



LOS ANGELES UNIFIED SCHOOL DISTRICT

LOS ANGELES, CALIFORNIA



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



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

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

**MR. DAVID L. BREWER III
SUPERINTENDENT OF SCHOOLS**

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

**MR. TIMOTHY S. ROSNICK
CONTROLLER**



**PREPARED BY
ACCOUNTING AND DISBURSEMENTS DIVISION**

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

LOS ANGELES UNIFIED SCHOOL DISTRICT

Comprehensive Annual Financial Report

Year Ended June 30, 2007

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INTRODUCTORY SECTION

LOS ANGELES UNIFIED SCHOOL DISTRICT

Accounting and Disbursements Division

DAVID L. BREWER III
Superintendent of Schools

MEGAN K. REILLY
Chief Financial Officer



TIMOTHY S. ROSNICK
Controller

V. LUIS BUENDIA
Deputy Controller

December 5, 2008

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

Dear Board Members:

The Comprehensive Annual Financial Report of the Los Angeles Unified School District (District), for the fiscal year ended June 30, 2007, is hereby submitted. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the District. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the District. All disclosures necessary to enable the reader to gain an understanding of the District's financial activities have been included. The report also includes a "State and Federal Compliance Information" section, which is designed to meet the reporting requirements of the Office of the California State Controller, the U.S. General Accounting Office, the U.S. Office of Management and Budget, and the Single Audit Act Amendments of 1996.

This report is presented in five sections:

I. Introductory

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

II. Financial

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

III. Supplementary

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

IV. Statistical

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

V. State and Federal Compliance Information

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

Profile of the Los Angeles Unified School District

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

As of June 30, 2007, the District is operating 437 elementary schools, 74 middle/junior high schools, 61 senior high schools, 59 options schools, ten multi level schools, 17 special education schools, 22 magnet schools and 138 magnet centers, 24 community adult schools, five regional occupational centers, five skills centers, one regional occupational program center, 100 early education centers, four infant centers, 27 primary school centers, and one newcomer school. The District is governed by a seven-member Board of Education elected by District to serve alternating four-year terms. As of June 30, 2007, the District employed 48,364 certificated, 33,043 classified, and 18,520 nonregular employees. Enrollment as of October 2006 was 673,500 students in K-12 schools, 145,768 students in adult schools and centers, and 11,052 children in early education centers.

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

Economic Condition and Outlook

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

The 2008-2009 State budget provided a Proposition 98 funding level of \$58.1 billion, which fully funded the minimum guarantee. Funding for K-12 education in 2008-09 was essentially the same as in the 2007-2008 school year, despite rising costs. Categorical programs were funded at their base 2007-2008 funding

levels and revenue limit income, the Districts major source of unrestricted income, had a small cost of living adjustment (COLA) of 0.68%. At the time the budget was signed, there was concern that the State's revenue assumptions were tenuous and there loomed a multibillion-dollar shortfall for the 2009-2010 budget.

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

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

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

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

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

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

Superintendent's Strategic Plan: Improvement of Teaching and Learning

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

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

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

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

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

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

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

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

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

Proposition BB Bonds

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

The purpose of the issuance of the Bonds is to provide needed health and safety improvements to more than 800 deteriorating school buildings and 15,000 classrooms, including upgrading electrical wiring and plumbing; repairing decaying roofs and walls; earthquake retrofitting and asbestos removal; providing infrastructure for computer technology and science laboratories; providing air conditioning for classrooms; enhancing student safety with lighting, fences, and security systems; funding and/or providing matching funds for construction and additions at several schools and the building of 100 new schools to reduce class size and decrease busing. The Board of Education also established a Blue Ribbon Citizens’ Oversight Committee to ensure that the proceeds of the bond issues are used for the purposes stated in the resolution which placed the Proposition BB on the April 1997 ballot. The Blue Ribbon Citizen’s Oversight Committee’s responsibilities include the following: 1) meeting at least quarterly to review expenditures of the bond proceeds; 2) reporting findings quarterly to the Board and to the public; 3) recommending

improvements to District processes and procedures as they relate to scheduling, planning, and completion of projects and 4) reporting immediately to the Board any substantial expenditures of bond proceeds in conflict with the purposes approved by the Board and the contracts established with the schools. The Blue Ribbon Citizen's Oversight Committee is also responsible for the oversight of the District's general obligation bonds issued pursuant to Proposition 39 and consists of 14 members representing governmental entities, agencies and organizations.

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

General Obligation Bonds – Proposition 39

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

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

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

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

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

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

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

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

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

Financial Information

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

adequately safeguards assets and provides reasonable assurance of proper recording of financial transactions.

School districts in California are required by Education Code Section 41010 to follow the California School Accounting Manual in preparing reports to the State. The District, under Assembly Bill 1200 (Chapter 1213, Statutes of 1991), has utilized a dual-adoption budget schedule. The District has adopted a Superintendent's Provisional Budget prior to the State-mandated July 1 deadline and a Superintendent's Final Budget no later than September 8. On October 28, 2008, the Board elected to use a single-adoption budget schedule for 2009-2010 which requires Final Budget adoption July 1.

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

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

Cash Management

Cash temporarily idle during the year and not needed immediately for operations is invested. Substantially all of the District's cash is deposited in the Los Angeles County treasury. The District is limited by EC §41015 and Government Code Section 53601 to 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, 2007, the District's cash in the county pool was \$3,432.7 million.

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

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

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

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

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

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

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

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

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

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Los Angeles Unified School District for its comprehensive annual financial report for the fiscal year ended June 30, 2006. This was the third consecutive year that the Los Angeles Unified School District has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements.

Independent Audit

EC §41020 provides that each school district shall arrange for an audit by certified public accountants of its books and accounts, including the District's income by source of funds and expenditures by object and program. The District's contract auditor for 2006-2007 is KPMG LLP. The independent auditors' report on the basic financial statements is presented in the Financial Section of this report on page 1.

Office of the Inspector General

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

Acknowledgments

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

Respectfully submitted,

David L. Brewer III
Superintendent of Schools

Prepared by:



Timothy S. Rosnick
Controller



Megan K. Reilly
Chief Financial Officer

Certificate of Achievement for Excellence in Financial Reporting

Presented to
Los Angeles
Unified School District
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2006

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



Charles S. Cox

President

Jeffrey R. Emer

Executive Director

BOARD OF EDUCATION

Mónica García
PRESIDENT

Marlene Canter

Marguerite Poindexter LaMotte

Tamar Galatzan

(Term started July 1, 2007)

Jon Lauritzen

(Term ended June 30, 2007)

David Tokofsky

(Term ended June 30, 2007)

Julie Korenstein

Yolie Flores Aguilar

(Term started July 1, 2007)

Richard Vladovic

(Term started July 1, 2007)

Mike Lansing

(Term ended June 30, 2007)

PRINCIPAL SCHOOL DISTRICT OFFICIALS

David L. Brewer III

Superintendent of Schools

Ramon C. Cortines

Senior Deputy Superintendent

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 SUPERINTENDENTS

Jean Brown

Alma Pena-Sanchez

(Effective April 23, 2008)

Michelle King

(Effective February 19, 2008)

Richard Alonzo

Carmen N. Schroeder

Martin Galindo

Carol Truscott

Linda Del Cueto

(Effective July 1, 2007)

Myrna Rivera

(Resigned effective December 31, 2006)

Sue Shannon

(Retired effective June 30, 2006)

Grace Strauther

(Retired effective June 23, 2007)

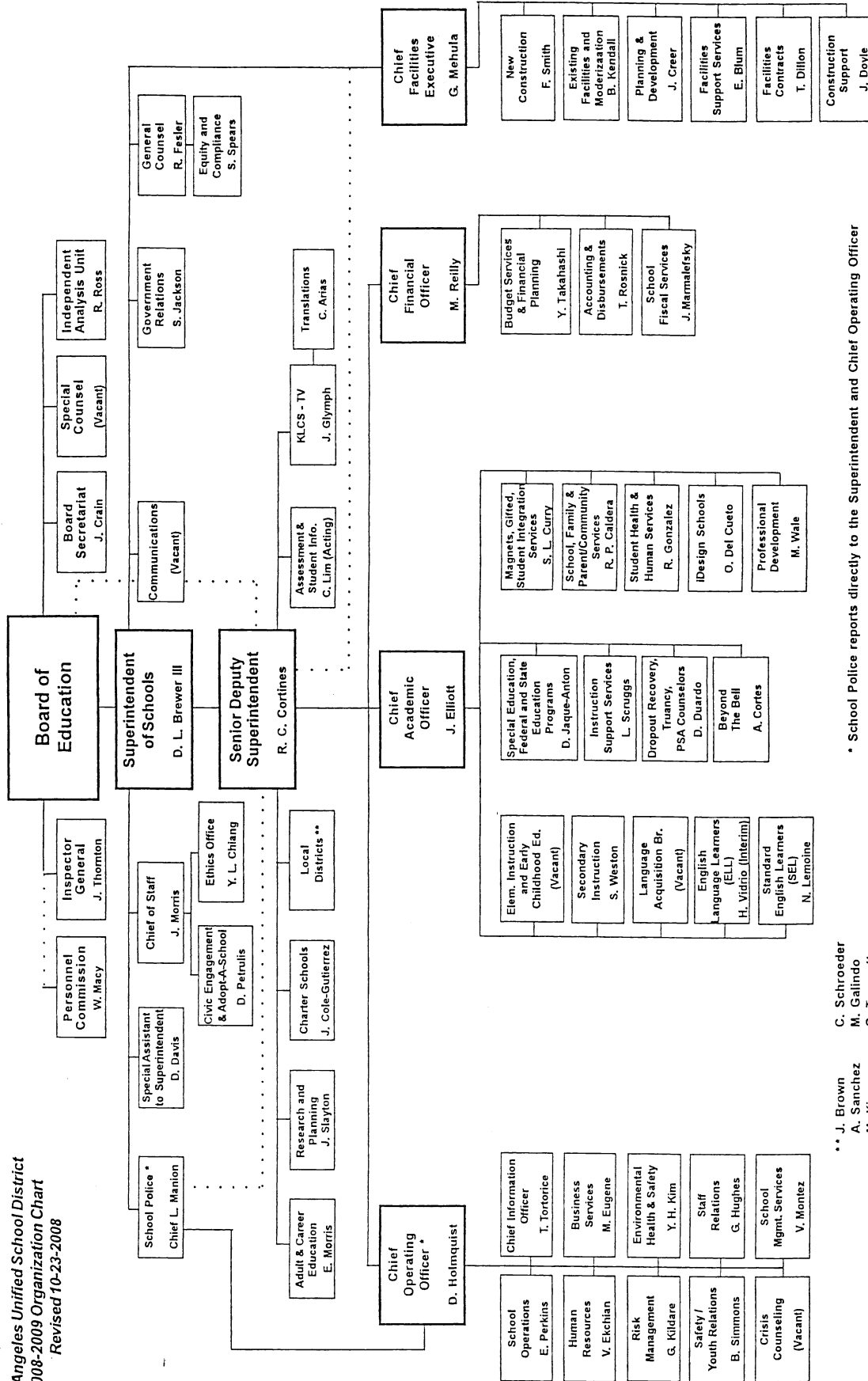
James Morris

(July 1, 2006 – March 21, 2008)

Los Angeles Unified School District

Organization of Central Support System

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



** J. Brown
A. Sanchez
M. King
R. Alonzo

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

C. Schroeder
M. Galindo
C. Truscott
L. Del Cueto

FINANCIAL SECTION



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

Independent Auditors' Report

The Honorable Board of Education
Los Angeles Unified School District:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Los Angeles Unified School District (the District) as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the Education Audit Appeals Panel's *Standards and Procedures for Audits of California K-12 Local Educational Agencies*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Los Angeles Unified School District as of June 30, 2007, and the respective changes in financial position, and where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with U.S. generally accepted accounting principles.

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

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

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, the supplementary information section, the statistical section, and the state and federal compliance information section are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is not a required part of the basic financial statements. The supplementary information listed in the supplementary section (pages 63 to 119) and the information on pages 179 to 184 in the state and federal compliance information section have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The information in the introductory section, the supplemental information section, the statistical section, and pages 186 to 188 in the state and federal compliance information section have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

KPMG LLP

December 5, 2008

LOS ANGELES UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis

June 30, 2007

As management of the Los Angeles Unified School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i-ix of this report.

Financial Highlights

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

Overview of the Basic Financial Statements

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

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

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

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

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

The government-wide financial statements can be found on pages 15-16 of this report.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis

June 30, 2007

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

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

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

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

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

The governmental fund financial statements can be found on pages 17 and 19 of this report.

Proprietary funds. The District maintains Internal Service Funds as the only type of proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District uses internal service funds to account for Health and Welfare Benefits, Workers' Compensation Self-Insurance, and Liability Self-Insurance. Because all of these services benefit governmental functions, they have been included within governmental activities in the government-wide financial statements.

It is the District's practice to record estimated claim liabilities at the present value of the claims, in conformity with the accrual basis of accounting, for all its internal service funds. The Workers' Compensation Self-Insurance Fund had a deficit fund balance at the beginning of the fiscal year, but ended the year with a positive balance as a result of reforms enacted by the State as well as aggressive loss control measures undertaken by the District over the past three years.

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

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

LOS ANGELES UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis

June 30, 2007

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

Notes to basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27-61 of this report.

Combining and individual fund schedules and statements. The combining schedules and statements showing the individual District bond accounts and nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund schedules and statements can be found on pages 63-107 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets over time may serve as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$5.2 billion at the close of the most recent year.

By far the largest portion of the District's net assets (62.8%) reflects its investments in capital assets (e.g., land, buildings, and equipment), less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investments in its capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

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

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

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

LOS ANGELES UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis

June 30, 2007

Summary Statement of Net Assets (In Thousands)

As of June 30, 2007 and 2006:

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

LOS ANGELES UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis

June 30, 2007

Summary Statement of Changes in Net Assets (In Thousands)

As of June 30, 2007 and 2006:

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

LOS ANGELES UNIFIED SCHOOL DISTRICT

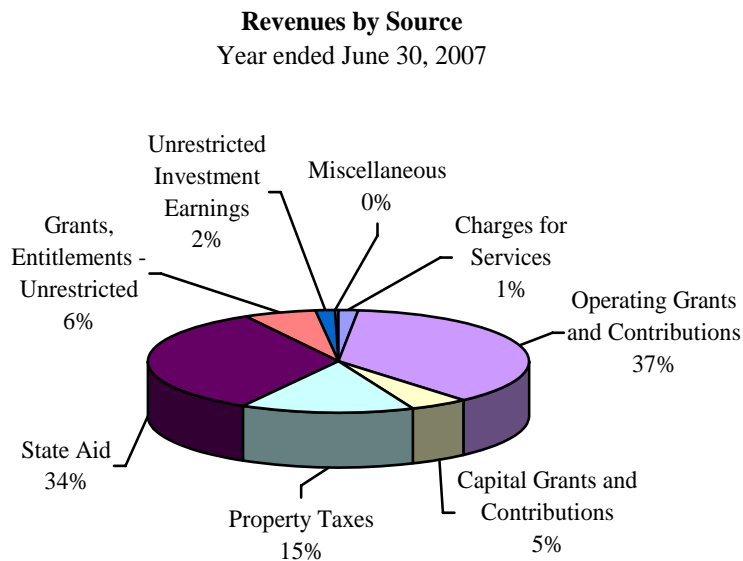
Management's Discussion and Analysis

June 30, 2007

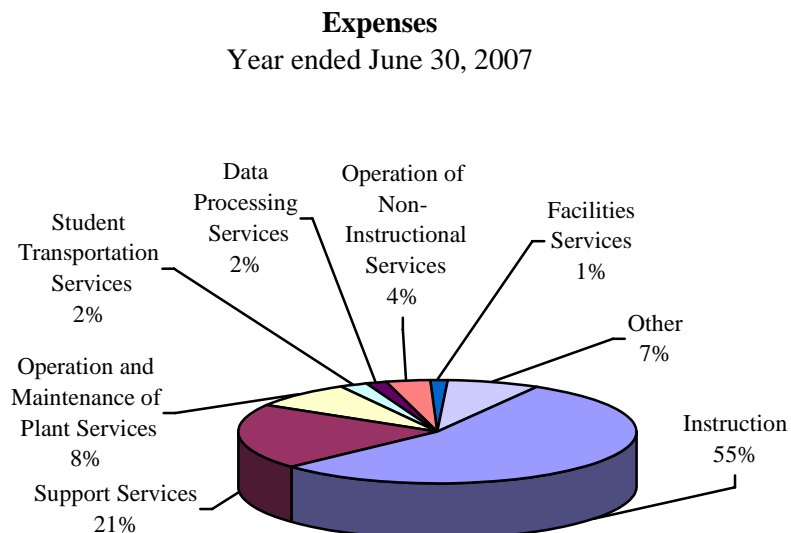
The District's net assets increased by \$1.03 billion in the current fiscal year. The major components of this increase are as follows:

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

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



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



LOS ANGELES UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis

June 30, 2007

Financial Analysis of the Government's Funds

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

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

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

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

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

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

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

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

LOS ANGELES UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis

June 30, 2007

Proprietary funds. The District's proprietary funds provide the same type of information found in the government-wide financial statements.

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

General Fund Budgetary Highlights

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

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

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

Capital Assets and Debt Administration

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

LOS ANGELES UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis

June 30, 2007

Major capital asset events during the current fiscal year included the following:

- Continuing construction of additional school buildings as well as school modernization projects throughout the District. Construction in progress as of the close of the fiscal year was \$2.2 billion.
- Various building additions and modernizations were completed at a cost of \$1.6 billion.
- A total of 13 new schools were completed in 2007 of which ten opened in the 2006-2007 and three will be opening their doors during the 2007-2008 school year to new students.

Capital Assets (net of accumulated depreciation)

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

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

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

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

Outstanding Obligations

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

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

LOS ANGELES UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis

June 30, 2007

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

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

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

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

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

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

LOS ANGELES UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis

June 30, 2007

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

State of California and Los Angeles Unified School District Fiscal Outlook

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

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

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

Bond Insurer Rating Changes

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

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

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

Debt Issuances

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

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

LOS ANGELES UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis

June 30, 2007

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

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. This report is available on the District's website (www.lausd.net). Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Chief Financial Officer, Los Angeles Unified School District, P.O. Box 513307-1307, Los Angeles, California 90051-1307.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Statement of Net Assets

June 30, 2007

(in thousands)

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

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Statement of Activities
Year Ended June 30, 2007
(in thousands)

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

See accompanying notes to basic financial statements.

