009, the Governor released updates to the May Revision (collectively, the "May Revision Update"). The May Revision Update projected a budget gap of $3.10 billion through the remainder of Fiscal Year 2008-09 due to shortfalls in revenue collections and increased costs and the failure of five of the six budget-related propositions included in the Special Election. The May Revision and the May Revision Update, collectively, included proposals to reduce General Fund spending in the amount of $3.12 billion during Fiscal Year 2008-09 and $20.85 billion during Fiscal Year 2009-10 in order to eliminate the State's then-projected $24.0 billion deficit through such period. The May Revision Update proposed a reduction of Proposition 98-related expenditures in the amount of $680 million during Fiscal Year 2009-10 contingent upon the occurrence of a projected $3 billion decline in General Fund revenues. The May Revision Update also proposed legislation, which would authorize the State Superintendent of Public Instruction to adjust the deficit factor to restore some or all of the $680 million reduction in Proposition 98 funding if the State were to receive revenues in a larger amount than were then estimated. The May Revision and the May Revision Update proposed an aggregate reduction of Proposition 98 funding in the amount of $1.41 billion during Fiscal Year 2008-09 and $3.80 billion during Fiscal Year 2009-10

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

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

1. The Original 2009-10 State Budget Act reduced Fiscal Year 2008-09 Proposition 98 spending for school districts and community college districts to $50.7 billion from the $58.1 billion set forth in the Fiscal Year 2008-09 Budget Act. The Revised 2009-10 State Budget Act further reduces Fiscal Year 2008-09 Proposition 98 spending for school districts and community college districts to $34.05 billion. The outstanding maintenance factor or future funding obligation for Fiscal Year 2008-09 pursuant to Proposition 98 is estimated to be $11.2 billion. The Revised 2009-10 State Budget Act includes a payment of $1.7 billion toward such amount, which leaves a remaining balance to be paid in future fiscal years of $10.1 billion.

2. The Original 2009-10 State Budget Act included allocations of $54.9 billion to Proposition 98 funding for Fiscal Year 2009-10. The Revised 2009-10 State Budget Act further reduces Proposition 98 spending for school districts and community college districts to $35.03 billion. The Revised 2009-10 State Budget Act uses a shift of property tax revenues from redevelopment agencies to schools in the amount of $850 million to replace a portion of the reduction in Proposition 98 State General Fund spending in Fiscal Year 2009-10. Such amount will be shifted to K-12; schools that serve the redevelopment areas and the housing built by the redevelopment agencies. However, due to the shift of property tax revenues, no net change in funding for schools will occur.

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

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

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

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

7. The Revised 2009-10 State Budget Act delays for one year the $450 million settle-up payments from prior year obligations under the Quality Education and Investment Act ("QEIA"). However, Assembly Bill 56 of the Third Extraordinary Session, which was signed into law on October 26, 2009 ("AB 56") implemented a new funding mechanism for the QEIA program to fully fund that program in Fiscal Year 2009-10.

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

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

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

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

12. The Revised 2009-10 State Budget Act provides to schools the flexibility to reduce instruction by up to five days to accommodate a reduction of approximately $2.1 billion of revenue limit apportionments to school districts and county offices of education, although these types of reductions are generally subject to labor negotiations. In addition, the Revised 2009-10 State Budget Act will permit schools to reduce the amount of money that they are required to set aside for facility maintenance and to use funds from the sale of surplus property for non-facility related purposes.

District Response to Revised 2009-10 State Budget Act. The Board adopted its budget for Fiscal Year 2009-10 on June 23, 2009 (the "Fiscal Year 2009-10 Final Adopted Budget") and submitted the Fiscal Year 2009-10 Final Adopted Budget to LACOE in a timely manner for review. The District's Fiscal Year 2009-10 Final Adopted Budget reflected the information provided by the State to the District through the May Revision and the May Revision Updates. Due to the adoption of the Revised 2009-10 State Budget Act, which occurred after the District had adopted its budget for Fiscal Year 2009-10, LACOE conditionally accepted the Fiscal Year 2009-10 Final Adopted Budget. LACOE has notified the District and all school districts in the County that they must reflect the impact of the Revised 2009-10 State Budget Act in their respective budgets for Fiscal Year 2009-10 when they submit their respective First Interim Reports for Fiscal Year 2009-10 (each, a "Fiscal Year 2009-10 First Interim") which is due in December 2010. The District expects the Fiscal Year 2009-10 First Interim to reflect the funding made available by the Revised 2009-10 State Budget Act, AB 56 and any other legislation adopted prior to when it submits its Fiscal Year 2009-10 First Interim. See "DISTRICT FINANCIAL INFORMATION – District Budget – General" herein.

Factors Affecting Fiscal Year 2008-09. The District estimates that the State's shift of $1.6 billion of Fiscal Year 2008-09 unallocated program amounts to the State's General Fund for such fiscal year will result in reduced funding of $184 million to the District. Because the adjustments are due to "unallocated program amounts", the District does not expect such adjustments to affect the Fiscal Year 2008-09 cash flows. However, the adjustments may affect the ending fund balances for Fiscal Year 2008-09. The District presently estimates the District General Fund balance at the end of Fiscal Year 2008-09 to be approximately $607.1 million, net of the potential adjustments in the approximate amount of $51 million. However, LACOE has advised school districts to continue to book the unallocated program amounts as accruals in 2008-09, in which case the District's estimated ending balance for Fiscal Year 2008-09 would increase to about $755 million. The District expects the increase due to accruals to be reversed when the District's revenue limit in Fiscal Year 2009-10 is reduced by a like amount, as the District expects that the State will restore the unallocated categorical cuts by reducing revenue limit allocations.

Factors Affecting Fiscal Year 2009-10. The District presently estimates that a reduction in revenue limit revenues of up to $177 million will result from, among other things, the higher deficit factor of 18.355% in the Revised 2009-10 State Budget Act and the conversion of a senior high school to independent charter status that will reduce enrollment by 3,200 students. On the other hand, the Revised 2009-10 State Budget Act decreases the proposed cut in allocations to the District's pupil transportation program from $62.8 million to $20 million, which provides budgetary relief of approximately $42.8 million. In addition, the recently signed AB 56 eliminated the revenue limit reduction in the amount of QEIA funding received by the District.

On balance, subject to review of various trailer bills and additional clarifications from the State on other components of the Revised 2009-10 State Budget Act, the Revised 2009-10 State Budget Act will reduce State revenues to the District in the approximate amount of $133 million for Fiscal Year 2009-10.

LAO Analysis of Federal Economic Stimulus Package. On March 10, 2009, the LAO issued a report entitled "2009-10 Budget Analysis Series, Federal Economic Stimulus Package: Fiscal Effect on California" (the "LAO Economic Stimulus Report"), which provides an analysis by the LAO of the Recovery and Reinvestment Act and its fiscal effect on the State. The LAO Economic Stimulus Report is available on the LAO website at www.lao.ca.gov. Information on the website is not incorporated herein by reference.

The LAO projects that the State will receive approximately $31 billion in federal funding to address budget deficits and to supplement existing State spending through Fiscal Year 2010-11. The LAO projects the State will receive Education Stabilization Funds in the approximate amounts of $3.3 billion in Fiscal Year 2009-10 and $1.6 billion in Fiscal Year 2010-11 to mitigate reductions to K-12 and higher education funding. Further, the LAO projects that the State will receive approximately $3.1 billion for K-12 education, of which $1.5 billion will be allocated to Title I programs, $1.3 billion to services provided pursuant to the Individuals with Disabilities Education Act, $220 million to the Child Care and Development Block Grant and $71 million to classroom technology as part of the Enhancing Education Through Technology program. In addition, the LAO estimates that the State will receive from the Recovery and Reinvestment Act $1.1 billion in Fiscal Year 2009-10 to be applied toward fiscal stabilization. In Fiscal Years 2009-10 and 2010-11, the LAO projects that the State will receive approximately $10.4 billion in federal funding that may be used to offset expenditures from the State General Fund.

The LAO also notes that the State may receive additional federal funding through competitive grants included in the Recovery and Reinvestment Act. The LAO recommends that the State Legislature maximize the benefit received from such funds by offsetting expenditures from the State General Fund, dedicating limited-term federal assistance to limited-term State priorities, spreading out supplemental federal funding for ongoing programs to minimize the new level of spending and acting expediently to ensure that the State receives the maximum amount of funding from the Recovery and Reinvestment Act.

On November 18, 2009, the LAO issued a report entitled "The 2010-11 Budget: California's Fiscal Outlook"(the "LAO State Budget Report"), which provides an analysis by the LAO of the State's budgetary outlook for the remainder of the State's Fiscal Year 2009-10 and the State's Fiscal Year 2010-11. The LAO forecasts a $6.3 billion deficit for the State's Fiscal Year 2009-10 and a $14.4 budget gap for the State's Fiscal Year 2010-11. The LAO forecasts that State General Fund spending obligations in Fiscal Year 2009-10 will be $4.9 million higher than budgeted, due in large part to higher spending budgeted for prisons and the Medi-Cal program and a nearly $1 billion increase in the Proposition 98 minimum school funding guarantee. In addition, tax revenues collected to date are less than budgeted. The LAO State Budget Report states that the projected budget gap for Fiscal Year 2010-11 has increased from the administration's 2010-11 budget shortfall estimate in July as a result of overly optimistic revenue projections and approximately $3.5 billion of higher net spending, resulting principally from continuing trends in Medi-Cal spending, higher corrections spending and court decisions, which limit the State's ability to use "spillover" gasoline tax and Public Transportation Account funds to reduce General Fund spending. The LAO Budget Report further forecasts future operating deficits in excess of $20 billion annually. The LAO Report concludes that major State spending programs will need to be reduced to address projected budget shortfalls. The full text of the LAO State Budget Report is available on the LAO website at www.lao.ca.gov. Information on the website is not incorporated herein by reference.

Future State Budgets. On January 8, 2010, the Governor submitted the Governor's Proposed Budget for Fiscal year 2010-11 (the "Proposed Fiscal Year 2010-11 State Budget") to the Senate and Assembly of the State Legislature. Text of the Proposed Fiscal Year 2010-11 State Budget may be found at the website of the Department of Finance, www.dof.ca.gov, under the heading "2010-11 Budget". On January 12, 2010, the LAO issued a report entitled "The 2010-11 Budget: Overview of the Governor's Budget" (the "LAO Report on the Proposed State Budget") which summarizes the Proposed Fiscal Year 2010-11 State Budget. Text of the LAO Report on the Proposed State Budget may be found at the website of the LAO at www.lao.ca.gov. The Proposed Fiscal Year 2010-11 State Budget has not been adopted by the State Legislature. The District cannot predict what actions will be taken in the future by the State Legislature and the Governor to address the State's current or future budget deficits. Future State budgets will be affected by national and State economic conditions, including the current economic downturn, over which the District has no control, and other factors over which the District will have no control. To the extent that the State budget process results in reduced revenues or increased expenses for the District, the District will be required to make adjustments to its budget. In the event a revision to the Revised 2009-10 State Budget Act includes decreases in the District's revenues or increases in required expenditures by the District from the levels assumed by the District, the District will be required to generate additional revenues, curtail programs and/or services, or spend down its reserve to ensure a balanced budget. The information presented in the above-referenced websites is not incorporated by reference in this Official Statement.

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

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. In addition, county offices of education are required to determine whether the adopted budget will allow the school district to meet its financial obligations during the fiscal year and is consistent with a financial plan that will enable the school district to satisfy its multiyear financial commitments. Pursuant to the Education Code, on or before August 15 of each year, the county superintendent of schools must approve, conditionally approve, or disapprove the adopted budget for each school district. A copy of the completed checklist, together with any comments or recommendations, must be provided to the school district and its governing board by November 1.

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

The District has utilized a dual adoption process for its budget through Fiscal Year 2008-09 and used a single adoption process for its Fiscal Year 2009-10 Final Adopted Budget. The Board adopted its Fiscal Year 2009-10 Final Adopted Budget on June 23, 2009 and submitted the Fiscal Year 2009-10 Final Adopted Budget to LACOE in a timely manner for review. The District's Fiscal Year 2009-10 Final Adopted Budget reflected the information provided by the State to the District through the May Revision and the May Revision Updates. Accordingly, the District's budgetary estimates are subject to change based upon the Revised 2009-10 State Budget Act and subsequent legislation. LACOE has reviewed the Fiscal Year 2009-10 Final Adopted Budget and evaluated the estimates contained therein based upon the information known to LACOE as of the date of its review. LACOE has conditionally accepted the District's Fiscal Year 2009-10 Final Adopted Budget. However, LACOE has indicated the District will need to reflect the impact of the Revised 2009-10 State Budget Act and any subsequent legislation in the District's Fiscal Year 2009-10 First Interim Report.

Fiscal Year 2009-10 Final Adopted Budget. The District's Fiscal Year 2009-10 Final Adopted Budget for the General Fund Regular Program projects a District General Fund beginning balance of $262.8 million, revenues of $5.45 billion, total estimated expenditures of $5.45 billion and an ending balance of $255.7 million. The District General Fund beginning balance of $262.8 million includes $72.4 million for the mandatory 1% Reserve for Economic Uncertainties, $119.5 million of legally restricted funds, $14.5 million reserved for inventories and revolving cash funds and $56.3 million from the designated balance from Fiscal Year 2008-09. The District's Fiscal Year 2009-10 Final Adopted Budget for Specially Funded Programs totals $1,065.5 million in revenues and $1,087.3 million in expenditures. See "DISTRICT FINANCIAL INFORMATION – District Fiscal Policies" herein.

The District's Fiscal Year 2009-10 Final Adopted Budget reflects the revenue assumptions contained in the Governor's proposed State budget for Fiscal Year 2009-10 as set forth in the May Revision Update.

In the Fiscal Year 2009-10 Final Adopted Budget, the District's K-12 school enrollment excluding fiscally-independent charter schools is projected to decrease an estimated 18,262 in Fiscal Year 2009-10 to approximately 618,789. This decrease is partially offset by growth of 776 in fiscally-affiliated charter schools. Declining enrollment statutes enable the District to claim Fiscal Year 2009-10 revenue limit funding based on the ADA for Fiscal Year 2008-09. The full extent of revenue losses attributable to enrollment declines 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 2009-10 Final Adopted Budget, the Base Revenue Limit, the largest unrestricted District General Fund revenue source, is projected to generate $3.45 billion in Fiscal Year 2009-10. The May Revision included a 4.25% statutory COLA, which is offset by a 17.967% deficit factor, which effectively results in a COLA of a negative 3.44% for Fiscal Year 2009-10 as reflected in the Fiscal Year 2009-10 Final Adopted Budget. Based on these factors, the District's Fiscal Year 2009-10 funded Base Revenue Limit per unit of ADA was projected to be $5,239.09, which represents a decline from the Fiscal Year 2008-09 level of $5,645.07.

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

The District's Fiscal Year 2009-10 Final Adopted Budget includes reductions and redirections of funds totaling approximately $536.5 million for Fiscal Year 2009-10 and more than $1.5 billion in reductions and redirections of funds over subsequent fiscal years to maintain balance in the District's budget. The Superintendent recommended and the Board approved the elimination of approximately 680 administrative positions, a proposal to reduce the District's workforce by approximately 2,000 teachers and 2,200 staff, net spending reductions in other areas and small increases in fee revenues in order to eliminate the budget deficit. The District's Fiscal Year 2009-10 Final Adopted Budget projects a balanced budget for Fiscal Year 2009-10. See "– District Response to the Revised 2009-10 State Budget" herein.

District Revenues from the Recovery and Reinvestment Act. In April 2009, the United States Department of Education announced the allocation to the State of $3.1 billion from the State Fiscal Stabilization Fund of the Recovery and Reinvestment Act. In May 2009, the State Superintendent of Schools announced the preliminary entitlements for education entities through the State Fiscal Stabilization Fund's allocation of funds from the Recovery and Reinvestment Act. The District's 2009-10 Adopted Budget reflects the receipt of approximately $358.8 million of State Fiscal Stabilization Funds ("SFSF"), the receipt of $140.8 million of funds for special education pursuant to the Individuals with Disabilities Act ("IDEA"), and $285 million of Title I funds for socio-economically disadvantaged students. The District intends to use the SFSF in Fiscal Year 2009-10 and use the Title I and IDEA funds over two years.

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 contributions to other reserves until they can be funded without significant impact on the instructional program and other essential District activities.

The following Table A-4 sets forth the District's Final Adopted Budgets for the District General Fund[1] for Fiscal Year 2006-07 through Fiscal Year 2009-10.

TABLE A-4

Los Angeles Unified School District
Final Adopted Budgets for Fiscal Year 2006-07 through Fiscal Year 2009-10
for the District General Fund[1]
($ in millions)

	Final Adopted Budget 2006-07	Final Adopted Budget 2007-08	Final Adopted Budget 2008-09	Final Adopted Budget 2009-10[2]
Beginning Balance[3]	$ 434.5	$ 518.3	$ 574.3	$ 300.1
Revenue:				
State Apportionment	$2,880.5	$2,912.0	$2,762.7	$2,368.7
Property Taxes	782.3	741.2	780.4	785.3
Total Revenue Limit Revenues[4]	$3,662.8	$3,653.2	$3,543.1	$3,154.0
Federal	$ 936.1	$ 905.7	$ 830.8	$1,355.1
Other State	2,274.3	2,336.4	2,169.0	1,872.4
Other Local	105.6	139.8	148.0	106.6
Other Sources	128.0	124.4	102.8	43.8
Total Revenue[4]	$7,106.7	$7,159.5	$6,792.0	$6,532.0
Total Beginning Balance and Revenue[4]	$7,541.3	$7,677.9	$7,366.3	$6,832.1
Expenditures:				
Certificated Salaries	$3,137.2	$3,376.7	$3,203.7	$2,939.2
Classified Salaries	971.1	977.7	998.1	888.2
Employee Benefits	1,347.8	1,346.9	1,301.5	1,411.7
Books and Supplies	672.3	589.7	467.7	514.7
Other Operating Expenses	733.8	763.7	817.2	709.8
Capital Outlay	76.7	60.9	41.1	37.4
Other Outgo/Other Uses	54.9	91.9	72.5	39.1
Total Expenditures[4]	$6,993.8	$7,207.6	$6,901.7	$6,540.1
Ending Balance[4]	$ 547.4	$ 470.2	$ 464.6	$ 292.0

(1) Includes Regular and Specially Funded Programs.
(2) The District's Fiscal Year 2009-10 Final Adopted Budget is based upon information from the State through the May Revision. Accordingly, the information set forth above does not reflect the information set forth in the Revised 2009-10 State Budget Act and subsequent legislation. See "STATE FUNDING OF EDUCATION – State Budget –*State Budget for Fiscal Year 2009-10*" herein.
(3) Actual beginning balance for each Fiscal Year, except for Fiscal Year 2008-09 which is an unaudited estimate that has been revised to reflect refinements of Fiscal Year 2007-08 expenditures in selected programs, and (b) Fiscal Year 2009-10, which is estimated and reflects a downward adjustment to the estimate in the Fiscal Year 2009-10 Adopted Budget to account for certificates of participation that were not issued in Fiscal Year 2008-09.
(4) Total may not equal sum of components due to rounding.

Sources: Los Angeles Unified School District Final Adopted Budgets for Fiscal Years 2006-07 through 2009-10.

On December 8, 2009, the Board approved its Fiscal Year 2009-10 First Interim Report, dated December 4, 2009 (the "Fiscal Year 2009-10 First Interim Report"). The District filed a qualified certification of financial condition with LACOE by December 15, 2009, the deadline therefor. The District's Fiscal Year 2009-10 First Interim Report reflects the funding made available by the Revised 2009-10 State Budget Act, including all funding reductions, shifts and reallocations. The Fiscal Year 2009-10 First Interim Report indicates that the District, based on current projections, will have a positive ending balance of $337.9 million in the General Fund at the end of the current fiscal year. The Fiscal Year 2009-10 First Interim Report also indicates that, absent budgetary gap closing actions, the District will face a budgetary shortfall of $469.79 million in Fiscal Year 2010-11, which will grow to $1.170 billion in Fiscal Year 2011-12. On December 8, 2009, the Board adopted a fiscal stabilization plan (the "Fiscal Stabilization Plan"), which would allow for the District to project appropriate reserve balances for Fiscal Years 2010-11 and 2011-12. The Fiscal Stabilization Plan was required to include only measures that could be implemented by unilateral Board action. The Fiscal Stabilization Plan provides for workforce reductions of 5,161 FTE positions in Fiscal Year 2010-11 growing to a reduction of 5,485 FTE positions by Fiscal Year 2011-12. These workforce reduction measures will result in increased class sizes, particularly in grades K-3, and reductions in programs and services offered by the District. The Fiscal Stabilization Plan also provides for the delays in the acquisition of new English Language Arts textbooks and deferrals of routine repairs and improvements. The Board also directed the District's staff to explore alternative budgetary measures, that if implemented, would allow for the restoration of all or a portion of the cuts set forth in the Fiscal Stabilization Plan. These alternatives require consents and cooperation of various stakeholders within the District. For example, the Board directed staff to evaluate a potential limited parcel tax, which would require approval of the voters of the District. Other actions, such as voluntary salary reductions and furlough days, would require approval of various collective bargaining units.

The following Table A-5 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 Fiscal Year 2009-10 First Interim Report.

TABLE A-5

Los Angeles Unified School District
Fiscal Year 2009-10
District General Fund[(1)]
Summary of Balances, Revenues and Expenditures
($ in millions)[(2)]

	Fiscal Year 2009-10 Final Adopted Budget	First Interim Report (December 2009)[(3)]
Beginning Balance	$ 300.1	$ 850.5
Revenues/Other Sources	6,532.0	5,924.8
Expenditures/Other Uses	6,540.1	6,437.4
Operating Surplus (Deficit)	(8.1)	(512.6)
Ending Balance	$ 292.0	$ 337.9

(1) Includes Regular and Specially Funded Programs.
(2) Totals may not add due to rounding.
(3) Unaudited.
Source: Controller, Los Angeles Unified School District.

Assessed Valuation of Property within the District

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

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

Under State law, a property owner can file a claim for a temporary reduction in assessed value when a property suffers a decline-in-value, which is deemed to have occurred when the current market value of the property is less than the assessed value as of January 1. The property is subject to annual review of a temporary decline-in-value reassessment granted for the prior assessment year. The County Assessor reported that the Office of the Assessor conducted decline-in-value reviews of 473,000 single-family residences and condominiums in the County that resulted in lower assessments on 333,000 properties, for which the full cash value of the property shown on the Fiscal Year 2008-09 tax bill was more than the fair market value as of January 1, 2008. Decline-in-value changes and other adjustments reduced the County's total assessed valuation by approximately $44.5 billion for Fiscal Year 2009-10. The decline-in-value changes and other adjustments were partially offset by increases of $16.3 billion attributable to properties sold and transferred, $15.3 billion attributable to inflation adjustments in accordance with Proposition 13 and $6.9 billion attributable to new construction.

Foreclosures in the County increased by approximately 26,300 in calendar year 2008 relative to 2007, to 41,300. This amount represents 1.8% of total properties in the County and 27% of the total reappraisable changes of ownership in 2008.

In Fiscal Year 2009-10, the District's total secured and unsecured assessed valuation was approximately $475.0 billion, which is an increase of approximately 0.04% from the prior fiscal year. The assessed valuation of property in the District from Fiscal Years 2000-01 through 2009-10 is set forth below.

TABLE A-6

Los Angeles Unified School District
Historical Gross Assessed Valuation of Taxable Property
Fiscal Years ended June 30, 2001 through June 30, 2010
(full cash value, $ in thousands)

Fiscal Year Ended June 30	Secured[1]	Unsecured	Total[1]	Increase From Prior Year	Percent Increase
2001	$233,797,971	$20,142,603	$253,940,574	$16,096,682	6.77%
2002	249,496,423	22,018,503	271,514,926	17,574,352	6.92
2003	266,383,265	21,142,670	287,525,935	16,011,009	5.90
2004	287,673,344	20,855,436	308,528,780	21,002,845	7.30
2005	311,419,822	20,505,315	331,925,137	23,396,357	7.58
2006	343,302,944	20,566,535	363,869,479	31,944,342	9.62
2007	382,212,502	20,396,335	402,608,837	38,739,358	10.65
2008	419,052,509	21,861,881	440,914,390	38,305,553	9.51
2009	451,191,875	23,597,923	474,789,798	33,875,408	7.68
2010	451,127,882[2]	23,849,408	474,977,290	187,492	0.04

(1) Includes utility valuations.
(2) Reflects total Fiscal Year 2009-10 Local Secured Assessed Valuation of $451,053,084,642 plus a utility portion of $74,797,222 as reported by California Municipal Statistics, Inc.

Source: California Municipal Statistics, Inc.

Table A-7 below sets forth the assessed valuation by land use of property within the District in Fiscal Year 2009-10.

TABLE A-7

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

	Fiscal Year 2009-10 Assessed Valuation[1]	% of Total	No. of Parcels	% of Total
Non-Residential:				
Commercial/Office Building	$ 75,815,834,171	16.81%	48,877	5.20%
Industrial	44,035,110,820	9.76	23,257	2.47
Recreational	1,790,388,763	0.40	897	0.10
Government/Social/Institutional	3,584,542,791	0.79	5,548	0.59
Miscellaneous	325,303,180	0.07	776	0.08
Subtotal Non-Residential	$125,551,179,725	27.84%	79,355	8.44%
Residential:				
Single Family Residence	$197,283,855,269	43.74%	548,593	58.38%
Condominium/Townhouse	41,209,044,363	9.14	127,898	13.61
Mobile Home Related	353,249,898	0.08	308	0.03
2-4 Residential Units	30,464,839,601	6.75	96,177	10.23
5+ Residential Units/Apartments	47,482,884,267	10.53	39,620	4.22
Miscellaneous Residential	34,165,608	0.01	109	0.01
Subtotal Residential	$316,828,039,006	70.24%	812,705	86.48%
Vacant Parcels	$ 8,673,865,911	1.92%	47,688	5.07%
Total	$451,053,084,642	100.00%	939,748	100.00%

(1) Local Secured Assessed Valuation for Fiscal Year 2009-10; excluding tax-exempt property, local utility and non-unitary valuations.

Source: California Municipal Statistics, Inc.

The table below sets forth the distribution of single-family homes within the District within various assessed valuation ranges in Fiscal Year 2009-10.

TABLE A-8

Los Angeles Unified School District
Per Parcel 2009-10 Assessed Valuations of Single Family Homes

	No. of Parcels	2009-10 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single Family Residential	548,592	$197,283,855,269	$359,619	$239,653

2009-10 Assessed Valuation	No. of Parcels(1)	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
$0 - $24,999	7,081	1.291%	1.291%	$ 108,480,633	0.055%	0.055%
$25,000 - $49,999	29,582	5.392	6.683	1,140,718,829	0.578	0.633
$50,000 - $74,999	37,965	6.920	13.604	2,350,160,252	1.191	1.824
$75,000 - $99,999	28,384	5.174	18.778	2,470,907,345	1.252	3.077
$100,000 - $124,999	25,598	4.666	23.444	2,878,428,198	1.459	4.536
$125,000 - $149,999	27,827	5.072	28.516	3,837,587,039	1.945	6.481
$150,000 - $174,999	32,653	5.952	34.468	5,314,873,646	2.694	9.175
$175,000 - $199,999	34,717	6.328	40.797	6,510,323,111	3.300	12.475
$200,000 - $224,999	32,908	5.999	46.795	6,981,365,145	3.539	16.014
$225,000 - $249,999	29,455	5.369	52.164	6,987,937,720	3.542	19.556
$250,000 - $274,999	27,645	5.039	57.204	7,247,368,132	3.674	23.230
$275,000 - $299,999	24,945	4.547	61.751	7,164,149,889	3.631	26.861
$300,000 - $324,999	22,096	4.028	65.779	6,897,584,093	3.496	30.357
$325,000 - $349,999	19,967	3.640	69.418	6,729,755,104	3.411	33.768
$350,000 - $374,999	17,289	3.152	72.570	6,257,409,006	3.172	36.940
$375,000 - $399,999	14,545	2.651	75.221	5,629,155,685	2.853	39.794
$400,000 - $424,999	12,605	2.298	77.519	5,192,966,852	2.632	42.426
$425,000 - $449,999	10,668	1.945	79.463	4,663,842,383	2.364	44.790
$450,000 - $474,999	9,371	1.708	81.172	4,329,151,619	2.194	46.984
$475,000 - $499,999	7,976	1.454	82.626	3,883,213,649	1.968	48.952
$500,000 and greater	95,315	17.374	100.000	100,708,476,939	51.048	100.000
Total	548,592	100.000%		$197,283,855,269	100.000%	

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

Source: California Municipal Statistics, Inc.

Tax Rates, Levies, 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* property taxes and the assessed value of taxable property in a given year. Economic and other factors beyond the District's control, such as a general market decline in land values, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable or religious purposes), or the complete or partial destruction of taxable property caused by natural or manmade disaster such as earthquake, flood, toxic dumping, etc., could cause a reduction in the assessed value of taxable property within the District and necessitate a corresponding increase in the annual tax rate to be levied to pay the principal of and interest on the District's outstanding general obligation bonds.

For assessment and collection purposes, property is classified 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 property (real or personal) the taxes on which are a lien sufficient, in the opinion of the County Assessor, to secure payment of the taxes. Other property is listed on the "unsecured roll."

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

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

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

The County levies a 1% property tax on behalf of all taxing agencies in the County. The taxes collected are allocated on the basis of a formula established by State law enacted in 1979. Under this formula, the County and all other taxing entities receive a base year allocation plus an allocation on the basis of "situs" growth in assessed value (new construction, change of ownership, inflation) prorated among the jurisdictions 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.

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

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

The table below sets forth the tax rates for the general percentage of the levy applied to all property owners for all of the District's outstanding general obligation bonds and general obligation refunding bonds and State school loan repayment from the Fiscal Year ended June 30, 2000 through June 30, 2009.