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

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

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
June 30, 2007
(in thousands)

Total Fund Balances – Governmental Funds	\$ 3,089,388
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$11,932,679 and the accumulated depreciation is \$2,847,681.	9,084,998
Property taxes receivable will be collected this year, but are not available soon enough to pay the current period's expenditures and therefore are deferred in the funds.	46,689
An internal service fund is used by the District's management to charge the costs of health and welfare, workers' compensation and liability self-insurance premiums and claims to the individual funds. The assets and liabilities of the internal service fund are included within governmental activities.	95,253
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.	(7,144,649)
Other assets – deferred charges (cost of bond issuance, net of amortization) not reflected in fund financials	<u>32,730</u>
Total Net Assets – Governmental Activities	\$ <u><u>5,204,409</u></u>

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2007
(in thousands)

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

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures,
and Changes in Fund Balances to the Statement of Activities
Year Ended June 30, 2007
(in thousands)

Total Net Changes in Fund Balances – Governmental Funds	\$ 284,148
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay (\$1,494,934) exceeds depreciation (\$207,684) and loss on equipment disposal (\$5) in the period.	1,287,245
Some of the capital assets acquired this year were financed with capital leases. The amount financed is reported in the governmental funds as a source of financing. On the other hand, the proceeds are not revenues in the statement of activities, but rather constitute long-term liabilities in the statement of net assets.	(2,394)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	153,444
Proceeds of new debt are reported as other financing sources in the governmental funds, but these receipts are considered long-term liabilities in the statement of net assets, including those used to refund older bonds, net of premium/discount amortization.	(2,858,361)
Bond issuance costs are reported as expenditures in the governmental funds, but presented as deferred charges, net of amortization of issuance costs.	15,332
Payments to escrow agents for refunded bonds are reported as other financing uses in the governmental funds, but these payments include defeasement of long-term liabilities in the statement of net assets.	1,927,084
Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered "available" revenues for this year.	5,329
In the statement of activities, compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, vacation leave used exceeded the amounts earned.	10,091
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires the use of financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	(43,032)
Rebatable arbitrage is recognized in the government wide statements as soon as the underlying event has occurred but not until due and payable in the governmental funds.	(11,966)
An internal service fund is used by the District's management to charge the costs of health and welfare, workers' compensation and liability self-insurance premiums and claims to the individual funds. The net revenue of the internal service fund is reported with governmental activities.	259,288
Changes in Net Assets of Governmental Activities	\$ <u>1,026,208</u>

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
General Fund
Year Ended June 30, 2007
(in thousands)

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

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Statement of Net Assets
Proprietary Funds
Governmental Activities – Internal Service Funds
June 30, 2007
(in thousands)

Assets:

Cash in county treasury, in banks, and on hand	\$ 342,756
Investments	322,600
Accounts receivable – net	1,653
Accrued interest and dividends receivable	10,128
Prepaid expenses	15,597
Due from other funds	<u>37,276</u>
Total Assets	<u>730,010</u>

Liabilities:

Current:

Vouchers and accounts payable	14,331
Accrued payroll	449
Other payables	238
Due to other funds	52,168
Estimated liability for self-insurance claims	<u>167,985</u>
Total Current Liabilities	235,171

Noncurrent:

Estimated liability for self-insurance claims	<u>399,586</u>
Total Liabilities	<u>634,757</u>
Total Net Assets – Unrestricted	<u>\$ 95,253</u>

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
Governmental Activities – Internal Service Funds
Year Ended June 30, 2007
(in thousands)

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

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Statement of Cash Flows
Proprietary Funds
Governmental Activities – Internal Service Funds
Year Ended June 30, 2007
(in thousands)

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

See accompanying notes to basic financial statements.

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

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

See accompanying notes to basic financial statements.

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

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

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2007

(1) Summary of Significant Accounting Policies

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

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

(a) Reporting Entity

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

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

Blended Component Units

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

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2007

(b) *Government-Wide and Fund Financial Statements*

The District's basic financial statements consist of fund financial statements and government-wide statements which are intended to provide an overall viewpoint of the District's finances. The government-wide financial statements, which are the statement of net assets and the statement of activities, report information on all nonfiduciary District funds excluding the effect of interfund activities. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which are primarily supported by fees and service charges. The District does not conduct any business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements on pages 17 and 19. Nonmajor funds are aggregated in a single column.

(c) *Measurement Focus and Basis of Accounting*

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows. The same measurement focus and basis of accounting also apply to trust funds. The agency fund, however, reports only assets and liabilities and therefore has no measurement focus.

Government fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when susceptible to accrual, i.e., both measurable and available to finance expenditures of the fiscal period. "Available" means collectible within the current period or soon enough thereafter to pay current liabilities. Application of the "susceptibility to accrual" criteria requires consideration of the materiality of the item in question and due regard for the practicality of accrual, as well as consistency in application.

Federal revenues and State apportionments and allowances are determined to be available and measurable when entitlement occurs or related eligible expenditures are incurred. Secured and unsecured property taxes related to debt service and community redevelopment purposes are estimated to be collectible and receivable within 60 days of the current period are recorded as revenue. Investment income is accrued when earned. All other revenues are not considered susceptible to accrual.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2007

Expenditures for the governmental funds are generally recognized when the related fund liability is incurred, except debt service expenditures and expenditures related to compensated absences which are recognized when payment is due. Included in expenditures is other outgo which includes, among other things, transfers to charter schools in lieu of property taxes which are made by the District at the instruction of the State.

(d) ***Financial Statement Presentation***

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

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

Statement of activities focuses on the cost of functions and programs and the effect of these on the District's net assets. This financial report is also prepared using the full accrual basis and shows depreciation expense.

(e) ***Fund Accounting***

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

Major Governmental Funds

The District has the following major governmental funds for the fiscal year 2006-2007:

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

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

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2007

Other Governmental Funds

The District has the following nonmajor governmental funds:

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

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

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

Proprietary Funds

The District has the following Proprietary Funds:

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's internal service funds are charges to other operating funds for

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2007

self-insurance services. Operating expenses include the cost of services including insurance premiums, claims, and administrative costs. All revenues and expenses not meeting this definition are nonoperating revenues and expenses.

Fiduciary Funds

The District has the following Fiduciary Funds:

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

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

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

Agency Fund

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

(f) Budgetary Control and Encumbrances

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

In accordance with the District's Board policy, management has the authority to make routine transfers of budget appropriations among major categories within a fund. Routine budget transfers are summarized and periodically reported to the Board for ratification. Nonroutine transfers may not be processed without prior Board approval.

During the year, several supplementary appropriations were necessary. The original and final revised budgets are presented in the financial statements. Budgets for all governmental fund types are adopted on a basis consistent with generally accepted accounting principles. Budgets are adopted for

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2007

the General, Special Revenue, Debt Service, Capital Projects, Internal Service, and Pension Trust Funds.

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

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

(g) *Cash and Investments*

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

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

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

(h) *Short-term Interfund Receivables/Payables*

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

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2007

(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:

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

(k) ***Contracts Payable***

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

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2007

(l) *Compensated Absences*

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

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

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

(m) *Long-term Obligations*

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective-interest method. Bonds payable are reported net of the applicable bond premium or discount, while bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, debt issuances including any related premiums or discounts as well as bond issuance costs are recognized during the current period. The face amount of debt issued is reported as other financing sources. Premiums on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

(n) *Revenue Limit Sources/Property Taxes*

The revenue limit is the basic financial support for District activities. The District's revenue limit is received from a combination of local property taxes and state apportionments. For the fiscal year 2006-2007, the District received local property taxes amounting to \$811.3 million and State aid amounting to \$2,901.7 million.

The county is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding March 1, which is also the lien date. Property taxes on the secured roll are due on November 1 and February 1, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (March 1), and become delinquent if unpaid by August 31.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2007

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

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

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

(o) *Estimates*

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

(2) **Tax and Revenue Anticipation Notes**

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

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

TRANs – Short-Term Notes Payable (in thousands)

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

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2007

(3) Reconciliation of Government-Wide And Fund Financial Statements

(a) *Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Assets*

The accompanying governmental fund balance sheet includes reconciliation between *total fund balances – governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.” The details of the \$7,144,649 difference are as follows (in thousands):

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

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2007

(b) ***Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-Wide Statement of Activities***

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *total net changes in fund balances – governmental funds* and *change in net assets of governmental activities* as reported in the accompanying government-wide statement of activities. One element of that reconciliation explains that “Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.” The details of this \$1,287,245 difference are as follows (in thousands):

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

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

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

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2007

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

Details of proceeds of new debt principal:

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

Details of payments to escrow agents of refunded debt:

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

(4) Budgetary Appropriation Amendments

During the fiscal year, modifications were necessary to increase appropriations for expenditures and other financing uses for the General Fund by \$62.5 million. The additional expenditure appropriations were funded by higher than anticipated other financing sources in the General Fund budget.

(5) Cash and Investments

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

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

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2007

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

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

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

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

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

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

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

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2007

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	

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2007

Debt proceeds held by trustees are governed by provisions of debt agreements. The table below identifies the investment types that are authorized for such funds:

	Authorized Investment Type	Maximum Maturity	Maximum Total Par Value	Maximum Par Value per Issuer
A.	Obligations of the U.S. government, its agencies and instrumentalities.	None	None	None
B.	Commercial Paper (CP) rated "A-1" (S&P) and "P-1" (Moody's)	270 days	None	None
C.	Investment agreements, the provider of which is rated at one of the two highest rating categories	None	None	None
D.	Money market funds	None	None	None

Interest-rate risk is the risk involved with fluctuations of interest rates that may adversely affect the fair value of the investments. The County's investment guidelines limit the weighted average maturity of its portfolio to less than 18 months. As of June 30, 2007, 61% of district funds in the County PSI Fund does not exceed one year. In addition, variable-rate notes that comprised 5.2% of the County PSI Fund and other investments portfolio are tied to periodic coupon resets eliminating interest-rate risk by repricing back to par value at each reset date.

Credit risk means the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment, as measured by assignment of a rating by a nationally recognized statistical rating organization. This County's investment guidelines establish minimum acceptable credit ratings issued by any two nationally recognized statistical rating organizations. For a short term debt issuer, the rating must be no less than A-1 from Standard & Poor's or P1 from Moody's, while for a long-term debt issuer, the rating must be no less than A from Standard & Poor's or P from Moody's. The County PSI Fund is not rated.

Concentration of credit risk means the risk of loss attributed to the magnitude of an investment in a single issuer. For District funds in the County pool, the County's investment policy states that no more than 5% of total market value of the pooled funds may be invested in securities of any one issuer, except for obligations of the United States government, and its agencies and instrumentalities. In addition, no more than 10% may be invested in one money market mutual fund. As of June 30, 2007, the County did not exceed these limitations.

Custodial credit risk for deposits is the risk that in the event of failure of a depository financial institution, the District will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Cash in the county treasury is not exposed to custodial credit risk since all county deposits are either covered by federal depository insurance or collateralized with securities held by the County. Deposits other than those with the County are also covered by federal depository

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2007

insurance or collateralized at the rate of 110% of the deposits, although the collateral may not be held specifically in the District's name.

(6) Receivables/Payables

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

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

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

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

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2007

(7) Capital Assets

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

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

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2007

Depreciation expense was charged to the following functions:

Governmental activities:

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

(8) Retirement Plans

Qualified District employees are covered under either multiple-employer defined benefit retirement plans maintained by agencies of the State of California, a multiple-employer defined contribution retirement benefit plan administered under a Trust and/or single employer retirement benefit plans maintained by the District. The retirement plans maintained by the State are 1) the California Public Employees' Retirement System (CalPERS), 2) the State Teachers' Retirement System (STRS), and 3) the Public Agency Retirement (PARS) which is administered under a Trust. The retirement plans maintained by the District are 4) health and medical benefits to retired employees and 5) the Annuity Reserve Fund (dissolved as of November 18, 2003). In general, certificated employees are members of STRS and classified employees are members of CalPERS. Part-time, seasonal, temporary and other employees who are not members of CalPERS or STRS are members of PARS.

(a) *California Public Employees' Retirement System (CalPERS)*

The District contributes to the Public Employees' Retirement Fund (PERF), an agent multiple-employer defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Fiscal Services Division, P.O. Box 942703, Sacramento, CA 94229-2703, or by calling (888) CalPERS (225-7377).

Active plan members are required to contribute 7% (miscellaneous) or 9% (safety) of their monthly salary (over \$133.33, if the member participates in Social Security) and the District is required to contribute based on an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rates for fiscal year 2006-2007 were 9.124% for miscellaneous and 31.993%

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Notes to Basic Financial Statements

Year Ended June 30, 2007

for safety members. The District paid the employee's contribution of 9% for most of the safety members, and certain percentages for employees covered under other collective bargaining units. The contribution requirements of the plan members are established by state statute. The following table shows employer and employee contributions for all members for the fiscal years ended June 30, 2007, 2006 and 2005.

Schedule of Employer Contributions:

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

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

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

The District contributes to the STRS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan and a tax-deferred supplemental program established and administered by the State Teachers' Retirement Law (Section 22000 et seq.) of the California Education Code. The Teachers' Retirement Fund (TRF) is a defined benefit pension plan under the STRS. At June 30, 2006, there were approximately 1,400 contributing employers (school districts, community college districts, county offices of education and regional occupational programs). The State of California is a nonemployer contributor to the TRF.

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

Active plan members are required to contribute 8% of their salary (6% to the Defined Benefit (DB) Program and 2% to the Defined Benefit Supplement (DBS) Program). The District is required to contribute based on an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2006-2007 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. Contributions to STRS for fiscal years ended June 30, 2007, 2006 and 2005 are as follows:

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

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

Beginning July 1, 2003, the State's contribution to the system is 2.017% of the previous calendar year's teachers' payroll. Subsequent to achieving a fully funded System, the State will contribute only the amount necessary to help fund the normal cost of the current benefit program unless a subsequent unfunded obligation occurs.

(c) *Public Agency Retirement System (PARS)*

The Omnibus Budget Reconciliation Act of 1990 requires state and local public agencies to provide a retirement plan for all employees not covered under existing employer pension plans and/or Social Security. These employees are primarily part-time, seasonal, and temporary employees (PSTs). This Act also requires that contributions for PSTs be vested immediately and permits any split of the minimum contributions between employee and employer.

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On July 1, 1992, the District joined the PARS, a multiple-employer retirement trust established by a coalition of public employers. The plan covers the District's part-time, seasonal, temporary, and other employees not covered under CalPERS or STRS, but whose salaries would otherwise be subject to Social Security tax. Benefit provisions and other requirements are established by District management based on agreements with various bargaining units. PARS is a defined contribution qualified retirement plan under Section 401 (a) of the Internal Revenue Code.

The minimum total contribution is 7.5% of employees' salaries, of which the District and the employees contribute 3.75% each. The District paid the employee's contribution for certain collective bargaining units. Employees are vested 100% in both employer and employee contributions from the date of membership. Upon resignation, retirement, or death prior to retirement, the employee or the beneficiary will receive 100% of the amount credited to the employee account, including any share of net fund gains or losses after payment of administrative expenses. If at the time of distribution the amount in the employee's account is less than \$3,500, it will be paid in one lump sum. If the amount is \$3,500 or greater, the employee may elect to receive it in a lump sum or leave it with PARS until the normal retirement age (60) is reached and then receive it as a lump sum.

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

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

(d) *Health and Welfare Benefits for Retirees*

In addition to the pension benefits described in this note, the District provides post employment health care benefits, in accordance with collective bargaining unit agreements and Board rules. Certificated and classified employees who retire from the District receiving a STRS/CalPERS retirement allowance (for either age or disability) are eligible to continue coverage under the District-paid hospital/medical, dental and vision benefits if they meet the following requirements:

- a. Those hired prior to March 11, 1984 must have served a minimum of five consecutive qualifying years immediately prior to retirement;
- b. Those hired from March 11, 1984 through June 30, 1987 must have served a minimum of ten consecutive qualifying years immediately prior to retirement;
- c. Those hired from July 1, 1987 through May 31, 1992 must have served a minimum of 15 consecutive qualifying years immediately prior to retirement, or served ten consecutive qualifying years immediately prior to retirement plus an additional previous ten years which are not consecutive.
- d. Those hired on or after June 1, 1992 must have at least 80 years combined total of consecutive qualifying service and age.

LOS ANGELES UNIFIED SCHOOL DISTRICT

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- e. Those hired on or after March 1, 2007 must have at least 80 years combined total of consecutive qualifying service and age. In addition, the employee must have 15 consecutive years of qualifying service immediately prior to retirement.

In order to maintain coverage, the retirees must continue to receive a STRS/CalPERS retirement allowance and must enroll in those parts of Medicare for which they are eligible. As of July 1, 2007, approximately 35,000 retirees now meet these eligibility requirements.

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

Expenditures are accounted for in the Health and Welfare Benefits Fund. These expenditures consist of retirees' insurance premiums already paid to the Health Maintenance Organizations, retirees' claims reported to the District but not yet paid, and an estimate for claims incurred but not yet reported to the District. The total District expenditures for health and medical benefits for retired employees during the fiscal year ended June 30, 2007 amounted to \$233,532,311.

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

All retirees	\$ 3,928,766
Active employees	<u>6,634,857</u>
	<u>\$ 10,563,623</u>

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

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

(e) Annuity Reserve Fund

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

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

- a. Members on the active and retired rolls, including deferred retirees, of the District Retirement System.
- b. Probationary or permanent certificated employees of the District, holding membership in the STRS or CalPERS and making contributions to either System on that date.

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

(9) Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; job-related illness or injury to employees; and natural disasters. The District has established several self-insurance funds (Internal Service Funds) as follows: the Workers' Compensation Self-Insurance Fund, the Liability Self-Insurance Fund, and the Health and Welfare Benefits Fund. These funds account for the uninsured risk of loss and pay for insurance premiums, management fees, and related expenses. The District is self-insured for its Workers' Compensation Insurance Program and partially self-insured for the Health and Welfare and Liability Insurance Programs. Premium payments to Health Maintenance Organizations for medical benefits and to outside carriers for vision services, dental services, and optional life insurance are paid out of the Health and Welfare Benefits Fund.

Excess insurance has been purchased for fire loss damages, which currently provides \$1 billion coverage above a \$500,000 self-insurance retention and for general liability, which currently provides \$45 million coverage above a \$3 million self-insurance retention. No settlements exceeded insurance coverage in the last three fiscal years ended June 30, 2007.

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

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

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workers' compensation coverage with statutory limits and primary general liability and excess liability coverage with limits of \$100 million have been underwritten by three major insurance carriers.

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

Liabilities for loss and loss adjustment expenses under each program are based on the estimated present value of the ultimate cost of settling the claims including the accumulation of estimates for losses reported prior to the balance sheet date, estimates of losses incurred but not reported, and estimates of expenses for investigating and adjusting reported and unreported losses. Such liabilities are estimates of the future expected settlements and are based upon analysis of historical patterns of the number of incurred claims and their values. Individual reserves are continuously monitored and reviewed and as settlements are made, or reserves adjusted, differences are reflected in current operations.

As of June 30, 2007, the amount of the total claims liabilities recorded for medical liability and workers' compensation was \$567.6 million. During the fiscal year, the District recorded workers' compensation claims liability at reduced levels as a result of legislative changes, accelerated rate of claims closure and a discount rate of 5%. Changes in the reported liabilities since July 1, 2005 are summarized as follows:

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

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2007

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

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

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

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

On May 23, 2000, the District issued COPs 2000 Series A (Qualified Zone Academy Bonds Project) in the amount of \$30,446,700, a first-of-its-kind bond under a federal program that offers investors tax credits rather than interest payments. Of this amount, \$3,800,000 was issued on behalf of Fenton Avenue Charter School and \$3,800,000 for Vaughn Next Century Learning Center. Scheduled payments to a sinking fund are to be made annually through maturity in 2012. The proceeds from the issuance are to pay for the rehabilitation or repair of facilities and the acquisition and installation of equipment at School to Career Academy Programs school sites and at the two charter schools. This issue was partially refunded by COPs 2004 Series B in July 2004. A portion of this issue is being repaid from Measure Y funds.

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

On November 6, 2001, the District issued COPs 2001 Series B (Beaudry I – Tenant Improvements) in the amount of \$68,890,000. Interest is paid semiannually at 5.00%. Principal payments are due annually beginning 2024 through 2031. The proceeds are to pay for improvements at the District's new administration building. This issue was partially refunded by COPs 2004 Series A in July 2004.

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

On December 5, 2002, the District issued COPs 2002 Series C (Beaudry II) in the amount of \$9,490,000. Interest is payable semiannually ranging from 2.00% to 5.00%. Principal payments are due annually through 2031. The proceeds are to fund tenant improvements and Heating, Ventilation and Air Conditioning (HVAC) upgrades for the 12th floor and painting and lighting upgrades of the garage of the Administration Building. This issue was partially refunded by COPs 2004 Series A in July 2004.