TABLE A-9

Los Angeles Unified School District
Property Tax Rates [(1)]
(Per $100 of assessed value)
Last Ten Fiscal Years

Fiscal Year ended June 30	District Tax Rate for District's State School Loan Repayment	Tax Rate for District's General Obligation Bonds[(2)]	General *Ad Valorem* Tax Rate Levied on District Property Owners[(3)]	Total District Tax Rate
2000	0.000373	0.031155	1.000000	1.031528
2001	0.000363	0.040402	1.000000	1.040765
2002	--	0.048129	1.000000	1.048129
2003	0.000107	0.036866	1.000000	1.036973
2004	0.000160	0.076985	1.000000	1.077145
2005	0.000143	0.088696	1.000000	1.088839
2006	0.000107	0.084239	1.000000	1.084346
2007	0.000079	0.106735	1.000000	1.106814
2008	0.000040	0.123302	1.000000	1.123342
2009	0.000058	0.124724	1.000000	1.124782

(1) Unaudited.
(2) Reflects tax rate for general obligation bonds.
(3) The District receives a portion of this District-wide tax with other overlapping agencies receiving their respective portion.

Source: 2008-2009 Los Angeles County Auditor-Controller "Taxpayers' Guide."

The table below sets forth real property taxes in the District from Fiscal Years ended June 30, 1999 through 2008.

TABLE A-10

Los Angeles Unified School District
Property Tax Levies and Collections
Last Ten Fiscal Years
($ in thousands)
(Unaudited)

Fiscal Year Ended June 30	Total Tax Levy	ERAF Funds(1)	Current Tax Collections	Delinquent & Other Unpaid Tax Levies(2)	Current Delinquency Rate(3)
1999	486,496	420,226	834,727	22,342	2.68
2000	532,436	434,175	941,023	19,589	2.08
2001	583,508	465,002	1,037,958	29,973	2.89
2002	652,455	493,649	1,125,788	29,264	2.60
2003	656,436	536,530	1,190,192	13,881	1.17
2004	821,820	576,038	1,386,560	34,987	2.52
2005	929,248	171,052	1,091,325	34,128	3.13
2006	991,275	76,068	1,026,351	30,963	3.02
2007	1,173,752	--	1,134,757	101,640	8.96
2008	1,345,503	(42,753)	1,241,733	76,816	6.19

(1) Educational Revenue Augmentation Funds (ERAF) are added to tax levies received by the District.
(2) Includes prior years' delinquencies.
(3) Delinquent and Other Unpaid Tax Levies divided by Current Tax Collections.

Source: Los Angeles Unified School District Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2008.

Largest Taxpayers in the District

The 20 largest secured taxpayers in the District for Fiscal Year 2009-10 are set forth below.

TABLE A-11

Los Angeles Unified School District
Largest Local Secured Taxpayers
Fiscal Year 2009-10

	Property Owner(1)	Primary Land Use	Assessed Valuation	Total (2)
1.	Douglas Emmett Realty Funds	Office Building	$ 2,373,947,068	0.53%
2.	Universal Studios LLC	Motion Picture Studio	1,381,886,145	0.31
3.	Anheuser Busch Inc.	Industrial	964,997,003	0.21
4.	Deutsche Bank National Trust	Residential Properties	735,196,578	0.16
5.	One Hundred Towers LLC	Office Building	579,015,264	0.13
6.	U.S. Bank National Association Trust	Residential Properties	565,592,463	0.13
7.	Donald T. Sterling	Apartments	556,537,898	0.12
8.	Duesenberg Investment Company	Office Building	489,916,476	0.11
9.	Century City Mall LLC	Shopping Center/Mall	457,234,097	0.10
10.	Taubman-Beverly Center	Shopping Center/Mall	457,142,499	0.10
11.	Topanga Plaza LP	Shopping Center/Mall	445,320,154	0.10
12.	Paramount Pictures Corp.	Industrial	439,520,452	0.10
13.	Trizec 333 LA LLC	Office Building	410,000,000	0.09
14.	Next Century Associates LLC	Hotel	384,442,305	0.09
15.	Rreef America REIT II Corp.	Office Building	378,851,256	0.08
16.	Twentieth Century Fox Film Corp.	Industrial	376,928,046	0.08
17.	Watson Land Company	Industrial	359,081,160	0.08
18.	2121 Avenue of the Stars LLC	Office Building	359,000,000	0.08
19.	Maguire Properties Two Cal Plaza	Office Building	356,000,000	0.08
20.	Trizec 601 Figueroa LLC	Office Building	355,000,000	0.08
			$12,425,608,864	2.75%

(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 2009-10 Local Secured Assessed Valuation of $451,053,084,642, 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.

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. Simpson & Simpson Certified Public Accountants, Los Angeles, California, serves as independent auditor to the District through the audit for Fiscal Year 2007-08 and excerpts of its report for Fiscal Year 2007-08 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 2005-06 in compliance with such requirement, but the audit report for the Fiscal Years 2006-07 and 2007-08 were filed later than such requirement. It is anticipated that the audit report for Fiscal Year 2008-09 will also be filed later than such requirement. See "– *Audited Financial Statements and Accounting Policies*" herein. The District filed its audit report for the Fiscal Year 2007-08 in August 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, 2008" attached hereto.

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, which may not meet its financial obligations for the current fiscal year or two subsequent fiscal years. Under the provisions of A.B. 2756, for school districts that are certified as qualified or negative, the county superintendent of schools is required to report to the State Superintendent of Public Instruction on the financial 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.

District's First Interim Report for Fiscal Year 2008-09. The District filed its Fiscal Year 2008-09 First Interim Financial Report (the "Fiscal Year 2008-09 First Interim") by December 15, 2008, the deadline therefor, which report was based upon actual results through October 31, 2008. The Fiscal Year 2008-09 First Interim was based upon actual results through October 31, 2008. Accordingly, the District was not informed of the extent to which the State's expenditure reductions would affect its finances as reported in the Fiscal Year 2008-09 First Interim. Financial projections included in the Fiscal Year 2008-09 First Interim reflected 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 projected 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 would be 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.

District's Second Interim Report for Fiscal Year 2008-09. The District filed its Fiscal Year 2008-09 Second Interim Financial Report (the "Fiscal Year 2008-09 Second Interim") by March 15, 2009, the deadline therefor, which report is based upon actual results through January 31, 2009. Due to the use of actual results through January 31, 2009, the Fiscal Year 2008-09 Second Interim did not reflect the 2009 State Budget Act and the revised expenditures for Fiscal Year 2008-09 contained therein. Accordingly, the District was not informed of the extent to which the State's expenditure reductions would affect its finances as reported in the Fiscal Year 2008-09 Second Interim. Financial projections included in the Fiscal Year 2008-09 Second Interim reflected a positive undesignated reserve for Fiscal

Year 2008-09, but negative undesignated ending balances of $140.4 million in Fiscal Year 2008-09, $718.1 million in Fiscal Year 2009-10 and $1.459 billion in Fiscal Year 2010-11. The Fiscal Year 2008-09 Second Interim projected a positive ending balance on June 30, 2009. However, such ending balance was not expected to meet the statutory reserve requirement level. The District submitted a qualified certification to LACOE in connection with the Fiscal Year 2008-09 Second Interim and the Board committed to provide the County superintendent of schools with the specific actions the Board would be willing to take to close the projected Fiscal Year 2008-09 deficit and 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.

District's June 2009 Report. The submission of a qualified certification in connection with the Fiscal Year 2008-09 Second Interim resulted in increased oversight of the District by LACOE. Such oversight included the requirement that the District submit on June 1, 2009 an update to the Fiscal Year 2008-09 Second Interim reflecting data as of April 30, 2009. On March 31, 2009, the District Board approved several strategies to balance its budget for Fiscal Year 2008-09 in order to eliminate the $140.4 million negative undesignated ending balanced projected in the Fiscal Year 2008-09 Second Interim.

In order to address the projected deficit, the District Board approved mid-year spending reductions for Fiscal Year 2008-09. The District initiated a hiring freeze, limited certain spending, imposed a 5% spending reduction throughout its administrative office and all local District offices and shifted money from instructional grants to the District General Fund. In March 2009, the District Board adopted a retirement incentive offer to certificated employees for the 2008-09 school year. As of May 1, 2009, approximately 1,400 District employees have signed up for early retirement. In April 2009, the District Board authorized the District's human resources department to send dismissal notices to 8,846 certificated employees. In August 2009, the District reported that it had re-employed 8,509 of such certificated employees. The District has not re-employed such employees as permanent full-time employees. Instead, the District has granted such employees priority to serve as substitute teachers. As a result, the District does not expect the re-employment of such employees to impact its Fiscal Year 2009-10 Final Adopted Budget. The District Board approved the use of State-approved flexibility provisions to transfer approximately $87.3 million from categorical programs to the unrestricted District General Fund. In addition, the District accelerated, beginning in Fiscal Year 2008-09, its plan to reduce a projected $100 million balance in the Worker's Compensation Fund balances over three years by taking all remaining balances, which totaled $32.6 million, in the first year.

In June 2009, the District submitted its report (the "June 2009 Report") to LACOE to provide an additional update with regard to its projected financial status. The June 2009 Report projected that the District would end Fiscal Year 2008-09 with a positive ending balance of $394.2 million, inclusive of the District General Fund's Regular Program and Specially Funded Program. Such amount represented an increase of $135.8 million from the ending balance of $258.4 million projected in the Fiscal Year 2008-09 Second Interim. In addition, the June 2009 Report projected that the Regular Program of the District General Fund would end Fiscal Year 2009-10 with a positive ending balance of $15.6 million and Fiscal Year 2010 with an ending balance of negative $410.8 million.

Pursuant to the June 2009 Report, the District estimated that it would allocate from the ending fund balance of $336.8 million from the District General Fund's Regular Program: $14.5 million to reserves, $125.6 million to legally restricted accounts, $72.4 million to the account designated for economic uncertainties, $70.7 million for Tier III categorical programs and $51.8 million to carryover fund available to subsequent fiscal years. Based on projections contained in the June 2009 Report, which were derived prior to the release of the May Revision and the May Revision Update and the receipt of stimulus funds in late June 2009, the District was projected to end Fiscal Year 2008-09 with an undesignated fund balance of $1.8 million.

The May Revision and certain budget balancing strategies adopted by the Board of Education on June 23, 2009 reduced the District's 2008-09 ending balance to $300.1 million. However, the District received and/or accrued approximately $358 million of State Fiscal Stabilization Funds in June 2009. In addition, the net impact on fund balances due to the Fiscal Year 2008-09 impacts of the Revised Fiscal Year 2008-09 State Budget Act is estimated to be $51 million. The District presently estimates that its ending fund balance for Fiscal Year 2008-09 was $755 million, net of the potential adjustments in the approximate amount of $51 million. See "STATE FUNDING OF EDUCATION – State Budget – *Factors Affecting Fiscal Year 2008-09*" herein.

Audited Financial Statements and Accounting Policies. 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, 2008." 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 BTS resulted in delayed reporting of the District's finances for Fiscal Year 2006-07, which, in turn, affected the timely delivery of the District's comprehensive annual financial report for Fiscal Year 2007-08 (the "Fiscal Year 2007-08 CAFR") to LACOE by the December 15, 2008 deadline set forth in Section 41020 of the Education Code. The District received its Fiscal Year 2007-08 CAFR in August 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 Financial Results*" herein. For selected excerpts from the District's most recent available audited financial statements, see APPENDIX B – "SELECTED INFORMATION FROM AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2008" attached to this Official Statement.

The Governmental Accounting Standards Board ("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"). 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, 2008" for the District's Management's Discussion and Analysis for Fiscal Year 2007-08. 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.

The following Table A-12 sets forth the District's audited General Fund revenues, expenditures and fund balances for the Fiscal Years ended June 30, 2004 through June 30, 2009.

TABLE A-12

Los Angeles Unified School District
Statement of Revenues, Expenditures and District General Fund Balance[1]
Fiscal Years Ended June 30, 2004 through June 30, 2009
($ in millions)

	Fiscal Year 2003-04	Fiscal Year 2004-05	Fiscal Year 2005-06	Fiscal Year 2006-07	Fiscal Year 2007-08	Fiscal Year 2008-09[5]
Beginning Balance	$ 579.0	$ 324.0	$ 349.6	$ 434.5	$ 695.2	$ 657.2
Revenues:						
State Apportionment	$2,105.4	$2,592.9	$2,791.7	$2,912.3	$2,817.7	$2,517.5
Property Taxes[2]	1,195.4	839.0	777.6	811.3	806.4	927.4
Total Revenue Limit Revenues	$3,300.8	$3,431.9	$3,569.3	$3,723.6	$3,624.1	$3,444.9
Federal	720.2	796.9	889.5	775.6	756.4	1,077.1
Other State	1,749.1	1,890.0	1,915.1	2,302.1	2,304.5	2,064.8
Other Local	78.0	85.7	98.1	120.3	123.7	163.4
Other Sources[3]	27.9	257.5	100.7	72.4	145.6	106.2
Total Revenue	$5,876.0	$6,461.9	$6,572.7	$6,994.0	$6,954.3	$6,856.5
Total Beginning Balance and Revenues	$6,455.0	$6,785.9	$6,922.3	$7,428.5	$7,649.5	$7,513.7
Expenditures						
Certificated Salaries	$2,919.4	$2,977.2	$3,051.0	$3,214.5	$3,314.6	$3,231.9
Classified Salaries	880.4	870.9	897.9	981.1	1,054.2	997.7
Employee Benefits	1,196.5	1,228.2	1,292.2	1,314.0	1,318.0	1,284.5
Books and Supplies	352.1	368.7	435.9	373.9	435.3	296.6
Other Operating Expenses	575.4	555.1	616.8	708.0	764.9	744.4
Capital Outlay	44.3	53.8	63.1	34.8	37.0	27.5
Other Outgo/Other Uses[4]	162.8	382.4	130.9	107.0	68.2	80.4
Total Expenditures	$6,131.0	$6,436.3	$6,487.8	$6,733.3	$6,992.2	$6,663.2
Ending Balance	$ 324.0	$ 349.6	$ 434.5	$ 695.2	$ 657.2	$ 850.5

(1) Includes Regular and Specially Funded Programs. Totals may not add due to rounding.
(2) Beginning in Fiscal Year 2003-04, the State required counties, cities and special districts to shift property tax revenues to school districts by contributing to the Education Revenue Augmentation Fund in lieu of direct payments to school districts from the State's General Fund. The State reduces 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. See "STATE FUNDING OF EDUCATION – General" herein.
(3) Includes Operating Transfers In, Out, Support Costs to the District General Fund, Insurance Proceeds and Capital Leases.
(4) Includes Operating Transfers, Out, Support Costs transferred back to the District General Fund and Debt Service.
(5) Unaudited actuals.

Sources: District's audited financial statements for Fiscal Years 2004-05 through 2007-08 and the District's 2008-09 Unaudited Actuals Financial Report.

Reconciliation of Financial Results. Implementation difficulties associated with the human resources and payroll components of BTS (see "DISTRICT GENERAL INFORMATION – Information Technology Implementation Problems") resulted in the delayed reporting of the District's finances for the Fiscal Year 2006-07 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, and published its Fiscal Year 2006-07 CAFR in December 2008.

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's Comprehensive Annual Financial Report for Fiscal Year 2007-08 was filed in September 2009 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 June 2009, the United Teachers of Los Angeles ("UTLA"), the District's largest union, and the District approved a labor agreement that provided for, among other things, the creation of a Competitive Compensation and Budget Recommendations Panel to improve pay for teachers and health and human services professionals and to make budget recommendations, removes dismissal penalties for publicizing grievances, eliminates reprisals for participating in layoffs, institutes a Professional Development Advisory Committee and allows one re-opener negotiation during each of the 2009-10 and 2010-11 school years. The District and the UTLA are each entitled to reopen negotiations over one article of the labor agreement, with the exception of certain health and welfare provisions, at the request of either party at any time. In addition, the District and the UTLA are each entitled to reopen negotiations on salaries and two additional articles of their choice, with the exception of certain health and welfare provisions, at the request of either party at any time after April 1, 2010. In the event the District and the UTLA are unable to reach agreement to address the issues raised in the context of reopened negotiation and all statutory impasse procedures and post-impasse procedures have been applied, certain prohibitions on work stoppages under the agreement will not apply. Presently, the District and UTLA are considering certain salary concessions under the labor agreement that, if adopted, are expected to result in the deferment of certain of the District's expenditures to subsequent fiscal years.

In addition to UTLA, the District has twelve other bargaining units. The following Table A-13 sets forth the expiration dates of the labor agreements with each of the District's employee bargaining units as of September 1, 2009.

TABLE A-13

Los Angeles Unified school District
Employee Bargaining Units

Employee Bargaining Unit	Contract Expiration Date[(1)]
Associated Administrators of Los Angeles	6/30/2009
Unit A (School Police)	6/30/2008
Unit B (Instructional Aides)	6/30/2008
Unit C(Operations – Support Services	6/30/2008
Unit D (Office – Technical and Business Services)	6/30/2008
Unit E (Skilled Crafts)	6/30/2008
Unit F (Teacher Assistants)	6/30/2008
Unit G (Playground Aides)	6/30/2008
Unit H (Sergeants and Lieutenants)	6/30/2008
Unit S (Classified Supervisors)	6/30/2008
United Teachers of Los Angeles	6/30/2011

(1) The District and each of the employee bargaining units set forth in Table A-13, for which the applicable contract has expired, are operating under the terms of the applicable expired contract. As of the date of this Official Statement, the District and such bargaining units are negotiating terms to be contained in new contracts.

Source: Los Angeles Unified School District.

In February 2009, the District reached an agreement with all unions regarding health and welfare benefits. The multi-year agreement defines the District's contribution towards health and welfare benefits for active and retired employees. The agreement includes lifetime benefits, with small co-payments, for District employees but sets benchmarks for when new employees become eligible. The labor agreement caps the amount that health care benefit costs can grow annually at percent at 3.5%. However, if health care providers increase prices at rates higher than 3.5%, representatives of the respective unions and the District's Health Benefits Committee would be required to modify health plans in accordance with the budget. See also "DISTRICT FINANCIAL INFORMATION – Other Post-Employment Benefits" herein.

In November 2009, the Superintendent announced that each employee bargaining unit will need to agree to four furlough days in Fiscal Year 2009-10 and salary reductions of 12% in Fiscal Year 2010-11 to avoid 8,500 additional layoffs.

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. Subject to the implementation of any layoff proposal with respect to the District's workforce, the District's regular employer contribution to STRS for Fiscal Year 2009-10 is projected to be at least equal to its contribution for Fiscal Year 2008-09, 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-14 below is the District's regular annual contributions to STRS for Fiscal Years 2005-06 through 2007-08 and the unaudited annual contribution for Fiscal Year 2008-09. Historically, the District has paid all required STRS annual contributions.

TABLE A-14

Los Angeles Unified School District
Annual Regular STRS Contributions
Fiscal Years 2005-06 through 2008-09
($ in millions)

Fiscal Year	District Contributions
2005-06	$251.5
2006-07	263.0
2007-08	264.4
2008-09[1]	258.3

(1) Unaudited.

Sources: Los Angeles Unified School District Comprehensive Annual Financial Reports for Fiscal Years 2005-06 through 2007-08; the District for Fiscal Year 2008-09.

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

Active plan members are required to contribute 7% (miscellaneous) or 9% (safety) of their monthly salary and the District is required to contribute based on an actuarially determined rate. The required employer contribution rates for the Fiscal Year ended June 30, 2009 were 9.428% for miscellaneous and 30.066% 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. Set forth in Table A-15 below is the District's regular annual contributions, inclusive of employee contributions paid by the District, to CalPERS for Fiscal Years 2005-06 through 2007-08 and the unaudited annual contribution for Fiscal Year 2008-09. Historically, the District has paid all required CalPERS annual contributions.

TABLE A-15

Los Angeles Unified School District
Annual CalPERS Regular Contributions
Fiscal Years 2005-06 through 2008-09
($ in millions)

Fiscal Year	District Contributions[1]
2005-06	$137.1
2006-07	149.7
2007-08	160.6
2008-09[2]	152.3

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

(2) Unaudited.

Sources: Los Angeles Unified School District Comprehensive Annual Financial Report for the Fiscal Years 2005-06 through 2007-08; the District 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 (CalPERS and STRS) will vary from time to time depending upon actuarial assumptions, rates of return on investments, salary scales, and levels of contribution.

Unlike typical defined benefit programs, however, neither the STRS employer nor the State contribution rate varies annually to make up funding shortfalls or assess credits for actuarial surpluses. The State does pay a surcharge when the teacher and school district contributions are not sufficient to fully fund the basic defined benefit pension (generally consisting of 2% of salary for each year of service at age 60 referred to herein as "pre-enhancement benefits") within a 30-year period. However, this surcharge does not apply to system-wide unfunded liability resulting from recent benefit enhancements. 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-16 below. The individual funding progress for the District itself is not available from CalPERS or STRS.

TABLE A-16

Actuarial Value of CalPERS and STRS Retirement Systems
(as of June 30, 2008)

Name of Plan	Excess (Deficiency) of Actuarial Value of Assets Over Actuarial Accrued Liabilities (Unfunded Actuarial Accrued Liability)
Public Employee's Retirement Fund (CalPERS)(1)	$(31.739) billion
State Teachers' Retirement Fund Defined Benefit Program (STRS)(2)	(18.702) billion

(1) Based on actuarial valuations as of June 30, 2007, using individual entry age normal cost method and 28-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 2.00% or 3.00% post-retirement benefit increases. Reflects a funded ratio of 87.2%. The portion of unfunded actuarial accrued liability attributed to schools is $3.19 billion, which reflects a funded ratio for schools of 107.8%.

(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 89%.

Sources: CalPERS Comprehensive Annual Financial Report Year Ended June 30, 2008 and STRS Comprehensive Annual Financial Report for the Fiscal Year 2007-08.

Set forth in Table A-17 below is the funded status of STRS and CalPERS for Fiscal Years 2003-04 through 2007-08.

TABLE A-17

Funded Status of STRS and CalPERS
Fiscal Years 2002-03 through 2007-08

Fiscal Year	STRS(1)	CalPERS(2)
2003-04(3)	85.0%	87.3%
2004-05	86.0	87.3
2005-06	87.0	87.2
2006-07	89.0	87.2
2007-08	88.0	NA(4)

(1) Defined Benefit Program.
(2) Public Employee's Retirement Fund.
(3) Figures were revised on an estimated basis in 2006 to reflect data corrections.
(4) Data not available.

Sources: STRS Comprehensive Annual Financial Report for the Fiscal Year 2007-08 and CalPERS Comprehensive Annual Financial Report Year Ended June 30, 2008.

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

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

In July 2009, CalPERS reported that the value of its pension fund as of June 30, 2009 declined 23.4% to $180.9 billion compared to the Fiscal Year 2007-08. In July 2009, STRS reported a decline of approximately $43 billion, or 25%, for Fiscal Year 2008-09, with the market value of its assets falling to $118.8 billion. In the event the value of such pension funds continue to decline, CalPERS and STRS may ask their respective agencies to accept reductions in benefits or provide increased contributions to retirement accounts for their members.

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

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

On July 1, 1992, the District joined the Public Agency Retirement System ("PARS"), a multiple-employer retirement trust. This defined contribution plan covers the District's part-time, seasonal, temporary and other employees not otherwise covered by CalPERS or STRS, but whose salaries would otherwise be subject to Social Security tax. Benefit provisions and other requirements are established by District management based on agreements with various bargaining units. The District's contribution to PARS for Fiscal Year 2008-09 totaled approximately $4.2 million.

Set forth in Table A-18 below is the District's annual contributions to PARS for Fiscal Years 2005-06 through 2008-09.

TABLE A-18

Los Angeles Unified School District
Annual PARS Contribution
Fiscal Years 2005-06 through 2008-09
($ in millions)

Fiscal Year	District Contribution[1]
2005-06	$6.8
2006-07	3.5
2007-08	8.8
2008-09[2]	4.2

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

Sources: Los Angeles Unified School District Comprehensive Annual Financial Report for Fiscal Years 2005-06 through 2007-08; the District for Fiscal Year 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 2007-08 contained in APPENDIX B – "SELECTED INFORMATION FROM AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2008" attached to this Official Statement.

Other Post-Employment Benefits

In addition to employee health care costs, the District provides post-employment health care benefits in accordance with collective bargaining agreements. As of July 1, 2008, 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. Table A-19 below sets forth the District's funding of other post-employment benefits from Fiscal Year 2002-03 through 2008-09.

TABLE A-19

Expenditures for Other Post-Employment Benefits
Fiscal Years 2002-03 through 2008-09
($ in millions)

Fiscal Year	Amount
2002-03	$172.4
2003-04	183.0
2004-05	196.1
2005-06	222.3
2006-07	233.5
2007-08	255.9
2008-09	267.3

Source: Los Angeles Unified School District.

On June 21, 2004, the GASB released its Statement No. 45 "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" ("Statement No. 45"). Statement No. 45 establishes standards for the measurement, recognition and display of post-employment healthcare as well as other forms of post-employment benefits, such as life insurance, when provided separately from a pension plan expense or expenditures and related liabilities in the financial reports of state and local governments. Under Statement No. 45, governments 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 Statement No. 45 reporting requirements for the District became effective during Fiscal Year 2007-08.

The District's OPEB consists of postemployment benefits of health, prescription drug, dental, vision and life insurance coverage for retirees; long-term care coverage, life insurance and death benefits that are not offered as part of a pension plan; and long-term disability insurance for employees. As of the date hereof, the most recent actuarial report prepared for the District is its "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 following are the principal actuarial assumptions used in the Postemployment Valuation:

1. Measurement Date: June 30, 2007;
2. Census Date: March 1, 2008;
3. Discount Rate: 5.00%;
4. Annual Inflation Rate: 3.25%;
5. Annual Payroll Growth: 4.25%;
6. Health Care Inflation: 9% (graded down over 8 years to ultimate rate of 5.00%) for the health maintenance organizations and 11% (graded down over 6 years to ultimate rate of 5.00%) for the preferred provider organizations;
7. Dental and Vision Care Inflation: 5.00%;
8. Administrative Expenses: No administrative expenses were valued separately from the premiums;
9. Marital Status: At the time of retirement, 75% of male employees and 50% of female employees are assumed to have spouses who elect coverage;
10. Spouse Age Difference: Male spouses are assumed to be 2 years older than their participant wives and female spouses are assumed to be 5 years younger than their participant husbands;
11. Participation: 100% of the current active employees with medical coverage are assumed to continue medical coverage at retirement; and
12. Actuarial Cost Method: Entry Age Normal, level dollar. Entry age is based on current age minus years of service.

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 based upon GASB Statement Nos. 43 and 45. 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 unfunded actuarial accrued liability ("UAAL") of the District's post-retirement health and welfare benefits program is approximately $10.56 billion. Pursuant to Statement No. 45, OPEB expense in an amount equal to annual OPEB cost is recognized in government-wide financial statements on an accrual basis. Net OPEB obligations, if any, including amounts associated with under- or over-contributions from governmental funds, are to be displayed as liabilities (or assets) in government-wide financial statements.

The Postemployment Valuation recommended an annual required contribution ("ARC") of $1.09 billion, or 23.6% of the District's payroll, for Fiscal Year 2007-08. As of June 30, 2009, the "pay-as-you-go" cost of providing post-employment benefits was estimated at $523 million ($256 million for Fiscal Year 2007-08 and $267 million for Fiscal Year 2008-09). Accordingly, the District's Net Pension Obligation ("NPO") as of June 30, 2009 was $1.654 billion. NPO is the cumulative difference between the annual pension cost (the "Annual OPEB Cost") to the District of the post-employment benefit plan and the actual contribution in a particular year. Annual OPEB Cost is equal to (i) the ARC, (ii) one year's interest on the NPO, and (iii) an adjustment to the ARC to offset, approximately, the amount included in item (i) for amortization of the past contribution deficiencies.

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 UAAL as described in the Postemployment Valuation will not adversely affect the District's ability to pay debt service on its general fund obligations such as tax and revenue anticipation notes and certificates of participation.

On November 23, 2009, the District contracted with Buck Consultants, LLC, to prepare an updated actuarial report. The updated actuarial report will reflect a valuation date as of June 30, 2009, and will provide, at a minimum, the unfunded actuarial accrued liability and the annual required contribution based on the 2010 plan design and a 5% discount rate assumption. The finalized report is due no later than April 30, 2010.

For additional information regarding the District's OPEB see APPENDIX B – "SELECTED INFORMATION FROM AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2008" attached to this Official Statement.

Insurance

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

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

The District is self-insured for its Workers' Compensation Program. The lower amount of claims is the result of workers' compensation reforms implemented by the State as well as District activities to improve investment earnings on the workers' compensation fund balances, improve third party management of claims and reduce workers' compensation fraud. Separate funds are used to account for amounts set aside to pay claims incurred and related expenditures under the respective insurance programs. Table A-20 below sets for the workers' compensation claims paid from Fiscal Year 2003-04 through 2008-09.

TABLE A-20

WORKERS' COMPENSATION CLAIMS PAID
Fiscal Years 2002-03 through 2008-09
($ in millions)

Fiscal Year	Amount
2003-04	$116.3
2004-05	112.4
2005-06	96.8
2006-07	88.4
2007-08	87.9
2008-09	85.1

Source: Los Angeles Unified School District.

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 2007-08 contained in APPENDIX B – "SELECTED INFORMATION FROM AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2008" to this Official Statement.

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 for Fiscal Year 2007-08 and was completed in February 2009 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 June 30, 2008 divided by District General Fund appropriations for Fiscal Year 2007-08. 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 Fiscal Year 2008-09 Debt Report is expected to be completed in the first calendar quarter of 2010. The District's current maximum fiscal year COPs debt service is $51.2 million (excluding the Refunding COPs, 2010 Series A (the "Refunding COPs")), which is below the $105 million cap, and is 0.8% of budgeted District General Fund appropriations for Fiscal Year 2008-09, which is below the 2.0% to 2.5% policy range.

The Debt Management Policy limits unhedged variable rate debt to 20% of outstanding COPs or $100 million, whichever is less, and requires reporting of the debt ratios and benchmarks set forth in Tables C-15 and C-16 below in the annual Debt Report.