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On June 11, 2003, the District issued COPs 2003 Series B (Pico Rivera Warehouse) in the amount of \$31,620,000. Interest is payable semiannually ranging from 2.00% to 5.00%. Principal payments are due annually through 2028. The proceeds are used to purchase and equip a turn-key warehouse in the City of Pico Rivera. This issue was partially refunded by COPs 2004 Series A in July 2004.

On July 13, 2004, the District issued COPs 2004 Series A (Refinancing and Refunding Project I) in the amount of \$50,700,000. Interest is payable semiannually ranging from 3.00% to 5.00%. Principal payments are due annually through 2014. Proceeds are to refinance certain prior debt service payments and to refund portions of the District COPs. This advance refunding was undertaken to reduce General Fund debt service payments in fiscal years 2004-2005 and 2005-2006 by \$45.0 million with an increase to total debt service payments of \$17.8 million over the next ten years. This issue was partially refunded by Measure Y Series D Bonds in February 2006.

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

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

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

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

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2007

Qualified Zone Academy Bonds) in the amount of \$10,000,000. The zero interest tax credit bonds are used for modernizing nine schools to accommodate existing or planned academy programs that address student career pathway/higher education interests. Scheduled payments to a sinking fund are to be made annually through maturity in 2020.

Other Leasing Arrangements

The District has entered into various lease agreements ranging from three to five years to finance the acquisition of office equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. The future minimum lease payments (principal plus interest) and the net present value of these minimum lease payments (principal only) are detailed in Note 11 – Long-Term Obligations.

The District's operating leases consist of various leased facilities and office equipment (primarily copiers). The leased facilities have varying terms ranging from less than a year to 20 years. Some leases are month to month and a few are year to year. The leases expire over the next 13 years subject to renewal option provisions.

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

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

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

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2007

(11) Long-Term Obligations

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

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

* Net of unamortized premiums and discounts.

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

Year Ending June 30	General Obligation Bonds			Capital Lease Obligations/ Certificates of Participation		Other Loans		Total		
	Principal	Amortization	Interest	Principal	Interest	Principal	Interest	Principal	Amortization	Interest
2008	\$ 179,835	\$ (61,472)	\$ 299,070	\$ 22,639	\$ 15,390	\$ 513	\$ 54	\$ 202,987	\$ (61,472)	\$ 314,514
2009	196,400	13,293	299,076	19,288	16,861	551	32	216,239	13,293	315,969
2010	219,105	12,829	290,123	18,756	15,844	288	24	238,149	12,829	305,991
2011	189,405	13,291	281,066	19,268	15,027	296	16	208,969	13,291	296,109
2012	198,840	5,941	271,969	43,865	14,099	304	7	243,009	5,941	286,075
2013-2017	1,136,790	71,411	1,198,664	93,165	56,695	410	1	1,230,365	71,411	1,255,360
2018-2022	1,577,520	55,640	867,324	75,775	37,974	79	—	1,653,374	55,640	905,298
2023-2027	1,997,175	23,513	423,148	67,085	22,501	—	—	2,064,260	23,513	445,649
2028-2032	809,810	6,003	70,338	58,845	7,231	—	—	868,655	6,003	77,569
	\$ 6,504,880	\$ 140,449	\$ 4,000,778	\$ 418,686	\$ 201,622	\$ 2,441	\$ 134	\$ 6,926,007	\$ 140,449	\$ 4,202,534

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

(a) six issuances of Proposition BB bonds:

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

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2007

2. Series "B" bonds, sold in August 1998 at \$350.0 million par value, of which \$90.9 million and \$150.5 million were refunded in April 2002 and July 2005, respectively;
 3. Series "C" bonds, sold in August 1999 at \$300.0 million par value, of which \$70.8 million, \$14.2 million and \$124.3 million were refunded in April 2002, December 2004 and July 2005, respectively;
 4. Series "D" bonds, sold in August 2000 at \$386.7 million par value, of which \$101.0 million, \$107.2 million and \$76.6 million were refunded in April 2002, December 2004 and July 2005, respectively;
 5. Series "E" bonds, sold in April 2002 at \$500.0 million par value, of which \$75.8 million, \$231.2 million, and \$25.8 million were refunded in December 2004, November 2006 and February 2007, respectively; and
 6. Series "F" bonds, sold in March 2003 at \$507.3 million par value of which \$129.5 million was refunded in January 2007;
- (b) two issuances of Measure K bonds:
1. Series "A" bonds, sold in February 2003 at \$2.1 billion par value, of which \$131.9 million, \$330.1 million, and \$1.12 billion were refunded in February 2006, October 2006, and January 2007, respectively
 2. Series "B" bonds sold in February 2007 at \$500.0 million par value;
- (c) seven issuances of Measure R bonds:
1. Series "A" bonds at \$72.6 million par value, Series "B" bonds at \$60.5 million par value, Series "C" bonds at \$50.0 million par value and Series "D" bonds at \$16.9 million par value, all sold in September 2004 and all of which, except for Series C, were used to partially and fully refund certain certificates of participation;
 2. Series "E" bonds, sold in August 2005 at \$400.0 million par value;
 3. Series "F" bonds, sold in February 2006 at \$500.0 million par value; and
 4. Series "G" bonds sold in August 2006 at \$400.0 million par value;
- (d) four issuances of Measure Y bonds sold in February 2006: Series "A" bonds at \$56.8 million par value, Series "B" bonds at \$80.2 million par value, Series "C" bonds at \$210.0 million par value and Series "D" bonds at \$47.4 million par value, all of which, except for Series C and \$5.7 million of Series D, were used to partially or fully refund certain certificates of participation; and
- (e) general obligation refunding bonds: 2004 Series "A-1" and "A-2" sold in December 2004 at \$219.1 million par value, 2005 Series "A-1" and "A-2" sold in July 2005 at \$467.7 million par value, 2006 Series "A" sold in February 2006 at \$132.3 million par value, 2006 Series "B" sold in

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2007

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

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

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

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

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

The Children Center Facilities Fund revolving loan represents loan proceeds from the State Child Development Revolving Fund for the purchase of relocatable buildings, sites and site improvements for child care facilities. The loan, which does not incur interest charges, must be repaid in ten years. Annual repayment will begin when the full amount of the loan is received.

The California Energy Commission has agreed to provide the District with State funding of up to \$8 million (at a 3.95% annual interest rate) of which \$1.32 million was received in fiscal year 2004-2005. An additional \$0.06 million was received in fiscal year 2005-2006. The principal and interest will be repaid in its entirety through energy cost avoidance that the District intends to achieve from its energy project. The project involves use of energy efficient equipment, certain building shell components and improved methods of lighting and lighting controls.

The Arbitrage Payable balance reflects amounts due to the United States Treasury in order to comply with Internal Revenue Code Section 148(f). When the District issues tax-exempt debt, IRS regulations limit the yield that the District can earn on the bond proceeds. If the District earns an amount in excess of the bond yield and does not qualify for a spending exception, the District must remit the excess earnings to the US Treasury. Payments equal to 90% of the calculated excess earnings are due on each fifth anniversary of a bond’s issuance date. When a bond issue is retired, all of the remaining excess earnings must be remitted.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2007

(12) Interfund Transactions

(a) *Interfund Receivables/Payables (Due to/from Other Funds)*

Interfund receivables/payables are eliminated on the government-wide statement of net assets but are reported on the fund financial statements. The following is a summary of interfund receivables and payables at June 30, 2007 (in thousands):

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

The outstanding balances of interfund receivables and payables result mainly from timing differences between the dates that interfund exchange of services or reimbursable expenditures occur, transactions are recorded and payments between funds are made. Interfund receivables and payables also arise when transfers are made to move revenue collected in one fund to another fund where the resources are spent or accounted for, in accordance with budgetary authorization, including amounts provided as matching funds or for debt service.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2007

(b) Interfund Transfers

Interfund transfers are eliminated on the government-wide statement of activities but are reported on the fund financial statements. These consist of transfers from funds receiving revenue to funds through which resources are to be expended. Transfers between funds for the year ended June 30, 2007 were as follows (in thousands):

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

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2007

(13) Fund Equity

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

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

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2007

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

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

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

(14) Contingencies

(a) General

The District has been named as a defendant in numerous lawsuits. These seek, among other things, to require the District to reinstate terminated and laid-off employees, to remedy alleged noncompliance regarding special education schools, and to change existing instructional programs, pupil integration methods, and employment and administration procedures. In certain instances, monetary damages are sought including claims for retroactive pay. Based on the opinion of counsel, management believes that the ultimate outcome of such lawsuits will not have a material effect on the District's financial condition.

(b) Grants

The District has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under the terms of the grants, management believes that any required reimbursement will not be material to the financial statements.

(c) Construction Contracts

The District has entered into various contracts for the construction of facilities throughout the campuses. During fiscal year 2006-2007 the District entered into approximately 397 contracts with a combined value of \$512 million. The durations of the contracts range from one week to three years.

(15) Subsequent Events

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

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

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2007

then further lowered to Baal on November 19, 2008. Under the terms of the GIC, MBIA returned \$5,154,377.70 to U.S. Bank, the trustee for the 2005 COPs, on July 3, 2008.

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

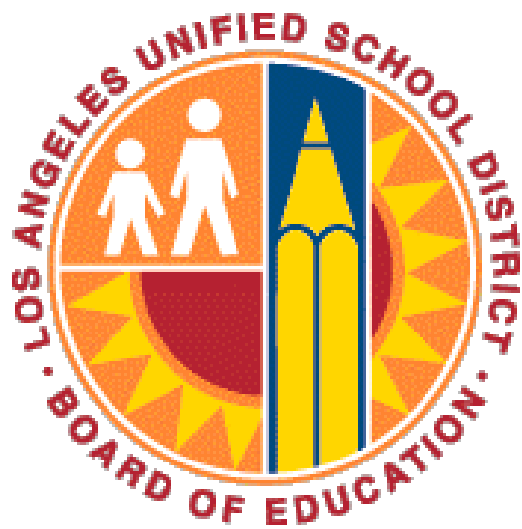
On August 16, 2007, the District issued \$150,000,000 General Obligation Bonds, Election of 2002, Series C (2007), \$550,000,000 General Obligation Bonds, Election of 2004, Series H (2007), and \$300,000,000 General Obligation Bonds, Election of 2005, Series E (2007) at a blended true interest cost of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

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

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

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

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



LOS ANGELES UNIFIED SCHOOL DISTRICT

District Bonds Fund

The Building Account – Bond Proceeds was established on April 4, 1997 to account for proceeds from bond issues as a result of the passage of Proposition BB in April 1997.

The Building Account – Measure K was established on February 26, 2003 to account for proceeds from bond issues as a result of the passage of Measure K in November 2002.

The Building Account – Measure R was established on July 19, 2004 to account for proceeds from bond issues as a result of the passage of Measure R in March 2004.

The Building Account – Measure Y was established on January 31, 2006 to account for proceeds from bond issues as a result of the passage of Measure Y in November 2005.

LOS ANGELES UNIFIED SCHOOL DISTRICT
District Bonds Fund
Combining Balance Sheet
June 30, 2007
(in thousands)

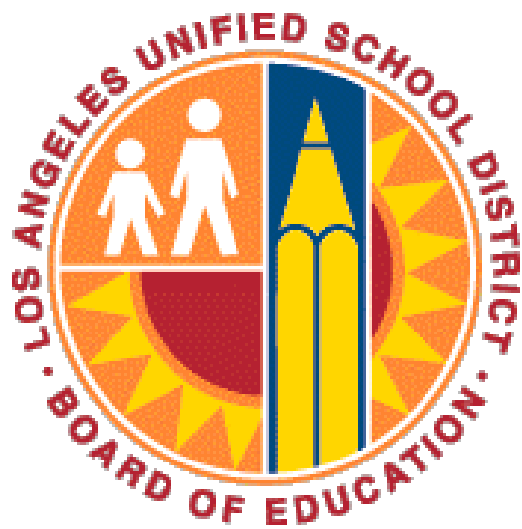
		Building Account – Bond Proceeds	Building Account – Measure K	Building Account – Measure R	Building Account – Measure Y	Total
Assets:						
Cash in county treasury, in banks, and on hand	\$	142,417	\$ 388,307	\$ 213,080	\$ 141,848	\$ 885,652
Cash held by trustee		—	300	—	—	300
Investments		—	—	206,420	—	206,420
Accounts receivable – net		6,966	2,003	76	—	9,045
Accrued interest and dividends receivable		2,813	7,455	5,509	2,097	17,874
Due from other funds		1,069	24,632	6,861	1,237	33,799
Total Assets	\$	153,265	\$ 422,697	\$ 431,946	\$ 145,182	\$ 1,153,090
Liabilities and Fund Balances:						
Vouchers and accounts payable	\$	3,716	\$ 21,655	\$ 20,520	\$ 2,033	\$ 47,924
Contracts payable		6,627	45,366	40,958	4,583	97,534
Accrued payroll		54	714	578	7	1,353
Other payables		2,460	873	—	—	3,333
Due to other funds		784	7,553	10,755	30,816	49,908
Total Liabilities		13,641	76,161	72,811	37,439	200,052
Fund Balances:						
Reserved for:						
Revolving and imprest funds		3,000	—	300	—	3,300
Total Reserved Fund Balances		3,000	—	300	—	3,300
Unreserved:						
Designated for:						
Subsequent year expenditures		136,624	346,536	358,835	107,743	949,738
Total Designated		136,624	346,536	358,835	107,743	949,738
Total Unreserved Fund Balances		136,624	346,536	358,835	107,743	949,738
Total Fund Balances		139,624	346,536	359,135	107,743	953,038
Total Liabilities and Fund Balances	\$	153,265	\$ 422,697	\$ 431,946	\$ 145,182	\$ 1,153,090

See accompanying independent auditors' report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
District Bonds Fund
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2007
(in thousands)

	Building Account – Bond Proceeds	Building Account – Measure K	Building Account – Measure R	Building Account – Measure Y	Total
Revenues:					
Other local revenues	\$ 17,994	\$ 15,421	\$ 29,622	\$ 8,310	\$ 71,347
Total Revenues	<u>17,994</u>	<u>15,421</u>	<u>29,622</u>	<u>8,310</u>	<u>71,347</u>
Expenditures:					
Current:					
Classified salaries	1,326	16,370	22,115	605	40,416
Employee benefits	459	6,725	8,743	237	16,164
Books and supplies	200	3,029	3,003	49	6,281
Services and other operating expenditures	6,814	16,325	14,872	25	38,036
Capital outlay	<u>87,214</u>	<u>611,073</u>	<u>366,041</u>	<u>27,121</u>	<u>1,091,449</u>
Total Expenditures	<u>96,013</u>	<u>653,522</u>	<u>414,774</u>	<u>28,037</u>	<u>1,192,346</u>
Deficiency of revenues under expenditures	<u>(78,019)</u>	<u>(638,101)</u>	<u>(385,152)</u>	<u>(19,727)</u>	<u>(1,120,999)</u>
Other Financing Sources (Uses):					
Transfers in	1,153	140,590	2,562	—	144,305
Transfers out	(9)	(34,331)	(3,039)	(40,768)	(78,147)
Issuance of bonds	—	500,000	400,000	—	900,000
Premium on bonds issued	<u>—</u>	<u>5,482</u>	<u>2,238</u>	<u>—</u>	<u>7,720</u>
Total Other Financing Sources (Uses)	<u>1,144</u>	<u>611,741</u>	<u>401,761</u>	<u>(40,768)</u>	<u>973,878</u>
Net Changes in Fund Balances	<u>(76,875)</u>	<u>(26,360)</u>	<u>16,609</u>	<u>(60,495)</u>	<u>(147,121)</u>
Fund Balances, July 1, 2006	<u>216,499</u>	<u>372,896</u>	<u>342,526</u>	<u>168,238</u>	<u>1,100,159</u>
Fund Balances, June 30, 2007	<u>\$ 139,624</u>	<u>\$ 346,536</u>	<u>\$ 359,135</u>	<u>\$ 107,743</u>	<u>\$ 953,038</u>

See accompanying independent auditors' report.



LOS ANGELES UNIFIED SCHOOL DISTRICT
District Bonds Fund
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2007
(in thousands)

	Building Account – Bond Proceeds			Variance with Final Budget – Favorable (Unfavorable)
	Budget		Actual	
	Original	Final		
Revenues:				
Other local revenues	\$ 4,810	\$ 4,810	\$ 17,994	\$ 13,184
Total Revenues	4,810	4,810	17,994	13,184
Expenditures:				
Current:				
Classified salaries	6,992	1,326	1,326	—
Employee benefits	3,079	459	459	—
Books and supplies	—	201	200	1
Services and other operating expenditures	75,210	13,881	6,814	7,067
Capital outlay	25,028	95,586	87,214	8,372
Total Expenditures	110,309	111,453	96,013	15,440
Deficiency of Revenues Under Expenditures	(105,499)	(106,643)	(78,019)	28,624
Other Financing Sources (Uses):				
Transfers in	—	1,153	1,153	—
Transfers out	—	(9)	(9)	—
Issuance of bonds	—	—	—	—
Premium on bonds issued	—	—	—	—
Total Other Financing Sources (Uses)	—	1,144	1,144	—
Net Changes in Fund Balances	(105,499)	(105,499)	(76,875)	28,624
Fund Balances, July 1, 2006	216,499	216,499	216,499	—
Fund Balances, June 30, 2007	\$ 111,000	\$ 111,000	\$ 139,624	\$ 28,624

See accompanying independent auditors' report.

Building Account – Measure K				Building Account – Measure R			
Budget		Actual	Variance with Final Budget – Favorable (Unfavorable)	Budget		Actual	Variance with Final Budget – Favorable (Unfavorable)
Original	Final			Original	Final		
\$ 7,750	\$ 7,750	\$ 15,421	\$ 7,671	\$ 10,400	\$ 10,400	\$ 29,622	\$ 19,222
7,750	7,750	15,421	7,671	10,400	10,400	29,622	19,222
24,135	24,302	16,370	7,932	21,410	30,186	22,115	8,071
12,850	13,021	6,725	6,296	11,647	14,540	8,743	5,797
15,174	6,029	3,029	3,000	—	3,004	3,003	1
20,888	16,452	16,325	127	12,414	25,219	14,872	10,347
633,649	697,405	611,073	86,332	536,487	510,769	366,041	144,728
706,696	757,209	653,522	103,687	581,958	583,718	414,774	168,944
(698,946)	(749,459)	(638,101)	111,358	(571,558)	(573,318)	(385,152)	188,166
—	79,362	140,590	61,228	—	2,561	2,562	1
—	(34,331)	(34,331)	—	—	(3,039)	(3,039)	—
500,000	500,000	500,000	—	400,000	400,000	400,000	—
—	5,482	5,482	—	—	2,238	2,238	—
500,000	550,513	611,741	61,228	400,000	401,760	401,761	1
(198,946)	(198,946)	(26,360)	172,586	(171,558)	(171,558)	16,609	188,167
372,896	372,896	372,896	—	342,526	342,526	342,526	—
\$ 173,950	\$ 173,950	\$ 346,536	\$ 172,586	\$ 170,968	\$ 170,968	\$ 359,135	\$ 188,167

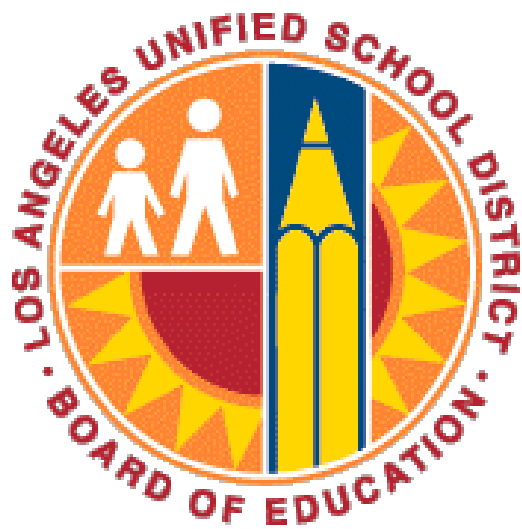
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LOS ANGELES UNIFIED SCHOOL DISTRICT
District Bonds Fund
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Continued)
Year Ended June 30, 2007
(In thousands)

	Building Account – Measure Y			Variance with Final Budget – Favorable (Unfavorable)
	Budget		Actual	
	Original	Final		
Revenues:				
Other local revenues	\$ 2,660	\$ 2,660	\$ 8,310	\$ 5,650
Total Revenues	2,660	2,660	8,310	5,650
Expenditures:				
Current:				
Classified salaries	35	8,256	605	7,651
Employee benefits	14	3,793	237	3,556
Books and supplies	407	3,407	49	3,358
Services and other operating expenditures	(44)	1,793	25	1,768
Capital outlay	110,014	84,313	27,121	57,192
Total Expenditures	110,426	101,562	28,037	73,525
Deficiency of Revenues Under Expenditures	(107,766)	(98,902)	(19,727)	79,175
Other Financing Sources (Uses):				
Transfers in	—	—	—	—
Transfers out	(35,712)	(44,576)	(40,768)	3,808
Issuance of bonds	—	—	—	—
Premium on bonds issued	—	—	—	—
Total Other Financing Sources (Uses)	(35,712)	(44,576)	(40,768)	3,808
Net Changes in Fund Balances	(143,478)	(143,478)	(60,495)	82,983
Fund Balances, July 1, 2006	168,238	168,238	168,238	—
Fund Balances, June 30, 2007	\$ 24,760	\$ 24,760	\$ 107,743	\$ 82,983

See accompanying independent auditors' report.

Total			
Budget		Actual	Variance with Final Budget – Favorable (Unfavorable)
Original	Final		
\$ 25,620	\$ 25,620	\$ 71,347	\$ 45,727
25,620	25,620	71,347	45,727
52,572	64,070	40,416	23,654
27,590	31,813	16,164	15,649
15,581	12,641	6,281	6,360
108,468	57,345	38,036	19,309
1,305,178	1,388,073	1,091,449	296,624
1,509,389	1,553,942	1,192,346	361,596
(1,483,769)	(1,528,322)	(1,120,999)	407,323
—	83,076	144,305	61,229
(35,712)	(81,955)	(78,147)	3,808
900,000	900,000	900,000	—
—	7,720	7,720	—
864,288	908,841	973,878	65,037
(619,481)	(619,481)	(147,121)	472,360
1,100,159	1,100,159	1,100,159	—
\$ 480,678	\$ 480,678	\$ 953,038	\$ 472,360



LOS ANGELES UNIFIED SCHOOL DISTRICT

Nonmajor Governmental Funds

Special Revenue Funds

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

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

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

The Deferred Maintenance Fund is used to account for resources designated for the major repair or replacement of District property under the plan approved by the State Allocation Board. Revenues are derived from State apportionments, District matching funds, and investment income.

Debt Service Funds

The Bond Interest and Redemption Fund is used to account for the payment of the principal and interest on the Proposition BB, Measure K, Measure R, and Measure Y bond issues. Revenues are derived from ad valorem taxes levied upon all property subject to tax by the District. Such taxes, when collected, are placed and maintained by the County of Los Angeles in a Debt Service Fund under the District's name.

The Tax Override Fund is used to account for the accumulation of resources from ad valorem tax levies for the repayment of State School Building Aid Fund apportionments. These taxes will continue to be levied until the indebtedness is paid in full.

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

Capital Projects Funds

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

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

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

LOS ANGELES UNIFIED SCHOOL DISTRICT

Nonmajor Governmental Funds

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

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

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

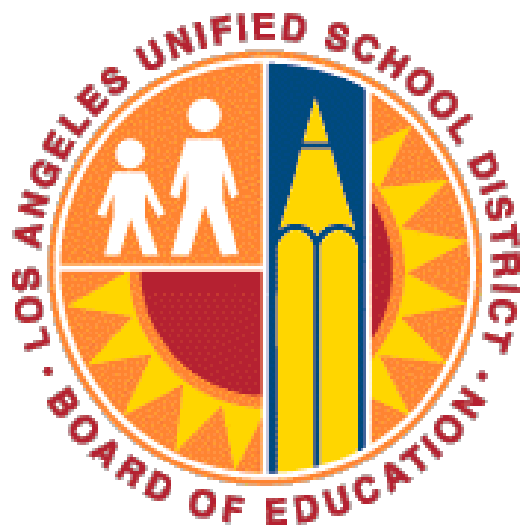
The Capital Facilities Account Fund was established in January 1, 1987 in accordance with Section 53080 of the California Government Code and is used to account for resources received from fees levied upon new residential, commercial, or industrial development projects within the District's boundaries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

The County School Facilities Fund was established on March 9, 1999 in accordance with Education Code Section 17070 and is used to account for funds received from the State's Proposition 1A bond proceeds.

The County School Facilities Fund – Proposition 47 was established on March 25, 2003 in accordance with Education Code Section 17070.43 and is used to account for apportionments received from the State School Facilities Fund. The passage of Proposition 47 in November 2002 authorizes the sale of bonds, which provides funding for new school facility construction, modernization projects, and facility hardship grants.

The County School Facilities Fund – Proposition 55 was established on July 19, 2004 to account for the matching funds received as a result of the passage of Measure R. Proposition 55 was passed by the voters in March 2004.

The County School Facilities Fund – Proposition 1D was established on December 12, 2006. The passage of Proposition 1D in November 2006 provides State bond funds to repair and renovate old and outdated classrooms and to build new schools and classrooms to relieve overcrowding. Proposition 1D provides matching State funds for locally approved school bond measures.



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

	Special		
	Adult Education	Cafeteria	Child Development
Assets:			
Cash in county treasury, in banks, and on hand	\$ 21,224	\$ 12,378	\$ 10,271
Cash held by trustee	—	—	—
Investments	—	—	—
Taxes receivable	—	—	—
Accounts receivable – net	25,802	52,984	7,137
Accrued interest and dividends receivable	939	757	—
Due from other funds	4,755	2,335	1,270
Inventories	91	7,559	65
Total Assets	\$ 52,811	\$ 76,013	\$ 18,743
Liabilities and Fund Balances:			
Vouchers and accounts payable	\$ 1,580	\$ 6,166	\$ 1,300
Contracts payable	1	—	—
Accrued payroll	868	2,634	414
Other payables	130	91	890
Due to other funds	6,627	13,153	4,310
Deferred revenue	9,540	—	765
Total Liabilities	18,746	22,044	7,679
Fund Balances:			
Reserved for:			
Revolving and imprest funds	119	—	37
Inventories	91	7,559	65
Debt service	—	—	—
Total Reserved Fund Balances	210	7,559	102
Unreserved:			
Designated for:			
Subsequent year expenditures	13,797	46,410	10,962
Total Designated	13,797	46,410	10,962
Undesignated	20,058	—	—
Total Unreserved Fund Balances	33,855	46,410	10,962
Total Fund Balances	34,065	53,969	11,064
Total Liabilities and Fund Balances	\$ 52,811	\$ 76,013	\$ 18,743

See accompanying independent auditors' report.

Revenue			Debt Service			
Deferred Maintenance	Total	Bond Interest and Redemption	Tax Override	Capital Services	Total	
\$ 154,658	\$ 198,531	\$ 360,140	\$ 202	\$ 10,203	\$ 370,545	
—	—	—	—	3,217	3,217	
—	—	—	—	17,967	17,967	
—	—	46,689	—	—	46,689	
—	85,923	—	—	3,553	3,553	
2,870	4,566	—	5	165	170	
—	8,360	—	—	—	—	
—	7,715	—	—	—	—	
<u>\$ 157,528</u>	<u>\$ 305,095</u>	<u>\$ 406,829</u>	<u>\$ 207</u>	<u>\$ 35,105</u>	<u>\$ 442,141</u>	
\$ 1,848	\$ 10,894	\$ —	\$ —	\$ 32	\$ 32	
—	1	—	—	—	—	
1	3,917	—	—	—	—	
—	1,111	—	—	637	637	
1,777	25,867	—	—	11,508	11,508	
—	10,305	46,689	—	—	46,689	
<u>3,626</u>	<u>52,095</u>	<u>46,689</u>	<u>—</u>	<u>12,177</u>	<u>58,866</u>	
—	156	—	—	—	—	
—	7,715	—	—	—	—	
—	—	360,140	207	22,928	383,275	
—	7,871	360,140	207	22,928	383,275	
153,902	225,071	—	—	—	—	
153,902	225,071	—	—	—	—	
—	20,058	—	—	—	—	
153,902	245,129	—	—	—	—	
153,902	253,000	360,140	207	22,928	383,275	
<u>\$ 157,528</u>	<u>\$ 305,095</u>	<u>\$ 406,829</u>	<u>\$ 207</u>	<u>\$ 35,105</u>	<u>\$ 442,141</u>	

(Continued)

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

	Capital			
	Building	State School Building Lease – Purchase	Special Reserve	Special Reserve – FEMA – Earthquake
Assets:				
Cash in county treasury, in banks, and on hand	\$ 2,252	\$ 14,986	\$ 149,342	\$ 2,093
Cash held by trustee	—	—	58,034	—
Investments	—	—	10,318	—
Taxes receivable	—	—	—	—
Accounts receivable – net	—	26	22	372
Accrued interest and dividends receivable	44	272	2,589	43
Due from other funds	—	—	533	121
Inventories	—	—	—	—
Total Assets	<u>\$ 2,296</u>	<u>\$ 15,284</u>	<u>\$ 220,838</u>	<u>\$ 2,629</u>
Liabilities and Fund Balances:				
Vouchers and accounts payable	\$ —	\$ 284	\$ 1,257	\$ 234
Contracts payable	—	239	1,826	—
Accrued payroll	2	—	10	—
Other payables	171	10,669	2,139	1,916
Due to other funds	15	26	23,530	479
Deferred revenue	—	—	—	—
Total Liabilities	<u>188</u>	<u>11,218</u>	<u>28,762</u>	<u>2,629</u>
Fund Balances:				
Reserved for:				
Revolving and imprest funds	—	—	—	—
Inventories	—	—	—	—
Debt service	—	—	—	—
Total Reserved Fund Balances	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Unreserved:				
Designated for:				
Subsequent year expenditures	2,108	4,066	192,076	—
Total Designated	<u>2,108</u>	<u>4,066</u>	<u>192,076</u>	<u>—</u>
Undesignated	—	—	—	—
Total Unreserved Fund Balances	<u>2,108</u>	<u>4,066</u>	<u>192,076</u>	<u>—</u>
Total Fund Balances	<u>2,108</u>	<u>4,066</u>	<u>192,076</u>	<u>—</u>
Total Liabilities and Fund Balances	<u>\$ 2,296</u>	<u>\$ 15,284</u>	<u>\$ 220,838</u>	<u>\$ 2,629</u>

See accompanying independent auditors' report.

Projects

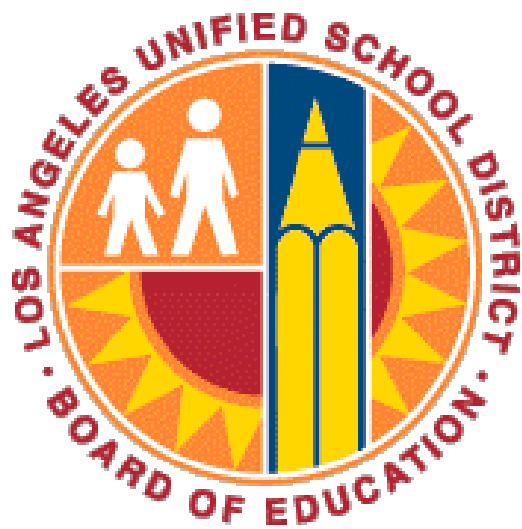
Special Reserve – FEMA- Hazard Mitigation	Special Reserve – Community Redevelopment Agency	Capital Facilities Account	County School Facilities Bonds				Total
			County School Facilities	County School Facilities – Prop 47	County School Facilities – Prop 55	County School Facilities – Prop 1D	
\$ 3,603	\$ 15,257	\$ 150,122	\$ 54,461	\$ 22,738	\$ 406,522	\$ 16,005	\$ 499,726
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	10,646	—	—	—	—	—
63	271	3,475	1,090	4,102	5,958	9	11,159
19	545	152	349	50	30	—	429
—	—	—	—	—	—	—	—
<u>\$ 3,685</u>	<u>\$ 16,073</u>	<u>\$ 164,395</u>	<u>\$ 55,900</u>	<u>\$ 26,890</u>	<u>\$ 412,510</u>	<u>\$ 16,014</u>	<u>\$ 511,314</u>
\$ 1	\$ —	\$ 932	\$ 2,434	\$ 5,959	\$ 9,804	\$ 6	\$ 18,203
—	—	8,739	1,434	19,424	22,193	—	43,051
—	—	11	—	10	—	—	10
—	—	893	8	—	—	—	8
162	30	857	2,070	420	12,006	5	14,501
1,479	—	—	—	—	—	—	—
<u>1,642</u>	<u>30</u>	<u>11,432</u>	<u>5,946</u>	<u>25,813</u>	<u>44,003</u>	<u>11</u>	<u>75,773</u>
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	4,960	152,963	49,954	1,077	368,507	16,003	435,541
—	4,960	152,963	49,954	1,077	368,507	16,003	435,541
2,043	11,083	—	—	—	—	—	—
<u>2,043</u>	<u>16,043</u>	<u>152,963</u>	<u>49,954</u>	<u>1,077</u>	<u>368,507</u>	<u>16,003</u>	<u>435,541</u>
<u>2,043</u>	<u>16,043</u>	<u>152,963</u>	<u>49,954</u>	<u>1,077</u>	<u>368,507</u>	<u>16,003</u>	<u>435,541</u>
<u>\$ 3,685</u>	<u>\$ 16,073</u>	<u>\$ 164,395</u>	<u>\$ 55,900</u>	<u>\$ 26,890</u>	<u>\$ 412,510</u>	<u>\$ 16,014</u>	<u>\$ 511,314</u>

(Continued)

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

	Total	Total Nonmajor Governmental Funds
Assets:		
Cash in county treasury, in banks, and on hand	\$ 837,381	\$ 1,406,457
Cash held by trustee	58,034	61,251
Investments	10,318	28,285
Taxes receivable	—	46,689
Accounts receivable – net	11,066	100,542
Accrued interest and dividends receivable	17,916	22,652
Due from other funds	1,799	10,159
Inventories	—	7,715
Total Assets	<u>\$ 936,514</u>	<u>\$ 1,683,750</u>
Liabilities and Fund Balances:		
Vouchers and accounts payable	\$ 20,911	\$ 31,837
Contracts payable	53,855	53,856
Accrued payroll	33	3,950
Other payables	15,796	17,544
Due to other funds	39,600	76,975
Deferred revenue	1,479	58,473
Total Liabilities	<u>131,674</u>	<u>242,635</u>
Fund Balances:		
Reserved for:		
Revolving and imprest funds	—	156
Inventories	—	7,715
Debt service	—	383,275
Total Reserved Fund Balances	<u>—</u>	<u>391,146</u>
Unreserved:		
Designated for:		
Subsequent year expenditures	791,714	1,016,785
Total Designated	791,714	1,016,785
Undesignated	13,126	33,184
Total Unreserved Fund Balances	<u>804,840</u>	<u>1,049,969</u>
Total Fund Balances	<u>804,840</u>	<u>1,441,115</u>
Total Liabilities and Fund Balances	<u>\$ 936,514</u>	<u>\$ 1,683,750</u>

See accompanying independent auditors' report.



LOS ANGELES UNIFIED SCHOOL DISTRICT
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2007
(in thousands)

	Special		
	Adult Education	Cafeteria	Child Development
Revenues:			
Revenue limit sources	\$ 169,087	\$ —	\$ —
Federal revenues	17,606	215,290	15,447
Other state revenues	10,303	18,231	92,309
Other local revenues	3,219	19,712	8,916
Total Revenues	200,215	253,233	116,672
Expenditures:			
Current:			
Certificated salaries	105,825	—	42,164
Classified salaries	23,072	94,815	36,281
Employee benefits	41,577	38,696	28,102
Books and supplies	7,194	114,660	4,288
Services and other operating expenditures	5,289	9,663	5,365
Capital outlay	877	885	97
Debt service – principal	—	—	—
Debt service – bond and COPs interest	—	—	—
Debt service – refunding bond issuance cost	—	—	—
Total Expenditures	183,834	258,719	116,297
Excess (Deficiency) of Revenues Over (Under) Expenditures	16,381	(5,486)	375
Other Financing Sources (Uses):			
Transfers in	4,199	288	7,133
Transfers – support costs	(5,596)	—	(646)
Transfers out	—	—	(2,000)
Premium on bonds issued	—	—	—
Refunding bonds issued	—	—	—
Premium on refunding bonds issued	—	—	—
Discount on issuance of refunding bonds	—	—	—
Payment to refunded bonds escrow agent	—	—	—
Total Other Financing Sources (Uses)	(1,397)	288	4,487
Net Changes in Fund Balances	14,984	(5,198)	4,862
Fund Balances, July 1, 2006	19,081	59,167	6,202
Fund Balances, June 30, 2007	\$ 34,065	\$ 53,969	\$ 11,064

See accompanying independent auditors' report.

Revenue		Debt Service			
Deferred Maintenance	Total	Bond Interest and Redemption	Tax Override	Capital Services	Total
\$ —	\$ 169,087	\$ —	\$ —	\$ —	\$ —
—	248,343	—	—	—	—
30,210	151,053	3,355	110	—	3,465
7,371	39,218	448,355	335	1,731	450,421
37,581	607,701	451,710	445	1,731	453,886
—	147,989	—	—	—	—
3,854	158,022	—	—	—	—
1,456	109,831	—	—	—	—
435	126,577	—	—	—	—
16,881	37,198	—	—	—	—
1,836	3,695	—	—	—	—
—	—	133,100	275	16,130	149,505
—	—	267,383	44	17,232	284,659
—	—	9,665	—	—	9,665
24,462	583,312	410,148	319	33,362	443,829
13,119	24,389	41,562	126	(31,631)	10,057
30,188	41,808	—	—	35,142	35,142
—	(6,242)	—	—	—	—
—	(2,000)	—	—	—	—
—	—	25,929	—	—	25,929
—	—	1,889,000	—	—	1,889,000
—	—	49,073	—	—	49,073
—	—	(1,324)	—	—	(1,324)
—	—	(1,927,084)	—	—	(1,927,084)
30,188	33,566	35,594	—	35,142	70,736
43,307	57,955	77,156	126	3,511	80,793
110,595	195,045	282,984	81	19,417	302,482
\$ 153,902	\$ 253,000	\$ 360,140	\$ 207	\$ 22,928	\$ 383,275

(Continued)

LOS ANGELES UNIFIED SCHOOL DISTRICT
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Continued)
Year Ended June 30, 2007
(in thousands)

	Capital			
	Building	State School Building Lease – Purchase	Special Reserve	Special Reserve – FEMA – Earthquake
Revenues:				
Revenue limit sources	\$ —	\$ —	\$ —	\$ —
Federal revenues	—	—	—	—
Other state revenues	—	(4,822)	277	372
Other local revenues	224	251	12,087	—
Total Revenues	<u>224</u>	<u>(4,571)</u>	<u>12,364</u>	<u>372</u>
Expenditures:				
Current:				
Certificated salaries	—	—	—	—
Classified salaries	2	53	157	12
Employee benefits	1	19	79	5
Books and supplies	53	—	237	4
Services and other operating expenditures	23	1	171	628
Capital outlay	—	(742)	26,721	1,969
Debt service – principal	—	—	—	—
Debt service – bond and COPs interest	—	—	—	—
Debt service – refunding bond issuance cost	—	—	—	—
Total Expenditures	<u>79</u>	<u>(669)</u>	<u>27,365</u>	<u>2,618</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>145</u>	<u>(3,902)</u>	<u>(15,001)</u>	<u>(2,246)</u>
Other Financing Sources (Uses):				
Transfers in	—	2,601	70,476	—
Transfers – support costs	—	—	—	—
Transfers out	—	—	(91,395)	(120)
Premium on bonds issued	—	—	—	—
Refunding bonds issued	—	—	—	—
Premium on refunding bonds issued	—	—	—	—
Discount on issuance of refunding bonds	—	—	—	—
Payment to refunded bonds escrow agent	—	—	—	—
Total Other Financing Sources (Uses)	<u>—</u>	<u>2,601</u>	<u>(20,919)</u>	<u>(120)</u>
Net Changes in Fund Balances	145	(1,301)	(35,920)	(2,366)
Fund Balances, July 1, 2006	<u>1,963</u>	<u>5,367</u>	<u>227,996</u>	<u>2,366</u>
Fund Balances, June 30, 2007	<u>\$ 2,108</u>	<u>\$ 4,066</u>	<u>\$ 192,076</u>	<u>\$ —</u>

See accompanying independent auditors' report.