As of January 27, 2010, the District will have $425.4 million of outstanding COPs (net of economically defeased COPs), of which $159.6 million are variable rate COPs (includes the Variable Rate Certificates of Participation (Belmont Learning Complex) 1997 Series A which will be refunded using proceeds from the Refunding COPs). The District's average daily District General Fund cash balance is projected to be $299.9 million for Fiscal Year 2009-10. Accordingly, the District believes that interest rate exposure on its variable rate COPs is naturally hedged by this cash position.

Table A-21 below sets forth the debt factors for COPs which are to be repaid from the District General Fund or other internal District resources as reported in the Fiscal Year 2007-08 Debt Report.

TABLE A-21

Los Angeles Unified School District
Debt Management Policy – Debt Factors
(as of June 30, 2008)[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	0.69%	(1.81%)
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%	0.7%	(19.3%)

(1) Information in Table A-21 is as set forth in the District's Debt Report submitted on May 26, 2009 for the Fiscal Year 2007-08. The Debt Report for Fiscal Year 2008-09 is expected to be completed in the first quarter of 2010.
(2) "District General Fund Expenditures" includes said amounts based upon the District's Fiscal Year 2007-08 Final Adopted Budget.
(3) May increase with each approved issuance of COPs.

Source: Los Angeles Unified School District.

Table A-22 below sets forth the benchmark debt burden ratios that recognize the combined direct debt and overall debt of the District. Table A-22 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-22 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-22

Los Angeles Unified School District
Debt Management Policy Benchmarks for District's Direct and Overall Debt
(As of June 30, 2008)[1]

Debt Burden Ratio	Benchmark	Benchmark's Value	LAUSD Actual[2]
Direct Debt to Assessed Value	Moody's Median for Aa Rated School Districts With Student Population Above 200,000	1.10%	1.77%
	Standard & Poor's Mean for AA Rated School Districts With Student Population Above 150,000	1.50%	
Overall Debt to Assessed Valuation	Moody's Median for Aa Rated School Districts With Student Population Above 200,000	2.60%	3.04%
	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	$ 1,614
	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	$ 2,778
	Standard & Poor's Mean for AA Rated School Districts With Student Population Above 150,000	$ 2,639	

(1) Benchmark Value information in Table A-22 is as set forth in the District's Debt Report submitted on May 26, 2009 for the Fiscal Year 2007-08. The Debt Report for Fiscal year 2008-09 is expected to be completed in the first quarter of 2010.

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

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 2009-10 Final Adopted Budget, this reserve is funded at the current legally mandated minimum of 1.0%, or approximately $65.4 million. The other reserves may be funded and phased in annually based on the Board's actions, although the Chief Financial Officer of the District has not recommended any such funding at present.

District Debt

General Obligation Bonds. Pursuant to Sections 15106 and 17422 of the Education Code, the District's bonding capacity for general obligation bonds is 2.5% of taxable property value in the District. The taxable property value in the District for Fiscal Year 2009-10 is $474.97 billion, which results in a total current bonding capacity of approximately $11.8 billion. The District's unused bonding capacity is approximately $2.18 billion. 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 $3.2 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 $3.0 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 $2.14 billion of aggregate principal amount of Measure Y bonds. At an election held on November 7, 2008, voters approved the issuance by the District of general obligation bonds in an amount not to exceed $7.0 billion (the "Measure Q Authorization"). No general obligation bonds have been issued pursuant to the Measure Q Authorization.

The issuances of additional series of bonds in future years will depend upon, among other things, when the anticipated decline in the District's assessed valuation ends. In October 2009, the District received updated projections of estimates of projected assessed valuation from a private econometrics firm. This study estimated projected declines in the District's assessed valuation base of 15% to 17% over the next three years and that the District's assessed valuation base is not expected to return to its present level for approximately nine years. See " – Assessed Valuation of Property within the District" herein. The District expects to issue bonds and use other funding options to complete Measure K, Measure R and Measure Y projects, including rehabilitation and upgrading of school facilities for specifically identified school facilities projects. The District expects to delay issuing general obligation bonds pursuant to the Measure Q Authorization until the anticipated decline in the assessed valuation within the District has ended, which is projected to occur in approximately five years. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – ARTICLE XIIIA OF THE STATE CONSTITUTION" herein.

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

TABLE A-23

Proposition BB (Election of 1997) Bonds

Bonds Issued	Aggregate Principal Amount ($ in thousands)	Outstanding Amount as of November 1, 2009 ($ in thousands)	Date of Issue
Series A Bonds	$356,000[(1) (2)]	$ 90,850	July 22, 1997
Series B Bonds	350,000[(2) (3) (4)]	0	August 25, 1998
Series C Bonds	300,000[(1) (2) (3) (4)]	0	August 10, 1999
Series D Bonds	386,655[(1) (2) (3)]	12,085	August 3, 2000
Series E Bonds	500,000[(1) (5) (7)]	64,620	April 11, 2002
2002 Refunding Bonds[(8)]	258,375	254,085	April 17, 2002
Series F Bonds	507,345[(4) (6)]	283,200	March 13, 2003
2004 Refunding Bonds[(8)]	219,125	217,910	December 21, 2004
2005 Refunding Bonds[(8)]	467,675	467,675	July 20, 2005
2006 Refunding Bonds, Series B[(8)]	254,544	248,837	November 15, 2006
2007 Refunding Bonds, Series A-2[(8)]	136,055	136,055	January 31, 2007
2007 Refunding Bonds, Series B[(8)]	24,845	24,650	February 22, 2007
2009 Refunding Bonds, Series A (Proposition BB Portion) [(8)]	51,090	51,090	October 15, 2009
TOTAL		$1,851,057	

(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) $484.6 million principal amount of the Series A, B, C and D Bonds were refunded with the proceeds of the 2005 Refunding Bonds.
(3) $262.73 million principal amount of the Series B, C and D Bonds were refunded with the proceeds of the 2002 Refunding Bonds.
(4) $50.835 million of the Series B, C, E and F Bonds were refunded with proceeds of the 2009 Refunding Bonds, Series A.
(5) $231.23 million principal amount of the Series E Bonds were refunded with proceeds of the 2006 Refunding Bonds, Series B.
(6) $129.51 million principal amount of the Series F Bonds were refunded with proceeds of the 2007 Refunding Bonds, Series A.
(7) $25.79 million principal amount of the Series E Bonds were refunded with proceeds of the 2007 Refunding Bonds, Series B.
(8) Refunding bonds are not counted against the bond authorization limit.

Source: Los Angeles Unified School District.

TABLE A-24

Measure K (Election of 2002) Bonds

Bonds Issued	Aggregate Principal Amount ($ in thousands)	Outstanding Amount as of July 1, 2009 ($ in thousands)	Date of Issue
Series A Bonds	$2,100,000[(1)(2)(3)]	$ 466,615	March 5, 2003
2006 Refunding Bonds, Series A[(4)]	132,325	132,325	February 22, 2006
2006 Refunding Bonds, Series B[(4)]	320,361	311,953	November 15, 2006
2007 Refunding Bonds, Series A-1[(4)]	1,153,195	1,140,075	January 31, 2007
Series B Bonds	500,000	475,560	February 22, 2007
Series C Bonds	150,000	142,175	August 16, 2007
Series D Bonds	250,000	246,900	February 19, 2009
Series KRY (2009), Build America Bonds (K Portion)	200,000	200,000	October 15, 2009
TOTAL		$3,115,603	

(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-25

Measure R (Election of 2004) Bonds

Bonds Issued	Aggregate Principal Amount ($ in thousands)	Outstanding Amount as of July 1, 2009 ($ in thousands)	Date of Issue
Series A Bonds	$ 72,630	$ 0	September 23, 2004
Series B Bonds	60,475	0	September 23, 2004
Series C Bonds	50,000	43,255	September 23, 2004
Series D Bonds	16,895	0	September 23, 2004
Series E Bonds	400,000	339,235	August 10, 2005
Series F Bonds	500,000	463,175	February 16, 2006
Series G Bonds	400,000	353,610[(1)]	August 17, 2006
Series H Bonds	550,000	502,720[(1)]	August 16, 2007
Series I Bonds	550,000	543,700	February 19, 2009
2009 Refunding Bonds, Series A (Measure R Portion)	23,675	23,675	October 15, 2009
Series KRY (2009) Build America Bonds (R Portion)	363,005	363,005	October 15, 2009
Series KRY (2009) Tax-Exempt (R Portion)	36,995	36,995	October 15, 2009
TOTAL		$2,669,370	

(1) $21.435 million of the Series F and Series G Bonds were refunded with proceeds of the 2009 Refunding Bonds.

Source: Los Angeles Unified School District.

TABLE A-26

Measure Y (Election of 2005) Bonds

Bonds Issued	Aggregate Principal Amount ($ in thousands)	Outstanding Amount as of July 1, 2009 ($ in thousands)	Date of Issue
Series A Bonds	$ 56,785	$ 41,530	February 22, 2006
Series B Bonds	80,200	55,510	February 22, 2006
Series C Bonds	210,000	194,535	February 22, 2006
Series D Bonds	47,400	35,095	February 22, 2006
Series E Bonds	300,000	285,265	August 16, 2007
Series F Bonds	150,000	148,255	February 19, 2009
Series G Bonds	5,615	5,615	October 15, 2009
Series KRY (2009) Build America Bonds (Y Portion)	806,795	806,795	October 15, 2009
Series KRY (2009) Tax-Exempt (Y Portion)	168,790	168,790	October 15, 2009
Series H (Qualified School Construction Bonds)	318,800	318,800	October 15, 2009
TOTAL		$2,060,190	

Source: Los Angeles Unified School District.

Certificates of Participation. As of November 1, 2009, the District had outstanding lease obligations issued in the form of certificates of participation in the aggregate principal amount of $413.6 million, excluding certificates of participation that are economically defeased. Outstanding lease obligations represent approximately $614.5 million in total debt service (including payments made for Fiscal Year 2009-10), based upon certain assumed interest rates for the District's variable rate lease obligations. The following Table A-27 sets forth the District's lease obligations paid from its General Fund and from developer fees with respect to its outstanding certificates of participation.

TABLE A-27

Los Angeles Unified School District
Certificates of Participation Lease Obligations Debt Service Schedule[1] [2]
As of January 27, 2010
($ in thousands)

Fiscal Year Ending June 30	Paid From District General Fund	Paid From Developer Fees[3]	Paid From Cafeteria Fund	Fiscal Year Total Debt Service
2010	$ 8,520	$ 956	$ 2,482	$ 11,958
2011	33,104	10,706	4,963	48,773
2012	33,094	9,577	4,963	47,635
2013	30,514	9,576	4,963	45,054
2014	30,505	9,577	4,963	45,045
2015	30,491	9,574	4,963	45,028
2016	28,072	9,574	4,963	42,610
2017	28,061	9,575	4,963	42,599
2018	28,047	16,886	4,963	49,896
2019	15,590	0	4,963	20,553
2020	15,594	0	2,482	18,076
2021	15,587	0	0	15,587
2022	15,048	0	0	15,048
2023	15,039	0	0	15,039
2024	14,401	0	0	14,401
2025	14,331	0	0	14,331
2026	14,581	0	0	14,581
2027	14,570	0	0	14,570
2028	14,559	0	0	14,559
2029	14,540	0	0	14,540
2030	12,416	0	0	12,416
2031	12,400	0	0	12,400
2032	12,392	0	0	12,392
Total	$451,454	$86,002	$49,635	$587,091

(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-27 above. The District has assumed an interest rate of 2.75% per annum, remarketing fees of 0.07% and letter of credit fees of 0.725% for both its Variable Rate Refunding Certificates of Participation 2008 Series A (Administration Building Project) and Variable Rate Refunding Certificates of Participation 2008 Series B (Administration Building Project III). Includes the Refunding COPs. Fiscal Year 2009-10 amounts reflect debt service from January 27, 2010 - June 30, 2010.

(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 and/or cafeteria fund sources 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-28 summarizes the District's other long-term obligations as of June 30, 2008.

TABLE A-28

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

	Balance as of June 30, 2008
Self-Insurance Claims(1)	$ 548,702
Net Pension Obligation – OPEB(2)	832,665
Liability for Compensated Absences	88,737
Revolving loan and other loan(3)	1,657
State school building fund payable	286
Capital lease/obligation	3,768
Arbitrage payable	12,068
Legal Settlements	12,823
TOTAL	$ 1,500,706

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

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

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

Source: Comprehensive Annual Financial Report for the Fiscal Year 2007-08.

Future Financings

General Obligation Bonds. The District has $150,000,000 authorized and unissued general obligation bond authorization remaining under Measure K, $870,000,000 authorized and unissued general obligation bond authorization remaining under Measure R, $1,845,000,000 authorized and unissued general obligation bond authorization remaining under Measure Y and $7,000,000,000 authorized and unissued general obligation bond authorization remaining under Measure Q. The issuances of additional series of bonds in future years will depend upon, among other things, when the anticipated decline in the District's assessed valuation ends. See "DISTRICT FINANCIAL INFORMATION – District Debt – *General Obligation Bonds*" herein. The District may issue refunding bonds to refund outstanding general obligation bonds from time to time, depending on market conditions. In addition, as described in the text of each of the ballots of Measure K, Measure R, Measure Y and Measure Q, the Board does not guarantee that the respective bonds authorized and issued under the Measure K, Measure R., Measure Y and Measure Q Authorizations will provide sufficient funds to allow completion of all potential projects listed in connection with said measures.

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

Clean Renewable Energy Bonds. The District received $120 million in authorization for Clean Renewable Energy Bonds. The District is in the process of evaluating the form and the timing for issuance of these bonds.

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 Fiscal Year 2010-11, the District plans to issue its 2010-11 Tax and Revenue Anticipation Notes, Series A, in a principal amount to be determined by the District.

Overlapping Debt Obligations

Set forth on Table A-29 on the following page is the Debt Report prepared by California Municipal Statistics Inc. and dated as of September 1, 2009 (the "Debt Report"). The Debt Report is included for general information purposes only. The District has not reviewed the Debt Report for completeness or accuracy and makes no representations in connection therewith. The Debt Report generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the District. Such long-term obligations generally are not payable from revenues of the District (except as indicated) nor are they necessarily obligations secured by land within the District. In many cases, long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

The first column in Table A-29 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-29) 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-29

Los Angeles Unified School District
Schedule of Direct and Overlapping Bonded Debt
As of December 1, 2009

LOS ANGELES UNIFIED SCHOOL DISTRICT

2009-10 Assessed Valuation:	$474,977,290,699
Redevelopment Incremental Valuation:	43,285,760,809
Adjusted Assessed Valuation:	$431,691,529,890

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable (1)	Debt 12/1/09	
Los Angeles County Flood Control District	46.744%	$ 39,594,505	
Metropolitan Water District	23.218	68,127,417	
Los Angeles Community College District	81.907	1,937,522,371	
Pasadena Area Community College District	0.001	706	
Los Angeles Unified School District	**100.**	**9,696,220,000**	
City of Los Angeles	99.922	1,368,381,829	
Other Cities	Various	46,541,337	
Palos Verdes Library District	4.970	368,526	
City Community Facilities Districts	100.	134,840,000	
City of Los Angeles Landscaping and Special Tax Assessment Districts	99.922	88,181,165	
City of Los Angeles Assessment District No. 1	100.	5,239,409	
Other City and Special District 1915 Act Bonds	100.	25,500,000	
Los Angeles County Regional Park & Open Space Assessment District	46.028	102,485,945	
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$13,513,003,210	
DIRECT AND OVERLAPPING GENERAL FUND DEBT:			
Los Angeles County General Fund Obligations	46.028%	$ 404,502,968	
Los Angeles County Pension Obligations	46.028	108,483,790	
Los Angeles County Superintendent of Schools Certificates of Participation	46.028	6,069,003	
Pasadena Area Community College District Certificates of Participation	0.001	24	
Los Angeles Unified School District Certificates of Participation	100.	453,674,910	(2)
City of Los Angeles General Fund and Judgment Obligations	99.922	1,830,361,204	
Other City General Fund and Pension Obligations	Various	207,514,329	
Los Angeles County Sanitation District Nos. 1,2,3,4,5,8,9,16 & 23 Authorities	Various	50,047,801	
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		$3,060,654,029	
Less: **Los Angeles Unified School District Qualified Zone Academy Bonds:**			
Amount set-aside in Building Fund to make payments on 2000 Series A QZAB		**5,590,271**	
Amount accumulated in Sinking Fund for repayment of 2000 Series A QZAB		**22,835,035**	
Amount accumulated in Sinking Fund for repayment of 2005 QZAB		**4,650,302**	
City self-supporting bonds		11,439,418	
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT		$3,016,139,003	
GROSS COMBINED TOTAL DEBT		$16,573,657,239	(3)
NET COMBINED TOTAL DEBT		$16,529,142,213	

(1) Based on 2008-09 ratios.
(2) Excludes issue to be sold.
(3) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2009-10 Assessed Valuation:
Direct Debt ($9,696,220,000)………………….………………2.04%
Total Overlapping Tax and Assessment Debt.. 2.84%

Ratios to Adjusted Assessed Valuation:
Gross Combined Direct Debt ($10,149,894,910)…….……….2.35%

Net Combined Direct Debt ($10,116,819,302) 2.34%
Gross Combined Total Debt... 3.84%
Net Combined Total Debt 3.83%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/09: $245

Source: California Municipal Statistics, Inc.

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 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 APPENDIX A– “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 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 from 0.65% of a vehicle's market value, the State must provide local governments with equal replacement revenues. Further, Proposition 1A requires the State, beginning July 1, 2005, to suspend State mandates affecting cities, counties and special districts, excepting mandates relating to employee rights, schools or community colleges, in any year that the State does not fully reimburse local governments for their costs to comply with such mandates. The Revised 2009-10 State Budget Act enacts a shift of approximately $1.9 billion of city, county, and special district property taxes and uses such funds to offset State General Fund spending for education and other programs.

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.

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 THE AUDITED 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
FISCAL YEAR ENDED JUNE 30, 2008

MR. RAMON C. CORTINES
SUPERINTENDENT OF SCHOOLS

MS. MEGAN K. REILLY
CHIEF FINANCIAL OFFICER

MR. TIMOTHY S. ROSNICK
CONTROLLER

PREPARED BY
ACCOUNTING AND DISBURSEMENTS DIVISION

333 S. BEAUDRY AVENUE
LOS ANGELES, CALIFORNIA 90017

LOS ANGELES UNIFIED SCHOOL DISTRICT
Comprehensive Annual Financial Report
Year Ended June 30, 2008

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INTRODUCTORY SECTION

LOS ANGELES UNIFIED SCHOOL DISTRICT
Accounting and Disbursements Division

RAMON C. CORTINES
Superintendent of Schools

MEGAN K. REILLY
Chief Financial Officer

TIMOTHY S. ROSNICK
Controller

V. LUIS BUENDIA
Deputy Controller

TERESA SANTAMARIA
Deputy Controller

August 15, 2009

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, 2008, 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 Auditor's Report from Simpson & Simpson, CPAs. It also includes a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). The MD&A provides an objective and easily readable analysis of the District's financial activities on both a short- and long-term basis. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The District's MD&A can be found immediately following the report of the independent auditors.

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

Profile of the Los Angeles Unified School District

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

As of June 30, 2008, the District is operating 436 elementary schools, 75 middle/junior high schools, 64 senior high schools, 59 options schools, 11 multi level schools, 17 special education schools, 22 magnet schools and 138 magnet centers, 24 community adult schools, 5 regional occupational centers, 5 skills centers, 1 regional occupational program center, 100 early education centers, 4 infant centers, 27 primary school centers, and 1 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, 2008, the District employed 47,636 certificated, 33,353 classified, and 18,543 nonregular employees. Enrollment as of October 2007 was 653,215 students in K-12 schools, 148,623 students in adult schools and centers, and 11,013 children in early education centers.

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

Economic Condition and Outlook

The United States economy has been in recession since December 2007 but is nowhere near the conditions of the 1930s. The recession is typified by several factors such as decline in employment, real income, industrial production, and wholesale/retail sales. The unemployment rate in California as of July 2009 is 11.9% per Department of Labor's preliminary estimate.

The Governor's State Budget for 2009 was enacted in February 2009 and amended in the Governor's May Revision. In February, the State enacted $36 billion solutions to the then estimated $42 billion General Fund budget gap. The $6 billion in solutions failed to pass at the special election in May. In the May Revision, an additional $24 billion in solutions were passed to address the further decline in the State's fiscal condition which led to the increase in the total state budget gap from $42 billion in February to $60 billion in May. The State's May Revision General Fund budget solutions include both expenditure cuts and increase in revenues. How the $60 billion budget gap was closed is shown below.

Solutions	Amount in $ billions
Expenditure Cuts	31.0
Taxes	12.5
Federal Stimulus	8.0
Other	8.4
Total	59.9

The amended State Budget for 2009 included changes to 2008 State Budget such as an additional $3.7 billion in expenditure cuts which is reflected in the table above. Proposition 98 is the largest amount of spending reduction solution amounting to $2.1 billion for 08-09 and $4.5 billion for 09-10.

Per the State Budget enacted in February 2009, revenue increases include one cent increase in state sales tax effective April 1, 2009, 0.50 % increase in the Vehicle License Fee rate, reduction in Dependent Credit beginning with 2009 tax year, and increase in personal income tax rate beginning with 2009 tax year.

In February, several propositions qualified for the May 19, 2009 statewide special election ballot. The first three, Propositions 1A, 1B, and 1C, were most critical and significant for local education agencies. Proposition 1A would have increased the size of the State's "rainy day" fund and a portion of this fund would have been transferred to fund supplemental payments to K-14 education. Proposition 1B would have provided supplemental payments in lieu of the "maintenance factor" for fiscal years 2009-10 and 2010-11, and Proposition 1C would have modernized the State Lottery to increase ticket sales. All three propositions failed to pass which meant more cuts in the May Revision.

For 2008-09 and 2009-10, the amended State Budget Act does not provide public education with any funded COLA or equalization. Instead, additional revenue limit cuts and funding reductions to categorical programs are to be implemented by the District. For LAUSD in 2008-09, the statutory COLA of 5.66% and revenue limit deficit rate of 7.844% equates to a decrease of $151 per ADA over 2007-08. For 2009-10, the statutory COLA of 4.25% and the revenue limit deficit rate of 18.355% equate to a further decrease of $431 per ADA over 2008-09. In addition, for 2009-10, school districts are to implement a one-time $250 per 2008-09 revenue limit ADA reduction and an additional one-time reduction to revenue limit equal to the 2009-10 Quality Education Investment Act (QEIA) entitlement.

The categorical programs are not provided any COLA as well and entitlements are estimated to be based on the 2007-08 level with a decrease of 15.38% for 2008-09, and an additional decrease of 4.46% for 2009-10. Only a few categorical programs are excluded from the decreased 07-08 funding level. In addition to these funding reductions, the budget also allows for deferrals of State apportionments to local education agencies, which negatively impacts the cash flow of the District. In exchange for the funding reductions to categorical programs, flexibility in usage of funds is allowed in the State Budget.

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.

Local Bonds:

a) Proposition BB Bonds

Proposition BB authorized the District to issue general obligation bonds in an amount not to exceed $2.4 billion. The 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 Proposition BB on the April 1997 ballot. The Blue Ribbon Citizens' 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 Citizens' Oversight Committee is also responsible for the oversight of the District's general obligation bonds issued pursuant to Proposition 39 and consists of 15 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 and principal of the Bonds, upon property subject to taxation by the District. Such taxes, when collected, will be placed by the County in the District's Debt Service Fund, which is required to be maintained by the County and used solely for the payment of the Bonds and interest thereon when due.

b) General Obligation Bonds – Proposition 39

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

On the November 5, 2002 ballot, Measure K was approved and authorized the District to issue up to $3.35 billion of General Obligation Bonds (Bonds). These funds would be used to: build new neighborhood schools, repair aging and deteriorating classrooms, improve early childhood programs, upgrade safety and technology, expand public charter schools, develop joint use projects in collaboration with city, state, federal, and private agencies, and provide for library books at new schools and improve library technology. 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, Series "C" for $150.0 million on August 16, 2007 and Series "D" for $250 million on February 19, 2009. 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 "D", the District has $ 350 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 to provide financing for specific school facilities projects subject to all of the accountability safeguards such as annual performance audits. All Bond expenditures are subject to review and oversight of the Citizens' Bond Oversight Committee.

Measure 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, Series "H" of $550.0 million issued on August 16, 2007 and Series "I" of $550 million issued on February 19, 2009. 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 "I", the District has $ 1.270 billion remaining under the Measure R authorization.

The first $150 million of the proceeds was 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, the District issued Series "E" for $ 300.0 million on August 16, 2007 and Series "F" for $150 million on February 19, 2009 to finance various components of Measure Y projects. With this issuance, the District has $ 3.140 billion remaining under the Measure Y authorization.

Measure Q or the Safe Healthy Neighborhood Schools Measure was passed on November 7, 2008. It authorized the District to issue and sell up to $7.0 billion in General Obligation Bonds to continue to repair/upgrade aging/deteriorating classrooms, restrooms, upgrade fire and earthquake safety, reduce asbestos, lead paint, air pollution, water quality hazards, build/upgrade specialized classrooms students need to meet job and college requirements and improve classroom internet access. As of August 15, 2009, the District has not issued any Measure Q bonds.

Financial Information

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

School districts in California are required by Education Code Section 41010 to follow the California School Accounting Manual in preparing reports to the State. The District, 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 by 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 investing in: U.S., state, or local government securities or U.S. government guaranteed securities; banker's acceptances or negotiable certificates of deposits issued by a nationally or state-chartered bank or savings and loan association; and commercial paper of "prime quality." These guidelines are followed by the County Treasurer's Office in making pool and specific investments for the District. At June 30, 2008, the District's cash in the county pool was $4,039.3 million.

The District also maintains some cash deposits with various banking institutions. At June 30, 2008, cash deposits, including imprest funds in schools and offices, were $33.6 million. These deposits are either covered by federal depository insurance or collateralized at the rate of 110% of the deposits.

The District also had $80.0 million in cash deposit accounts held by various trustees for the acquisition or construction of fixed assets, and for the repayment of long-term debt.

Income earned from all cash deposits in 2007-2008 was $234.1 million.

Risk Management

The District maintains various insurance programs, the majority of which are partially or entirely self-insured, while the smaller and/or specialized types of coverage are placed with commercial insurance carriers including excess property coverage ($1 billion above a $500,000 self-insurance retention for 2007-2008) 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 2007-2008) 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, the differences are reflected in current operations. (See Note 9 on pages 50 and 51 for a further discussion of Risk Management).

The District has implemented an Owner Controlled Insurance Program (OCIP) covering new construction and renovation projects funded by school bonds. Under an OCIP, 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.

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 2007-2008 is Simpson & Simpson, CPAs. The independent auditor's report on the basic financial statements is presented in the Financial Section of this report on page 1.

Office of the Inspector General

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

Acknowledgments

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

Respectfully submitted,

Ramon C. Cortines
Superintendent of Schools

Prepared by:

Timothy S. Rosnick
Controller

Megan K. Reilly
Chief Financial Officer

BOARD OF EDUCATION

Mónica García
PRESIDENT

Marguerite Poindexter LaMotte

Tamar Galatzan

Steve Zimmer
(Term started July 1, 2009)

Marlene Canter
(Term ended June 30, 2009)

Yolie Flores Aguilar

Julie Korenstein
(Term ended June 30, 2009)

Nury Martinez
(Term started July 1, 2009)

Richard Vladovic

PRINCIPAL SCHOOL DISTRICT OFFICIALS

Ramon C. Cortines
Superintendent of Schools
(Effective January 1, 2009)

Ramon C. Cortines
Senior Deputy Superintendent
(April 18, 2008 to December 31, 2008)

David L. Brewer III
Superintendent of Schools
(Resigned effective December 31, 2008)

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

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

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

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

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

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

LOCAL DISTRICT (LD) SUPERINTENDENTS

Jean Brown – LD 1

Alma Pena-Sanchez – LD 2
(Effective April 23, 2008)

James Morris
(July 1, 2006 – March 23, 2008)

Michelle King – LD 3
(Effective February 1, 2008)

Susan Allen
(July 1, 1007 – February 15, 2008)

Byron Maltez – LD 4
(Interim – Effective July 1, 2009)

Richard Alonzo
(Retired June 30, 2009)

Robert A. Martinez – LD 5
(Interim – Effective July 1, 2009)

Carmen N. Schroeder
(Retired June 30, 2009)

Martin Galindo – LD 6

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

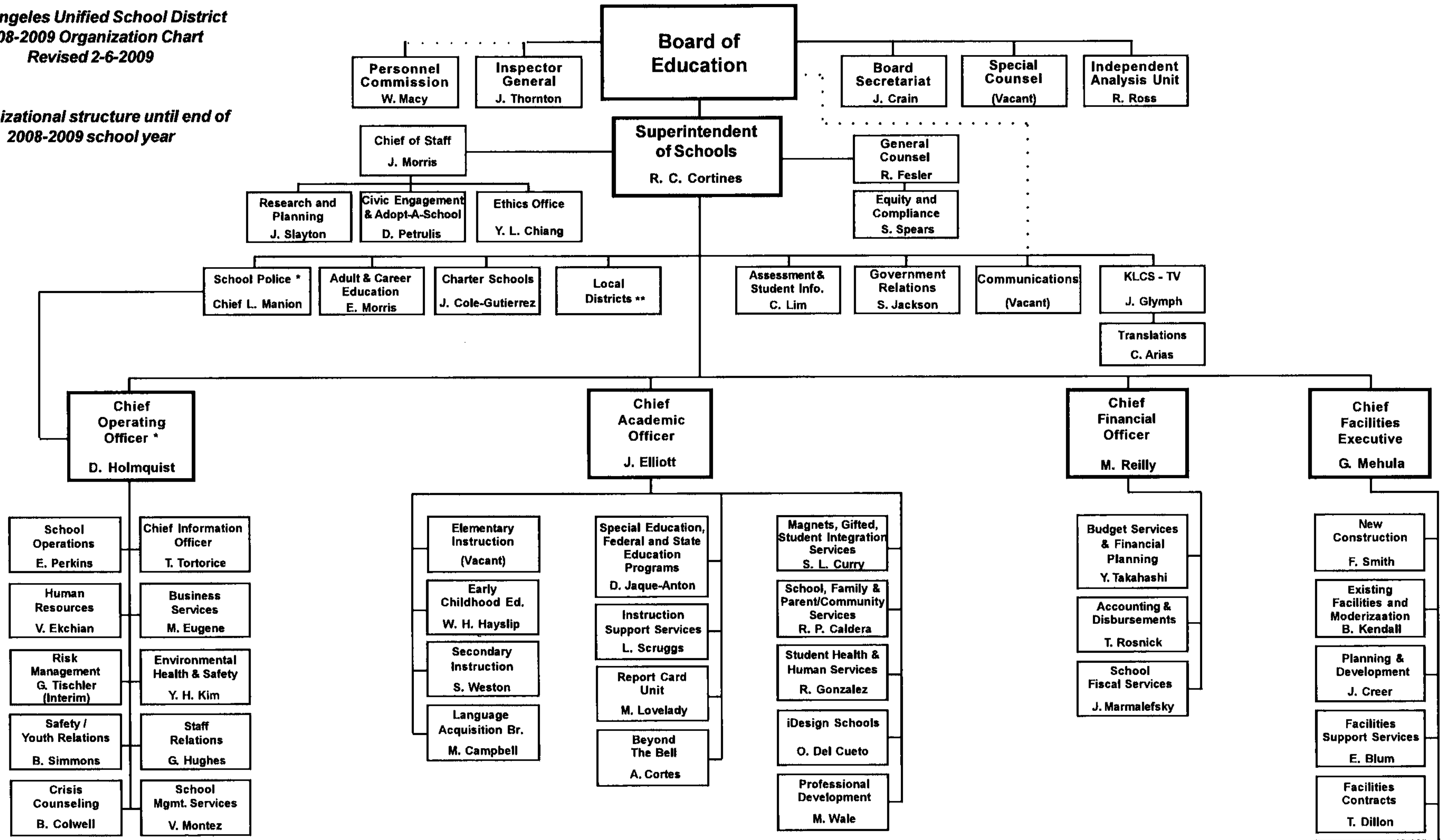
Carol Truscott
(Retired June 30, 2009)

Linda Del Cueto – LD 8

Los Angeles Unified School District
Organization of Central Support System

Los Angeles Unified School District
2008-2009 Organization Chart
Revised 2-6-2009

Organizational structure until end of 2008-2009 school year



** 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

SIMPSON & SIMPSON
CERTIFIED PUBLIC ACCOUNTANTS

FOUNDING PARTNERS
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Independent Auditor's Report

The Honorable Board of Education
Los Angeles Unified School District

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Los Angeles Unified School District** (the District) as of and for the year ended June 30, 2008, 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 the *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, 2008, 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.

As described in Note 1 to the financial statements, the Los Angeles Unified School District adopted the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for the year ended June 30, 2008.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 15, 2009, 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 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 65 to 122) and the information on pages 184 to 190 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 (pages 123 to 143), the statistical section and pages 191 to 193 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.

Simpson & Simpson

Los Angeles, California
August 15, 2009

As management of the Los Angeles Unified School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2008. 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 $5.1 billion (net assets). This amount is net of a $503.0 million deficit in unrestricted net assets resulting from the recognition of unfunded liabilities for other postemployment benefits (OPEB).
- The District's total net assets decreased by $120.0 million from prior year total, primarily due to the recognition of OPEB expense as stated above.
- As of the close of the 2008 fiscal year, the District's governmental funds reported combined ending fund balances of $3.3 billion, an increase of $185.6 million from June 30, 2007.
- At the end of the current fiscal year, unreserved fund balance for the General Fund, including designated for economic uncertainties, was $253.7 million, or 3.7% of total General Fund expenditures.
- The District's total long-term obligations increased by $1.8 billion (23.2%) during the current fiscal year. The increase resulted primarily from the net OPEB obligation and from new issues of general obligation bonds.

Overview of the Basic Financial Statements

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

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

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

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

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

The government-wide financial statements can be found on pages 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 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 27-63 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 65-109 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 $5.1 billion at the close of the most recent year.

By far the largest portion of the District's net assets (72.7%) 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 37.2% of the District's net assets ($1.9 billion) represent resources that are subject to external restrictions on how they may be used. The remaining negative balance in unrestricted net assets ($503.0 million) resulted from the recognition of $832.7 million of net OPEB obligation.

At the end of the 2008 fiscal year, the District is able to report positive balances in all categories of net assets except for unrestricted net assets.

The $1.4 billion increase in capital assets primarily relates to the continuing school construction and modernization projects throughout the District.

Long-term liabilities increased by $1.8 billion due to issuance of general obligation bonds and accrual of net OPEB obligation.

(Continued)

Summary Statement of Net Assets (In Thousands)

As of June 30, 2008 and 2007:

	Governmental Activities	
	2008	**2007**
Current Assets	$ 5,977,667	$ 5,379,090
Capital Assets	10,517,964	9,084,998
Total Assets	16,495,631	14,464,088
Current Liabilities	1,908,099	1,544,921
Long-term Liabilities	9,503,133	7,714,758
Total Liabilities	11,411,232	9,259,679
Net Assets:		
Invested in capital assets, net of related debt	3,694,054	3,267,458
Restricted:		
Restricted for debt service	417,991	268,111
Restricted for program activities	1,475,311	1,272,311
Unrestricted	(502,957)	396,529
Total Net Assets	$ 5,084,399	$ 5,204,409

(Continued)

Summary Statement of Changes in Net Assets (In Thousands)

As of June 30, 2008 and 2007:

	Governmental Activities 2008	Governmental Activities 2007
Revenues:		
Program Revenues:		
Charges for services	$ 101,681	$ 132,737
Operating grants and contributions	3,224,600	3,178,967
Capital grants and contributions	664,407	436,408
Total Program Revenues	3,990,688	3,748,112
General Revenues:		
Property taxes levied for general purposes	806,413	811,282
Property taxes levied for debt service	539,735	444,951
Property taxes levied for community redevelopment	5,775	4,479
State aid – formula grants	2,817,720	2,901,720
Grants, entitlements, and contributions not restricted to specific programs	505,638	531,067
Unrestricted investment earnings	156,817	149,311
Miscellaneous	85,547	12,456
Total General Revenues	4,917,645	4,855,266
Total Revenues	8,908,333	8,603,378
Expenses:		
Instruction	4,416,790	4,142,927
Support services:		
Support services – students	366,514	310,786
Support services – instructional staff	731,016	589,566
Support services – general administration	51,873	56,323
Support services – school administration	502,506	477,168
Support services – business	136,540	123,791
Operation and maintenance of plant services	727,090	638,201
Student transportation services	173,167	168,121
Data processing services	108,451	114,630
Operation of noninstructional services	324,348	288,736
Facilities acquisition and construction services	89,029	104,746
Other uses	882	418
Interest expense	350,420	342,058
Interagency disbursements	—	39,371
Depreciation – unallocated	217,052	180,328
Unfunded OPEB Expense – unallocated	832,665	—
Total Expenses	9,028,343	7,577,170
Changes in Net Assets	(120,010)	1,026,208
Net assets beginning	5,204,409	4,178,201
Net assets – ending	$ 5,084,399	$ 5,204,409

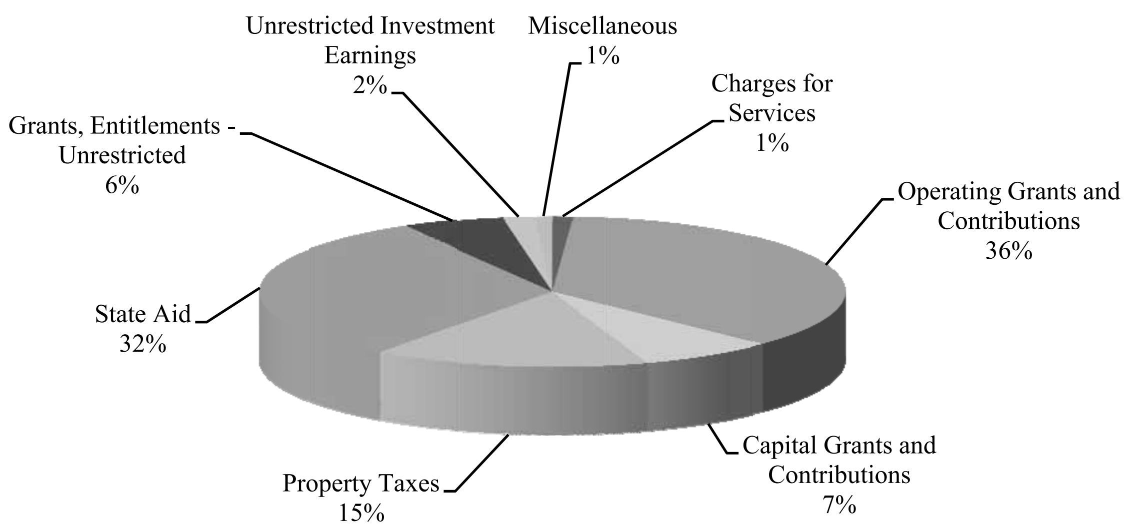
(Continued)

The District's net assets decreased by $120.0 million in the current fiscal year. The major components of this decrease are as follows:

- Capital grants and contributions increased by $228.0 million due to higher school facilities apportionments from State bonds; operating grants and contributions increased by $45.6 million largely from new State grants implemented during the year; and total general revenues increased by $62.4 million primarily due to higher property taxes levied for debt service.
- Total expenses increased by $1.5 billion, largely from the recognition of OPEB obligation and from higher salaries and benefits.

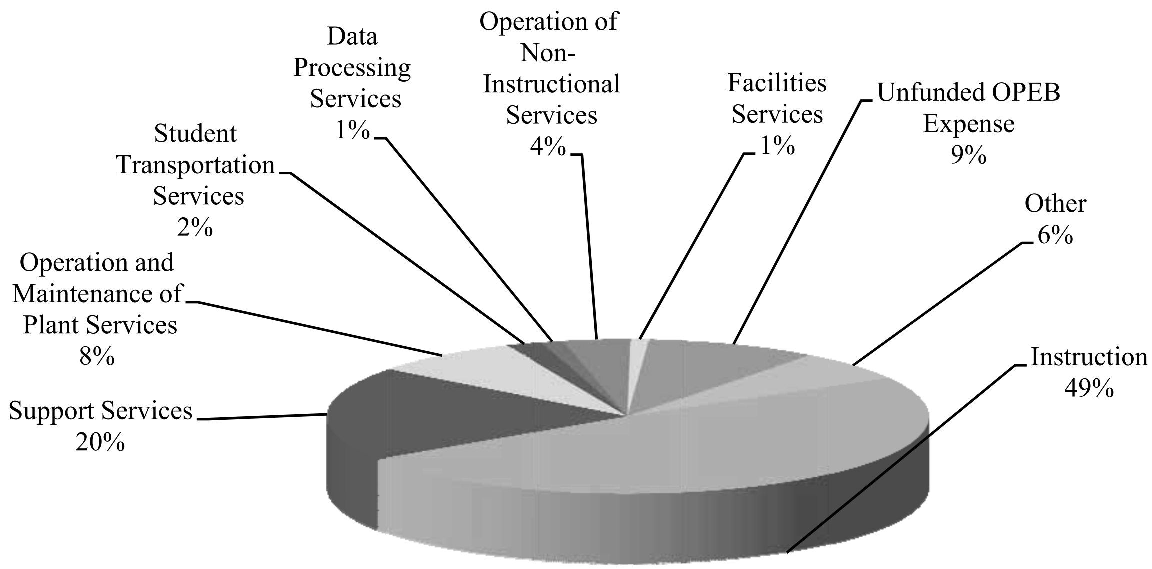
The following graph shows that operating grants and contributions and state aid are the main revenue sources of the District.

Revenues by Source
Year ended June 30, 2008



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

Expenses
Year ended June 30, 2008



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 $3.3 billion, an increase of $185.6 million in comparison with the prior year. Approximately 87.3% ($2.9 billion) of this total combined ending fund balance constitutes unreserved fund balance, which is available for spending at the District's discretion. The remaining 12.7% is reserved to indicate that it is not available for new spending because it has already been committed for: legally restricted balances ($389.0 million), inventories and prepaid expenses ($18.9 million), and revolving cash ($6.8 million).

The General Fund is the primary operating fund of the District. At the end of the 2008 fiscal year, the unreserved fund balance of the General Fund was $253.7 million, while the total fund balance reached $657.2 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 3.7% of the total General Fund expenditures, while the total fund balance represents 9.5% of that same amount.

The fund balance of the District's General Fund decreased by $38.0 million during the current fiscal year, the combined result of lower revenue and higher expenditures. Revenues are lower from revenue limit and federal revenues, while expenditures are higher in salaries, books and supplies, and services and other 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, 2008:						
Reserved for:						
Revolving cash and imprest funds	$ 3,800	$ 150	$ —	$ —	$ —	$ 150
Inventories	—	7,241	—	—	—	7,241
Unreserved	957,677	236,369	497,093	382,514	532,895	1,648,871
Total	961,477	243,760	497,093	382,514	532,895	1,656,262
Fund balance, July 1, 2007	953,038	253,000	383,275	369,299	435,541	1,441,115
Increase (decrease) in fund balance	$ 8,439	$ (9,240)	$ 113,818	$ 13,215	$ 97,354	$ 215,147

The fund balance increased during the current year: for the District Bonds, due to unspent balances of bond proceeds; for the Debt Service, primarily from the deposit into the Bond Interest and Redemption Fund of property taxes levied to pay principal and interest on bond issues; for Other Capital Projects, due to unspent income from developer fees; and for the County School Facilities Bonds, as a result of apportionments from the State bond proceeds. The fund balance decreased for the Special Revenue, primarily from increased expenditures in the cafeteria operations and deferred maintenance.

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 $137.9 million. The net increase of $42.7 million in the current year can be attributed to ongoing cost containment efforts in the Workers' Compensation Self-Insurance Fund.

General Fund Budgetary Highlights

Differences between the original 2007-2008 General Fund budget (the 2007-2008 Final Budget adopted by the Board of Education in August of 2007) and the final amended budget resulted in a net decrease of $137.2 million to the overall 2007-2008 General Fund ending balance. This net decrease resulted primarily from increased expenditure appropriations, mainly in services and other operating expenditures, made possible by additional balances from the fiscal closeout of the prior year. Other variances represent budget transfers made for expenditures occurring in objects other than where they were budgeted. 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 $197.6 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.

The $344.9 million variance in expenditures and other financing uses between final budget and actual occurred primarily because of under expenditure in almost all objects of expenditure in both unrestricted and restricted programs, but mainly in books and supplies ($123.1 million) and services and other operating expenditures ($86.8 million). This resulted 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, 2008 amounts to $10.5 billion (net of accumulated depreciation), a 15.8% increase from the prior year. The 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 $2.5 billion.
- Various building additions and modernizations were completed at a cost of $1.0 billion.
- A total of 4 new schools were completed in 2008 of which three opened in the 2008-2009 and one will be opening its doors during the 2009-2010 school year to new students.

Capital Assets (net of accumulated depreciation)

As of June 30, 2008 and 2007 (in thousands):

	Governmental Activities	
	2008	**2007**
Sites	$ 2,700,727	$ 2,373,208
Improvement of sites	190,574	166,422
Buildings and improvements	4,957,106	4,236,613
Equipment	122,338	128,537
Construction in progress	2,547,219	2,180,218
Total	$ 10,517,964	$ 9,084,998

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

Long-term obligations. At the end of the current fiscal year, the District had total long-term obligations of $9.5 billion. Of this amount, $7.5 billion comprises debt to be repaid by voter-approved property taxes and not by the General Fund of the District.

Outstanding Obligations

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

	Governmental Activities	
	2008	2007
General Obligation Bonds	$ 7,500,552	$ 6,645,329
Certificates of Participation (COPs)	501,875	413,425
Capital Lease Obligations	3,768	5,261
State School Building Aid Fund	286	591
Children's Center Facilities Revolving Loan	792	792
California Energy Commission Loan	865	1,058
Liability for compensated absences	88,737	68,765
Self-insurance claims	548,702	567,571
Other Postemployment Benefits (OPEB)	832,665	—
Arbitrage Payable	12,068	11,966
Legal Settlements	12,823	—
Total	$ 9,503,133	$ 7,714,758

The District's total long-term obligations increased by $1.8 billion (23.2%) during the current fiscal year. The key factors in this increase were the issuance of general obligation bonds during the year and the recognition of OPEB obligation.

On August 16, 2007, the District issued $1 billion of 2007 General Obligation Bonds as follows: $150 million of General Obligation Bonds, Election of 2002 (Measure K), Series C $550 million of General Obligation Bonds, Election of 2004 (Measure R), Series H; and $300 million of General Obligation Bonds, Election of 2005 (Measure Y), Series E.

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 purchased municipal bond insurance and/or reserve surety bond policies at the time of issuance for some of its COPs and bonds. Moody's, S&P and Fitch assigned insured ratings of "Aaa", "AAA" and "AAA", respectively, on said COPs and bonds at the time of issuance. Subsequent to February 1, 2008, the rating agencies downgraded the ratings of certain bond insurers, including all of those who had issued bond insurance policies and/or surety bonds on District issues. 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, 2008 is $10.9 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 50-57 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

After the legislature's deliberation of the Governor's proposals, it came up with a balanced 17-month budget on February 19, 2009. The historic early adoption of the enacted 2009-2010 Budget Act includes the budget for both fiscal years 2008-2009 and 2009-2010.

The major changes for fiscal year 2008-2009 are the following:

- New taxes and other revenues
- Increased borrowing
- Zero COLA for revenue limit and categorical programs
- Additional revenue limit reduction of 2.63%
- Reduction to categorical programs of 15.38%
- Granted some categorical flexibility to relieve funding reduction
- No relaxation of the Designated Reserve For Economic Uncertainties requirement
- Even split of cuts between revenue limit and categorical programs

The major provisions for fiscal year 2009-2010 are the following:

- State continues to raise taxes, borrow, and cut programs
- Education loses COLA
- Additional revenue limit reduction of 3.56%
- Additional reduction to categorical programs of 4.46%
- Other categorical flexibilities continue
- Even split of cuts between revenue limit and categorical programs
- Cash management continues to be difficult

To alleviate the effect of funding reduction in the categorical programs, the enacted budget allows for certain flexibilities in some of the programs. There are two major types of flexibilities allowed in the budget. The *first* type allows local education agencies to transfer 2007-2008 categorical ending fund balances to the unrestricted portion of the General Fund on a one-time basis. Excluded from this transfer authority are restricted reserves committed from capital outlay, bond funds, sinking funds, Federal funds, and a few of the categorical programs namely CAHSEE Intensive Intervention, Economic Impact Aid, Home-to-school Transportation, Instructional Materials, Quality Education Investment Act, Special Education, and Targeted Instructional Improvement Grant.

The *second* type of flexibility allowed in the budget is the transfer of most categorical program balances to any educational purpose, which includes transfer to the unrestricted portion of the General Fund, with some exceptions. The Categorical Programs are grouped into three tiers where reduction and flexibility vary. The revenue reduction and flexibility do not apply to Tier 1 programs. The reduction is applicable to both Tiers 2 and 3 programs but no flexibility is allowed under Tier 2 programs. The flexibility is in effect for five fiscal years, 2008-2009 through 2012-2013. The original funding methodology, program requirements, and funding restrictions for each of the programs in Tier 3 will be reinstated in 2013-2014. The District is required to have a public hearing and approval of the governing board to implement the flexibilities.

(Continued)

Given the current national economic recession and high level of dependency of public education on State revenues, particularly relatively volatile revenue sources such as personal and corporate income tax, sales and use tax, and property tax, 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, the rating agencies announced they would review the financial strength of municipal bond insurers in light of their exposure to potential losses on insured mortgage backed securities and collateralized debt obligations. Their ongoing analysis resulted in successive credit rating downgrades of nearly all bond insurers beginning in February 2008 and continuing through March 2009.

Bond insurers that had provided bond insurance and reserve surety policies on District Certificates of Participation and bonds were included among the downgraded insurers. This caused the ratings on the District's 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 COPs issues that were insured by downgraded insurers experienced higher-than-market interest rates during the period of the rating downgrades. The District refinanced two of the COPs in August 2008 to eliminate exposure to the bond insurer. The District set aside funds in an escrow to fully repay the third COPs issue by May 10, 2009.

Debt Issuances

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

- 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. The Bonds mature on July 1, 2032 and had an arbitrage yield of 4.41%.
- On November 15, 2007, the District issued $99,660,000 of Certificates of Participation 2007 Series A to fund various Information-Technology projects. The COP mature on October 1, 2017 and had an arbitrage yield of 3.78%.
- 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 29, 2008. One series of the TRANs carried a coupon of 4.00% and a second series carried a coupon of 3.75%. The two series had a combined arbitrage yield of 3.14848%

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, 2008
(in thousands)

		Governmental Activities
Assets:		
Cash and cash equivalents	$	4,112,750
Investments		825,398
Taxes receivable		67,899
Accounts receivable, net		854,789
Accrued interest receivable		44,461
Prepaid expense		16,101
Deferred charges		37,349
Inventories		18,920
Capital assets:		
Sites		2,700,727
Improvement of sites		468,039
Buildings and improvements		6,722,084
Equipment		1,143,953
Construction in progress		2,547,219
Less accumulated depreciation		(3,064,058)
Total Capital Assets, Net of Depreciation		10,517,964
Total Assets		16,495,631
Liabilities:		
Vouchers and accounts payable		534,898
Contracts payable		129,704
Accrued payroll		397,407
Other payables		126,880
Unearned revenue		103,611
Tax and revenue anticipation notes and related interest payable		615,599
Long-term liabilities:		
Portion due within one year		427,410
Portion due after one year		9,075,723
Total Liabilities		11,411,232
Net Assets:		
Invested in capital assets, net of related debt		3,694,054
Restricted for:		
Debt service		417,991
Program activities		1,475,311
Unrestricted		(502,957)
Total Net Assets	$	5,084,399

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Statement of Activities
Year Ended June 30, 2008
(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	$ 4,416,790	$ 5,482	$ 1,662,599	$ —	$ (2,748,709)
Support Services - students	366,514	—	223,250	—	(143,264)
Support Services - instructional staff	731,016	251	532,258	—	(198,507)
Support Services - general administration	51,873	—	87	—	(51,786)
Support Services - school administration	502,506	—	139,550	—	(362,956)
Support Services - business	136,540	8,337	72,513	—	(55,690)
Operation and maintenance of plant services	727,090	5,206	151,932	11,216	(558,736)
Student transportation services	173,167	—	170,100	—	(3,067)
Data processing services	108,451	—	7,326	—	(101,125)
Operation of non-instructional services	324,348	16,979	249,817	—	(57,552)
Facilities acquisition and construction services*	89,029	65,426	14,609	653,191	644,197
Other Uses	882	—	—	—	(882)
Interest expense	350,420	—	559	—	(349,861)
Depreciation - unallocated**	217,052	—	—	—	(217,052)
Unfunded OPEB Expense - unallocated	832,665	—	—	—	(832,665)
Total Governmental Activities	$ 9,028,343	$ 101,681	$ 3,224,600	$ 664,407	(5,037,655)
General revenues:					
Taxes:					
Property taxes, levied for general purposes					806,413
Property taxes, levied for debt service					539,735
Property taxes, levied for community redevelopment					5,775
State aid – formula grants					2,817,720
Grants, entitlements, and contributions not restricted to specific programs					505,638
Unrestricted investment earnings					156,817
Miscellaneous					85,547
Total General Revenues					4,917,645
Change in Net Assets					(120,010)
Net Assets – Beginning of Year					5,204,409
Net Assets – End of Year					$ 5,084,399

* This amount represents expenses incurred in connection with activities related to capital projects that are not otherwise capitalized and included as part of capital assets (for example, project manager fees).

** This amount excludes the depreciation that is included in the direct expenses of the various programs.

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Balance Sheet
Governmental Funds
June 30, 2008
(in thousands)

Assets:	General	District Bonds	Other Governmental Funds	Total Governmental Funds
Cash in county treasury, in banks, and on hand	$ 786,251	$ 1,087,731	$ 1,621,060	$ 3,495,042
Cash held by trustee	1,844	300	77,819	79,963
Investments	625,148	—	40,903	666,051
Taxes receivable	—	—	67,899	67,899
Accounts receivable – net	738,462	7,867	108,274	854,603
Accrued interest receivable	14,216	12,512	11,579	38,307
Due from other funds	1,033,387	80,245	69,068	1,182,700
Inventories	11,679	—	7,241	18,920
Total Assets	$ 3,210,987	$ 1,188,655	$ 2,003,843	$ 6,403,485
Liabilities and Fund Balances:				
Vouchers and accounts payable	$ 347,731	$ 103,218	$ 65,342	$ 516,291
Contracts payable	3,785	87,839	38,080	129,704
Accrued payroll	400,510	—	73	400,583
Other payables	102,283	1,149	20,422	123,854
Due to other funds	992,743	34,972	143,254	1,170,969
Deferred revenue	91,100	—	80,410	171,510
Tax and revenue anticipation notes and related interest payable	615,599	—	—	615,599
Total Liabilities	2,553,751	227,178	347,581	3,128,510
Fund Balances:				
Reserved	403,518	3,800	7,391	414,709
Unreserved:				
Designated	172,876	957,677	—	1,130,553
Designated, reported in:				
Special revenue funds	—	—	178,027	178,027
Capital projects funds	—	—	913,366	913,366
Undesignated	80,842	—	—	80,842
Undesignated, reported in:				
Special revenue funds	—	—	58,342	58,342
Debt service funds	—	—	497,093	497,093
Capital projects funds	—	—	2,043	2,043
Total Fund Balances	657,236	961,477	1,656,262	3,274,975
Total Liabilities and Fund Balances	$ 3,210,987	$ 1,188,655	$ 2,003,843	$ 6,403,485

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, 2008
(in thousands)

Total Fund Balances – Governmental Funds	$	3,274,975
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 $13,582,022 and the accumulated depreciation is $3,064,058.		10,517,964
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.		67,899
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.		137,929
Long-term liabilities, including bonds payable and OPEB, are not due and payable in the current period and therefore are not reported as liabilities in the funds.		(8,951,717)
Other assets – deferred charges not reflected in fund financials		37,349
Total Net Assets – Governmental Activities	$	5,084,399

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, 2008
(in thousands)

	General	District Bonds	Other Governmental Funds	Total Governmental Funds
Revenues:				
Revenue limit sources	$ 3,624,134	$ —	$ —	$ 3,624,134
Federal revenues	756,387	—	260,078	1,016,465
Other state revenues	2,304,478	—	1,003,131	3,307,609
Other local revenues	123,665	72,903	729,301	925,869
Total Revenues	6,808,664	72,903	1,992,510	8,874,077
Expenditures:				
Current:				
Certificated salaries	3,314,591	—	154,623	3,469,214
Classified salaries	1,054,240	38,148	177,292	1,269,680
Employee benefits	1,318,027	16,044	129,990	1,464,061
Books and supplies	435,274	4,378	135,250	574,902
Services and other operating expenditures	764,874	32,219	83,362	880,455
Capital outlay	37,034	1,061,466	545,950	1,644,450
Debt service – principal	2,939	—	197,575	200,514
Debt service – bond, COPs, and capital leases interest	535	—	333,990	334,525
Debt service – refunding bond issuance cost	—	—	6,020	6,020
Other outgo	882	—	—	882
Total Expenditures	6,928,396	1,152,255	1,764,052	9,844,703
Excess (Deficiency) of Revenues Over (Under) Expenditures	(119,732)	(1,079,352)	228,458	(970,626)
Other Financing Sources (Uses):				
Transfers in	133,093	207,141	159,713	499,947
Transfers – support costs	5,945	—	(5,945)	—
Transfers out	(63,890)	(119,350)	(328,821)	(512,061)
Issuance of bonds	—	1,000,000	—	1,000,000
Premium on bonds issued	—	—	42,258	42,258
Issuance of COPs	—	—	105,374	105,374
Insurance proceeds – fire damage	5,332	—	—	5,332
Capital leases	1,253	—	—	1,253
Land and building sale/lease	—	—	14,110	14,110
Total Other Financing Sources (Uses)	81,733	1,087,791	(13,311)	1,156,213
Net Changes in Fund Balances	(37,999)	8,439	215,147	185,587
Fund Balances, July 1, 2007	695,235	953,038	1,441,115	3,089,388
Fund balances, June 30, 2008	$ 657,236	$ 961,477	$ 1,656,262	$ 3,274,975

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, 2008
(in thousands)

Total Net Changes in Fund Balances – Governmental Funds	$	185,587
Amounts reported for governmental activities in the statement of activities are different because:		
Amounts incurred in commection with activities related to capital projects 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 related expenditures ($1,656,397) and gain on exchange of capital assets ($5,717) exceed depreciation ($241,971) in the period.		1,420,143
Some of the capital assets acquired this year were financed with capital leases. The amount financed is reported in the governmental funds as a source of financing. On the other hand, the proceeds are not revenues in the statement of activities, but rather constitute long-term liabilities in the statement of net assets		(1,253)
Proceeds of new debt and repayment of debt principal are reported as other financing sources and uses in the governmental funds, but constitute additions and reductions to liabilities in the statement of net assets.		(940,183)
Premiums, discounts, refunding charges and issuance costs are reported as other financing sources and uses in the governmental funds, but presented as liabilities or deferred charges, net of amortization in the statement of net assets.		7,679
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.		21,209
In the statement of activities, compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for this items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, the amounts earned exceeded vacation leave used.		(19,853)
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental fund because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of financial resources. In the statement of activities, however, interest expense is recognized as interest accrues, regardless of when it is due.		(3,306)
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.		(44)
OPEB expenditures are recorded in the governmental funds to the extent of amounts actually funded. In the statement of activities, however, the expense is recorded for the full amount of the accrual-basis annual OPEB cost.		(832,665)
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 activites.		42,676
Changes in Net Assets of Governmental Activities	$	(120,010)

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, 2008
(in thousands)