Projects

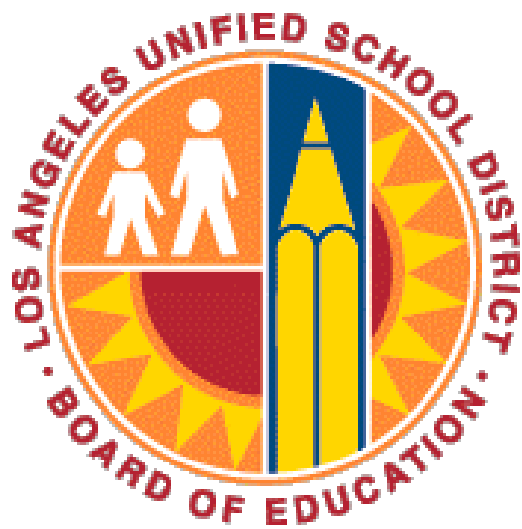
Special Reserve – FEMA – Hazard Mitigation	Special Reserve – Community Redevelopment Agency	Capital Facilities Account	County School Facilities Bonds				Total
			County School Facilities	County School Facilities – Prop 47	County School Facilities – Prop 55	County School Facilities – Prop 1D	
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
24	—	—	—	—	—	—	—
—	—	—	(1,767)	—	387,222	16,074	401,529
250	5,208	105,475	3,731	10,135	16,893	9	30,768
274	5,208	105,475	1,964	10,135	404,115	16,083	432,297
—	—	—	—	—	—	—	—
—	71	354	25	161	105	—	291
—	27	156	14	67	60	—	141
—	92	34	265	17	18	—	300
—	582	852	19	18	175	—	212
24	142	103,186	19,796	68,847	144,932	80	233,655
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
24	914	104,582	20,119	69,110	145,290	80	234,599
250	4,294	893	(18,155)	(58,975)	258,825	16,003	197,698
—	—	—	1,475	6,105	120	—	7,700
—	—	—	—	—	—	—	—
—	—	(24,816)	(4)	(1,021)	(113,754)	—	(114,779)
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	(24,816)	1,471	5,084	(113,634)	—	(107,079)
250	4,294	(23,923)	(16,684)	(53,891)	145,191	16,003	90,619
1,793	11,749	176,886	66,638	54,968	223,316	—	344,922
\$ 2,043	\$ 16,043	\$ 152,963	\$ 49,954	\$ 1,077	\$ 368,507	\$ 16,003	\$ 435,541

(Continued)

LOS ANGELES UNIFIED SCHOOL DISTRICT
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Continued)
Year Ended June 30, 2007
(in thousands)

	Total	Total Nonmajor Governmental Funds
Revenues:		
Revenue limit sources	\$ —	\$ 169,087
Federal revenues	24	248,367
Other state revenues	397,356	551,874
Other local revenues	154,263	643,902
	<u>551,643</u>	<u>1,613,230</u>
Total Revenues		
Expenditures:		
Current:		
Certificated salaries	—	147,989
Classified salaries	940	158,962
Employee benefits	428	110,259
Books and supplies	720	127,297
Services and other operating expenditures	2,469	39,667
Capital outlay	364,955	368,650
Debt service – principal	—	149,505
Debt service – bond and COPs interest	—	284,659
Debt service – refunding bond issuance cost	—	9,665
	<u>369,512</u>	<u>1,396,653</u>
Total Expenditures		
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>182,131</u>	<u>216,577</u>
Other Financing Sources (Uses):		
Transfers in	80,777	157,727
Transfers – support costs	—	(6,242)
Transfers out	(231,110)	(233,110)
Premium on bonds issued	—	25,929
Refunding bonds issued	—	1,889,000
Premium on refunding bonds issued	—	49,073
Discount on issuance of refunding bonds	—	(1,324)
Payment to refunded bonds escrow agent	—	(1,927,084)
	<u>(150,333)</u>	<u>(46,031)</u>
Total Other Financing Sources (Uses)		
Net Changes in Fund Balances	31,798	170,546
Fund Balances, July 1, 2006	<u>773,042</u>	<u>1,270,569</u>
Fund Balances, June 30, 2007	<u>\$ 804,840</u>	<u>\$ 1,441,115</u>

See accompanying independent auditors' report.



LOS ANGELES UNIFIED SCHOOL DISTRICT
Special Revenue Funds
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2007
(in thousands)

	Adult Education			Variance with Final Budget – Favorable (Unfavorable)
	Budget		Actual	
	Original	Final		
Revenues:				
Revenue limit sources	\$ 168,611	\$ 168,611	\$ 169,087	\$ 476
Federal revenues	23,694	19,016	17,606	(1,410)
Other state revenues	27,363	19,771	10,303	(9,468)
Other local revenues	2,320	1,973	3,219	1,246
Total Revenues	221,988	209,371	200,215	(9,156)
Expenditures:				
Current:				
Certificated salaries	110,051	105,839	105,825	14
Classified salaries	30,447	24,538	23,072	1,466
Employee benefits	45,083	42,869	41,577	1,292
Books and supplies	11,631	22,270	7,194	15,076
Services and other operating expenditures	13,818	8,116	5,289	2,827
Capital outlay	1,052	1,230	877	353
Total Expenditures	212,082	204,862	183,834	21,028
Excess (Deficiency) of Revenues Over (Under) Expenditures	9,906	4,509	16,381	11,872
Other Financing Sources (Uses):				
Transfers in	—	3,898	4,199	301
Transfers – support costs	(7,399)	(5,900)	(5,596)	304
Transfers out	—	—	—	—
Total Other Financing Sources (Uses)	(7,399)	(2,002)	(1,397)	605
Net Changes in Fund Balances	2,507	2,507	14,984	12,477
Fund Balances, July 1, 2006	19,081	19,081	19,081	—
Fund Balances, June 30, 2007	\$ 21,588	\$ 21,588	\$ 34,065	\$ 12,477

See accompanying independent auditors' report.

Cafeteria				Child Development			
Budget		Actual	Variance with Final Budget – Favorable (Unfavorable)	Budget		Actual	Variance with Final Budget – Favorable (Unfavorable)
Original	Final			Original	Final		
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
223,447	223,447	215,290	(8,157)	15,651	15,169	15,447	278
17,539	17,539	18,231	692	106,046	93,563	92,309	(1,254)
21,881	21,881	19,712	(2,169)	12,652	10,681	8,916	(1,765)
262,867	262,867	253,233	(9,634)	134,349	119,413	116,672	(2,741)
—	—	—	—	42,634	42,164	42,164	—
86,716	94,816	94,815	1	38,125	36,941	36,281	660
37,263	38,696	38,696	—	29,706	29,367	28,102	1,265
115,781	114,661	114,660	1	13,673	7,622	4,288	3,334
9,485	9,663	9,663	—	7,368	5,709	5,365	344
7,257	8,918	885	8,033	2,575	472	97	375
256,502	266,754	258,719	8,035	134,081	122,275	116,297	5,978
6,365	(3,887)	(5,486)	(1,599)	268	(2,862)	375	3,237
—	—	288	288	7,865	7,865	7,133	(732)
—	—	—	—	(1,227)	(890)	(646)	244
—	—	—	—	(2,000)	(2,000)	(2,000)	—
—	—	288	288	4,638	4,975	4,487	(488)
6,365	(3,887)	(5,198)	(1,311)	4,906	2,113	4,862	2,749
59,167	59,167	59,167	—	6,202	6,202	6,202	—
\$ 65,532	\$ 55,280	\$ 53,969	\$ (1,311)	\$ 11,108	\$ 8,315	\$ 11,064	\$ 2,749

(Continued)

LOS ANGELES UNIFIED SCHOOL DISTRICT
Special Revenue Funds
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Continued)
Year Ended June 30, 2007
(in thousands)

	Deferred Maintenance			Variance with Final Budget – Favorable (Unfavorable)
	Budget		Actual	
	Original	Final		
Revenues:				
Revenue limit sources	\$ —	\$ —	\$ —	\$ —
Federal revenues	—	—	—	—
Other state revenues	30,661	30,661	30,210	(451)
Other local revenues	3,000	3,000	7,371	4,371
Total Revenues	33,661	33,661	37,581	3,920
Expenditures:				
Current:				
Certificated salaries	—	—	—	—
Classified salaries	3,249	3,854	3,854	—
Employee benefits	1,821	1,747	1,456	291
Books and supplies	381	435	435	—
Services and other operating expenditures	11,265	16,881	16,881	—
Capital outlay	—	1,836	1,836	—
Total Expenditures	16,716	24,753	24,462	291
Excess (Deficiency) of Revenues Over (Under) Expenditures	16,945	8,908	13,119	4,211
Other Financing Sources (Uses):				
Transfers in	30,660	30,660	30,188	(472)
Transfers – support costs	—	—	—	—
Transfers out	—	—	—	—
Total Other Financing Sources (Uses)	30,660	30,660	30,188	(472)
Net Changes in Fund Balances	47,605	39,568	43,307	3,739
Fund Balances, July 1, 2006	110,595	110,595	110,595	—
Fund Balances, June 30, 2007	\$ 158,200	\$ 150,163	\$ 153,902	\$ 3,739

See accompanying independent auditors' report.

Total			
Budget		Actual	Variance with Final Budget – Favorable (Unfavorable)
Original	Final		
\$ 168,611	\$ 168,611	\$ 169,087	\$ 476
262,792	257,632	248,343	(9,289)
181,609	161,534	151,053	(10,481)
39,853	37,535	39,218	1,683
652,865	625,312	607,701	(17,611)
152,685	148,003	147,989	14
158,537	160,149	158,022	2,127
113,873	112,679	109,831	2,848
141,466	144,988	126,577	18,411
41,936	40,369	37,198	3,171
10,884	12,456	3,695	8,761
619,381	618,644	583,312	35,332
33,484	6,668	24,389	17,721
38,525	42,423	41,808	(615)
(8,626)	(6,790)	(6,242)	548
(2,000)	(2,000)	(2,000)	—
27,899	33,633	33,566	(67)
61,383	40,301	57,955	17,654
195,045	195,045	195,045	—
\$ 256,428	\$ 235,346	\$ 253,000	\$ 17,654

LOS ANGELES UNIFIED SCHOOL DISTRICT
Debt Service Funds
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2007
(in thousands)

	Bond Interest and Redemption			Variance with Final Budget – Favorable (Unfavorable)
	Budget		Actual	
	Original	Final		
Revenues:				
Other state revenues	\$ 3,907	\$ 3,907	\$ 3,355	\$ (552)
Other local revenues	414,898	388,969	448,355	59,386
Total Revenues	418,805	392,876	451,710	58,834
Expenditures:				
Debt service – principal	418,805	151,422	133,100	18,322
Debt service – bond and COPs interest	—	267,383	267,383	—
Debt service – refunding bond issuance cost	—	9,665	9,665	—
Total Expenditures	418,805	428,470	410,148	18,322
Excess (Deficiency) of Revenues Over (Under) Expenditures	—	(35,594)	41,562	77,156
Other Financing Sources (Uses):				
Transfers in	—	—	—	—
Premium on bonds issued	—	25,929	25,929	—
Refunding bonds issued	—	1,889,000	1,889,000	—
Premium on refunding bonds issued	—	49,073	49,073	—
Discount on issuance of refunding bonds	—	(1,324)	(1,324)	—
Payment to refunded bonds escrow agent	—	(1,927,084)	(1,927,084)	—
Total Other Financing Sources (Uses)	—	35,594	35,594	—
Net Changes in Fund Balances	—	—	77,156	77,156
Fund Balances, July 1, 2006	282,984	282,984	282,984	—
Fund Balances, June 30, 2007	\$ 282,984	\$ 282,984	\$ 360,140	\$ 77,156

See accompanying independent auditors' report.

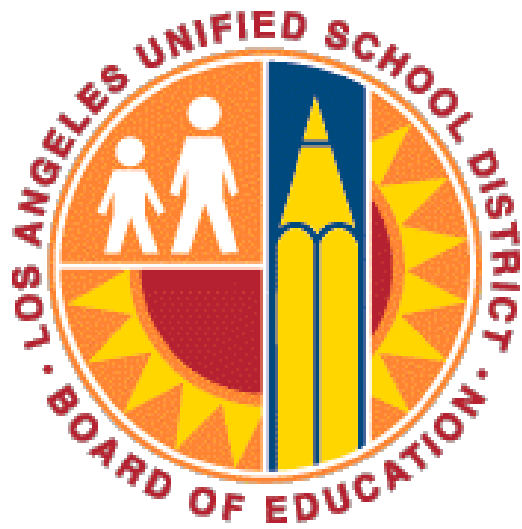
Tax Override				Capital Services			
Budget		Actual	Variance with Final Budget – Favorable (Unfavorable)	Budget		Actual	Variance with Final Budget – Favorable (Unfavorable)
Original	Final			Original	Final		
\$ 8	\$ 8	\$ 110	\$ 102	\$ —	\$ —	\$ —	\$ —
365	365	335	(30)	1,072	1,072	1,731	659
373	373	445	72	1,072	1,072	1,731	659
373	329	275	54	24,379	23,342	16,130	7,212
—	44	44	—	15,782	17,232	17,232	—
—	—	—	—	—	—	—	—
373	373	319	54	40,161	40,574	33,362	7,212
—	—	126	126	(39,089)	(39,502)	(31,631)	7,871
—	—	—	—	39,089	39,502	35,142	(4,360)
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	39,089	39,502	35,142	(4,360)
—	—	126	126	—	—	3,511	3,511
81	81	81	—	19,417	19,417	19,417	—
\$ 81	\$ 81	\$ 207	\$ 126	\$ 19,417	\$ 19,417	\$ 22,928	\$ 3,511

(Continued)

LOS ANGELES UNIFIED SCHOOL DISTRICT
Debt Service Funds
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Continued)
Year Ended June 30, 2007
(in thousands)

	Total			Variance with Final Budget – Favorable (Unfavorable)
	Budget		Actual	
	Original	Final		
Revenues:				
Other state revenues	\$ 3,915	\$ 3,915	\$ 3,465	\$ (450)
Other local revenues	416,335	390,406	450,421	60,015
Total Revenues	420,250	394,321	453,886	59,565
Expenditures:				
Debt service – principal	443,557	175,093	149,505	25,588
Debt service – bond and COPs interest	15,782	284,659	284,659	—
Debt service – refunding bond issuance cost	—	9,665	9,665	—
Total Expenditures	459,339	469,417	443,829	25,588
Excess (Deficiency) of Revenues Over (Under) Expenditures	(39,089)	(75,096)	10,057	85,153
Other Financing Sources (Uses):				
Transfers in	39,089	39,502	35,142	(4,360)
Premium on bonds issued	—	25,929	25,929	—
Refunding bonds issued	—	1,889,000	1,889,000	—
Premium on refunding bonds issued	—	49,073	49,073	—
Discount on issuance of refunding bonds	—	(1,324)	(1,324)	—
Payment to refunded bonds escrow agent	—	(1,927,084)	(1,927,084)	—
Total Other Financing Sources (Uses)	39,089	75,096	70,736	(4,360)
Net Changes in Fund Balances	—	—	80,793	80,793
Fund Balances, July 1, 2006	302,482	302,482	302,482	—
Fund Balances, June 30, 2007	\$ 302,482	\$ 302,482	\$ 383,275	\$ 80,793

See accompanying independent auditors' report.



LOS ANGELES UNIFIED SCHOOL DISTRICT
 Capital Projects Funds
 Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
 Budget and Actual
 Year Ended June 30, 2007
 (in thousands)

	Building			Variance with Final Budget – Favorable (Unfavorable)
	Budget		Actual	
	Original	Final		
Revenues:				
Federal revenues	\$ —	\$ —	\$ —	\$ —
Other state revenues	—	—	—	—
Other local revenues	145	145	224	79
Total Revenues	145	145	224	79
Expenditures:				
Current:				
Classified salaries	—	2	2	—
Employee benefits	—	1	1	—
Books and supplies	—	53	53	—
Services and other operating expenditures	37	37	23	14
Capital outlay	1	1	—	1
Total Expenditures	38	94	79	15
Excess (Deficiency) of Revenues Over (Under) Expenditures	107	51	145	94
Other Financing Sources (Uses):				
Transfers in	—	—	—	—
Transfers out	—	—	—	—
Sale of land & building	—	—	—	—
Issuance of COPs	—	—	—	—
Total Other Financing Sources (Uses)	—	—	—	—
Net Changes in Fund Balances	107	51	145	94
Fund Balances, July 1, 2006	1,963	1,963	1,963	—
Fund Balances, June 30, 2007	<u>\$ 2,070</u>	<u>\$ 2,014</u>	<u>\$ 2,108</u>	<u>\$ 94</u>

See accompanying independent auditors' report.

State School Building – Lease Purchase				Special Reserve			
Budget		Actual	Variance with Final Budget – Favorable (Unfavorable)	Budget		Actual	Variance with Final Budget – Favorable (Unfavorable)
Original	Final			Original	Final		
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
—	—	(4,822)	(4,822)	20,568	20,568	277	(20,291)
200	200	251	51	2,976	2,976	12,087	9,111
200	200	(4,571)	(4,771)	23,544	23,544	12,364	(11,180)
—	53	53	—	2,367	2,525	157	2,368
—	19	19	—	2,456	2,500	79	2,421
—	—	—	—	99	238	237	1
1	1	1	—	12	462	171	291
4,919	4,847	(742)	5,589	117,828	211,693	26,721	184,972
4,920	4,920	(669)	5,589	122,762	217,418	27,365	190,053
(4,720)	(4,720)	(3,902)	818	(99,218)	(193,874)	(15,001)	178,873
11,353	11,353	2,601	(8,752)	—	70,817	70,476	(341)
—	—	—	—	(93,978)	(94,391)	(91,395)	2,996
—	—	—	—	—	24,252	—	(24,252)
—	—	—	—	113,200	113,200	—	(113,200)
11,353	11,353	2,601	(8,752)	19,222	113,878	(20,919)	(134,797)
6,633	6,633	(1,301)	(7,934)	(79,996)	(79,996)	(35,920)	44,076
5,367	5,367	5,367	—	227,996	227,996	227,996	—
\$ 12,000	\$ 12,000	\$ 4,066	\$ (7,934)	\$ 148,000	\$ 148,000	\$ 192,076	\$ 44,076

(Continued)

LOS ANGELES UNIFIED SCHOOL DISTRICT
 Capital Projects Funds
 Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
 Budget and Actual (Continued)
 Year Ended June 30, 2007
 (In thousands)

	Special Reserve – FEMA – Earthquake			Variance with Final Budget – Favorable (Unfavorable)
	Budget		Actual	
	Original	Final		
Revenues:				
Federal revenues	\$ 6,334	\$ 6,334	\$ —	\$ (6,334)
Other state revenues	414	414	372	(42)
Other local revenues	—	—	—	—
Total Revenues	6,748	6,748	372	(6,376)
Expenditures:				
Current:				
Classified salaries	—	12	12	—
Employee benefits	—	5	5	—
Books and supplies	5	5	4	1
Services and other operating expenditures	3,186	2,265	628	1,637
Capital outlay	1,185	1,969	1,969	—
Total Expenditures	4,376	4,256	2,618	1,638
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,372	2,492	(2,246)	(4,738)
Other Financing Sources (Uses):				
Transfers in	—	—	—	—
Transfers out	—	(120)	(120)	—
Sale of land & building	—	—	—	—
Issuance of COPs	—	—	—	—
Total Other Financing Sources (Uses)	—	(120)	(120)	—
Net Changes in Fund Balances	2,372	2,372	(2,366)	(4,738)
Fund Balances, July 1, 2006	2,366	2,366	2,366	—
Fund Balances, June 30, 2007	\$ 4,738	\$ 4,738	\$ —	\$ (4,738)

See accompanying independent auditors' report.