	Budget			Variance with Final Budget – Favorable
	Original	**Final**	**Actual**	**(Unfavorable)**
Revenues:				
Revenue limit sources	$ 3,653,148	$ 3,653,148	$ 3,624,134	$ (29,014)
Federal revenues	905,661	904,314	756,387	(147,927)
Other state revenues	2,336,464	2,323,114	2,304,478	(18,636)
Other local revenues	139,822	119,767	123,665	3,898
Total Revenues	7,035,095	7,000,343	6,808,664	(191,679)
Expenditures:				
Current:				
Certificated salaries	3,376,749	3,369,627	3,314,591	55,036
Classified salaries	977,677	1,054,306	1,054,240	66
Employee benefits	1,346,920	1,322,954	1,318,027	4,927
Books and supplies	589,723	558,423	435,274	123,149
Services and other operating expenditures	763,718	851,675	764,874	86,801
Capital outlay	60,939	81,271	37,034	44,237
Debt service – principal	1,768	2,794	2,939	(145)
Debt service – bond, COPs, and capital leases interest	677	680	535	145
Other outgo	720	1,212	882	330
Total Expenditures	7,118,891	7,242,942	6,928,396	314,546
Deficiency of Revenues Under Expenditures	(83,796)	(242,599)	(119,732)	122,867
Other Financing Sources (Uses):				
Transfers in	111,950	133,093	133,093	—
Transfers – support costs	5,598	6,178	5,945	(233)
Transfers out	(94,357)	(94,496)	(63,890)	30,606
Insurance proceeds – fire damage	10,500	10,500	5,332	(5,168)
Capital leases	1,999	1,999	1,253	(746)
Total Other Financing Sources	35,690	57,274	81,733	24,459
Net Changes in Fund Balances	$ (48,106)	$ (185,325)	(37,999)	$ 147,326
Fund Balances, July 1, 2007			695,235	
Fund Balances, June 30, 2008			$ 657,236	

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, 2008
(in thousands)

Assets:	
Cash in county treasury, in banks, and on hand	$ 537,745
Investments	159,347
Accounts receivable – net	184
Accrued interest and dividends receivable	6,154
Prepaid expenses	16,101
Due from other funds	20,425
Total Assets	739,956
Liabilities:	
Current:	
Vouchers and accounts payable	18,607
Other payables	2,564
Due to other funds	32,154
Estimated liability for self-insurance claims	163,056
Total Current Liabilities	216,381
Noncurrent:	
Estimated liability for self-insurance claims	385,646
Total Liabilities	602,027
Total Net Assets – Unrestricted	$ 137,929

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, 2008
(in thousands)

Operating Revenues:	
In-district premiums	$ 943,234
Total Operating Revenues	943,234
Operating Expenses:	
Certificated salaries	155
Classified salaries	7,479
Employee benefits	3,461
Supplies	546
Premiums and claims expenses	917,199
Claims administration	14,851
Other contracted services	1,093
Total Operating Expenses	944,784
Operating Loss	(1,550)
Nonoperating Revenues (Expenses):	
Interest income	31,641
Other local income	481
Transfers in	12,114
Miscellaneous expense	(10)
Total Nonoperating Revenues	44,226
Change in Net Assets	42,676
Total Net Assets, July 1, 2007	95,253
Total Net Assets June 30, 2008	$ 137,929

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, 2008
(in thousands)

Cash Flows From Operating Activities:	
Cash payments to employees for services	$ (11,558)
Cash payments for goods and services	(934,333)
Receipts from assessment to other funds	929,429
Net Cash Used By Operating Activities	(16,462)
Cash Flows From Investing Activities:	
Earnings on investments	35,603
Redemption of investments	163,253
Transfers in	12,114
Other local income	481
Net Cash Provided By Investing Activities	211,451
Net Increase in Cash and Cash Equivalents	194,989
Cash and cash equivalents, July 1	342,756
Cash and cash equivalents, June 30	$ 537,745
Reconciliation of Operating Loss to Net Cash Used by Operating Activities:	
Operating loss	$ (1,550)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Changes in operating assets and liabilities:	
Decrease in accounts receivable	1,470
(Increase) in prepaid expense	(504)
Decrease in due from other funds	16,852
Increase in vouchers and accounts payable	4,276
(Decrease) in accrued payroll	(449)
Increase in other payables	2,326
(Decrease) in due to other funds	(20,014)
(Decrease) in estimated liability for self-insurance claims – current	(4,930)
(Decrease) in estimated liability for self-insurance claims – noncurrent	(13,939)
Total Adjustments	(14,912)
Net Cash Used By Operating Activities	$ (16,462)

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2008
(in thousands)

	Pension Trust Funds	Agency Fund
Assets:		
Cash in county treasury, in banks, and on hand	$ 19,667	$ 20,506
Investments, at fair value: Money market funds	466	—
Accrued interest and dividends receivable	181	—
Total Assets	20,314	20,506
Liabilities:		
Vouchers and accounts payable	10	—
Other payables	18,448	20,506
Due to other funds	2	—
Total Liabilities	18,460	20,506
Total Net Assets – Held in Trust	$ 1,854	$ —

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, 2008
(in thousands)

Additions:		
Investment income	$	716
Total Additions		716
Deductions:		
Distributions to participants		79
Other contracted services		18
Total Deductions		97
Change in Net Assets		619
Total Net Assets, July 1, 2007		1,235
Total Net Assets, June 30, 2008	$	1,854

See accompanying notes to basic financial statements.

(1) Summary of Significant Accounting Policies

The Los Angeles Unified School District accounts for its financial transactions in accordance with the policies and procedures of the California Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB).

The following summary of the more significant accounting policies of the District is provided to assist the reader in interpreting the basic financial statements presented in this section. These policies, as presented, should be viewed as an integral part of the accompanying basic financial statements.

(a) Reporting Entity

The District is primarily responsible for all activities related to K-12 public education in most of the western section of Los Angeles County, State of California. The governing authority, as designated by the State Legislature, consists of seven elected officials who together constitute the Board of Education (Board). Those organizations, functions, and activities (component units) for which the Board has accountability comprise the District's reporting entity.

The District's Comprehensive Annual Financial Report includes all Funds of the District and its component units with the exception of the fiscally independent charter schools, which are required to submit audited financial statements individually to the State, and the Auxiliary Services Trust Fund, which is not significant in relation to District operations. This fund was established in 1935 to receive and disburse funds for insurance premiums on student body activities and property, "all city" athletic and musical events, and grants restricted for student-related activities. The District has certain oversight responsibilities for these operations but there is no financial interdependency between the financial activities of the District and the fiscally independent charter schools or the Auxiliary Services Trust Fund.

Blended Component Units

The District Finance Corporation and the District Administration Building Finance Corporation (the Corporations) were formed in 2000 and 2001, respectively, to finance properties leased by the District. The Corporations have a financial and operational relationship which meets the reporting entity definition criteria of GASB for inclusion of the Corporations as blended component units of the District. These Corporations are nonprofit public benefit corporations, and they were formed to provide financing assistance to the District for construction and acquisition of major capital facilities. The District currently occupies all completed Corporation facilities and, upon completion, intends to occupy all Corporation facilities under construction under lease purchase agreements. At the end of the lease terms, or pursuant to relevant transaction documents with the District, or upon dissolution of the Corporations, title to all Corporations property passes to the District.

(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 that are estimated to be collectible and receivable within 60 days of the current period are recorded as revenue. Investment income is accrued when earned. All other revenues are not considered susceptible to accrual.

Expenditures for the governmental funds are generally recognized when the related fund liability is incurred, except debt service expenditures and expenditures related to compensated absences which are recognized when payment is due.

(d) Financial Statement Presentation

The District's comprehensive annual financial report includes the following:

- Management's Discussion and Analysis is a narrative introduction and analytical overview of the District's financial activities as required by GASB Statement No. 34. This narrative overview is in a format similar to that in the private sector's corporate annual reports.
- Government-wide financial statements are prepared using full accrual accounting for all of the District's activities. Therefore, current assets and liabilities, capital and other long-term assets, and long-term liabilities are included in the financial statements.
- Statement of net assets displays the financial position of the District including all capital assets and related accumulated depreciation and long-term liabilities.
- Statement of activities focuses on the cost of functions and programs and the effect of these on the District's net assets. This financial report is also prepared using the full accrual basis and shows depreciation expense and unfunded OPEB expense.

(e) Fund Accounting

The District's accounting system is organized and operated on the basis of funds. A fund is a separate accounting entity with a self-balancing set of accounts. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. A description of the activities of the various funds is provided below:

Major Governmental Funds

The District has the following major governmental funds for the fiscal year 2007-2008:

General Fund – The General Fund is used to account for all financial resources relating to educational activities and the general business operations of the District, including educational programs funded by other governmental agencies. The General Fund consists of unrestricted and restricted funds.

District Bonds Fund – This category represents the total of the following building accounts: Building Account – Bond Proceeds (BB Bonds), established to account for bond proceeds received as a result of the passage of Proposition BB; Building Account – Measure K, established to account for bond proceeds received as a result of the issuance of General Obligation Bonds (G.O. Bonds) authorized pursuant to ballot measure "Measure K"; Building Account – Measure R, established to account for bond proceeds received by the passage of Measure R; and Building Account – Measure Y, established to account for bond proceeds received by the passage of Measure Y.

Other Governmental Funds

The District has the following nonmajor governmental funds:

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

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

Capital Projects Funds – Capital Projects Funds are used to account for all financial resources related to the acquisition or construction of major capital facilities and equipment other than those financed by the General and Special Revenue Funds. The District maintains the following nonmajor Capital Projects Funds: Building, State School Building Lease-Purchase, Special Reserve, Special Reserve – FEMA-Earthquake, Special Reserve – FEMA-Hazard Mitigation, Special Reserve – Community Redevelopment Agency, Capital Facilities Account, County School Facilities – Prop 1A, County School Facilities – Prop 47, County School Facilities – Prop 55, and County School Facilities - Prop 1D. The District Bonds Fund (BB Bonds, Measure K, Measure R, and Measure Y) is reported separately as a major fund in fiscal year 2007-2008.

Proprietary Funds

The District has the following Proprietary Funds:

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

Under the full accrual basis of accounting that is generally accepted for Internal Service Funds, total estimated liabilities for self-insurance are recorded based on estimated claims liabilities, including the estimated liability for incurred but not reported claims. For the Workers' Compensation and Liability Self-Insurance Funds, the estimates are determined by applying an appropriate discount rate to estimated future claim payments. No discount is applied to estimated Health and Welfare Benefits Fund claims because they are generally paid within a short period of time after the claims are filed.

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

(Continued)

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, 2008 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 consisting of a Provisional Budget adopted 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). Effective with the 2009-2010 fiscal year, the Board elected, on October 28, 2008, to change to a single-adoption budget schedule which requires Final Budget adoption by 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.

(Continued)

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

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

(g) Cash and Investments

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

In accordance with State Education Code Section 41001, the District deposits virtually all of its cash with the Treasurer of the County of Los Angeles. The District's deposits, along with funds from other local agencies such as the county government, other school districts, and special districts, make up a pool, which the County Treasurer manages for investment purposes. Earnings from the pooled investments are allocated to participating funds based on average investment in the pool during the allocation period.

All District-directed investments are governed by Government Code Section 53601 and Treasury investment guidelines. The guidelines limit specific investments to government securities, domestic chartered financial securities, domestic corporate issues, and California municipal securities. The District's securities portfolio is held by the County Treasurer. Interest earned on investments is recorded as revenue of the fund from which the investment was made. All District's investments are stated at fair value based on quoted market prices.

(h) Short-term Interfund Receivables/Payables

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 includes only the portion applicable to work completed and unpaid as of June 30, 2008. All significant incomplete portions of contracts are reported as reserved fund balance.

(l) Compensated Absences

All vacation leaves are accrued in the government-wide statements when they are incurred. A liability is reported in the governmental funds only for vested or accumulated vacation leave of employees who have separated from the District as of June 30 and whose vacation benefits are payable within 60 days from the end of the fiscal year. The District, as a practice, does not accrue a liability for unused sick leave since accumulated sick leave is not a vested benefit. Employees who retire after January 1, 1999 who are members of the Public Employees' Retirement System (PERS) may use accumulated sick leave to increase their service years in the calculation of retirement benefits.

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 are deferred and amortized over the life of the bonds using the effective-interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt using straight-line method.

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 2007-2008, the District received local property taxes amounting to \$806.4 million and State aid amounting to \$2,817.7 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.

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) Implementation of New Accounting Pronouncement

Effective for the year ended June 30, 2008, the District adopted the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*

(p) Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses in the accompanying basic financial statements. Actual results may differ from those estimates.

(2) Tax and Revenue Anticipation Notes

Tax and Revenue Anticipation Notes (TRANs) are short-term debt instruments used to finance temporary cash flow deficits in anticipation of receiving taxes and other revenues. On November 9, 2006, the District issued $350.0 million of 2006-2007 Tax and Revenue Anticipation Notes (TRANs) with an overall weighted true interest cost of 3.4% and total premium of $3.2 million. These notes were retired on their due date of December 3, 2007.

On December 11, 2007, the District issued a total of $600.0 million of 2007-2008 TRANs with an overall weighted true interest cost of 3.2% and total premium of $5.0 million. The principal on the notes are payable at maturity on December 29, 2008 and interest on the notes are payable on December 10, 2008 and at maturity on December 29, 2008.

TRANs – Short-Term Notes Payable
(in thousands)

	Principal	Interest	Total
Beginning balance, July 1, 2007	$ 350,000	$ 10,998	$ 360,998
Additions	600,000	15,599	615,599
Deductions	(350,000)	(10,998)	(360,998)
Ending balance, June 30, 2008	$ 600,000	$ 15,599	$ 615,599

(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 $8,119,052 difference are as follows (in thousands):

Bonds payable	$ (7,500,552)
Certificates of participation (COPs)	(501,875)
Capital lease obligations	(3,768)
State school building aid fund payable	(286)
Children center facilities revolving loan	(792)
California energy commission loan	(865)
Liability for compensated absences	(85,563)
Other Post Employment Benefits (OPEB)	(832,665)
Arbitrage payable	(12,010)
Legal settlements	(12,823)
Other	(518)
Net adjustment to reduce *total fund balances – governmental funds* to arrive at *net assets – governmental activities*	$ (8,951,717)

(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 $1,420,143 difference are as follows (in thousands):

Capital related expenditures	$	1,656,397
Depreciation expense		(241,971)
Gain on exchange of capital assets		5,717
Net adjustment to increase net changes in *total fund balances – governmental funds* to arrive at *changes in net assets – governmental activities*	$	1,420,143

Another element of that reconciliation states that "Proceeds of new debt and repayment of debt principal are reported as other financing sources and uses in the governmental funds, but constitute additions and reductions to liabilities in the statement of net assets." The details of this $940,183 difference are as follows (in thousands):

Debt issued or incurred:		
General obligation bonds	$	(1,000,000)
Add: premium		(42,258)
Certificates of participation		(99,660)
Add: premium		(5,714)
Principal repayments:		
General obligation bonds		179,835
Certificates of participation		17,450
Capital leases		2,746
State school building aid fund payable		319
California energy commission loan		194
Amortization of issuance costs		6,905
Net adjustment to decrease net changes in *total fund balances – governmental funds* to arrive at *changes in net assets – governmental activities*	$	(940,183)

(Continued)

(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 $123.6 million. The additional expenditure appropriations were funded by higher than anticipated other financing sources in the General Fund beginning fund balance.

(5) Cash and Investments (in thousands)

Cash and investments as of June 30, 2008 are classified in the accompanying basic financial statements as follows:

Statement of net assets:		
Cash and investments	$	4,858,185
Cash and investments held by trustee		79,963
Subtotal		4,938,148
Fiduciary funds:		
Cash and investments		40,639
Total cash and investments	$	4,978,787

Cash and investments as of June 30, 2008 consist of the following (in thousands):

Cash on hand (cafeteria change funds)	$	72
Deposits with financial institutions and LA County Pool (a)		4,152,851
Investments (b)		825,864
Total cash and investments	$	4,978,787

(a) Deposits with financial institutions include cash in the Los Angeles County Pooled Surplus Investment Fund ($4,039,295), cash held by fiscal agents or trustees ($79,963), and cash deposited with various other financial institutions, including imprest funds in schools and offices ($33,593).

School districts are required by Education Code Section 41001 to deposit their funds with the county treasury. Cash in county treasury refers to the fair value of the District’s share of the Los Angeles County (County) Pooled Surplus Investment (PSI) Fund.

(b) Investments include funds set aside in a county repayment account for TRANs ($625,148), sinking funds invested by trustees of COPs ($40,903), specific purpose investments arranged by the District with the County Treasurer for internal service funds that are not needed for daily operations ($159,347), and investments in the Annuity Reserve Fund ($466).

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 target the weighted average maturity of its portfolio to less than 18 months. As of June 30, 2008, 61% of district funds in the County PSI Fund does not exceed one year. In addition, variable-rate notes that comprised 5.61% 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 rest 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, 2008, 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, 2008 consist of the following (in thousands):

	General	District Bonds	Other Governmental	Internal Service Funds	Total
Taxes	$ —	$ —	$ 67,899	$ —	$ 67,899
Accrued grants and entitlements	702,447	—	100,406	—	802,853
Other	36,015	7,867	7,868	184	51,934
Interest and dividend	14,216	12,512	11,579	6,154	44,461
Total Receivables	$ 752,678	$ 20,379	$ 187,752	$ 6,338	$ 967,147

Payables by Fund at June 30, 2008 consist of the following (in thousands):

	General	District Bonds	Other Governmental	Internal Service Funds	Total
Vouchers and accounts	$ 347,731	$ 103,218	$ 65,342	$ 18,607	$ 534,898
Contracts	3,785	87,839	38,080	—	129,704
Accrued payroll	400,510	—	73	—	400,583
Other	102,283	1,149	20,422	2,564	126,418
Total payables	$ 854,309	$ 192,206	$ 123,917	$ 21,171	$ 1,191,603

(7) Capital Assets

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

	Balance, June 30, 2007	Increases	Decreases	Balance, June 30, 2008
Governmental activities:				
Capital assets, not being depreciated:				
Sites	$ 2,373,208	$ 327,519	$ —	$ 2,700,727
Construction in progress	2,180,218	1,320,861	(953,860)	2,547,219
Total capital assets, not being depreciated	4,553,426	1,648,380	(953,860)	5,247,946
Capital assets, being depreciated:				
Improvement of sites	430,979	37,060	—	468,039
Buildings and improvements	5,803,185	919,447	(548)	6,722,084
Equipment	1,145,089	24,083	(25,219)	1,143,953
Total capital assets, being depreciated	7,379,253	980,590	(25,767)	8,334,076
Less accumulated depreciation for:				
Improvement of sites	(264,557)	(12,908)	—	(277,465)
Buildings and improvements	(1,566,572)	(198,789)	383	(1,764,978)
Equipment	(1,016,552)	(30,274)	25,211	(1,021,615)
Total accumulated depreciation	(2,847,681)	(241,971)	25,594	(3,064,058)
Total capital assets, being depreciated, net	4,531,572	738,619	(173)	5,270,018
Governmental activities capital assets, net	$ 9,084,998	$ 2,386,999	$ (954,033)	$ 10,517,964

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

Governmental activities:		
Instruction	$	5,037
Support services – students		175
Support services – instructional staff		5,771
Support services – general administration		288
Support services – school administration		3,607
Support services – business		1,316
Operation and maintenance of plant services		3,912
Student transportation services		705
Data processing services		3,246
Operation of noninstructional services		862
Depreciation – unallocated		217,052
Total depreciation expense – governmental activities	$	241,971

(8) Retirement and Other Postemployment Benefit 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) postemployment benefits – health and medical for 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 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 2007-2008 were 9.306% for miscellaneous and 30.387% 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, 2008, 2007, and 2006.

Schedule of Employer Contributions:

	2008		2007	2006
	Safety	Miscellaneous	Safety and Miscellaneous	Safety and Miscellaneous
District contributions:				
Regular	$ 7,648,973	$ 101,868,273	$ 102,370,126	$ 97,630,133
Annual Savings Recapture – AB 702 Credits	(4,187,330)	29,379,607	23,261,694	18,405,118
Total district contributions	3,461,643	131,247,880	125,631,820	116,035,251
Employee contributions:				
Paid by Employees	338,803	51,670,651	49,849,218	49,825,697
Paid by District	1,949,137	23,907,013	24,068,359	21,032,251
Total employee contributions	2,287,940	75,577,664	73,917,577	70,857,948
Total CalPERS contributions	$ 5,749,583	$ 206,825,544	$ 199,549,397	$ 186,893,199
Percentage of required contributions made	100%	100%	100%	100%

The District’s contributions for all members for the fiscal years ended June 30, 2008, 2007, and 2006 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, 2008, there were approximately 1,700 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 2007-2008 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, 2008, 2007, and 2006 are as follows:

	Percentage of applicable member earnings	2008	2007	2006
District contributions	8.25%	$ 264,383,052	$ 262,974,286	$ 251,487,695
Employee contributions (including adjustments)	8.00%	268,377,194	258,877,451	243,589,043
Total STRS contributions	16.25%	$ 532,760,246	$ 521,851,737	$ 495,076,738

The District's contributions to STRS for the fiscal years ended June 30, 2008, 2007, and 2006 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 49,105 as of June 30, 2008. The District's contributions to the plan for the last three fiscal years are as follows: 2007-08 – $8,764,699.62, 2006-2007 – $3,472,503, and 2005-2006 – $6,842,716.

The District's contributions for the fiscal years ended June 30, 2008, 2007, and 2006 were equal to the required contributions.

(d) Postemployment Benefits – Health and Welfare for Retirees

Plan Description

The District administers a single-employer defined benefit healthcare plan. The plan provides other post-employment (health care) benefits, in accordance with collective bargaining unit agreements and Board rules. Certificated and classified employees who retire from the District receiving a STRS/CalPERS retirement allowance (for either age or disability) are eligible to continue coverage under the District-paid hospital/medical, dental and vision plans which cover both active and retired members. The following are the eligibility requirements:

a. Those hired prior to March 11, 1984 must have served a minimum of five consecutive qualifying years immediately prior to retirement;

b. Those hired from March 11, 1984 through June 30, 1987 must have served a minimum of ten consecutive qualifying years immediately prior to retirement;

c. Those hired from July 1, 1987 through May 31, 1992 must have served a minimum of 15 consecutive qualifying years immediately prior to retirement, or served ten consecutive qualifying years immediately prior to retirement plus an additional previous ten years which are not consecutive.

d. Those hired from June 1, 1992 through February 28, 2007 must have at least 80 years combined total of consecutive qualifying service and age.

e. Those hired from March 1, 2007 through March 31, 2009 must have at least 80 years combined total of consecutive qualifying service and age. In addition, the employee must have 15 consecutive years of qualifying service immediately prior to retirement.

f. Those hired on or after April 1, 2009 must have at least 85 years combined total of consecutive qualifying service and age. In addition, the employee must have a minimum of 25 consecutive year 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, 2008, approximately 35,000 retirees now meet these eligibility requirements. The plan does not issue a separate financial report.

Funding Policy

The District's contribution obligation for the fiscal year for the health and welfare benefits of District personnel, including the cost of term life insurance coverage and employee assistance for active employees and coverage under health plans for dependents and retirees, generally is subject to an aggregate contribution limit. Determination of this fiscal year contribution obligation limit occurs through discussions with the relevant collective bargaining units and recommendation by the District-wide Health and Welfare Committee, and is subject to approval by the Board of Education.

For fiscal year 2008, the District contributed $255,857,893 to the plan for the cost of total District expenditures for health and medical benefits for retired employees. These expenditures consist of retirees' current-year insurance premiums already paid to the Health Maintenance Organizations, retirees' claims reported to the District but not yet paid, and an estimate for claims incurred but not yet reported to the District.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the plan (in thousands):

Annual required contribution	$	1,088,523
Interest on net OPEB obligation*		—
Adjustment to annual required contributtion*		—
Annual OPEB cost (expense)		1,088,523
Contributions made		(255,858)
Increase in net OPEB obligation		832,665
Net OPEB obligation – beginning of year*		—
Net OPEB obligation – end of year	$	832,665

* The District has elected to implement GASB Statement No. 45 prospectively. As a result, there are no interests on net OPEB obligation and adjustment to ARC, and beginning liability is set at zero at the beginning of the initial year.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2008 were as follows (in thousands):

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2008	$ 1,088,523	24%	$ 832,665

The District elected for prospective implementation of GASB Statement No. 45 which became effective in fiscal year 2008. Accordingly, comparative data for prior years is not available. Three-year trend information will be presented in future years.

Funded Status and Funding Progress

As of June 30, 2007, the most recent actuarial valuation date, the plan was substantially unfunded. The actuarial accrued liability for benefits was $10.6 billion, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $10.6 billion. The covered payroll (annual payroll of active employees covered by the plan) was $4.6 billion, and the ratio of the UAAL to the covered payroll was 229%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about the future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information for

(Continued)

the most recent actuarial valuation and in future years, multi-year trend information about whether the actuarial value of plan assets, if any, is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs, as applicable, between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, if any, consistent with the long-term perspective of the calculations.

In the June 30, 2007 actuarial valuation, 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 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 2016 and 2014 respectively and remaining at that level thereafter. A healthcare cost trend rate of 5% is assumed for dental and vision. The UAAL is being amortized as a level dollar closed of projected payroll over a 30-year period. The remaining amortization period at June 30, 2008 was twenty-nine years.

(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 of $489,509 at June 30, 2008 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 four fiscal years ended June 30, 2008.

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, 2008, the amount of the total claims liabilities recorded for medical liability and workers' compensation was $548.7 million. During the fiscal year, the District recorded workers' compensation claims liability at reduced levels as a result of legislative changes and a reduction in open and litigated claims. The actuary used a 3% discount rate for the worker's compensation calculation. Changes in the reported liabilities since July 1, 2006 are summarized as follows:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	End of Fiscal Year Liability
2007-2008				
Health and welfare benefits	$ 39,563,000	$ 332,550,459	$ (325,723,459)	$ 46,390,000
Workers' compensation	509,315,896	58,143,330	(87,897,264)	479,561,962
Liability self-insurance	18,692,425	19,357,716	(15,300,462)	22,749,679
Total	$ 567,571,321	$ 410,051,505	$ (428,921,185)	$ 548,701,641
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

(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, 2008 was 1.10%. 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 June 10, 1998, the District issued COPs 1998 Series A (1993 Ambassador Refunding) in the amount of $60,805,000. Interest is due semiannually ranging from 4.00% to 5.25%. Principal payments are due annually through 2013. The proceeds from the issuance are to finance an escrow fund to prepay the District's 1993 Refunding COPs, to fund a reserve fund, and to pay the costs associated with the issuance of the certificates.

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 October 4, 2000, the District issued COPs 2000 Series B (Multiple Properties Project) in the amount of $172,715,000. Interest is payable semiannually ranging from 4.00% to 5.50% with annual principal payments through 2010. The proceeds are to pay for internet connectivity, portable classrooms, air-conditioning projects, sports facility improvements, and construction at adult schools.

On November 6, 2001, the District issued COPs 2001 Series B (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 19, 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 26, 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 28, 2004, the District issued COPs 2004 Series A (Refinancing and Refunding Project I) in the amount of $50,700,000. Interest is payable semiannually ranging from 3.00% to 5.00%. Principal payments are due annually through 2014. Proceeds are to refinance certain prior debt service payments and to refund portions of the District COPs. This advance refunding was undertaken to reduce General Fund debt service payments in fiscal years 2004-2005 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 28, 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 24, 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, 2008, the interest rate has ranged from 1.95% to 10.00% over the life of the COPs. The interest rate on June 30, 2008 was 10.00%. 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 24, 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, 2008, the interest rate has ranged from 2.00% to 5.00%. The interest rate on June 30, 2008 was 5.00%. The 2005 B Certificates were to finance certain property improvements of the District and to fund capitalized interest and fees.

On May 24, 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, 2008, the variable interest rate has ranged from 1.16% to 4.00% over the life of the COPs. The interest rate on June 30, 2008 was 1.27%. 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).

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On December 13, 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.

On November 15, 2007, the District issued COPs 2007 Series A (Information Technology Projects) in the amount of $99,660,000. Interest is payable semiannually ranging from 4.00% to 5.00%. Principal payments are due annually through 2017. The proceeds are used to finance acquisition, development and installation of the information technology systems of the District.

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 $26,110,091 in 2007-2008. The future minimum commitments for noncancelable operating lease of the District as of June 30, 2008 are as follows (in thousands):

	Amount
Fiscal year ending:	
2009	$ 22,622
2010	21,219
2011	24,537
2012	13,345
2013	9,496
2014-2018	22,653
2019-2023	5,255
	$ 119,127

(11) Long-Term Obligations

The following is a summary of changes in long-term obligations for the year ended June 30, 2008 (in thousands):

	Balance, July 1, 2007	Additions	Deductions	Balance, June 30, 2008	Due Within One Year	Interest Expense
General Obligation Bonds*	$ 6,645,329	$ 1,050,258	$ 195,035	$ 7,500,552	$ 228,825	$ 310,281
Certificates of Participation (Note 10)**	413,425	108,967	20,517	501,875	30,013	17,007
Capital Lease Obligations	5,261	1,253	2,746	3,768	1,796	495
State School Building Aid Fund Payable	591	14	319	286	286	14
Children Center Facilities Revolving Loan	792	—	—	792	—	—
California Energy Commission Loan	1,058	1	194	865	200	40
Liability for Compensated Absences	68,765	105,629	85,657	88,737	3,176	—
Self-Insurance Claims (Note 9)	567,571	410,052	428,921	548,702	163,056	—
Other Postemployment Benefits (OPEB)	—	1,088,523	255,858	832,665	—	
Arbitrage Payable	11,966	623	521	12,068	58	—
Legal Settlements	—	12,823	—	12,823	—	—
Total	$ 7,714,758	$ 2,778,143	$ 989,768	$ 9,503,133	$ 427,410	$ 327,837

* Net of unamortized premiums and discounts.

** Including unamortized premium.

Future annual payments on long-term debt obligations are as follows (in thousands):

Year Ending June 30	General Obligation Bonds			Capital Lease Obligations/ Certificates of Participation			Other Loans		Total		
	Principal	Amortization	Interest	Principal	Amortization	Interest	Principal	Interest	Principal	Amortization	Interest
2009	$ 228,825	$ 9,745	$ 347,361	$ 31,809	$ 766	$ 18,772	$ 487	$ 32	$ 261,121	$ 10,511	$ 366,165
2010	241,350	9,362	337,092	27,447	771	17,541	287	24	269,084	10,133	354,657
2011	212,660	9,853	326,974	28,262	761	16,493	296	15	241,218	10,614	343,482
2012	223,210	10,117	316,730	53,190	736	15,323	304	6	276,704	10,853	332,059
2013	238,895	10,498	305,555	28,750	658	14,070	90	—	267,735	11,156	319,625
2014-2018	1,336,910	55,781	1,339,083	146,805	1,543	51,278	400	—	1,484,115	57,324	1,390,361
2019-2023	1,889,465	37,390	944,234	71,340	—	30,911	79	—	1,960,884	37,390	975,145
2024-2028	2,213,210	15,184	438,483	65,885	—	18,520	—	—	2,279,095	15,184	457,003
2029-2033	740,520	17,577	76,450	46,920	—	4,477	—	—	787,440	17,577	80,927
	$ 7,325,045	$ 175,507	$ 4,431,962	$ 500,408	$ 5,235	$ 187,385	$ 1,943	$ 77	$ 7,827,396	$ 180,742	$ 4,619,424

The General Obligation Bonds balance of $7,436.5 million, which includes unamortized bond premiums (net of unamortized charges) of $111.5 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) three 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; and

3. Series "C" bonds sold in August 2007 at $150.0 million par value.

(c) eight 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; Series "G" bonds sold in August 2006 at $400.0 million par value; and

4. Series "H" bonds sold in August 2007 at $550.0 million par value.

(d) five issuances of Measure Y bonds:

1. 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;

2. In August 2007, Measure Y bonds, Series "E" was sold for $300.0 million; and

(e) general obligation refunding bonds:

1. 2004 Series "A-1" and "A-2" sold in December 2004 at $219.1 million par value;
2. 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;
3. 2006 Series "B" sold in October 2006 at $574.9 million par value;
4. 2007 Series "A" sold in January 2007 at $1.289 billion par value; and
5. 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.

In fiscal year 2007-08, no refunding bond was issued by the District. The total amount of debt outstanding that is considered defeased is $2.9 billion.

The State School Building Aid Fund payable balance of $0.3 million at June 30, 2008 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 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.

The Legal Settlements balance of $12.8 million represents liabilities arising from legal cases that were settled in the subsequent fiscal year but not yet paid.

(Continued)

(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, 2008 (in thousands):

Fund Group	Fund	Interfund Receivables	Interfund Payables
General:	Unrestricted	$ 831,418	$ 358,266
	Restricted	201,969	634,477
	Total General	1,033,387	992,743
Special Revenue:	Adult education	3,440	21,640
	Cafeteria	7,994	41,373
	Child development	2,110	12,015
	Deferred maintenance	3	2,376
	Total Special Revenue	13,547	77,404
Debt Service:	Capital services	1,107	—
	Tax override	1	—
	Total Debt Service	1,108	—
Capital Projects:	Building	54	5
	District bonds	80,245	34,972
	State school building lease – purchase	147	27
	Special reserve	40,657	38,763
	Special reserve – FEMA-earthquake	61	119
	Special reserve – FEMA-hazard mitigation	79	216
	Special reserve – CRA	4,089	7,332
	Capital facilities account	322	1,031
	State bonds	9,004	18,357
	Total Capital Projects	134,658	100,822
Internal Service:	Health and welfare benefits	5,050	14,966
	Workers' compensation self-insurance	5,533	16,926
	Liability self-insurance	9,842	262
	Total Internal Service	20,425	32,154
Fiduciary Funds:	Attendance incentive reserve	—	2
	Total Interfund Receivables/Payables	$ 1,203,125	$ 1,203,125

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, 2008 were as follows (in thousands):

From	To	Purpose	
General	Health & Welfare	Medicare Part D subsidy	$ 12,114
General	Deferred Maintenance	Deferred maintenance allowance 2008	31,048
General	Capital Services	Debt service	12,514
General	Cafeteria	Meals for needy	8,214
Special Reserve	Capital Services	Debt service	23,484
Special Reserve	General	Funding for new financial system	72,356
Special Reserve	General	Funding for capital expenditures	15,844
Special Reserve	Building – Measure K	Reimbursement of capital expenditures	47,288
Special Reserve	CSF – Prop 55	Reimbursement of capital expenditures	169
Special Reserve	SSBldg Lease/Purchase	Reimbursement of capital expenditures	260
Special Reserve - CRA	General	Reimbursement of major maintenance expenditures	4,293
Capital Facilities	Capital Services	Debt service	20,537
Capital Facilities	SSBldg Lease/Purchase	District match requirement	90
Capital Facilities	Special Reserve	Reimbursement of capital expenditures	219
Capital Facilities	Building – Measure R	Reimbursement of capital expenditures	3
Capital Facilities	Building – Measure K	Reimbursement of capital expenditures	11,409
SSBldg Lease/Purchase	Special Reserve	Reimbursement of capital expenditures	259
SSBldg Lease/Purchase	Capital Facilities	Reimbursement of capital expenditures	90
SSBldg Lease/Purchase	Building – Bond Proceeds	Reimbursement of capital expenditures	11,944
SSBldg Lease/Purchase	Building – Measure K	Reimbursement of capital expenditures	8,651
County School Facilities	Building – Measure R	Reimbursement of capital expenditures	24
County School Facilities	Building – Measure K	Reimbursement of capital expenditures	106
CSF – Prop 47	Building – Bond Proceeds	Reimbursement of capital expenditures	7,375
CSF – Prop 47	Building – Measure K	Reimbursement of capital expenditures	2,471
CSF – Prop 47	Building – Measure R	Reimbursement of capital expenditures	4,089
CSF – Prop 47	County School Facilities	Reimbursement of capital expenditures	734
CSF – Prop 47	CSF – Prop 55	Reimbursement of capital expenditures	1,170
CSF – Prop 47	Special Reserve	Reimbursement of capital expenditures	47
CSF – Prop 47	Capital Facilities	Reimbursement of capital expenditures	1,801
CSF – Prop 55	Special Reserve	Reimbursement of capital expenditures	13,610
CSF – Prop 55	Special Reserve – FEMA	Reimbursement of capital expenditures	618
CSF – Prop 55	Building – Bond Proceeds	Reimbursement of capital expenditures	21,358
CSF – Prop 55	Building – Measure K	Reimbursement of capital expenditures	8,055
CSF – Prop 55	Building – Measure R	Reimbursement of capital expenditures	17,077
CSF – Prop 55	County School Facilities	Reimbursement of capital expenditures	1,987
CSF – Prop 55	Capital Facilities	Reimbursement of capital expenditures	90
CSF – Prop 55	SSBldg Lease/Purchase	Reimbursement of capital expenditures	15,084
CSF – Prop 1D	Building – Bond Proceeds	Reimbursement of capital expenditures	1,721
CSF – Prop 1D	Building – Measure R	Reimbursement of capital expenditures	1,791
CSF – Prop 1D	Building – Measure K	Reimbursement of capital expenditures	1,045
CSF – Prop 1D	CSF – Prop 55	Reimbursement of capital expenditures	1,072
Adult Education	General	ROC subsidy	10,600

(Continued)

Transfers between funds for the year ended June 30, 2008 continued (in thousands):

From	To	Purpose	
Building – Measure R	Building – Bond Proceeds	Reimbursement of capital expenditures	15,368
Building – Measure R	County School Facilities	Reimbursement of capital expenditures	666
Building – Measure R	CSF – Prop 47	Reimbursement of capital expenditures	94
Building – Measure R	CSF – Prop 55	Reimbursement of capital expenditures	1,767
Building – Measure R	Building – Measure K	Reimbursement of capital expenditures	22,560
Building – Measure R	Building – Measure Y	Reimbursement of capital expenditures	8,901
Building – Measure R	Special Reserve	Reimbursement of capital expenditures	1,151
Building – Measure R	SSBldg Lease/Purchase	Reimbursement of capital expenditures	2,970
Building – Measure R	Capital Facilities	Reimbursement of capital expenditures	33
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	364
Building – Measure Y	Special Reserve	Reimbursement of capital expenditures	61
Building – Measure K	County School Facilities	Reimbursement of capital expenditures	658
Building – Measure K	CSF – Prop 55	Reimbursement of capital expenditures	1,562
Building – Measure K	Special Reserve	Reimbursement of capital expenditures	7,819
Building – Measure K	Building – Measure R	Reimbursement of capital expenditures	9,956
Building – Measure K	Building – Measure Y	Reimbursement of capital expenditures	8
Building – Measure K	Building – Bond Proceeds	Reimbursement of capital expenditures	839
Building – Measure K	SSBldg Lease/Purchase	Reimbursement of capital expenditures	1
Building – Measure K	Capital Facilities	Reimbursement of capital expenditures	71
Building – Bond Proceeds	Building – Measure R	Reimbursement of capital expenditures	3,795
Building – Bond Proceeds	Building – Measure K	Reimbursement of capital expenditures	943
Building – Bond Proceeds	County School Facilities	Reimbursement of capital expenditures	13
Building – Bond Proceeds	CSF – Prop 47	Reimbursement of capital expenditures	1,252
Building – Bond Proceeds	CSF – Prop 55	Reimbursement of capital expenditures	3,287
Building – Bond Proceeds	SSBldg Lease/Purchase	Reimbursement of capital expenditures	3,307
Sub-total			512,061
Adult Education	General	Transfer of support costs	5,226
Child Development	General	Transfer of support costs	719
Total			$ 518,006

(Continued)

(13) Fund Equity

The following is a summary of reserved, designated and undesignated fund balances at June 30, 2008 (in thousands):

	General Fund	District Bonds	Other Governmental Funds
Reserved for:			
Revolving and imprest funds	$ 2,816	$ 3,800	$ 150
Inventories	11,679	—	7,241
General reserve	1	—	—
Medi-Cal billing option	3,580	—	—
Cops more program	35	—	—
School Mental Health-Medi-Cal Rehabilitation	4,586	—	—
Certificated staff performance incentive bonus	173	—	—
English language learners, teacher training and student assistance	17,949	—	—
California public school library act of 1998	80	—	—
ROC/P apportionment	9,857	—	—
School safety and violence prevention grades 8-12	1,477	—	—
Special education	5,707	—	—
Arts and music block grant	12,718	—	—
Arts, music and PE supplies and equipment	45,344	—	—
CAHSEE intensive instruction and services	11,178	—	—
CAHSEE individual intervention materials	672	—	—
Supplemental school counseling grades 7-12	6,092	—	—
Gifted and talented education (GATE)	54	—	—
Instructional materials:			
Block grant	14,193	—	—
English learner	5,146	—	—
API Deciles 1 and 2	1,905	—	—
California peer assistance and review program for teachers	6,838	—	—
Principals' training	1,158	—	—
Tenth grade counseling	236	—	—
Pupil retention block grant – AB825	5,847	—	—
Targeted instructional improvement block grant – AB825	53,966	—	—
School and library improvement block grant – AB825	13,251	—	—
Discretionary block grant – school site	10,404	—	—
Quality education investment act (QEIA)	49,976	—	—
California energy commission loan expenditures	397	—	—
Routine repair and general maintenance	20,306	—	—
Certificates of participation – (acquisition accounts) – proceeds	1,947	—	—
Specially funded programs	83,950	—	—
Total reserved fund balances	403,518	3,800	7,391
Designated for:			
Subsequent year expenditures	100,494	957,677	1,091,393
Economic uncertainties	72,382	—	—
Total designated fund balances	172,876	957,677	1,091,393
Undesignated fund balances	80,842	—	557,478
Total fund balances	$ 657,236	$ 961,477	$ 1,656,262

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 2007-2008 the District entered into approximately 360 contracts with a combined value of $2.0 billion. The durations of the contracts range from four weeks to three years.

(15) Subsequent Events

On July 31, 2008, the District issued $500 million of Tax and Revenue Anticipation Notes that matured on July 30, 2009 that carried a coupon of 3.00% and had an arbitrage yield of 1.515%.

On August 6, 2008, the District issued $97.53 million of Variable Rate Refunding Certificates of Participation, 2008 Series A, and $23.42 million of Variable Rate Refunding Certificates of Participation, 2008 Series B. The 2008 Series A COPs refunded the 2005 Series A COPs and will mature on October 1, 2024. The 2008 Series B COPs refunded the 2005 Series B COPs and will mature on October 1, 2031. The 2008 Series A and 2008 Series B COPs are supported by a letter of credit provided by Bank of America. The estimated arbitrage yield is 2.77%.

On February 19, 2009, the District issued $250 million of Measure K, Series D General Obligation Bonds, $550 million of Measure R, Series I General Obligation Bonds, and $150 million of Measure Y, Series F General Obligation Bonds. The Bonds mature on January 1, 2034 and had an arbitrage yield of 4.82%.

On May 11, 2009, the District redeemed in full its outstanding 2005 Series C Certificates of Participation.

On August 13, 2009, the District issued $750 million of Tax and Revenue Anticipation Notes that mature on August 12, that carry a coupon of 2.00%, and had an arbitrage yield of 0.62%.

Measure Q or the Safe Healthy Neighborhood Schools Measure was passed on November 7, 2008. It authorized the District to issue and sell up to $7.0 billion in General Obligation Bonds to continue to repair/upgrade aging/deteriorating classrooms, restrooms, upgrade fire and earthquake safety, reduce asbestos, lead paint, air pollution, water quality hazards, build/upgrade specialized classrooms students need to meet job and college requirements and improve classroom internet access. To date, the District has not issued any Measure Q bonds.

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APPENDIX C

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

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APPENDIX C

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a brief summary of certain provisions of the Lease, the Trust Agreement, the Assignment Agreement, and the Site Lease not otherwise described in the Official Statement. This summary is not intended to be definitive and is qualified in its entirety by reference to the aforementioned documents. Copies of the Lease, the Trust Agreement, the Assignment Agreement, and the Site Lease are available upon request from the Trustee.

DEFINITIONS

The following are summaries of definitions of certain terms used in this Summary of Principal Legal Documents. All capitalized terms not defined herein or elsewhere in this Official Statement have the meanings set forth in the Lease or the Trust Agreement.

"**1997 Certificates**" means the $91,400,000 of Variable Rate Certificates of Participation (Belmont Learning Complex) 1997 Series A.

"**1998 Certificates**" means the $60,805,000 of Refunding Certificates of Participation (Multiple Properties Project) 1998-A.

"**1998 Escrow Agreement**" means the Escrow Agreement, dated as of January 27, 2010, between the District and the Trustee, as escrow agent, relating to the use of a portion of the proceeds of the Certificates to pay all or a portion of the principal and redemption premium of and interest on the 1998 Certificates, and any authorized and executed amendments thereto.

"**Additional Payments**" means such Additional Payments as are required under the Lease.

"**Assignment Agreement**" means the Assignment Agreement, dated as of January 1, 2010, by and between the Trustee and the Corporation, and any duly authorized and executed amendments thereto.

"**Business Day**" means any day of the year other than Saturday or Sunday or any other day on which banks in New York, New York, San Francisco or Los Angeles, California are not authorized or obligated by law or executive order to close and on which the New York Stock Exchange is not closed.

"**Certificate Payment Date**" means June 1 and December 1 of each year, commencing June 1, 2010 with respect to the interest payments evidenced by the Certificates.

"**Certificate Register**" means the registration books required to be maintained by the Trustee pursuant to the Trust Agreement.

"**Certificates**" means the $69,685,000 Refunding Certificates of Participation, 2010 Series A (Multiple Properties Project) to be executed and delivered pursuant to the Trust Agreement.

"**Certificate Year**" means the period beginning on the date of delivery of the Certificates and ending on December 1, 2010 and each successive 365- or 366-day period, as the case may be, thereafter until there are no Outstanding Certificates.

"**Closing Date**" means the day when the Certificates, duly executed by the Trustee, are delivered to the original purchasers thereof.

“**Code**” means the Internal Revenue Code of 1986, as amended, and the regulations issued thereunder, as the same may be amended from time to time, and any successor provisions of law. Reference to a particular section of the Code will be deemed to be a reference to any successor to any such section.

“**Corporation**” means the LAUSD Financing Corporation, a California nonprofit public benefit corporation, and its successors and assigns.

“**Corporation Representative**” means the President, the Vice President or the Treasurer or the Secretary of the Corporation, or any person authorized to act on behalf of the Corporation under or with respect to the Lease, the Trust Agreement, the Assignment Agreement, and the Site Lease.

“**Debt Service Reserve Fund**” means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

“**Debt Service Reserve Requirement**” means as of the date of calculation as provided in the Trust Agreement, the least of (1) the maximum aggregate annual Lease Payments payable under the Lease during the then-current and all remaining Certificate Years the Certificates are to remain Outstanding, (2) 125% of the average annual aggregate Lease Payments payable under the Lease for the then-current and any remaining Certificate Years the Certificates are to remain Outstanding, or (3) 10% of the principal amount evidenced by the Certificates; provided, however, that if the Certificates have original issue discount or premium that exceeds two percent (2%) of the stated principal amount due at maturity including any original issue premium attributable exclusively to underwriters’ compensation, the initial offering prices to the public will be used in lieu of the stated principal amount for purposes of the 10% limitation. The Debt Service Reserve Requirement for the Certificates is $7,345,611.56 which will initially be funded with a portion of the proceeds of the Certificates.

“**Delivery Costs**” means and further includes all items of expense directly or indirectly payable by or reimbursable to the District or the Corporation relating to the issuance of the Certificates, including but not limited to underwriting costs, title insurance, filing and recording costs, settlement costs, printing costs, word processing costs, reproduction and binding costs, initial fees and charges of the Trustee including its first annual administration fee and the fees of its counsel, other legal fees and charges, financing and other professional consulting fees, costs of rating agencies or credit ratings, fees for execution, transportation and safekeeping of the Certificates and charges and fees in connection with the foregoing.

“**District**” means the Los Angeles Unified School District, a school district organized and existing under the Constitution and laws of the State, and its successors and assigns.

“**District Representative**” means the Chief Financial Officer or the Controller, of the District, or a person authorized by the Chief Financial Officer or the Controller to act on behalf of the District under or with respect to the Trust Agreement, the Lease and the Site Lease.

“**Eligible Securities**” means (1) Non-callable obligations of, or obligations guaranteed as to principal and interest by, the United States or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the United States. These include, but are not limited to:

- U.S. Treasury Obligations
  All direct or fully guaranteed obligations

- Farmers Home Administration
  Certificates of beneficial ownership

- General Services Administration
  participation certificates

- U.S. Maritime Administration
  Guaranteed Title XI financing

- Small Business Administration
  Guaranteed participation certificates
  Guaranteed pool certificates

- Government National Mortgage Association (GNMA)
  GNMA - guaranteed mortgage-backed securities
  GNMA - guaranteed participation certificates

- U.S. Department of Housing and Urban Development
  Local authority bonds

- Washington Metropolitan Area Transit Authority
  Guaranteed transit bonds

- State and Local Government Series

- Veterans Administration
  Guaranteed REMIC Pass-through certificates

(2) Non-callable obligations of government-sponsored agencies that are not backed by the full faith and credit of the U.S. Government. These include, but are not limited to:

- Federal Home Loan Mortgage Corp. (FHLMC)
  Debt Obligations

- Farm Credit System (Formerly: Federal Land Banks, Intermediate Credit Banks, and Banks for Cooperatives)
  Consolidated Systemwide bonds and notes

- Federal Home Loan Banks (FHL Banks)
  Consolidated debt obligations

- Federal National Mortgage Association (FNMA)
  Debt Obligations

- Student Loan Marketing Association (SLMA)
  Debt obligations

- Resolution Funding Corp. (REFCORP)
  Debt obligations

- U.S. Agency for International Development (U.S. A.I.D.) Guaranteed Notes (must mature at least 4 business days before the appropriate payment date)

(3) Certain stripped securities where the principal-only and interest-only strips are derived from non-callable obligations issued by the U.S. Treasury, and REFCORP securities stripped by the Federal Reserve Bank of New York. (No custodial receipts, *i.e.,* CATs, TIGERS, unit investment trusts and mutual funds, etc. will be permitted).

"**Event of Default**" means an event of default under the Lease or the Trust Agreement, as defined therein.

"**Fiscal Year**" means the fiscal year of the District commencing July 1 and ending June 30 of the next year.

"**Fitch**" means Fitch Ratings, and its successors and assigns, or, if such entity will for any reason no longer perform the function of a securities rating agency, "Fitch" will be deemed to refer to any other nationally recognized rating agency designated by the District.

"**Lease**" means the Lease Agreement, dated January 1, 2010, between the District and the Corporation, and any authorized and executed amendments thereto.

"**Lease Payment**" means any payment required to be paid by the District to the Corporation pursuant to the Lease.

"**Lease Payment Date**" means the Lease Payment Date defined in the Lease to be the fifteenth day of each month (or if such day is not a Business Day, the next succeeding Business Day) immediately preceding each respective Certificate Payment Date.

"**Lease Payment Fund**" means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

"**Moody's**" means Moody's Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, and, if such corporation shall for any reason no longer perform the function of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized rating agency designated by the District.

"**Net Proceeds**" means any proceeds of insurance carried pursuant to the Lease, performance bonds, or taking by eminent domain or condemnation paid with respect to the Property remaining after payment therefrom of any expenses (including attorneys' fees) incurred in the collection thereof.

"**Net Proceeds Fund**" means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

"**Outstanding**," when used as of any particular time with respect to the Certificates, means (subject to the provisions of the Trust Agreement) all Certificates theretofore executed and delivered by the Trustee under the Trust Agreement except:

1. Certificates theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;

2. Certificates for the payment or prepayment of which funds or Eligible Securities, together with interest earned thereon, in the necessary amount will have theretofore been deposited with the Trustee (whether upon or prior to the maturity or prepayment date of such Certificates) pursuant to the Trust Agreement, *provided* that, if such Certificates are to be prepaid prior to maturity, notice of such prepayment will have been given as provided in the Trust Agreement or provision satisfactory to the Trustee will have been made for the giving of such notice; and

3. Certificates in lieu of or in exchange for which other Certificates will have been executed and delivered by the Trustee pursuant to the Trust Agreement.

"**Owner**" or "**Certificate Owner**" or "**Owner of a Certificate**," or any similar term, when used with respect to a Certificate, means the person in whose name such Certificate is registered on the Certificate Register.

"**Permitted Encumbrances**" means, with respect to the Property, as of any particular time: (i) liens for general *ad valorem* taxes and assessments, if any, not then delinquent, or which the District may, pursuant to provisions of the Lease, permit to remain unpaid; (ii) the Assignment Agreement, as it may be amended from time to time; (iii) the Lease and the Site Lease, as they may be amended from time to time; (iv) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law; (v) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record as of the Closing Date; and (vi) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions established following the date of recordation of the Lease and to which the Corporation, the Trustee, and the District consent in writing.

"**Permitted Investments**" means any of the following that at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein:

1. Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.

2. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

    a. Farmers Home Administration (FmHA) certificates of beneficial ownership

    b. Federal Housing Administration debentures (FHA)

    c. General Services Administration participation certificates

    d. Government National Mortgage Association (GNMA or "Ginnie Mae") GNMA-guaranteed mortgage-backed bonds and GNMA-guaranteed pass-through obligations (participation certificates)

    e. U.S. Maritime Administration guaranteed Title XI financing

f. U.S. Department of Housing and Urban Development (HUD) project notes and local authority bonds

3. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

   a. Federal Home Loan Bank System senior debt obligations (consolidated debt obligations)

   b. Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac") Participation Certificates (Mortgage-backed securities) and senior debt obligations

   c. Federal National Mortgage Association (FNMA or "Fannie Mae") Mortgage-backed securities and senior debt obligations (excluded are stripped mortgage securities that are valued greater than par on the portion of unpaid principal.)

   d. Student Loan Marketing Association (SLMA or "Sallie Mae") senior debt obligations

   e. Resolution Funding Corp. (REFCORP): Only the interest component of REFCORP strips that have been stripped by request to the Federal Reserve Bank of New York in book-entry form are acceptable.

   f. Farm Credit System consolidated system-wide bonds and notes

4. Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of "AAAm-G," "AAAm," or "AA-m" and if rated by Moody's, "Aaa," "Aa1," or "Aa2," including funds for which the Trustee and its affiliates provide investment advisory or other management services.

5. Certificates of deposit secured at all times by collateral described in (1) and/or (2) above. Certificates of deposit must have a five year or less maturity. Such certificates must be issued by commercial banks, including the Trustee and its affiliates, savings and loan associations or mutual savings banks whose short term obligations are rated "A-1"+ or better by S&P and "Prime-1" by Moody's.

   The collateral must be held by a third party and the Trustee must have a perfected first security interest in the collateral.

6. Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BIF and SAIF including those of the Trustee and its affiliates.

7. Investment agreements, including guaranteed investment contracts, approved by the rating agencies then rating the Certificates.

8. Commercial paper rated "Prime-1" by Moody's and "A-1+" or better by S&P.

9. Bonds or notes issued by any state or municipality that are rated by Moody's and S&P in one of the two highest long-term rating categories assigned by such agencies.

10. Federal funds or bankers' acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and non-guaranteed obligation rating of "Prime-1" or "A3 " or better by Moody's and "A-1+" by S&P including those of the Trustee and its affiliates.

11. Repurchase agreements that provide for the transfer of securities from a dealer bank or securities firm (seller/borrower) to the Trustee (buyer/lender), and the transfer of cash from the Trustee to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the Trustee in exchange for the securities at a specified date.

Repurchase Agreements (each a "repo" and, collectively, "repos") must satisfy the following criteria:

a. Repos must be between the Trustee and the following dealers or banks

(1) Primary dealers on the Federal Reserve reporting dealer list which fall under the jurisdiction of the SIPC and that are rated A or better by S&P and Moody's, or

(2) Banks rated "A" or above by S&P and Moody's.

b. The written repo contract must include the following:

(1) Securities that are acceptable for transfer are:

(a) Direct U.S. governments, and

(b) Federal agencies backed by the full faith and credit of the U.S. government (and FNMA & FHLMC)

(2) The term of the repo may be up to 30 days

(3) The collateral must be delivered to the Trustee (if Trustee is not supplying the collateral) or third party acting as agent for the Trustee (if the Trustee is supplying the collateral) before/simultaneous with payment (perfection by possession of certificated securities).

(4) The Trustee has a perfected first priority security interest in the collateral.

(5) Collateral is free and clear of third-party liens and in the case of SIPC brokers, was not acquired pursuant to a repo or reverse repo.

(6) Failure to maintain the requisite collateral percentage, after a two day restoration period, will require the Trustee to liquidate collateral.

(7) Valuation of Collateral is determined as follows:

(a) The securities must be valued weekly, marked-to-market at current market price plus accrued interest

(b) The value of collateral must be equal to 104% of the amount of cash transferred by the Trustee to the dealer bank or security firm under the repo plus accrued interest. If the value of securities held as collateral slips below 104% of the value of the cash transferred by Trustee, then additional cash and/or acceptable securities must be transferred. If, however, the securities used as collateral are FNMA or FHLMC, then the value of collateral must equal 105%.

c. A legal opinion must be delivered to the Trustee that the Repo meets guidelines under State law for legal investment of public funds.

12. Pre-refunded municipal bonds rated "Aaa" by Moody's and "AAA" by S&P. If, however, the issue is rated only by S&P (i.e., there is no Moody's rating), then the pre-refunded bonds must have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, or "AAA" rated pre-refunded municipals to satisfy this condition.

13. Los Angeles County Investment Pool.

"**Prepayment**" means any payment made by the District pursuant to the Lease as a prepayment of the Lease Payments.

"**Prepayment Fund**" means the fund by that name established and held by the Trustee pursuant to the Trust Agreement .

"**Principal Office**" means the corporate trust office of the Trustee in Los Angeles, California, provided however, that for purposes of transfer, exchange, surrender, payment and prepayment, such term means the corporate trust office or such other office designated by the Trustee.

"**Prior Certificates**" means the 1997 Certificates and the 1998 Certificates.

"**Property**" means that certain real property as defined in the Lease.

"**Record Date**" means the close of business on the fifteenth day of the month preceding each Certificate Payment Date, whether or not such fifteenth day is a Business Day.

"**Refunded Payments**" means the portions of the Prior Certificates, or debt service with respect thereto, refinanced or refunded with proceeds of the Certificates.

"**Related Document**" means each of the Trust Agreement, the Lease, the Site Lease, and the Assignment Agreement.

"**Site Lease**" means the Site and Facilities Lease, dated January 1, 2010, between the Corporation and the District.

"**Special Counsel**" means an attorney or firm of attorneys of nationally recognized standing in matters pertaining to the tax-exempt status of interest on obligations issued by states and their political subdivisions and acceptable to the District.

"**S&P**" means Standard & Poor's Ratings Services, division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and their assigns, or, if such corporation shall for any reason no longer perform the function of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized rating agency designated by the District.

"**State**" means the State of California.

"**Substitute Depository**" has the meaning ascribed thereto in the Trust Agreement.

"**Tax Certificate**" means the Tax Certificate dated as of the date of delivery of the Certificates, concerning certain matters pertaining to the use and investment of proceeds of the Certificates, executed by and delivered to the District on the date of execution and delivery of the Certificates, including any and all exhibits attached thereto.

"**Term**" means the time during which the Lease is in effect, as provided in the Lease.

"**Trust Agreement**" or "**Agreement**" means the Trust Agreement, dated as of January 1, 2010, by and among the District, the Corporation, and the Trustee, together with any amendments thereof or supplements thereto permitted to be made thereunder.

"**Trustee**" means U.S. Bank, N.A., or any successor thereto.

"**Written Request of the District**" means an instrument in writing signed by a District Representative.

"**Written Request of the Corporation**" means an instrument in writing signed by a Corporation Representative.