Special Reserve – FEMA – Hazard Mitigation				Special Reserve – Community Redevelopment Agency			
Budget		Actual	Variance with Final Budget – Favorable (Unfavorable)	Budget		Actual	Variance with Final Budget – Favorable (Unfavorable)
Original	Final			Original	Final		
\$ 1,380	\$ 1,380	\$ 24	\$ (1,356)	\$ —	\$ —	\$ —	\$ —
—	—	—	—	—	—	—	—
—	—	250	250	4,738	4,738	5,208	470
1,380	1,380	274	(1,106)	4,738	4,738	5,208	470
—	—	—	—	—	71	71	—
—	—	—	—	34	34	27	7
—	—	—	—	—	92	92	—
—	—	—	—	13	582	582	—
880	880	24	856	988	256	142	114
880	880	24	856	1,035	1,035	914	121
500	500	250	(250)	3,703	3,703	4,294	591
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
500	500	250	(250)	3,703	3,703	4,294	591
1,793	1,793	1,793	—	11,749	11,749	11,749	—
\$ 2,293	\$ 2,293	\$ 2,043	\$ (250)	\$ 15,452	\$ 15,452	\$ 16,043	\$ 591

(Continued)

LOS ANGELES UNIFIED SCHOOL DISTRICT
 Capital Projects Funds
 Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
 Budget and Actual (Continued)
 Year Ended June 30, 2007
 (In thousands)

	Capital Facilities Account			Variance with Final Budget – Favorable (Unfavorable)
	Budget		Actual	
	Original	Final		
Revenues:				
Federal revenues	\$ —	\$ —	\$ —	\$ —
Other state revenues	—	—	—	—
Other local revenues	66,320	66,320	105,475	39,155
Total Revenues	66,320	66,320	105,475	39,155
Expenditures:				
Current:				
Classified salaries	129	354	354	—
Employee benefits	62	156	156	—
Books and supplies	529	525	34	491
Services and other operating expenditures	6,306	3,731	852	2,879
Capital outlay	50,738	107,442	103,186	4,256
Total Expenditures	57,764	112,208	104,582	7,626
Excess (Deficiency) of Revenues Over (Under) Expenditures	8,556	(45,888)	893	46,781
Other Financing Sources (Uses):				
Transfers in	—	—	—	—
Transfers out	(33,742)	(33,742)	(24,816)	8,926
Sale of land & building	—	—	—	—
Issuance of COPs	—	—	—	—
Total Other Financing Sources (Uses)	(33,742)	(33,742)	(24,816)	8,926
Net Changes in Fund Balances	(25,186)	(79,630)	(23,923)	55,707
Fund Balances, July 1, 2006	176,886	176,886	176,886	—
Fund Balances, June 30, 2007	\$ 151,700	\$ 97,256	\$ 152,963	\$ 55,707

See accompanying independent auditors' report.

County School

County School Facilities				County School Facilities – Prop 47			
Budget		Actual	Variance with Final Budget – Favorable (Unfavorable)	Budget		Actual	Variance with Final Budget – Favorable (Unfavorable)
Original	Final			Original	Final		
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
—	—	(1,767)	(1,767)	315,000	315,000	—	(315,000)
2,747	2,747	3,731	984	8,838	8,838	10,135	1,297
2,747	2,747	1,964	(783)	323,838	323,838	10,135	(313,703)
—	25	25	—	11	161	161	—
—	14	14	—	15	67	67	—
—	265	265	—	—	17	17	—
—	19	19	—	—	18	18	—
50,385	51,533	19,796	31,737	26,380	74,952	68,847	6,105
50,385	51,856	20,119	31,737	26,406	75,215	69,110	6,105
(47,638)	(49,109)	(18,155)	30,954	297,432	248,623	(58,975)	(307,598)
—	1,475	1,475	—	—	6,105	6,105	—
—	(4)	(4)	—	—	(1,021)	(1,021)	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	1,471	1,471	—	—	5,084	5,084	—
(47,638)	(47,638)	(16,684)	30,954	297,432	253,707	(53,891)	(307,598)
66,638	66,638	66,638	—	54,968	54,968	54,968	—
\$ 19,000	\$ 19,000	\$ 49,954	\$ 30,954	\$ 352,400	\$ 308,675	\$ 1,077	\$ (307,598)

(Continued)

LOS ANGELES UNIFIED SCHOOL DISTRICT
 Capital Projects Funds
 Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
 Budget and Actual (Continued)
 Year Ended June 30, 2007
 (In thousands)

Facilities Bonds				
County School Facilities – Prop 55				
	Budget		Actual	Variance with Final Budget – Favorable (Unfavorable)
	Original	Final		
Revenues:				
Federal revenues	\$ —	\$ —	\$ —	\$ —
Other state revenues	735,000	735,000	387,222	(347,778)
Other local revenues	24,415	24,415	16,893	(7,522)
Total Revenues	759,415	759,415	404,115	(355,300)
Expenditures:				
Current:				
Classified salaries	—	105	105	—
Employee benefits	—	60	60	—
Books and supplies	—	18	18	—
Services and other operating expenditures	—	175	175	—
Capital outlay	222,631	136,661	144,932	(8,271)
Total Expenditures	222,631	137,019	145,290	(8,271)
Excess (Deficiency) of Revenues Over (Under) Expenditures	536,784	622,396	258,825	(363,571)
Other Financing Sources (Uses):				
Transfers in	—	120	120	—
Transfers out	—	(113,754)	(113,754)	—
Sale of land & building	—	—	—	—
Issuance of COPs	—	—	—	—
Total Other Financing Sources (Uses)	—	(113,634)	(113,634)	—
Net Changes in Fund Balances	536,784	508,762	145,191	(363,571)
Fund Balances, July 1, 2006	223,316	223,316	223,316	—
Fund Balances, June 30, 2007	\$ 760,100	\$ 732,078	\$ 368,507	\$ (363,571)

See accompanying independent auditors' report.

County School Facilities – Prop 1D				County School Facilities Bonds – Total			
Budget		Actual	Variance with Final Budget – Favorable (Unfavorable)	Budget		Actual	Variance with Final Budget – Favorable (Unfavorable)
Original	Final			Original	Final		
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
—	300,000	16,074	(283,926)	1,050,000	1,350,000	401,529	(948,471)
—	—	9	9	36,000	36,000	30,768	(5,232)
—	300,000	16,083	(283,917)	1,086,000	1,386,000	432,297	(953,703)
—	—	—	—	11	291	291	—
—	—	—	—	15	141	141	—
—	—	—	—	—	300	300	—
—	—	—	—	—	212	212	—
—	14,000	80	13,920	299,396	277,146	233,655	43,491
—	14,000	80	13,920	299,422	278,090	234,599	43,491
—	286,000	16,003	(269,997)	786,578	1,107,910	197,698	(910,212)
—	—	—	—	—	7,700	7,700	—
—	—	—	—	—	(114,779)	(114,779)	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	(107,079)	(107,079)	—
—	286,000	16,003	(269,997)	786,578	1,000,831	90,619	(910,212)
—	—	—	—	344,922	344,922	344,922	—
\$ —	\$ 286,000	\$ 16,003	\$ (269,997)	\$ 1,131,500	\$ 1,345,753	\$ 435,541	\$ (910,212)

(Continued)

LOS ANGELES UNIFIED SCHOOL DISTRICT
 Capital Projects Funds
 Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
 Budget and Actual (Continued)
 Year Ended June 30, 2007
 (In thousands)

	Total			Variance with Final Budget – Favorable (Unfavorable)
	Budget		Actual	
	Original	Final		
Revenues:				
Federal revenues	\$ 7,714	\$ 7,714	\$ 24	\$ (7,690)
Other state revenues	1,070,982	1,370,982	397,356	(973,626)
Other local revenues	110,379	110,379	154,263	43,884
Total Revenues	1,189,075	1,489,075	551,643	(937,432)
Expenditures:				
Current:				
Classified salaries	2,507	3,308	940	2,368
Employee benefits	2,567	2,856	428	2,428
Books and supplies	633	1,213	720	493
Services and other operating expenditures	9,555	7,290	2,469	4,821
Capital outlay	475,935	604,234	364,955	239,279
Total Expenditures	491,197	618,901	369,512	249,389
Excess (Deficiency) of Revenues Over (Under) Expenditures	697,878	870,174	182,131	(688,043)
Other Financing Sources (Uses):				
Transfers in	11,353	89,870	80,777	(9,093)
Transfers out	(127,720)	(243,032)	(231,110)	11,922
Sale of land & building	—	24,252	—	(24,252)
Issuance of COPs	113,200	113,200	—	(113,200)
Total Other Financing Sources (Uses)	(3,167)	(15,710)	(150,333)	(134,623)
Net Changes in Fund Balances	694,711	854,464	31,798	(822,666)
Fund Balances, July 1, 2006	773,042	773,042	773,042	—
Fund Balances, June 30, 2007	\$ 1,467,753	\$ 1,627,506	\$ 804,840	\$ (822,666)

See accompanying independent auditors' report.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Internal Service Funds

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

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

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

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

	Health and Welfare Benefits	Workers' Compensation	Liability	Total
Assets:				
Cash in county treasury, in banks, and on hand	\$ 93,442	\$ 238,504	\$ 10,810	\$ 342,756
Investments	—	322,600	—	322,600
Accounts receivable – net	1,597	56	—	1,653
Accrued interest and dividends receivable	1,637	8,235	256	10,128
Prepaid expense	10,946	—	4,651	15,597
Due from other funds	13,809	8,430	15,037	37,276
	<u>121,431</u>	<u>577,825</u>	<u>30,754</u>	<u>730,010</u>
Total Assets	\$ 121,431	\$ 577,825	\$ 30,754	\$ 730,010
Liabilities:				
Current:				
Vouchers and accounts payable	\$ 8,502	\$ 2,597	\$ 3,232	\$ 14,331
Accrued payroll	188	150	111	449
Other payables	238	—	—	238
Due to other funds	43,171	5,429	3,568	52,168
Estimated liability for self-insurance claims	39,563	109,730	18,692	167,985
Noncurrent:				
Estimated liability for self-insurance claims	—	399,586	—	399,586
Total Liabilities	91,662	517,492	25,603	634,757
Total Net Assets	29,769	60,333	5,151	95,253
Total Liabilities and Net Assets	\$ 121,431	\$ 577,825	\$ 30,754	\$ 730,010

See accompanying independent auditors' report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Internal Service Funds
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Year Ended June 30, 2007
(in thousands)

	Health and Welfare Benefits	Workers' Compensation	Liability	Total
Operating Revenues:				
In-district premiums	\$ 751,743	\$ 158,451	\$ 15,038	\$ 925,232
Operating Expenses:				
Salaries	1,728	3,933	1,705	7,366
Employee benefits	819	1,667	675	3,161
Supplies	47	166	48	261
Premiums and claims expenses	740,609	(75,732)	12,847	677,724
Claims administration	—	14,044	782	14,826
Other contracted services	878	568	4	1,450
Total Operating Expenses	744,081	(55,354)	16,061	704,788
Operating Income (Loss)	7,662	213,805	(1,023)	220,444
Nonoperating Revenues:				
Investment income	6,595	27,469	636	34,700
Other local income	150	—	—	150
Transfers in	3,994	—	—	3,994
Total Nonoperating Revenues	10,739	27,469	636	38,844
Changes in Net Assets (Deficit)	18,401	241,274	(387)	259,288
Total Net Assets (Deficit), July 1, 2006	11,368	(180,941)	5,538	(164,035)
Total Net Assets, June 30, 2007	\$ 29,769	\$ 60,333	\$ 5,151	\$ 95,253

See accompanying independent auditors' report.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Internal Service Funds

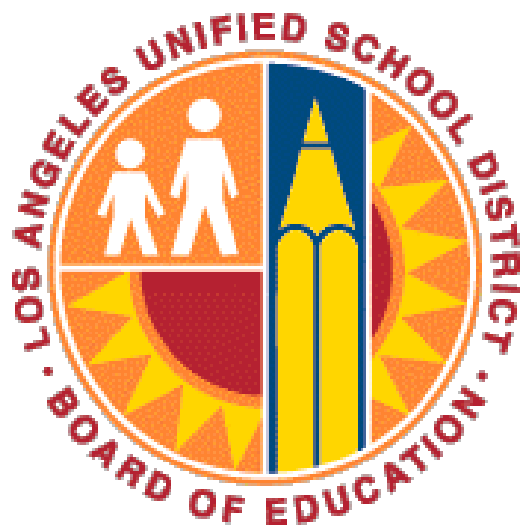
Combining Statement of Cash Flows

Year Ended June 30, 2007

(in thousands)

	Health and Welfare Benefits	Workers' Compensation	Liability	Total
Cash Flows from Operating Activities:				
Cash payments to employees for services	\$ (1,695)	\$ (5,343)	\$ (1,868)	\$ (8,906)
Cash payments for goods and services	(777,364)	(90,588)	(12,293)	(880,245)
Receipts from assessment to other funds	771,755	164,008	5,208	940,971
Other operating revenue	—	—	14	14
Net Cash Provided (Used) by Operating Activities	(7,304)	68,077	(8,939)	51,834
Cash Flows from Investing Activities:				
Earnings on investments	6,194	23,427	784	30,405
Purchase of investments	—	53,689	—	53,689
Transfers in	3,994	—	—	3,994
Other local	150	—	—	150
Net Cash Provided by Investing Activities	10,338	77,116	784	88,238
Net Increase (Decrease) in Cash and Cash Equivalents	3,034	145,193	(8,155)	140,072
Cash and cash equivalents, July 1	90,408	93,311	18,965	202,684
Cash and cash equivalents, June 30	\$ 93,442	\$ 238,504	\$ 10,810	\$ 342,756
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 7,662	\$ 213,805	\$ (1,023)	\$ 220,444
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Changes in operating assets and liabilities:				
(Increase) decrease in accounts receivable	(956)	219	—	(737)
Decrease in prepaid expense	—	—	387	387
(Increase) decrease in due from other funds	(10,700)	11,948	(2,881)	(1,633)
Increase (decrease) in vouchers and accounts payable	(20,149)	8	1,043	(19,098)
Increase (decrease) in accrued payroll	38	(223)	(58)	(243)
(Decrease) in other payables	(4)	(2,423)	—	(2,427)
Increase (decrease) in due to other funds	18,292	3,883	(2,930)	19,245
Increase (decrease) in estimated liability for self-insurance claims – current	(1,487)	2,086	(3,477)	(2,878)
(Decrease) in estimated liability for self-insurance claims – noncurrent	—	(161,226)	—	(161,226)
Total Adjustments	(14,966)	(145,728)	(7,916)	(168,610)
Net Cash Provided (Used) by Operating Activities	\$ (7,304)	\$ 68,077	\$ (8,939)	\$ 51,834

See accompanying independent auditors' report.



LOS ANGELES UNIFIED SCHOOL DISTRICT

Fiduciary Funds

Pension Trust Funds:

The Annuity Reserve Fund was established in 1972 to account for all financial resources used to provide vested retirement benefits to certificated employees resulting from the dissolution of the District's teacher retirement system. On November 18, 2003, participants voted to dissolve the Fund and distribute its net assets to the members. The Fund balance remaining as of June 30, 2007 represents shares of unlocated participants and reserve for other contingencies.

The Attendance Incentive Reserve Fund was established on November 21, 1994 to account for 50% of the salary savings from substitute teachers' accounting resulting from reduced costs of absenteeism of UTLA represented employees. The intent was to reward regular attendance of teachers in order to improve the instructional program.

Agency Fund:

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

LOS ANGELES UNIFIED SCHOOL DISTRICT
Fiduciary Funds – Pension Trust Funds
Combining Balance Sheet
June 30, 2007
(in thousands)

	Annuity Reserve	Attendance Incentive Reserve	Total
Assets:			
Cash in county treasury, in banks, and on hand	\$ 26	\$ 18,565	\$ 18,591
Investments, at fair value: Money market funds	<u>450</u>	<u>—</u>	<u>450</u>
Total Assets	<u>\$ 476</u>	<u>\$ 18,565</u>	<u>\$ 19,041</u>
Liabilities:			
Vouchers and accounts payable	\$ 4	\$ —	\$ 4
Other payables	<u>—</u>	<u>17,802</u>	<u>17,802</u>
Total Liabilities	4	17,802	17,806
Total Net Assets – unrestricted	<u>472</u>	<u>763</u>	<u>1,235</u>
Total Liabilities and Net Assets	<u>\$ 476</u>	<u>\$ 18,565</u>	<u>\$ 19,041</u>

See accompanying independent auditors' report.

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

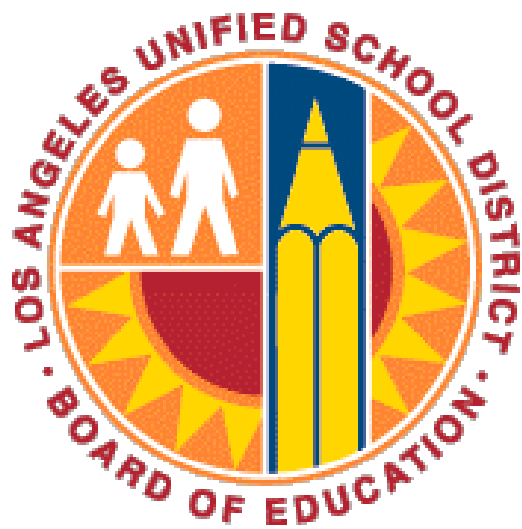
	Annuity Reserve	Attendance Incentive Reserve	Total
Additions:			
Investment income	\$ 22	\$ 820	\$ 842
Total Additions	<u>22</u>	<u>820</u>	<u>842</u>
Deductions:			
Distributions to participants	1	—	1
Other contracted services	<u>—</u>	<u>57</u>	<u>57</u>
Total Deductions	<u>1</u>	<u>57</u>	<u>58</u>
Changes in Net Assets	21	763	784
Total Net Assets, July 1, 2006	<u>451</u>	<u>—</u>	<u>451</u>
Total Net Assets, June 30, 2007	<u>\$ 472</u>	<u>\$ 763</u>	<u>\$ 1,235</u>

See accompanying independent auditors' report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Fiduciary Funds – Agency Funds
Combining Statement of Changes in Assets and Liabilities
June 30, 2007
(in thousands)

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2007</u>
Assets:				
Cash in county treasury, in banks, and on hand	\$ 20,209	72,063	\$ 71,144	\$ 21,128
Total Assets	<u>\$ 20,209</u>	<u>72,063</u>	<u>\$ 71,144</u>	<u>\$ 21,128</u>
Liabilities:				
Other payables	\$ 20,209	72,063	\$ 71,144	\$ 21,128
Total Liabilities	<u>\$ 20,209</u>	<u>72,063</u>	<u>\$ 71,144</u>	<u>\$ 21,128</u>

See accompanying independent auditors' report.