THE LEASE

Lease of the Property

The Corporation leases the Property to the District, and the District leases the Property from the Corporation, upon the terms and conditions set forth in the Lease.

Terms of the Lease

The Term of the Lease will commence on the date of recordation of the Lease and will end on December 1, 2017, unless such term is extended as provided in the Lease.

Lease Payments

Obligation to Pay. The District agrees to pay to the Corporation, its successors and assigns, as rental for the use and occupancy of the Property, as composed at any time, and from time to time, during each Rental Period, the Lease Payments (denominated into components of principal and interest) in the semiannual amounts specified in Exhibit A of the Lease, as such exhibit may be amended and modified from time to time in connection with any change in the Property, to be due and payable on the respective Lease Payment Dates, such amount to be applied to the principal and interest with respect to the Certificates. For the purpose of computing the total Lease Payment to be paid by the District, the Trustee will add to the actual interest accrued to such date of notification the amount of interest that will accrue with respect to the Certificates. Each Lease Payment will be deposited with the Trustee no later than the Lease Payment Date preceding the Interest Payment Date or Principal Payment Date on which such Lease Payment is due. To the extent such amount is insufficient to make Lease Payments on such Interest Payment Date or Principal Payment Date, the District agrees to make up such deficiency on such Interest Payment Date or Principal Payment Date and to deposit such amount with the Trustee on or prior to such Interest Payment Date or Principal Payment Date.

Any amount held in the Lease Payment Fund on any Lease Payment Date (other than amounts resulting from the prepayment of the Lease Payments in part but not in whole pursuant to the Lease and other than amounts required for payment of Certificates not yet surrendered) will be credited towards the Lease Payment then due and payable; and no Lease Payment need be made on any Lease Payment Date if the amounts then held in the Lease Payment Fund and available for such purpose are at least equal to the Lease Payment then required to be paid. The Lease Payments for the Property due and payable in any Rental Period will be for the use and occupancy of the Property during such Rental Period.

Effect of Prepayment. In the event that the District prepays all remaining Lease Payments in full pursuant to the Lease the obligations thereunder will thereupon cease and terminate including, but not limited to, the obligation to pay Lease Payments under the Lease; subject however, to the provisions of the Lease relating to prepayment by application of a security deposit.

Rate on Overdue Payments. In the event the District should fail to make any of the Lease Payments required by the Lease, the payment in default will continue as an obligation of the District until the amount in default will have been fully paid, and the District agrees to pay the same with interest thereon, to the extent permitted by law, from the date of default to the date of payment at rates equal to the rates then payable with respect to the Certificates. Such interest, if received, will be deposited in the Lease Payment Fund.

Fair Rental Value. The Lease Payments for the Property for each Rental Period will constitute the total rental for the Property for each such Rental Period and will be paid by the District in each Rental Period for and in consideration of the right of the use and occupancy, and the continued quiet use and enjoyment, of the Property during each Rental Period. The parties to the Lease have agreed and determined that the total Lease Payments for the Property do not exceed the fair rental value of the Property. In making such determination, consideration has been given to the obligations of the parties under the Lease, the uses and purposes which may be served by the Property and the benefits therefrom which will accrue to the District and the general public.

Source of Payments; Budget and Appropriation. The Lease Payments will be payable from any source of available funds of the District, subject to certain provisions of the Lease. The District covenants to take such action as may be necessary to include all Lease Payments and Additional Payments due under the Lease in each of its budgets during the Term of the Lease and to make the necessary annual appropriations for all such Lease Payments and Additional Payments due under the Lease in the Fiscal Year covered by such budget.

Quiet Enjoyment

During the Term of the Lease, the Corporation will provide the District with quiet use and enjoyment of the Property, and the District will, during such Term, peaceably and quietly have and hold and enjoy the Property, without suit, trouble or hindrance from the Corporation, except as expressly set forth in the Lease.

Title

During the Term of the Lease, the Corporation will hold fee title (or leasehold title pursuant to (i) the Site Lease when the District will hold fee title to the Property or (ii) a Permitted Encumbrance) to those portions of the Property which are newly acquired and any and all additions which compose fixtures, repairs, replacements or modifications to the Property, except for those fixtures, repairs, replacements or modifications which are added to the Property by the District at its own expense and which may be removed without damaging the Property and except for any items added to the Property by the District pursuant to the Lease.

If the District prepays the Lease Payments in full or makes the security deposit pursuant to the Lease, or pays all Lease Payments during the Term of the Lease as the same become due and payable, all right, title and interest of the Corporation under the Lease in and to the Property will be transferred to and vested in the District.

Additional Payments

In addition to the Lease Payments, the District will pay when due all costs and expenses incurred by the District and the Corporation in complying with the provisions of the Trust Agreement, including without limitation payment of all Delivery Costs (to the extent not paid from amounts on deposit in the Delivery Costs Fund), compensation, reimbursable expenses and fees due to the Trustee, all costs and expenses of auditors, engineers, counsel and accountants and any amounts required to be rebated to the federal government, which payments will not be subject to abatement.

No Merger

It is the express intention of the parties to the Lease that the Lease, and the obligations of the parties under the Lease, will be and remain separate and distinct from the Site Lease, if the Site Lease is delivered, no merger of title or interest will occur or be deemed to occur as a result of the position of the District as lessor under the Site Lease and as lessee under the Lease or the position of the Corporation as lessee under the Site Lease and as lessor under the Lease.

Maintenance, Utilities, Taxes and Assessments

Throughout the Term of the Lease, as part of the consideration for the rental of the Property, all improvement, repair and maintenance of the Property will be the responsibility of the District, and the District will pay for or otherwise arrange for the payment of all utility services supplied to the Property, which may include, without limitation, janitor service, security, power, gas, telephone, light, heating, water and all other utility services, and will pay for or otherwise arrange for the payment of the cost of the repair and replacement of the Property resulting from ordinary wear and tear or want of care on the part of the District or any assignee or sublessee thereof. In exchange for the Lease Payments provided in the Lease, the Corporation agrees to provide only the Property. The District waives the benefits of subsections 1 and 2 of Section 1932 of the California Civil Code, but such waiver will not limit any of the rights of the District under the terms of the Lease.

The District will also pay or cause to be paid all taxes and assessments of any type or nature, if any, charged to the Corporation or the District affecting the Property or the respective interests or estates therein; provided that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the District will be obligated to pay only such installments as are required to be paid during the Term of the Lease as and when the same become due.

The District may, at its expense and in its name, in good faith contest any such taxes, assessments, utility and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless the Corporation will notify the District that, in the opinion of Independent Counsel, by nonpayment of any such items, the interest of the Corporation in the Property will be materially endangered or the Property or any part thereof will be subject to loss or forfeiture, in which event the District will promptly pay such taxes, assessments or charges or provide the Corporation with full security against any loss which may result from nonpayment, in form satisfactory to the Corporation and, the Trustee.

Modification of Property

The District will, at its own expense, have the right to remove portions of the Property or to make additions or modifications to the Property. All additions and modifications will thereafter compose part of the Property and be subject to the provisions of the Lease.

Insurance

Liability and Property Damage Insurance. The District will maintain or cause to be maintained, throughout the Term of the Lease, insurance policies, including a standard comprehensive general insurance policy or policies in protection of the Corporation, the District and the Trustee and their respective members, officers, agents and employees. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance coverage carried by the District, and may be maintained through the Corporation or in the form of self-insurance by the District. Said policy or policies will provide for indemnification of said parties against direct or consequential loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the operation of the Property. Said policy or policies will provide coverage in the minimum liability limits of $1,000,000 for personal injury or death of each person and $3,000,000 for personal injury or deaths of two or more persons in each accident or event, and in a minimum amount of $1,000,000 (subject to a deductible clause not to exceed $500,000 per occurrence) for damage to property resulting from each accident or event. Such liability and property damage insurance may, however, be in the form of a single limit policy in the amount of $3,000,000 covering all such risks.

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

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

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

Rental Interruption Insurance. The District will procure and maintain, or cause to be maintained, throughout the Term of the Lease rental interruption insurance to cover loss, total or partial, of the use of any part of the Property during the Term of the Lease with respect to the Property in an amount equal to twenty-four (24) months of Lease Payments for such Property (calculated assuming that the annual Lease Payment amount determined in accordance with the Lease consists of twelve equal monthly deposits), with the Trustee named as additional insured and loss payee, assuming all sinking fund payments are made when due. Such insurance may be carried in conjunction with, and may be subject to the same provisions as, the insurance required under the Lease. Pursuant to the Lease the District assigns to the Corporation all right of the District, if any, to collect and receive Net Proceeds under any of said policies, which right has been assigned by the Corporation to the Trustee pursuant to the Assignment Agreement. The Net Proceeds of such insurance will be paid to the Trustee and deposited in the Lease Payment Fund and will be credited towards the payment of the Lease Payments pursuant to the Trust Agreement.

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

General Insurance Requirements; Form of Policies; Annual Certification. The District will maintain or cause to be maintained, during the entire term of the Lease, with insurers of recognized responsibility (or through the District's current program of self-insurance with respect to liability and property damage insurance and fire, extended coverage, boiler, machinery, and workers' compensation insurance) with respect to insurance and coverage required by the Lease.

The District will cause to be delivered to the Trustee on prior to the end of each fiscal year of the District a certificate of the District that the insurance requirements of the Lease have been met. If the District maintains the insurance required by the Lease through a program of self-insurance, the District will include with such annual certificate a statement, verified by a risk manager of the District or an independent financial consultant, which specifies the amounts of coverage available through such self-insurance program.

Liens

The District will not, directly or indirectly, create, incur, assume or suffer to exist any mortgage, pledge, lien, charge, encumbrance or claim on or with respect to the Property, other than the respective rights of the Corporation and the District as provided in the Lease and Permitted Encumbrances. Except as expressly provided in the Lease, the District will promptly, at its own expense, take such action as may be necessary to duly discharge or remove any such mortgage, pledge, lien, charge, encumbrance or claim, for which it is responsible, if the same will arise at any time.

Tax Covenants

General. Pursuant to the Lease the District covenants with the holders of the Certificates that, notwithstanding any other provisions of the Lease, it will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of interest with respect to the Certificates under Section 103 of the Code. The District will not, directly or indirectly, use or permit the use of Proceeds of the Certificates or any of the property financed or refinanced with Proceeds of the Certificates, or any portion thereof, by any person other than a state or local governmental unit (as such term is used in Section 141 of the Code), in such manner or to such extent as would result in the loss of exclusion from gross income for federal income tax purposes of interest on the Certificates.

Use of Proceeds. The District will not take any action, or fail to take any action, if any such action or failure to take action would cause the Certificates to be "private activity bonds" within the meaning of Section 141 of the Code, and in furtherance thereof, will not make any use of the Proceeds of the Certificates or any of the property financed or refinanced with Proceeds of the Certificates, or any portion thereof, or any other funds of the District, that would cause the Certificates to be "private activity bonds" within the meaning of Section 141 of the Code. To that end, so long as any Certificates are outstanding, the District, with respect to such Proceeds and property and such other funds, will comply with applicable requirements of the Code and all regulations of the United States Department of the Treasury issued thereunder and under Section 103 of the Internal Revenue Code of 1954, as amended (the "1954 Code"), to the extent such requirements are, at the time, applicable and in effect. The District will establish reasonable procedures necessary to ensure continued compliance with Section 141 of the Code (or, if applicable, the 1954 Code) and the continued qualification of the Certificates as "governmental bonds."

Arbitrage. The District will not, directly or indirectly, use or permit the use of any Proceeds of any Certificates, or of any property financed or refinanced thereby, or other funds of the District, or take or omit to take any action, that would cause the Certificates to be "arbitrage bonds" within the meaning of Section 148 of the Code. To that end, the District will comply with all requirements of Section 148 of the Code and all regulations of the United States Department of the Treasury issued thereunder to the extent such requirements are, at the time, in effect and applicable to the Certificates.

Federal Guarantee. The District will not make any use of the Proceeds of the Certificates or any other funds of the District, or take or omit to take any other action, that would cause the Certificates to be "federally guaranteed" within the meaning of Section 149(b) of the Code.

Compliance with Tax Certificate. In furtherance of the foregoing tax covenants of the Lease, the District covenants that it will comply with the provisions of the Tax Certificate. These covenants will survive payment in full or defeasance of the Certificates.

No Condemnation

Pursuant to the Trust Agreement the District covenants and agrees, to the extent it may do so, that so long as any of the Certificates remain Outstanding and unpaid, the District will not exercise the power of condemnation with respect to the Property. The District further covenants and agrees, to the extent it may lawfully do so, that if for any reason the foregoing covenant is determined to be unenforceable or if the District should fail or refuse to abide by such covenant and condemns the Property, the appraised value of the Property will not be less than the greater of (i) if the Certificates are then subject to prepayment, the principal and interest components of the Certificates Outstanding through the date of their prepayment; or (ii) if such Certificates are not then subject to prepayment, the amount necessary to defease such Certificates to the first available prepayment date in accordance with the Trust Agreement.

Eminent Domain

If all of the Property will be taken permanently under the power of eminent domain or sold to a government threatening to exercise the power of eminent domain, the Term of the Lease will thereupon terminate. If less than all of the Property will be taken permanently, or if all of the Property will be taken temporarily under the power of eminent domain, (1) the Lease will continue in full force and effect and will not be terminated by virtue of such taking and the parties waive the benefit of any law to the contrary, and (2) there will be a partial abatement of Lease Payments as a result of the application of the Net Proceeds of any eminent domain award to the prepayment of the Lease Payments under the Lease, in an amount to be agreed upon by the District and the Corporation such that the resulting Lease Payments represent fair consideration for the use and occupancy of the remaining usable portion of such Property.

Application of Net Proceeds

The District will remit promptly to the Trustee any Net Proceeds received by the District regarding casualty insurance, and the Trustee will deposit such Net Proceeds pursuant to the Trust Agreement, promptly upon receipt thereof. The District and/or the Corporation will transfer to the Trustee any other Net Proceeds received by the District and/or Corporation in the event of any accident, destruction, or taking by eminent domain or condemnation with respect to the Property for deposit in the Net Proceeds Fund.

Disbursement for Replacement or Repair of the Property

Upon receipt of the certification described in the paragraph below and the requisition described in the Trust Agreement, the Trustee will disburse moneys in the Net Proceeds Fund to the person, firm or corporation named in such requisition as provided in the Trust Agreement.

The District Representative must certify to the Corporation and the Trustee that (i) the Net Proceeds available for such purpose, together with any other funds supplied by the District to the Trustee and held in the Net Proceeds Fund for such purpose, are expected to equal at least 110% of the projected costs of replacement or repair, as demonstrated in a requisition budget; and (ii) in the event that damage, destruction or taking results or is expected to result in an abatement of Lease Payments, such replacement or repair can be fully completed within a period not in excess of the period in which rental interruption insurance proceeds as described in the Lease, together with other identified available moneys, will be available to pay in full all Lease Payments coming due during such period as demonstrated in a requisition schedule; and (iii) there are no encumbrances on the Property other than Permitted Encumbrances.

Subject to the requirements of the Trust Agreement, any balance of the Net Proceeds remaining after such replacement or repair has been completed, as certified in a Written Request of the District to the Trustee, will be paid to the District.

Disbursement for Prepayment.

If the District will not have determined to repair or replace the Property, as provided above, the Trustee will promptly transfer the Net Proceeds to the Prepayment Fund as provided in the Trust Agreement and apply them to prepayment of Lease Payments, as provided in the Lease and prepayment of the corresponding amount of principal represented by the Certificates as provided in the Trust

Agreement, upon the earlier of the following events: (i) written determination of the District Representative that the certification provided in accordance with the Lease cannot be made and that replacement or repair of any item or portion of the Property is not economically feasible or in the best interest of the District; and (ii) one year after the receipt of Net Proceeds.

Abatement of Lease Payments

(a) The fair rental value of the Property will equal or exceed the unpaid principal component of the Lease Payments at all times; therefore, such payments due under the Lease will not be subject to abatement, except as provided in paragraph (b) below.

(b) Lease Payments with respect to the Certificates will be abated during any period in which, by reason of damage, destruction, non-completion or other event (other than by eminent domain), there is substantial interference with the use and occupancy by the District of the Property or any portion thereof (other than any portions of the Property described in the Lease), and the District waives the benefits of California Civil Code Sections 1932(2) and 1933(4) and any and all other rights to terminate the Lease by virtue of any such interference, and the Lease will continue in full force and effect.

Notwithstanding the foregoing, there will be no abatement of Lease Payments under the Lease by reason of damage, destruction, non-completion or unavailability of all or a portion of the Property to the extent that: (i) the fair rental value of the portions of the Property not damaged, destroyed, incomplete or otherwise unavailable for use and occupancy by the District, based upon the opinion of an MAI appraiser with expertise in valuing such properties or other appropriate method of valuation, is equal to or greater than the unpaid principal component of the Lease Payments; or (ii) (A) the proceeds of rental interruption insurance or (B) amounts in the Insurance and Condemnation Fund and/or the Lease Payment Fund are available to pay Lease Payments which would otherwise be abated, it being declared pursuant to the Lease that such proceeds and amounts constitute special funds for the payment of the Lease Payments.

Access to the Property

The District agrees that the Corporation and any Corporation Representative, the Corporation's successors or assigns, will have the right at all reasonable times to enter upon and to examine and inspect the Property. The District further agrees that the Corporation, any Corporation Representative, the Corporation's successors or assigns will have such rights of access to the Property as may be reasonably necessary to cause the proper maintenance of the Property in the event of failure by the District to perform its obligations under the Lease.

Assignment and Subleasing

Assignment by the Corporation. The Corporation's rights under the Lease, including the right to receive and enforce payment of the Lease Payments to be made by the District under the Lease, have been assigned to the Trustee pursuant to the Assignment Agreement, to which assignment the District consents.

Assignment and Subleasing by the District. The Lease may not be assigned by the District. The District may sublease the Property or any portion thereof, but only with the prior written consent of the Corporation, subject to all of the following conditions: (i) the Lease and the obligation of the District to make Lease Payments under the Lease will remain obligations of the District; (ii) the District will, within thirty (30) days after the delivery thereof, furnish or cause to be furnished to the Corporation and the Trustee a true and complete copy of such sublease; (iii) no such sublease by the District will cause the Property to be used for a purpose other than as may be authorized under the provisions of the constitution and laws of the State; and (iv) the District will furnish the Corporation and the Trustee with a written opinion of Special Counsel stating that such sublease will not in and of itself result in the interest components of the Lease Payments to become subject to federal income taxation.

Amendment of Lease

Substitution or Addition of Property. Pursuant to the Lease the District will have, and is granted, the option at any time and from time to time during the Term of the Lease, to substitute other land (a "Substitute Site") for the Property or a portion thereof, or to add additional land to the Property ("Additional Site"), provided that the District will satisfy all of the requirements specified in the Lease, which requirements are conditions precedent to such substitution or addition.

Substitution or Addition of Facility. Pursuant to the Lease the District will have, and will be granted, the option at any time and from time to time during the Term of the Lease, to substitute other facilities (a "Substitute Facility") for the Property, or a portion thereof, or to add additional facilities to the Property (each an "Additional Facility"), provided that the District will satisfy all of the requirements specified in the Lease, which requirements are conditions precedent to such substitution or addition.

Release of Property. Pursuant to the Lease the District will have, and will be granted, the option at any time and from time to time during the Term of the Lease, to release any portion of the Property, provided that the District will satisfy all of the requirements specified in the Lease, which requirements are conditions precedent to such substitution or addition.

General. Without the prior written consent of the Trustee (i) the District and the Corporation will not alter, modify or cancel, or agree or consent to alter, modify or cancel the Lease, except in connection with a substitution, addition or release permitted by the Lease and as may be permitted by the Trust Agreement, and (ii) the District will not abandon or vacate the Property.

Events of Default and Remedies

Events of Default. "Events of Default" and "Default" will mean, whenever they are used in the Lease, any one or more of the following events:

(a) Failure by the District to pay any Lease Payment or Additional Payment required to be paid under the Lease at the time specified therein.

(b) Failure by the District to observe and perform any covenant, condition or agreement on its part to be observed or performed, other than as referred to in clause (a) above, for a period of thirty (30) days after written notice specifying such failure and requesting that it be remedied has been given to the District by the Corporation, the Trustee or the Owners of not less than five percent (5%) in aggregate principal amount of Certificates then Outstanding; provided, however, if the failure stated in the notice can be corrected, but not within the applicable period, the Corporation, the Trustee, and such Owners shall not unreasonably withhold their consent to an extension of such time if corrective action is instituted by the District within the applicable period and diligently pursued until the default is corrected.

(c) The filing by the District of a voluntary petition in bankruptcy, or failure by the District promptly to lift any execution, garnishment or attachment, or adjudication of the District as a bankrupt, or assignment by the District for the benefit of creditors, or the entry by the District into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to the District in any proceedings instituted under the provisions of the Federal Bankruptcy Code, as amended, or under any similar acts which may hereafter be enacted.

Remedies on Default. Whenever any Event of Default or Default has happened and is continuing, it will be lawful for the Corporation to exercise any and all remedies available pursuant to law or granted pursuant to the Lease; provided, however, that notwithstanding anything in the Lease or in the Trust Agreement to the contrary, there will be no right under any circumstances to accelerate the Lease Payments or otherwise declare any Lease Payments not then in default to be immediately due and payable. Each and every covenant of the Lease to be kept and performed by the District is expressly made a condition and upon the breach thereof the Corporation may exercise any and all rights of entry and re-entry upon the Property, and also, at its option, with or without such entry, may terminate the Lease as provided in paragraph (b) below; provided, that no such termination will be effected either by operation of law or acts of the parties to the Lease, except only in the manner expressly provided in the Lease. In the event of such Event of Default or Default and notwithstanding any re-entry by the Corporation, the District will, as expressly provided in the Lease, continue to remain liable for the payment of the Lease Payments and/or damages for breach of the Lease and the performance of all conditions contained in the Lease and, in any event such Lease Payments and/or damages will be payable to the Corporation at the time and in the manner as provided in the Lease, to wit:

(a) In the event the Corporation does not elect to terminate the Lease in the manner provided for in subparagraph (b) below, the District agrees to and will remain liable for the payment of all Lease Payments and the performance of all conditions contained in the Lease and will reimburse the Corporation for any deficiency arising out of the re-leasing of the Property, or, in the event the Corporation does not re-lease the Property, then for the full amount of all Lease Payments to the end of the Term of the Lease, but said Lease Payments and/or deficiency will be payable only at the same time and in the same manner as hereinabove provided for the payment of Lease Payments under the Lease, notwithstanding such entry or re-entry by the Corporation or any suit in unlawful detainer, or otherwise, brought by the Corporation for the purpose of effecting such re-entry or obtaining possession of the Property or the exercise of any other remedy by the Corporation.

(b) Upon the occurrence and continuation of any Default or Event of Default under the Lease, the Corporation at its option may terminate the Lease and re-lease all or any portion of the Property. In the event of the termination of the Lease by the Corporation at its option and in the manner provided on account of an Event of Default or a Default by the District (and notwithstanding any re-entry upon the Property by the Corporation in any manner whatsoever or the re-leasing or sale of the Property), the District nevertheless agrees to pay to the Corporation all costs, loss or damages howsoever arising or occurring payable at the same time and in the same manner as is provided in the Lease in the case of payment of Lease Payments. Any surplus received by the Corporation from such re-leasing will be the absolute property of the Corporation and the District will have no right thereto, nor will the District be entitled to any credit in the event of a deficiency in the rentals received by the Corporation from the Property.

No Remedy Exclusive. No remedy in the Lease conferred upon or reserved to the Corporation is intended to be exclusive and every such remedy will be cumulative and will be in addition to every other remedy given under the Lease or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default will impair any such right or power or will be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient.

Trustee and Certificate Owners to Exercise Rights. Such rights and remedies as are given to the Corporation under the provisions of the Lease relating to events of default and remedies have been assigned by the Corporation to the Trustee under the Trust Agreement, to which assignment the District consents. Such rights and remedies will be exercised by the Trustee and the Owners of the Certificates as provided in the Trust Agreement and in the Lease.

THE TRUST AGREEMENT

Security Provisions

Assignment of Rights in Lease. The Corporation has, pursuant to the Assignment Agreement, assigned and set over to the Trustee certain of its rights in the Site Lease and the Lease, including but not limited to all of the Corporation's rights to receive and collect all of the Lease Payments, Additional Payments and all other amounts required to be deposited in the Lease Payment Fund pursuant to the Lease or the Trust Agreement.

Security Interest in Moneys and Funds. The Corporation and the District, as their respective interests may appear, grant to the Trustee for the benefit of the Owners a lien on and a security interest in all moneys in the funds held by the Trustee under the Trust Agreement, including, without limitation, the Lease Payment Fund, the Debt Service Reserve Fund, the Prepayment Fund and the Net Proceeds Fund, and all such moneys will be held by the Trustee in trust and applied to the respective purposes specified in the Trust Agreement and in the Lease.

Pledge of Lease Payments. The Lease Payments are irrevocably pledged to and will be used for the punctual payment of the interest and principal represented by the Certificates, and the Lease Payments will not be used for any other purpose while any of the Certificates remain Outstanding. This pledge will constitute a first and exclusive lien on the Lease Payments in accordance with the terms of the Trust Agreement.

Application of Moneys

All amounts in the Lease Payment Fund will be used and withdrawn by the Trustee solely for the purpose of paying the principal and interest with respect to the Certificates as the same will become due and payable, in accordance with the provisions of the Trust Agreement, subject to the requirement that certain investment earnings thereon may be transferred to the District to pay rebate as provided in the Tax Certificate.

Funds

Lease Payment Fund. The Trustee will establish a special fund designated as the "2010 Series A Los Angeles Unified School District Lease Payment Fund" (the "Lease Payment Fund"). All moneys at any time deposited by the Trustee in the Lease Payment Fund will be held by the Trustee in trust for the benefit of the Owners of the related Certificates. So long as any Certificates are Outstanding, neither the District nor the Corporation will have any beneficial right or interest in the Lease Payment Fund or the moneys deposited therein, except only as provided in the Trust Agreement, and such moneys will be used and applied by the Trustee as set forth in the Trust Agreement and the Lease.

Prepayment Fund. The Trustee will establish a special fund designated as "2010 Series A Los Angeles Unified School District Prepayment Fund" (the "Prepayment Fund"); will keep such fund separate and apart from all other funds and moneys held by it; and will administer such fund as provided in the Trust Agreement. Moneys to be used for prepayment of any Certificates will be deposited into the Prepayment Fund and used solely for the purpose of prepaying such Certificates in advance of their maturity on the date designated for prepayment and upon presentation and surrender of such Certificates.

Debt Service Reserve Fund. The Trustee will establish a special fund designated as the "2010 Series A Los Angeles Unified School District Debt Service Reserve Fund" (the "Debt Service Reserve Fund"). All moneys at any time on deposit in the Debt Service Reserve Fund (which amounts may be in money or Permitted Investments, or a combination thereof, equal to the Debt Service Reserve Requirement) will be held by the Trustee in trust for the benefit of the District and for the benefit of the Owners, as a reserve for the payment when due of all the Lease Payments and prepayments to be paid pursuant to the Lease and of all payments with respect to the Certificates and applied solely as provided in the Trust Agreement.

Transfers of Excess. The Trustee will, on or before June 1 and December 1 of each year, provide written notice to the District of any moneys then on hand in the Debt Service Reserve Fund in excess of the Debt Service Reserve Requirement (based on fair market value) and on June 15 and December 15, the Trustee will transfer such excess moneys to the Lease Payment Fund to be applied to the next Lease Payment due from the District.

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

Transfer To Make All Lease Payments. If on any Certificate Payment Date, the moneys on deposit in each account within the Debt Service Reserve Fund and the Lease Payment Fund (excluding amounts required for payment of past due principal or interest with respect to such Certificates not presented for payment) are sufficient to pay all Outstanding Certificates of the related Series, including all principal, interest and prepayment premiums (if any), the Trustee will, upon the Written Request of the District, transfer all amounts then on hand in each account within the Debt Service Reserve Fund to the related account within the Lease Payment Fund to be applied to the payment of the Lease Payments or Prepayments on behalf of the District, and such moneys will be distributed to the Owners of the Certificates of the related Series in accordance with the Trust Agreement. Any amounts remaining in the Debt Service Reserve Fund upon payment in full of all Outstanding Certificates, or upon provision for such payment as provided in the Trust Agreement and provisions for any amounts required to be transferred to the District to pay rebate pursuant to the Tax Certificate, will be withdrawn by the Trustee and paid to the District after payment of any amounts due the Trustee pursuant to the Trust Agreement.

Net Proceeds Fund. The Trustee will establish a special fund when needed designated as the "2010 Series A Los Angeles Unified School District Net Proceeds Fund" (the "Net Proceeds Fund") to be maintained and held in trust for the benefit of the Owners, subject to disbursement therefrom as provided in the Trust Agreement. The Trustee will deposit Net Proceeds in the Net Proceeds Fund as provided in the Lease.

The Trustee will disburse Net Proceeds for replacement or repair of the Property as provided in the Lease only if it has received the certification and moneys, if any, required by the Lease (and the Trustee will be protected absolutely in making any disbursements from the Net Proceeds Fund in reliance upon the requisition described in the Lease), or transfer the Net Proceeds to the Prepayment Fund upon notification by the District Representative as provided in such Lease.

Moneys in Funds; Investment

Held in Trust. The moneys and investments held by the Trustee under the Trust Agreement are irrevocably held in trust for the benefit of the Owners of the Certificates, and such moneys, and any income or interest earned thereon, will be expended only as provided in the Trust Agreement, and will not be subject to levy or attachment or lien by or for the benefit of any creditor of the Corporation, the Trustee or the District, or any of them. The Certificates evidence interest in all Lease Payments, and all funds and accounts established under the Trust Agreement are held for the benefit of all Owners equally.

Investments. The District will by Written Request of the District filed with the Trustee direct investment in specific Permitted Investments identified in such Written Request of the District, provided, however, that the District will not instruct the Trustee to invest Reserve Fund moneys in maturities extending beyond five (5) years. In the absence of such Written Request of the District, the Trustee will make investments solely in those Permitted Investments set forth in paragraph (4) of the definition thereof.

Disposition of Investments. Any income, profit or loss on the investment of moneys held by the Trustee under the Trust Agreement will be credited to the fund for which such moneys are held, except as otherwise provided in the Trust Agreement; provided that in all cases income on investments may be transferred to the District to pay rebate pursuant to the Tax Certificate upon Written Request of the District.

The Trustee

Appointment. Other than the Trustee initially appointed, which appointment is confirmed pursuant to the Trust Agreement, the Corporation and the District agree that they will maintain a Trustee which will be a trust company or bank in good standing, located in or incorporated under the laws of the State, duly authorized to exercise trust powers and subject to examination by federal or State authority, and have a reported capital and surplus of not less than $50,000,000. If such bank or trust company publishes a report of condition at least annually pursuant to law or to the requirements of any supervising or examining authority referred to above, then for the purpose of the Trust Agreement the combined capital and surplus of such bank or trust company will be deemed to be its combined capital and surplus as set forth in its most recent published report of condition.

Removal. So long as there is no Event of Default or occurrence that with the passage of time will become an Event of Default, upon 30 days' written notice, the District may remove the Trustee initially appointed, and any successor thereto, and may appoint a successor or successors thereto. Subject to the provisions of the Trust Agreement, the Trustee may be removed by the District any time for any breach of trust thereunder.

Resignation. The Trustee may resign by giving written notice to the District and the Corporation,; provided that such resignation will not take effect until a successor Trustee is appointed as provided in the Trust Agreement.

Modification or Amendment of Agreements

Amendments Permitted. The Trust Agreement and the rights and obligations of the Owners, and the Lease and the rights and obligations of the parties thereto, may be modified or amended at any time by a supplemental agreement that will become effective when the written consents of any insurer of the Certificates, if applicable, and the Owners of a majority in aggregate principal amount of Certificates then Outstanding, exclusive of Certificates disqualified as provided in the Trust Agreement, will have been filed with the Trustee. No such modification or amendment will: (1) extend or have the effect of extending the fixed maturity of any Certificate or the time of payment of interest thereto, or reduce or have the effect of reducing the interest rate with respect to any Certificate, the amount of principal thereof or the amount of any premium payable upon the prepayment thereof, or (2) reduce or have the effect of reducing the percentage of Certificates required for the affirmative vote or written consent to an amendment or modification of the Lease, or (3) modify any of the rights or obligations of the Trustee without its written assent thereto. Any such supplemental agreement will become effective as provided in the Trust Agreement.

The Trust Agreement and the rights and obligations of the Owners, and the Lease and the rights and obligations of the parties thereto, may be modified or amended at any time by a supplemental agreement, without the consent of any such Owners, but only to the extent permitted by law and only (i) to cure, correct or supplement any ambiguous or defective provision contained in the Trust Agreement or the Lease; (ii) in regard to matters arising under the Trust Agreement or the Lease, as the parties to the Trust Agreement or the Lease may deem necessary or desirable and that will not adversely affect the interest of the Owners; or (iii) to remove, add or substitute Property as provided by the Lease. Any such supplemental agreement will become effective upon execution and delivery by the parties to the Trust Agreement or the Lease as the case may be.

Procedure for Amendment with Written Consent of the Owners. The Trust Agreement or the Lease may be amended by supplemental agreement as provided above in the event that the consent of the insurer of the Certificates, if applicable, and of the Owners is required. A copy of such supplemental agreement, together with a request to the Owners for their consent thereto, will be mailed by the Trustee by first-class mail, postage prepaid, to each Owner of a Certificate at his or her address as set forth in the Certificate Register, but failure to receive copies of such supplemental agreement and request so mailed will not affect the validity of the supplemental agreement when assented to as provided in this paragraph.

Disqualified Certificates

Certificates owned or held by or for the account of the District or the Corporation or by any person directly or indirectly controlled or controlled by, or under direct or indirect common control with the District or the Corporation (except any Certificates held in any pension or retirement fund) will not be deemed Outstanding for the purpose of any vote, consent, waiver or other action or any calculation of Outstanding Certificates provided for in the Trust Agreement, and will not be entitled to vote upon, consent to, or take any other action provided for in the Trust Agreement.

Covenants

Compliance With and Enforcement of the Lease. The District covenants and agrees with the Owners to perform all obligations and duties imposed on it under the Lease. The Corporation covenants and agrees with the Owners to perform all obligations and duties imposed on it under the Lease. The District will not do or permit anything to be done, or omit or refrain from doing anything, in any case where any such act done or permitted to be done, or any such omission of or refraining from action, would or might be a ground for cancellation or termination of the Lease by the Corporation.

Observance of Laws and Regulations. The District will well and truly keep, observe and perform all valid and lawful obligations or regulations now or hereafter imposed on it by contract, or prescribed by any law of the United States, or of the State, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of any and every right, privilege or franchise now owned or hereafter acquired by the District, including its right to exist and carry on business as a school district, to the end that such rights, privileges and franchises shall be maintained and preserved, and shall not become abandoned, forfeited or in any manner impaired.

Prosecution and Defense of Suits. The District will promptly take such action as may be necessary or proper to remedy or cure any defect in or cloud upon the title to the Property, whether now existing or hereafter developing and shall prosecute all such suits, actions and other proceedings as may be appropriate for such purpose and shall indemnify, to the extent permitted by law, and save the Trustee and every Owner harmless from all loss, cost, damage and expense, including attorneys' fees, which they or any of them may incur by reason of any such defect, cloud, suit, action or proceeding.

District Budgets. In accordance with the Lease, the District will provide the Trustee with an annual certification by December 31 of each year that the District has complied with its obligations thereunder, and the District Representative shall certify to the Trustee that the District has included all Lease Payments (other than prepayments) due under the Lease in the Fiscal Year covered by its proposed budget and adopted budget.

Events of Default and Remedies of Owners

Events of Default. The following events will be Events of Default: (i) default in the due and punctual payment of the principal of or premium, if any, with respect to any Certificate when and as the same will become due and payable, whether at maturity as therein expressed, by proceedings for prepayment, by declaration or otherwise; (ii) default in the due and punctual payment of any installment of interest with respect to any Certificate when and as such interest installment will become due and payable; (iii) default by the District in the observance of any of the covenants, agreements or conditions on its part in the Trust Agreement contained, if such default will have continued for a period of 30 days after written notice thereof, specifying such default and requiring the same to be remedied, will have been given to the District and the Corporation by the Trustee, or to the District, the Corporation and the Trustee by the Owners of not less than twenty-five percent in aggregate principal amount of the Certificates at the time Outstanding; provided, however, that if such default can be remedied but not within such 30-day period and if the District has taken all action reasonably possible to remedy such default within such 30-day period, such default will not become an Event of Default for so long as the District will diligently proceed to remedy the same in accordance with and subject to any directions or limitations of time reasonably established by the Trustee; or (iv) an event of default will have occurred and be continuing under the Lease.

Remedies. If an Event of Default shall happen, then, and in each and every such case during the continuance of such Event of Default, the Trustee, subject to the provisions of the Trust Agreement, may, exercise any and all remedies available pursuant to law or granted pursuant to the Lease; *provided*, *however*, that notwithstanding anything in the Trust Agreement or in the Lease to the contrary, THERE WILL BE NO RIGHT UNDER ANY CIRCUMSTANCES TO ACCELERATE THE MATURITIES OF THE CERTIFICATES OR OTHERWISE TO DECLARE ANY LEASE PAYMENTS NOT THEN IN DEFAULT TO BE IMMEDIATELY DUE AND PAYABLE.

Actual Knowledge. The Trustee will not be deemed to have knowledge of any Event of Default unless and until a responsible officer of the Trustee will have actual knowledge thereof or will have received written notice thereof at its Principal Office.

Application of Funds. All moneys received by the Trustee pursuant to any right given or action taken under the provisions of the Lease or the Trust Agreement, will be deposited into the Lease Payment Fund and will be applied by the Trustee in the following order upon presentation and surrender of the several Certificates -

First, to the payment of the costs and expenses of the Trustee and of the Owners, including reasonable compensation to its or their agents, attorneys and counsel incurred in connection with the particular Event of Default and any sums owed to the Trustee pursuant to the Trust Agreement (provided that no amounts transferred from the Debt Service Reserve Fund to the Lease Payment Fund will be applied for the foregoing purposes, but will be applied only for the purposes in paragraphs second and third below);

Second, to the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installment, and, if the amount available will not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Third, to the payment to the persons entitled thereto of the unpaid principal of any Certificates that have become due, whether at maturity or by call for prepayment, in the order of their due dates, with interest on the overdue principal and interest at a rate equal to the rate paid with respect to the Certificates and, if the amount available is not sufficient to pay in full all the amounts due with respect to the Certificates on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the persons entitled thereto, without any discrimination or preference.

Institution of Legal Proceedings. If one or more Events of Default shall happen and be continuing, the Trustee in its discretion may, and upon the written request of the Owners of a majority in principal amount of the Certificates then Outstanding, and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of the Owners by a suit in equity or action at law, either for the specific performance of any covenant or agreement contained in the Trust Agreement or in the Lease, or in aid of the execution of any power granted, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as the Trustee shall deem most effectual in support of any of its rights or duties under the Trust Agreement.

Non-Waiver. Nothing in the Trust Agreement or in the Certificates shall affect or impair the obligation of the District, which is absolute and unconditional, to pay or prepay (in certain circumstances) the Lease Payments as provided in the Lease (or prepay Lease Payments in certain circumstances as provided in the Lease). No delay or omission of the Trustee or of any Owner to exercise any right or power arising upon the happening of any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or an acquiescence therein, and every power and remedy given by the Trust Agreement to the Trustee or to the Owners may be exercised from time to time and as often as shall be deemed expedient by the Trustee or the Owners.

Remedies Not Exclusive. No remedy conferred in the Trust Agreement upon or reserved to the Trustee or to the Owners is intended to be exclusive of any other remedy, and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Trust Agreement or now or hereafter existing, at law or in equity or by statute or otherwise.

Limitation on Certificate Owners' Right to Sue. No Owner of any Certificate executed under the Trust Agreement shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Trust Agreement, unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default under the Lease; (b) the Owners of a majority in aggregate principal amount of all of the Certificates then Outstanding shall have made written request upon the Trustee to exercise the powers granted or to institute such action, suit or proceeding in its own name; (c) said Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of 60 days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Defeasance

If and when any Outstanding Certificates have been paid and discharged in any one or more of the following ways – (1) by well and truly paying or causing to be paid the principal of and interest and prepayment premiums (if any) with respect to the Certificates to be defeased, as and when the same become due and payable;(2) if prior to maturity and having given notice of prepayment by irrevocably depositing with the Trustee, in trust, at or before maturity, an amount of cash which (together with cash then on deposit in the Lease Payment Fund and the Debt Service Reserve Fund, in the event of payment or provision for payment of all Outstanding Certificates) is sufficient to pay such Certificates, including all principal and interest and premium, if any; or (3) by irrevocably depositing with the Trustee, in trust in an escrow fund, noncallable Eligible Securities, together with cash, if required, in such amount as will, together with interest to accrue thereon, as set forth in the opinion of an independent certified public accountant delivered to the Trustee (and, in the event of payment or provision for payment of all Outstanding Certificates moneys then on deposit in the Lease Payment Fund and the Debt Service Reserve Fund together with the interest to accrue thereon), be fully sufficient to pay and discharge such Certificates (including all principal and interest represented thereby and prepayment premiums, if any) at or before their maturity date; then, notwithstanding that any such Certificates have not been surrendered for payment, all obligations of the Corporation, the Trustee and the District with respect to such Certificates will cease and terminate, except only the obligation of the Trustee to pay or cause to be paid, from Lease Payments paid by or on behalf of the District from funds deposited pursuant to paragraphs (2) and (3) above, to the Owners of such Certificates not so surrendered and paid all sums due with respect thereto, and in the event of deposits pursuant to paragraphs (2) and (3) above, the Certificates will continue to represent direct and proportionate interests of the Owners thereof in Lease Payments under the Lease.

THE ASSIGNMENT AGREEMENT

The Assignment Agreement provides for the assignment by the Corporation to the Trustee (excepting only the Corporation's rights regarding indemnification) of

(1) all right, title and interest of the Corporation in the Lease, including, without limitation, (A) the right to receive and collect all of the Lease Payments and Additional Payments from the District under the Lease; (B) the right to receive and collect any proceeds of any insurance maintained pursuant to the Lease or any condemnation award rendered with respect to the Property; (C) the right to take all actions and give all consents under the Lease, including without limitation, the provisions thereof regarding liens, regarding subleases, regarding amendments and modifications, and regarding remedies on default; (D) the right to exercise such rights and remedies conferred on the Corporation pursuant to the Lease as may be necessary or convenient (i) to enforce payment of the Lease Payments and Additional Payments, and any other amounts required to be deposited in the Lease Payment Fund, the Reserve Fund or any other funds established under the Trust Agreement, or (ii) otherwise to protect the interests of the Corporation in the event of default by the District under the Lease;

(2) all right, title, and interest of the Corporation in the Site Lease; and

(3) all right, title, and interest of the Corporation in the funds and accounts (and the money and other property held therein) established pursuant to the Trust Agreement or the Lease.

The Trustee accepts such assignment for the benefit of the Owners of the Certificates, subject to the conditions and terms of the Trust Agreement, and all such Lease Payments and Additional Payments will be applied and all such rights so assigned will be exercised by the Trustee under and pursuant to the Trust Agreement.

THE SITE LEASE

Pursuant to the Site Lease, the District leases to the Corporation the Property (and appurtenant easements for ingress and egress, for the furnishing of maintenance and support, and for parking), subject to the terms of the Site Lease and subject to any conditions, reservations, exceptions and rights of way which are of record.

Term

The term of the Site Lease will commence as of the date of the Site Lease and will remain in effect until the termination of the Lease as provided therein, provided, however, that if Lease Payments due under the Lease are unpaid at such termination of the Lease, then the Site Lease will not terminate until the earlier of (i) ten (10) years after the final scheduled maturity date of the Certificates or (ii) the date on which the Certificates have been paid in full.

Termination

Upon the termination of the Site Lease, the Corporation agrees to quit and surrender the Property without warranty as to condition, reasonable wear and tear excepted, and agrees that any permanent improvements and structures existing upon the Property at the time of the termination of the Site Lease will remain thereon and title thereto will vest in the District.

Eminent Domain

In the event that the whole or any part of the Property is taken by eminent domain proceedings, the interest of the Corporation will be recognized and will be determined to be the amount of unpaid Lease Payments and Additional Payments due the Corporation under the Lease.

APPENDIX D

FORM OF SPECIAL COUNSEL OPINION

FORM OF SPECIAL COUNSEL OPINION

January 27, 2010

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

$69,685,000
Refunding Certificates of Participation
2010 Series A
(Multiple Properties Project)
Evidencing Proportionate and Undivided Interests of the Owners
Thereof in Lease Payments to Be Made by the
LOS ANGELES UNIFIED SCHOOL DISTRICT

Members of the Board of Education:

We have acted as special counsel to the Los Angeles Unified School District, a school district organized and existing under the laws of the State of California (the "District") in connection with the execution and delivery of $69,685,000 principal amount of Refunding Certificates of Participation, 2010 Series A (Multiple Properties Project), dated their date of delivery (the "Certificates"). The Certificates evidence proportionate and undivided interests of the registered owners thereof in the Lease Payments (as that term is defined in the Trust Agreement hereinafter mentioned) to be made by the District to the LAUSD Financing Corporation, a nonprofit public benefit corporation duly organized and existing under and by virtue of the laws of the State of California (the "Corporation") pursuant to the Lease Agreement, dated as of January 1, 2010 (the "Lease"), between the Corporation and the District, all of which right to receive such Lease Payments has been assigned without recourse by the Corporation to U.S. Bank, N.A., a national banking association duly organized and existing under the laws of the United States of America, as trustee (the "Trustee"), pursuant to the Assignment Agreement, dated as of January 1, 2010, between the Trustee and the Corporation. The Certificates have been executed and delivered pursuant to the Trust Agreement, dated as of January 1, 2010 (the "Trust Agreement"), by and among the District, the Corporation and the Trustee. The District and the Corporation have also entered into a Site and Facilities Lease, dated as of January 1, 2010 (the "Site Lease").

We have examined a certified copy of the record of proceedings relating to the execution and delivery of the Certificates and such other documents and records of the District as we have deemed necessary for the purpose of this opinion. Our services as special counsel were limited to such examination and to rendering the opinions set forth below. 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 certify the same by independent investigation.

We have assumed, but not independently verified, that the signatures on all documents, certificates and opinions we reviewed are genuine.

Based upon the foregoing, in our opinion such proceedings show lawful authority for the execution and delivery by the District of the Lease, the Site Lease and the Trust Agreement under the laws of the State of California now in force, and the Lease, the Site Lease and the Trust Agreement have been duly authorized, executed and delivered by the District and, assuming due authorization, execution and delivery by the Trustee and the Corporation, as appropriate, are valid and binding obligations of the District, enforceable against the District in accordance with their respective terms. The Certificates, assuming due execution and delivery by the Trustee, are entitled to the benefits of the Trust Agreement. The obligation of the District to make the Lease Payments under the Lease does not constitute a debt of the District or the State of California, or of any political subdivision thereof, within the meaning of any constitutional debt limit or restriction, does not violate any statutory debt limitation, and does not constitute an obligation for which the District is obligated to levy or pledge any form of taxation or for which the District has levied or pledged any form of taxation.

We are further of the opinion, based on current law and assuming compliance by the District with certain covenants in the Lease and the Trust Agreement and requirements of the Internal Revenue Code of 1986, as amended, regarding the use, expenditure and investment of Certificate proceeds and the timely payment of certain investment earnings to the United States, that the portion of each Lease Payment due under the Lease designated as and comprising interest and received by the owners of the Certificates is not includable in the gross income of the owners of the Certificates for federal income tax purposes. Failure to comply with such covenants and requirements may cause the portion of each Lease Payment designated as and comprising interest and received by the owners of the Certificates to be included in gross income for federal income tax purposes retroactive to the date of execution and delivery of the Certificates.

We are also of the opinion that the portion of each Lease Payment due under the Lease designated as and comprising interest and received by the owners of the Certificates will not be treated as an item of tax preference in calculating the alternative minimum taxable income of individuals and corporations. Such portion of each Lease Payment, however, will be 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. We express no opinion regarding other federal income tax consequences caused by the ownership of, or the receipt of interest with respect to, the Certificates.

We are additionally of the opinion that the portion of each Lease Payment due under the Lease designated as and comprising interest and received by the owners of the Certificates is exempt from personal income taxes imposed by the State of California.

The Code contains other provisions that could result in tax consequences as to which we express no opinion, as a result of ownership of the Certificates. Further, certain requirements and procedures contained or referred to in the Lease, the Trust Agreement and other relevant documents may be changed and certain actions may be taken or not 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 recognized in the area of state and local obligations. No opinion is expressed herein as to the effect on the exclusion from gross income of the interest with respect to the Certificates of any change to the aforementioned requirements and procedures or of any action taken or not taken after the date of this opinion without our approval.

With respect to the opinions expressed herein, the enforceability of the rights and obligations under the Certificates, the Lease and the Trust Agreement are subject to bankruptcy, insolvency, reorganization, arrangement, moratorium and other laws affecting the enforcement of creditors' rights generally, 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 governmental entities in the State of California. In addition, we express no opinion with respect to any indemnification, contribution, penalty, choice of forum or waiver provisions contained in the foregoing documents.

This opinion is limited to the laws of the State of California and the Federal laws of the United States. The opinions in this letter are expressed solely as of the date hereof for your benefit and may not be relied upon in any manner or for any purposes by any other person. We express no opinion on any matter other than as specifically set forth herein. The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions. Such opinions and advice 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 such actions or events.

Respectfully yours,

SIDLEY AUSTIN LLP

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APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

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FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the Los Angeles Unified School District (the "District"), and acknowledged and agreed to by Digital Assurance Certification, L.L.C., as dissemination agent, in connection with the issuance of $69,685,000 aggregate principal amount of Refunding Certificates of Participation, 2010 Series A (Multiple Properties Project) (the "Certificates"). The Certificates are being issued pursuant to a Trust Agreement, dated as of January 1, 2010 (the "Trust Agreement"), by and among the Los Angeles Unified School District (the "District"), the LAUSD Financing Corporation (the "Corporation") and U.S. Bank, N.A. (the "Trustee"). The District covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District and the Dissemination Agent for the benefit of the Holders and Beneficial Owners of the Certificates and in order to assist the Participating Underwriters in complying with Securities and Exchange Commission Rule 15c2–12(b)(5).

Section 2. Definitions. In addition to the definitions set forth in the Trust Agreement, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to depose of ownership of, any Certificates(including persons holding Certificates through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Certificates for federal income tax purposes.

"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 Certificates, or if the Certificates are registered in the name of The Depository Trust Company or another recognized depository, any applicable participant in such depository system.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"MSRB" shall mean the Municipal Securities Rulemaking Board, or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at http://emma.msrb.org.

"Official Statement" shall mean the Official Statement relating to the Certificates, dated January 13, 2010.

"Participating Underwriters" shall mean any of the original underwriters of the Certificates required to comply with the Rule in connection with offering of the Certificates.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 3. 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 2008-2009 Fiscal Year (which is due not later than February 25, 2010), provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided, that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the District's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) Not later than thirty (30) days (not more than sixty (60) days) prior to the date on which the Annual Report is to be provided pursuant to subsection (a), the Dissemination Agent shall give notice to the District that the Annual Report is so required to be filed in accordance with the terms of this Disclosure Certificate. Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to the MSRB, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If by said date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall notify the District of such failure to receive the Annual Report.

(c) If the District is unable to provide to the Dissemination Agent an Annual Report by the date required in subsection (a), the Dissemination Agent is irrevocably instructed to file a notice to the MSRB in substantially the form attached hereto as Exhibit A.

(d) The Dissemination Agent shall file a report with the District stating that the Annual Report has been provided to the MSRB pursuant to this Disclosure Certificate and stating the date it was provided.

Section 4. Content of Annual Reports. The District's Annual Report shall contain or include by reference the following:

- Audited financial statements of the District for the preceding fiscal year, prepared in accordance with the laws of the State of California and including all statements and information prescribed for inclusion therein by the Controller of the State of California. If the District's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 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.

To the extent not included in the audited financial statements of the District, the Annual Report shall also include the following:

- Adopted budget of the District for the current fiscal year.

· District average daily attendance as set forth in Table A-3 of Appendix A to the Official Statement entitled "Annual Average Daily Attendance."

· Information regarding total assessed valuation of taxable properties within the District as set forth in Table A-6 of Appendix A to the Official Statement.

· Information regarding total tax levies and collections on taxable properties within the District as set forth in Table A-10 of Appendix A to the Official Statement.

· District outstanding debt as set forth in Tables A-23, A-24, A-25, A-26, A-27, C-28 and the aggregate debt service on the District's outstanding certificates of participation as set forth in the "Fiscal Year Total Debt Service" column of Table A-27 of Appendix A to the Official Statement.

· Statement of revenues, expenditures and changes in general fund balances of the District.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been submitted to the MSRB 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 Certificates, if material:

1. principal and interest payment delinquencies.

2. non-payment related defaults.

3. modifications to rights of Holders.

4. optional, contingent or unscheduled bond calls.

5. defeasances.

6. rating changes.

7. adverse tax opinions or events affecting the tax-exempt status of the Certificates.

8. unscheduled draws on the debt service reserves reflecting financial difficulties.

9. unscheduled draws on the credit enhancements reflecting financial difficulties.

11. release, substitution or sale of property securing repayment of the Certificates.

(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 notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (d).

(d) If the Dissemination Agent has been instructed by the District to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the MSRB. 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 Certificates pursuant to the Trust Agreement.

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 Certificates and the 9-digit CUSIP numbers for the Certificates 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 Certificates. If such termination occurs prior to the final maturity of the Certificates, the District shall give notice of such termination in the same manner as for a Listed Event under Section 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 initial Dissemination Agent shall be Digital Assurance Certification, L.L.C. If at any time there is no designated Dissemination Agent appointed by the District, or if the Dissemination Agent so appointed is unwilling or unable to perform the duties of the Dissemination Agent hereunder, the District shall be the Dissemination Agent 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 delivered 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 Certificates, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Certificates, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Certificates in the same manner as provided in the Trust Agreement for amendments to the Trust Agreement with the consent of Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interest of the Holders or Beneficial Owners of the Certificates.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the District shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the District. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 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 Certificates then outstanding, shall) or any Holders or Beneficial Owners of the Certificates may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate; provided that any such action may be instituted only in the Superior Court of the State of California in and for the County of Los Angeles or in the U.S. District Court in the County of Los Angeles. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Trust Agreement, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

Section 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 Certificates.

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 Certificates, and shall create no rights in any other person or entity.

[Signature Page Follows]

Dated: January 27, 2010

LOS ANGELES UNIFIED SCHOOL DISTRICT

By:____

Timothy Rosnick
Controller

DIGITAL ASSURANCE CERTIFICATION, L.L.C.,
as Dissemination Agent

By:____

Dissemination Agent

EXHIBIT A

NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD OF FAILURE TO FILE ANNUAL REPORT

Name of District: Los Angeles Unified School District

Name of Bond Issue: Refunding Certificates of Participation, 2010 Series A (Multiple Properties Project)

Date of Issuance: January 27, 2010

NOTICE IS HEREBY GIVEN that Los Angeles Unified School District has not provided an Annual Report with respect to the above named Certificates as required by the Continuing Disclosure Certificate relating to the Certificates, dated as of January 27, 2010. Los Angeles Unified School District anticipates that the Annual Report will be filed by __________.

Dated: __________________

DIGITAL ASSURANCE CERTIFICATION, L.L.C. ,
on behalf of Los Angeles Unified School District

By: ____

cc: Los Angeles Unified School District

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APPENDIX F

BOOK-ENTRY SYSTEM

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

The Depository Trust Company, New York, New York ("DTC"), will act as securities depository for the Certificates (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each issue of the Securities, each in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmations from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmation providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities 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 Securities, except in the event that use of the book-entry system for the Securities is discontinued.

To facilitate subsequent transfers, all Securities 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 Securities 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 Securities: DTC records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. The District, the Corporation, the Trustee and the Underwriters will not have any responsibility or obligation to such Direct Participants and Indirect Participants or the persons for whom they act as nominees with respect to the Securities. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as prepayments, defaults, and proposed amendments to the Certificate documents. Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

Principal and Interest payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Trustee, on payable dates in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, or the Trustee, subject to any statutory, or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Securities at any time by giving reasonable notice to the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, certificates are required to be printed and delivered. The Corporation may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, certificates will be printed and delivered to DTC.

THE DISTRICT, THE CORPORATION, THE TRUSTEE AND THE UNDERWRITERS CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE SECURITIES (I) PAYMENTS OF PRINCIPAL OF AND INTEREST ON THE SECURITIES (II) CONFIRMATIONS OF THEIR OWNERSHIP INTERESTS IN THE SECURITIES OR (III) OTHER NOTICES SENT TO DTC OR

CEDE & CO., ITS PARTNERSHIP NOMINEE, AS THE REGISTERED OWNER OF THE SECURITIES, OR THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT.

NEITHER THE DISTRICT, THE CORPORATION, THE TRUSTEE NOR THE UNDERWRITERS WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO DTC, THE DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS OF DTC OR THE BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC; (2) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OF OR INTEREST ON SECURITIES; (3) THE DELIVERY BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED TO BE GIVEN TO OWNERS UNDER THE TERMS OF THE TRUST AGREEMENT; OR (4) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS OWNER OF THE SECURITIES.

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APPENDIX G

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 November 30, 2009, investments in the Treasury Pool were held for local agencies including school districts, community college districts, special districts and discretionary depositors such as cities and independent districts in the following amounts:

Local Agency	Invested Funds (in billions)
County of Los Angeles and Special Districts	$ 7.530
Schools and Community Colleges	12.151
Independent Public Agencies	1.883
Total	$21.564

Of these entities, the involuntary participants accounted for approximately 91.27%, and all discretionary participants accounted for 8.73% of the total Treasury Pool.

Decisions on the investment of funds in the Treasury Pool are made by the County Investment Officer in accordance with established policy, with certain transactions requiring the Treasurer's prior approval. In Los Angeles County, investment decisions are governed by Chapter 4 (commencing with Section 53600) of Part 1 of Division 2 of Title 5 of the State Government Code, which governs legal investments by local agencies in the State of California, and by a more restrictive Investment Policy developed by the Treasurer and adopted by the Los Angeles County Board of Supervisors on an annual basis. The Investment Policy adopted on March 31, 2009, 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 December 30, 2009, the November 30, 2009 book value of the Treasury Pool was approximately $21.564 billion and the corresponding market value was approximately $21.721 billion.

An internal controls system for monitoring cash accounting and investment practices is in place. The Treasurer's Compliance Auditor, who operates independently from the Investment Officer, reconciles cash and investments to fund balances daily. The Compliance Auditor's staff also reviews each investment trade for accuracy and compliance with the Board adopted Investment Policy. The County Auditor-Controller's Office performs similar cash and investment reconciliations on a quarterly basis and regularly reviews investment transactions for conformance with the approved policies. Additionally, the County's outside independent auditor annually accounts for all investments.

The following table identifies the types of securities held by the Treasury Pool as of November 30, 2009.

Type of Investment	% of Pool
U.S. Government and Agency Obligations	42.15
Certificates of Deposit	15.30
Commercial Paper	35.47
Bankers Acceptances	0.00
Municipal Obligations	0.00
Corporate Notes & Deposit Notes	4.84
Asset Backed Instruments	0.00
Repurchase Agreements	0.00
Other	2.24

The Treasury Pool is highly liquid. As of November 30, 2009, approximately 54.34% of the investments mature within 60 days, with an average of 500.39 days to maturity for the entire portfolio.

Pursuant to Section 27131 of the State Government Code, all counties investing surplus funds are encouraged to 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 County Treasury Oversight Committee meets quarterly to review and monitor for compliance the investment policies prepared by the Treasurer.

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