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

LOS ANGELES UNIFIED SCHOOL DISTRICT
Capital Assets Used in the Operation of Governmental Funds
Comparative Schedule by Source
June 30, 2007 and 2006
(in thousands)

	<u>2006-2007</u>	<u>2005-2006</u>
Governmental Funds Capital Assets:		
Sites	\$ 2,373,208	\$ 2,105,429
Improvement of sites	430,979	386,968
Building and improvements	5,803,185	4,298,752
Equipment	1,145,089	1,124,779
Construction in progress	<u>2,180,218</u>	<u>2,545,892</u>
Total Governmental Funds Capital Assets	<u>\$ 11,932,679</u>	<u>\$ 10,461,820</u>
Investments in Governmental Funds Capital Assets by Source:		
From revenues of:		
General Fund	\$ 1,266,551	\$ 1,255,790
Special Revenue Funds:		
Adult Education Fund	41,065	40,188
Cafeteria Fund	26,451	25,566
Child Development Fund	17,310	17,213
Deferred Maintenance Fund	12,522	10,686
Capital Projects Funds:		
Building Fund	35,601	35,601
Building Fund – Bond Proceeds	1,647,650	1,560,436
Building Fund – Measure K	2,216,922	1,605,849
Building Fund – Measure R	933,700	567,659
Building Fund – Measure Y	47,488	20,367
State School Building Lease – Purchase Fund	1,026,826	1,027,568
Special Reserve Fund	1,215,819	1,189,097
Special Reserve Fund – FEMA – Earthquake	20,794	18,825
Special Reserve Fund – FEMA – Hazard Mitigation	8,129	8,106
Special Reserve Fund – CRA	777	636
Capital Facilities Fund	310,755	207,569
County School Facilities Fund	785,916	766,120
County School Facilities – Prop 47 Fund	259,681	190,834
County School Facilities – Prop 55 Fund	324,286	179,354
County School Facilities – Prop 1D Fund	80	—
Investment in general capital assets prior to July 1, 1983*	<u>1,734,356</u>	<u>1,734,356</u>
Total Governmental Funds Capital Assets	<u>\$ 11,932,679</u>	<u>\$ 10,461,820</u>

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

See accompanying independent auditors' report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Capital Assets Used in the Operation of Governmental Funds
Schedule of Changes in Capital Assets by Source
Year Ended June 30, 2007
(in thousands)

	<u>Sites</u>	<u>Improvement of Sites</u>
Balances, July 1, 2006	\$ 2,105,429	\$ 386,968
Additions:		
Capital outlay from:		
General Fund	—	1,101
Adult Education Fund	—	64
Cafeteria Fund	—	—
Child Development Fund	—	5
Deferred Maintenance Fund	—	—
Building Fund – Bond Proceeds	4,512	—
Building Fund – Measure K	168,521	—
Building Fund – Measure R	57,765	—
Building Fund – Measure Y	(666)	—
State School Building Lease – Purchase Fund	—	—
Special Reserve Fund	38	22
Special Reserve Fund – FEMA – Earthquake	—	—
Special Reserve Fund – FEMA – Hazard Mitigation	—	—
Special Reserve Fund – CRA	—	—
Capital Facilities Fund	31,789	27
County School Facilities Fund	173	—
County School Facilities – Prop 47 Fund	142	—
County School Facilities – Prop 55 Fund	5,505	—
County School Facilities – Prop 1D Fund	—	—
Completed Projects	—	42,792
Total Additions	<u>267,779</u>	<u>44,011</u>
Deductions:		
Buildings damaged by fire	—	—
Vehicle disposal	—	—
Return to salvage	—	—
Total Deductions	<u>—</u>	<u>—</u>
Net Increase (Decrease)	<u>267,779</u>	<u>44,011</u>
Balances, June 30, 2007	<u>\$ 2,373,208</u>	<u>\$ 430,979</u>

See accompanying independent auditors' report.

Building and Improvements	Equipment	Construction in Progress	Total
\$ 4,298,752	\$ 1,124,779	\$ 2,545,892	\$ 10,461,820
9,036	9,905	14,794	34,836
669	142	2	877
—	885	—	885
92	—	—	97
9	—	1,827	1,836
1,871	—	80,831	87,214
(144)	—	442,696	611,073
—	—	308,276	366,041
—	—	27,787	27,121
133	—	(875)	(742)
970	147	25,545	26,722
—	—	1,969	1,969
—	—	23	23
—	—	141	141
139	—	71,231	103,186
(36)	—	19,659	19,796
—	—	68,705	68,847
—	—	139,427	144,932
—	—	80	80
1,492,244	32,756	(1,567,792)	—
1,504,983	43,835	(365,674)	1,494,934
550	—	—	550
—	1,092	—	1,092
—	22,433	—	22,433
550	23,525	—	24,075
1,504,433	20,310	(365,674)	1,470,859
\$ 5,803,185	\$ 1,145,089	\$ 2,180,218	\$ 11,932,679

LOS ANGELES UNIFIED SCHOOL DISTRICT
Long-Term Obligations
Schedule of Changes in Long-Term Obligations
Year Ended June 30, 2007
(in thousands)

	General Obligation Bonds	State School Building Aid Fund Payable	Liability for Compensated Absences	Certificates of Participation
Balances, June 30, 2006	\$ 5,803,689	\$ 880	\$ 78,309	\$ 429,974
Additions:				
General obligation bonds	2,789,000	—	—	—
Unamortized premium on bonds	82,722	—	—	—
Amortization of FY 07 premium	(2,139)	—	—	—
Amortization of FY 06 premium	(6,282)	—	—	—
Amortization of FY 05 premium	(3,633)	—	—	—
State School Building Aid Fund	—	30	—	—
Earned vacation	—	—	72,123	—
Interest	—	—	—	2,588
Capital leases	—	—	—	—
CA energy commission loan	—	—	—	—
Self-insurance claims	—	—	—	—
Arbitrage accrual	—	—	—	—
Total Additions	<u>2,859,668</u>	<u>30</u>	<u>72,123</u>	<u>2,588</u>
Deductions:				
General obligation bonds	1,970,585	—	—	—
Unamortized charges – bond refunding	89,599	—	—	—
Unamortized discount – bond refunding	1,324	—	—	—
Amortization of FY 07 bond refund charges	(14,654)	—	—	—
Amortization of FY 07 bond refund discount	(17)	—	—	—
Amortization of FY 06 bond refund charges	(22,214)	—	—	—
Amortization of FY 05 bond refund charges	(6,595)	—	—	—
State School Building Aid Fund:				
Principal repayments	—	275	—	—
Interest payments	—	44	—	—
Vacation payments:				
Active & retired employees	—	—	81,667	—
Certificates of participation	—	—	—	16,130
Interest	—	—	—	3,007
Capital leases	—	—	—	—
CA energy commission loan	—	—	—	—
Self-insurance claims	—	—	—	—
Total Deductions	<u>2,018,028</u>	<u>319</u>	<u>81,667</u>	<u>19,137</u>
Balances, June 30, 2007	<u>\$ 6,645,329</u>	<u>\$ 591</u>	<u>\$ 68,765</u>	<u>\$ 413,425</u>

See accompanying independent auditors' report.

Capital Leases	Children Centers Facilities Revolving Loan	CA Energy Commission Loan	Self-Insurance Claims	Arbitrage Payable	Total
\$ 6,619	\$ 792	\$ 1,243	\$ 731,676	\$ —	\$ 7,053,182
—	—	—	—	—	2,789,000
—	—	—	—	—	82,722
—	—	—	—	—	(2,139)
—	—	—	—	—	(6,282)
—	—	—	—	—	(3,633)
—	—	—	—	—	30
—	—	—	—	—	72,123
—	—	—	—	—	2,588
2,394	—	—	—	—	2,394
—	—	1	—	—	1
—	—	—	217,306	—	217,306
—	—	—	—	11,966	11,966
2,394	—	1	217,306	11,966	3,166,076
—	—	—	—	—	1,970,585
—	—	—	—	—	89,599
—	—	—	—	—	1,324
—	—	—	—	—	(14,654)
—	—	—	—	—	(17)
—	—	—	—	—	(22,214)
—	—	—	—	—	(6,595)
—	—	—	—	—	275
—	—	—	—	—	44
—	—	—	—	—	81,667
—	—	—	—	—	16,130
—	—	—	—	—	3,007
3,752	—	—	—	—	3,752
—	—	186	—	—	186
—	—	—	381,411	—	381,411
3,752	—	186	381,411	—	2,504,500
\$ 5,261	\$ 792	\$ 1,058	\$ 567,571	\$ 11,966	\$ 7,714,758

LOS ANGELES UNIFIED SCHOOL DISTRICT
Long-Term Obligations
Schedule of State School Building Aid Fund Payable
Year Ended June 30, 2007
(in thousands)

Year	Interest Rate	Balance July 1, 2006	Additions	Deductions		Balance June 30, 2007
			Interest Charges	Principal in Progress	Interest Payments	
1986-1987	4.50%	\$ 4	\$ —	\$ 2	\$ —	\$ 2
	4.90	6	—	3	—	3
	5.30	42	1	20	2	21
	5.50	4	—	2	—	2
	5.60	5	—	2	—	3
1987-1988	4.50	31	1	10	1	21
	4.80	60	2	18	3	41
	5.30	609	22	183	32	416
	5.50	38	1	11	2	26
	5.60	81	3	24	4	56
Total		\$ <u>880</u>	\$ <u>30</u>	\$ <u>275</u>	\$ <u>44</u>	\$ <u>591</u>

See accompanying independent auditors' report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Long-Term Obligations
Schedule of Certificates of Participation
Year Ended June 30, 2007
(in thousands)

<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance Original Issue</u>	<u>Outstanding July 1, 2006</u>	<u>Issued This Year</u>	<u>Redeemed Current Year</u>	<u>Accrued Interest</u>	<u>Outstanding June 30, 2007</u>
1997 Certificates of Participation (Vista Hermosa):								
12/01/97	Variable	12/01/06	\$ 4,200	\$ 4,354	\$ —	\$ 4,354	\$ —	\$ —
12/01/97	Variable	12/01/07	4,400	4,400	—	—	144	4,544
12/01/97	Variable	12/01/08	4,600	4,600	—	—	—	4,600
12/01/97	Variable	12/01/09	4,700	4,700	—	—	—	4,700
12/01/97	Variable	12/01/10	4,900	4,900	—	—	—	4,900
12/01/97	Variable	12/01/11	5,100	5,100	—	—	—	5,100
12/01/97	Variable	12/01/12	5,300	5,300	—	—	—	5,300
12/01/97	Variable	12/01/13	5,500	5,500	—	—	—	5,500
12/01/97	Variable	12/01/14	5,800	5,800	—	—	—	5,800
12/01/97	Variable	12/01/15	6,000	6,000	—	—	—	6,000
12/01/97	Variable	12/01/16	6,200	6,200	—	—	—	6,200
12/01/97	Variable	12/01/17	6,500	6,500	—	—	—	6,500
1997 Certificates of Participation			\$ 63,200	\$ 63,354	\$ —	\$ 4,354	\$ 144	\$ 59,144
1998 Refunding Certificates of Participation (multiple properties project):								
06/01/98	5.000%	11/01/06	\$ 3,750	\$ 4,044	\$ —	\$ 4,044	\$ —	\$ —
06/01/98	5.250	11/01/07	3,935	3,935	—	—	263	4,198
06/01/98	5.250	11/01/08	4,140	4,140	—	—	—	4,140
06/01/98	4.650	11/01/09	4,355	4,355	—	—	—	4,355
06/01/98	4.750	11/01/10	4,560	4,560	—	—	—	4,560
06/01/98	4.850	11/01/11	4,775	4,775	—	—	—	4,775
06/01/98	5.000	11/01/12	5,010	5,010	—	—	—	5,010
06/01/98	5.000	11/01/13	5,260	5,260	—	—	—	5,260
1998 Refunding Certificates of Participation			\$ 35,785	\$ 36,079	\$ —	\$ 4,044	\$ 263	\$ 32,298
2000A Certificates of Participation (Qualified Zone Academy Bonds Project):								
05/23/00	—%	05/23/12	\$ 25,372	\$ 25,372	\$ —	\$ —	\$ —	\$ 25,372
2000A Certificates of Participation			\$ 25,372	\$ 25,372	\$ —	\$ —	\$ —	\$ 25,372
2000B Certificates of Participation (multiple properties project):								
10/01/00	4.100%	10/01/06	\$ 1,765	\$ 1,891	\$ —	\$ 1,891	\$ —	\$ —
10/01/00	5.500	10/01/06	1,950	1,950	—	1,950	—	—
10/01/00	4.125	10/01/07	1,550	1,550	—	—	81	1,631
10/01/00	5.500	10/01/07	2,340	2,340	—	—	—	2,340
10/01/00	4.200	10/01/08	1,020	1,020	—	—	—	1,020
10/01/00	4.200	10/01/09	1,060	1,060	—	—	—	1,060
10/01/00	4.250	10/01/10	1,105	1,105	—	—	—	1,105
2000B Certificates of Participation			\$ 10,790	\$ 10,916	\$ —	\$ 3,841	\$ 81	\$ 7,156

LOS ANGELES UNIFIED SCHOOL DISTRICT
Long-Term Obligations
Schedule of Certificates of Participation (Continued)
Year Ended June 30, 2007
(in thousands)

<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance Original Issue</u>	<u>Outstanding July 1, 2006</u>	<u>Issued This Year</u>	<u>Redeemed Current Year</u>	<u>Accrued Interest</u>	<u>Outstanding June 30, 2007</u>
2001B Certificates of Participation (Beaudry):								
11/06/01	5.000%	10/01/24	\$ 6,810	\$ 7,666	\$ —	\$ 856	\$ 857	\$ 7,667
11/06/01	5.000	10/01/25	7,625	7,625	—	—	—	7,625
11/06/01	5.000	10/01/26	8,005	8,005	—	—	—	8,005
11/06/01	5.000	10/01/27	8,405	8,405	—	—	—	8,405
11/06/01	5.000	10/01/28	8,825	8,825	—	—	—	8,825
11/06/01	5.000	10/01/29	9,270	9,270	—	—	—	9,270
11/06/01	5.000	10/01/30	9,730	9,730	—	—	—	9,730
11/06/01	5.000	10/01/31	10,220	10,220	—	—	—	10,220
2001B Certificates of Participation			\$ 68,890	\$ 69,746	\$ —	\$ 856	\$ 857	\$ 69,747
2002A Certificates of Participation (Bravo Refunding):								
03/06/02	5.000%	06/01/07	\$ 3,395	\$ 3,424	\$ —	\$ 3,424	\$ —	\$ —
03/06/02	5.000	06/01/08	3,570	3,570	—	—	15	3,585
2002A Certificates of Participation			\$ 6,965	\$ 6,994	\$ —	\$ 3,424	\$ 15	\$ 3,585
2002C Certificates of Participation (Beaudry II):								
12/05/02	2.250%	10/01/06	\$ 200	\$ 301	\$ —	\$ 301	\$ —	\$ —
12/05/02	3.000	10/01/07	205	205	—	—	100	305
12/05/02	3.000	10/01/08	210	210	—	—	—	210
12/05/02	3.300	10/01/09	220	220	—	—	—	220
12/05/02	3.750	10/01/10	225	225	—	—	—	225
12/05/02	4.000	10/01/11	235	235	—	—	—	235
12/05/02	4.000	10/01/12	245	245	—	—	—	245
12/05/02	4.000	10/01/13	255	255	—	—	—	255
12/05/02	4.125	10/01/14	265	265	—	—	—	265
12/05/02	4.250	10/01/15	275	275	—	—	—	275
12/05/02	4.380	10/01/16	285	285	—	—	—	285
12/05/02	4.500	10/01/17	300	300	—	—	—	300
12/05/02	4.500	10/01/18	310	310	—	—	—	310
12/05/02	4.750	10/01/19	325	325	—	—	—	325
12/05/02	4.750	10/01/20	340	340	—	—	—	340
12/05/02	4.750	10/01/21	360	360	—	—	—	360
12/05/02	4.750	10/01/22	375	375	—	—	—	375
12/05/02	4.750	10/01/23	395	395	—	—	—	395
12/05/02	5.000	10/01/24	410	410	—	—	—	410
12/05/02	5.000	10/01/25	430	430	—	—	—	430
12/05/02	5.000	10/01/26	455	455	—	—	—	455
12/05/02	5.000	10/01/27	475	475	—	—	—	475
12/05/02	5.000	10/01/28	500	500	—	—	—	500
12/05/02	5.000	10/01/29	525	525	—	—	—	525
12/05/02	5.000	10/01/30	550	550	—	—	—	550
12/05/02	5.000	10/01/31	580	580	—	—	—	580
2002C Certificates of Participation			\$ 8,950	\$ 9,051	\$ —	\$ 301	\$ 100	\$ 8,850

LOS ANGELES UNIFIED SCHOOL DISTRICT
Long-Term Obligations
Schedule of Certificates of Participation (Continued)
Year Ended June 30, 2007
(in thousands)

<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance Original Issue</u>	<u>Outstanding July 1, 2006</u>	<u>Issued This Year</u>	<u>Redeemed Current Year</u>	<u>Accrued Interest</u>	<u>Outstanding June 30, 2007</u>
2003B Certificates of Participation (Pico Rivera Warehouse):								
06/11/03	2.000%	8/1/2006	\$ 870	\$ 1,410	\$ —	\$ 1,410	\$ —	\$ —
06/11/03	2.000	08/01/07	885	885	—	—	532	1,417
06/11/03	2.000	08/01/08	905	905	—	—	—	905
06/11/03	2.250	08/01/09	920	920	—	—	—	920
06/11/03	3.000	08/01/10	940	940	—	—	—	940
06/11/03	3.000	08/01/11	970	970	—	—	—	970
06/11/03	3.000	08/01/12	1,000	1,000	—	—	—	1,000
06/11/03	3.125	08/01/13	1,030	1,030	—	—	—	1,030
06/11/03	3.250	08/01/14	1,060	1,060	—	—	—	1,060
06/11/03	5.000	08/01/15	1,095	1,095	—	—	—	1,095
06/11/03	5.000	08/01/16	1,150	1,150	—	—	—	1,150
06/11/03	5.000	08/01/17	1,210	1,210	—	—	—	1,210
06/11/03	5.000	08/01/18	1,270	1,270	—	—	—	1,270
06/11/03	5.000	08/01/19	1,335	1,335	—	—	—	1,335
06/11/03	5.000	08/01/20	1,400	1,400	—	—	—	1,400
06/11/03	5.000	08/01/21	1,470	1,470	—	—	—	1,470
06/11/03	5.000	08/01/22	1,540	1,540	—	—	—	1,540
06/11/03	5.000	08/01/23	1,620	1,620	—	—	—	1,620
06/11/03	5.000	08/01/24	1,700	1,700	—	—	—	1,700
06/11/03	5.000	08/01/25	1,785	1,785	—	—	—	1,785
06/11/03	5.000	08/01/26	1,875	1,875	—	—	—	1,875
06/11/03	5.000	08/01/27	1,970	1,970	—	—	—	1,970
06/11/03	5.000	08/01/28	2,065	2,065	—	—	—	2,065
2003B Certificates of Participation			\$ 30,065	\$ 30,605	\$ —	\$ 1,410	\$ 532	\$ 29,727
2004A Certificates of Participation (Refinancing Project I):								
07/28/04	3.000%	10/01/08	\$ 195	\$ 319	\$ —	\$ 124	\$ 124	\$ 319
07/28/04	4.000	10/01/09	1,935	1,935	—	—	—	1,935
07/28/04	3.000	10/01/10	2,000	2,000	—	—	—	2,000
07/28/04	3.125	10/01/11	2,065	2,065	—	—	—	2,065
07/28/04	5.000	10/01/12	2,150	2,150	—	—	—	2,150
07/28/04	4.000	10/01/13	2,250	2,250	—	—	—	2,250
07/28/04	4.000	10/01/14	2,340	2,340	—	—	—	2,340
2004A Certificates of Participation			\$ 12,935	\$ 13,059	\$ —	\$ 124	\$ 124	\$ 13,059
2004B Certificates of Participation (Refunding Project I):								
07/28/04	4.250%	10/01/08	\$ 1,925	\$ 1,945	\$ —	\$ 20	\$ 20	\$ 1,945
2004B Certificates of Participation			\$ 1,925	\$ 1,945	\$ —	\$ 20	\$ 20	\$ 1,945

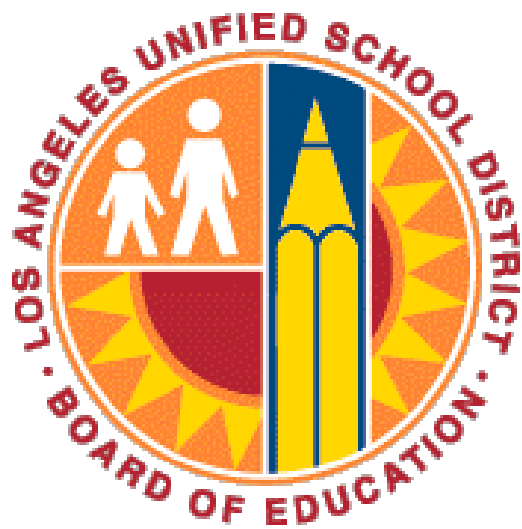
LOS ANGELES UNIFIED SCHOOL DISTRICT
Long-Term Obligations
Schedule of Certificates of Participation (Continued)
Year Ended June 30, 2007
(in thousands)

<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance Original Issue</u>	<u>Outstanding July 1, 2006</u>	<u>Issued This Year</u>	<u>Redeemed Current Year</u>	<u>Accrued Interest</u>	<u>Outstanding June 30, 2007</u>
2005A Certificates of Participation (Beaudry I-2001C Refunding):								
05/24/05	Variable	10/01/08	\$ 4,200	\$ 4,459	\$ —	\$ 259	\$ 257	\$ 4,457
05/24/05	Variable	10/01/09	4,330	4,330	—	—	—	4,330
05/24/05	Variable	10/01/10	4,475	4,475	—	—	—	4,475
05/24/05	Variable	10/01/11	4,620	4,620	—	—	—	4,620
05/24/05	Variable	10/01/12	4,770	4,770	—	—	—	4,770
05/24/05	Variable	10/01/13	4,925	4,925	—	—	—	4,925
05/24/05	Variable	10/01/14	5,085	5,085	—	—	—	5,085
05/24/05	Variable	10/01/15	5,250	5,250	—	—	—	5,250
05/24/05	Variable	10/01/16	5,425	5,425	—	—	—	5,425
05/24/05	Variable	10/01/17	5,600	5,600	—	—	—	5,600
05/24/05	Variable	10/01/18	5,785	5,785	—	—	—	5,785
05/24/05	Variable	10/01/19	5,970	5,970	—	—	—	5,970
05/24/05	Variable	10/01/20	6,165	6,165	—	—	—	6,165
05/24/05	Variable	10/01/21	6,365	6,365	—	—	—	6,365
05/24/05	Variable	10/01/22	6,575	6,575	—	—	—	6,575
05/24/05	Variable	10/01/23	6,785	6,785	—	—	—	6,785
05/24/05	Variable	10/01/24	200	200	—	—	—	200
2005A Certificates of Participation			\$ 86,525	\$ 86,784	\$ —	\$ 259	\$ 257	\$ 86,782
2005B Certificates of Participation (Beaudry III):								
05/24/05	Variable	10/01/07	\$ 565	\$ 629	\$ —	\$ 64	\$ 63	\$ 628
05/24/05	Variable	10/01/08	585	585	—	—	—	585
05/24/05	Variable	10/01/09	605	605	—	—	—	605
05/24/05	Variable	10/01/10	625	625	—	—	—	625
05/24/05	Variable	10/01/11	645	645	—	—	—	645
05/24/05	Variable	10/01/12	665	665	—	—	—	665
05/24/05	Variable	10/01/13	685	685	—	—	—	685
05/24/05	Variable	10/01/14	710	710	—	—	—	710
05/24/05	Variable	10/01/15	730	730	—	—	—	730
05/24/05	Variable	10/01/16	755	755	—	—	—	755
05/24/05	Variable	10/01/17	780	780	—	—	—	780
05/24/05	Variable	10/01/18	805	805	—	—	—	805
05/24/05	Variable	10/01/19	830	830	—	—	—	830
05/24/05	Variable	10/01/20	860	860	—	—	—	860
05/24/05	Variable	10/01/21	885	885	—	—	—	885
05/24/05	Variable	10/01/22	915	915	—	—	—	915
05/24/05	Variable	10/01/23	945	945	—	—	—	945
05/24/05	Variable	10/01/24	975	975	—	—	—	975
05/24/05	Variable	10/01/25	1,005	1,005	—	—	—	1,005
05/24/05	Variable	10/01/26	1,040	1,040	—	—	—	1,040
05/24/05	Variable	10/01/27	1,075	1,075	—	—	—	1,075
05/24/05	Variable	10/01/28	1,110	1,110	—	—	—	1,110
05/24/05	Variable	10/01/29	1,145	1,145	—	—	—	1,145
05/24/05	Variable	10/01/30	1,180	1,180	—	—	—	1,180
05/24/05	Variable	10/01/31	1,220	1,220	—	—	—	1,220
2005B Certificates of Participation			\$ 21,340	\$ 21,404	\$ —	\$ 64	\$ 63	\$ 21,403

LOS ANGELES UNIFIED SCHOOL DISTRICT
Long-Term Obligations
Schedule of Certificates of Participation (Continued)
Year Ended June 30, 2007
(in thousands)

<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance Original Issue</u>	<u>Outstanding July 1, 2006</u>	<u>Issued This Year</u>	<u>Redeemed Current Year</u>	<u>Accrued Interest</u>	<u>Outstanding June 30, 2007</u>
2005C Certificates of Participation (ELA/King Drew-1996A Refunding):								
05/24/05	Variable	10/01/13	\$ 2,785	\$ 3,225	\$ —	\$ 440	\$ 132	\$ 2,917
05/24/05	Variable	10/01/14	2,875	2,875	—	—	—	2,875
05/24/05	Variable	10/01/15	2,970	2,970	—	—	—	2,970
05/24/05	Variable	10/01/16	3,065	3,065	—	—	—	3,065
05/24/05	Variable	10/01/17	3,170	3,170	—	—	—	3,170
05/24/05	Variable	10/01/18	3,270	3,270	—	—	—	3,270
05/24/05	Variable	10/01/19	3,380	3,380	—	—	—	3,380
05/24/05	Variable	10/01/20	3,490	3,490	—	—	—	3,490
05/24/05	Variable	10/01/21	3,600	3,600	—	—	—	3,600
05/24/05	Variable	10/01/22	3,720	3,720	—	—	—	3,720
05/24/05	Variable	10/01/23	3,840	3,840	—	—	—	3,840
05/24/05	Variable	10/01/24	3,965	3,965	—	—	—	3,965
05/24/05	Variable	10/01/25	4,095	4,095	—	—	—	4,095
2005C Certificates of Participation			\$ 44,225	\$ 44,665	\$ —	\$ 440	\$ 132	\$ 44,357
2005 Certificates of Participation (2004-05 Qualified Zone Academy Bonds Project):								
12/01/05	—%	12/13/20	\$ 10,000	\$ 10,000	\$ —	\$ —	\$ —	\$ 10,000
2005 Certificates of Participation			\$ 10,000	\$ 10,000	\$ —	\$ —	\$ —	\$ 10,000
Grand Total			\$ 426,967	\$ 429,974	\$ —	\$ 19,137	\$ 2,588	\$ 413,425

See accompanying independent auditors' report.



LOS ANGELES UNIFIED SCHOOL DISTRICT

Supplemental Information

Financial information hereinafter is presented for purposes of additional analysis and is not a required part of the combined and combining financial statements of the Los Angeles Unified School District. Data presented are not considered necessary for fair presentation in conformity with U.S. generally accepted accounting principles.

LOS ANGELES UNIFIED SCHOOL DISTRICT
General Fund
Schedule of Principal Apportionment Revenue From the State School Fund
Year Ended June 30, 2007

Base Revenue Limit per A.D.A.:						
Base revenue limit per ADA (PY)						\$ 5,179.66
Inflation increase						308.00
All other adjustments						56.90
Total Base Revenue Limit per A.D.A.						<u>\$ 5,544.56</u>
Total State Revenue Limit:						
Base revenue limit	\$	5,544.56	x	633,644.75	*	\$ 3,513,281,335
Meals for needy		0.1901	x	89,852,934	Meals Served	17,081,043
Beginning teachers salary incentive funding						11,992,059
Unemployment insurance revenue						269,445
Summer school core academic programs (\$3.90 deficated at 73.4901222%)	\$	2.86611	x	2,455,235	Hours	7,036,985
California high school exit exam		3.90	x	6,357,629	Hours	24,794,753
Pupil promotion and retention and low star score		3.90	x	9,518,600	Hours	37,122,540
Apprentice allowance		4.86	x	646,000	Hours	3,139,560
Community day schools additional funding						4,134,118
Transfer of special education SDC revenues to county offices	\$	5,294.05	x	0.47	A.D.A.	(2,488)
Transfer of county community school revenues to county offices		5,544.56	x	121.24	A.D.A.	(672,222)
PERS reduction (including safety adjustment)						<u>(23,261,694)</u>
Total K-12 Revenue Limit						3,594,915,434
Property taxes and other local revenues						(811,281,951)
Charter schools in-lieu of taxes						46,446,863
Fiscally affiliated charter schools general purpose block grant						<u>25,734,631</u>
Total K-12 State Aid Entitlement						2,855,814,977
State school deficit						—
2006-2007 Net State Aid K-12 Revenue Limit						2,855,814,977
Prior year adjustments						22,643,350
Total State Aid K-12 Revenue Limit						<u>2,878,458,327</u>
Adult education revenue limit:						
Current year apportionment (including Calworks)	\$	2,530.66	x	70,817.10	A.D.A.**	179,214,002
Prior year adjustments						<u>472,588</u>
Principal apportionment – K-12 and adult education						3,058,144,917
Principal apportionment – other state revenues:						
ROC/P Entitlement:						
Base	\$	3,169.84	x	14,394.92	A.D.A.	45,629,593
Growth		3,445.80	x	4,210.74	A.D.A.	14,509,368
Calworks		3,169.84	x	250.93	A.D.A.	795,408
Handicapped						2,204,012
Prior year adjustments						3,533,592
Special education:						
Instructional entitlement						327,665,772
Special disabilities adjustment						26,279,099
Regionalized services/program specialists						9,759,099
Out of home care & mental health						22,898,490
Low incidence						1,936,672
Infant apportionment						2,866,929
Prior year adjustments						525,210
Gifted and talented:						
Current year						5,746,789
Prior year adjustments						<u>205</u>
Total Principal Apportionment from the State School Fund						3,522,495,155
Adult education portion						<u>(179,686,590)</u>
General Fund Portion						3,342,808,565
PERS reduction						<u>23,261,694</u>
Total Principal Apportionment Revenue, General Fund						<u>\$ 3,366,070,259</u>

* Consists of K-12 (602,247.01), Special Education (31,276.03), and County ADA: Community (121.24) and SDC (0.47).

** Consists of Funded Cap ADA, annual regular and allowed growth.

See accompanying independent auditors' report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
General Fund
Schedule of Appropriations, Expenditures and Other Uses, and Unexpended Balances
by District Defined Program
Year Ended June 30, 2007
(in thousands)

	<u>Appropriations</u>	<u>Expenditures and Other Uses</u>	<u>Unexpended Balances</u>
Regular program:			
General Program – Schools	\$ 3,316,430	\$ 3,017,949	\$ 298,481
General Program – Support Services	514,376	368,641	145,735
General Program – Hourly Intervention/ Remediation	75,663	78,175	(2,512)
General Program – Interfund Transfers	11,438	9,866	1,572
General Program – Options Programs	78,132	75,672	2,460
Special Education – Schools	1,220,615	1,224,013	(3,398)
Special Education – Support Services	82,369	108,226	(25,857)
Special Education – Extended Session	26,510	23,442	3,068
Student Integration – Schools	508,003	514,980	(6,977)
Student Integration – Support Services	55,332	36,622	18,710
ROC/Skill Centers – Schools	74,251	64,771	9,480
ROC/Skill Centers – Support Services	6,706	6,326	380
Routine Repair & Gen Maintenance – Schools	214,101	189,932	24,169
Routine Repair & Gen Maintenance – Support Services	18,685	25,903	(7,218)
Community Services	20,551	22,143	(1,592)
Reserves and Resources Allocations	71,561	469	71,092
Total Regular Program	6,294,723	5,767,130	527,593
Specialty Funded Programs	1,306,595	959,988	346,607
Total General Fund	\$ 7,601,318	\$ 6,727,118	\$ 874,200

See accompanying independent auditors' report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
General Fund
Expenditures and Other Uses by Goal and Function
Year Ended June 30, 2007
(in thousands)

Instruction	\$ <u>5,401,403</u>
Support Services:	
Supervision of instruction	19,905
Library, media, technology, and other instructional resources	6,731
School administration	267,870
Pupil support services	78,226
Pupil transportation	6,746
Data processing services	115,991
Plant maintenance and operations	439,283
Facilities rents and leases	20,947
Central administration	<u>176,902</u>
Total Support Services	<u>1,132,601</u>
Other Goals:	
Community services	30,269
Child care and development services	1,654
Food services	<u>660</u>
Total Other Goals	<u>32,583</u>
Facilities Acquisition and Construction	42,038
Other Outgo:	
Debt service	4,409
All other outgo	<u>114,084</u>
Total Other Outgo	<u>118,493</u>
Total Expenditures and Other Uses	<u>\$ <u>6,727,118</u></u>

Source: Program cost report, 2006-2007

See accompanying independent auditors' report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
General Fund
Schedule of Current Expense of Education
Year Ended June 30, 2007
(in thousands)

	Total Expense for the Year	Excluded Amounts*	Current Expense of Education	Current Expense of Education per Unit of A.D.A.**
Certificated salaries	\$ 3,214,486	\$ 6,722	\$ 3,207,764	\$ 4,820.82
Classified salaries	981,105	38,460	942,645	1,416.66
Employee benefits (excluding PERS reduction)	1,296,615	205,524	1,091,091	1,639.76
Books, supplies, and equipment replacement	374,032	8,319	365,713	549.62
Services & operating expense and direct support	701,796	10,299	691,497	1,039.22
Total	\$ 6,568,034	\$ 269,324	\$ 6,298,710	\$ 9,466.09
* Excluded amounts relate to:				
Community Services		\$ 29,947		
Facilities Acquisition & Construction		25,107		
Food Services		577		
Fringe Benefits to Retirees		193,263		
Nonagency		20,430		
Total		\$ 269,324		

** Annual A.D.A. (Average Daily Attendance) used is 665,397.40. Amounts rounded to nearest cent.

Note: Computation of current expense of education was prepared according to state guidelines.

See accompanying independent auditors' report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
General Fund
Schedule of Special Purpose Revenues, Expenditures, and Restricted Balances
Year Ended June 30, 2007
(in thousands)

	<u>Balances</u> <u>July 1, 2006</u>	<u>Adjustments</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Balances</u> <u>June 30, 2007</u>
Continuation Education	\$ —	\$ 9,323	\$ 17,986	\$ 27,309	\$ —
Community Day Schools	—	3,920	11,232	15,152	—
Special Education: IDEA Basic Local Assistance					
Entitlement	—	—	120,301	120,301	—
Medi-Cal Billing Options	2,987	—	8,103	8,653	2,437
COPS MORE Program	35	—	—	—	35
Cal-Safe Supportive Services	448	—	83	423	108
Class Size Reduction – Facilities	—	134	—	134	—
School Facilities Needs Assessment Program	1,221	—	—	819	402
Certificated Staff Performance Incentive Bonus	173	—	—	—	173
English Language Acquisition Program,					
Teacher Training & Student Assistance	12,692	—	10,606	6,450	16,848
Calif. Public School Library Act of 1998	88	—	—	4	84
Lottery Instructional Material	7,323	—	17,543	23,521	1,345
ROC/P Apportionment	2,066	—	78,848	68,614	12,300
Pupils with Disabilities Attending ROC/P	283	—	2,204	2,483	4
School Safety & Violence Prevention	2,011	—	9,546	9,724	1,833
Special Education	1,664	580,145	572,602	1,152,744	1,667
Arts and Music Block Grant	—	—	10,889	2,380	8,509
Art, Music and PE Supplies and Equipment	—	—	54,559	—	54,559
Targeted Instructional Improvement Grant Program	—	92	—	92	—
CAHSEE Intensive Instruction and Services	—	—	7,550	1,793	5,757
CAHSEE Individual Intervention Materials	—	—	672	—	672
Supplemental School Counseling Grades 7-12	—	—	19,972	11,196	8,776
Gifted & Talented Education	—	665	5,747	6,412	—
Instructional Materials Block Grant	—	2,641	45,705	45,846	2,500
Instructional Materials English Learner	636	—	—	606	30
Instructional Materials API Deciles 1 & 2	5,600	—	331	4,133	1,798
Transportation Home to School	7,681	(11,022)	43,138	39,247	550
Transportation: Special Education (Severely					
Disabled/Orthopedically Impaired)	—	11,665	47,907	59,572	—
California Peer Assistance & Review Program	4,048	—	3,324	1,593	5,779
Staff Development Reading & Math	752	—	6,970	6,095	1,627
Reader Services for Blind Teachers	—	—	44	44	—
Principals' Training	2,650	—	—	1,144	1,506
Tenth Grade Counseling	320	—	—	2	318
Pupil Retention Block Grant	1,807	—	5,139	2,998	3,948
Professional Development Block Grant	—	1,585	28,049	29,634	—
Targeted Instructional Improvement Block Grant	9,848	(92)	553,104	551,510	11,350
School & Library Improvement Block Grant	9,088	(7,898)	52,652	35,289	18,553
Discretionary Block Grant - School Site	—	—	45,910	12,289	33,621
Discretionary Block Grant - School District	—	—	15,405	15,405	—
Instructional Materials, Library Materials and					
Education Technology	—	—	11,069	11,069	—
California Energy Commission Loan Expenditures	401	—	—	4	397
Routine Repair & General Maintenance	22,567	181,409	2,000	185,646	20,330
Ongoing & Major Maintenance Account	—	30,188	—	30,188	—
Certificates of Participation:					
(Acquisition Accounts) – Proceeds	8,318	266	641	7,185	2,040
Specialty Funded Programs	24,344	—	1,037,946	959,988	102,302
Totals	\$ 129,051	\$ 803,021	\$ 2,847,777	\$ 3,457,691	\$ 322,158

See accompanying independent auditors' report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Adult Education Fund
Schedule of Revenues and Other Sources, Expenditures, and Other Uses
by Function, and Changes in Fund Balance
Year Ended June 30, 2007
(in thousands)

Revenues and Other Sources:	
Revenue limit sources	\$ 169,087
Federal revenues	17,606
Other state revenues	10,303
Other local revenues	3,219
Transfers in	4,199
	<hr/>
Total Revenues and Other Sources	204,414
	<hr/>
Expenditures and Other Uses:	
Instruction	121,680
Supervision of instruction	21,709
School administration	20,105
Guidance & counseling services	5,934
Other pupil services	1
General administration cost transfers	5,596
Plant maintenance and operations	11,673
Facilities acquisition & construction	1,018
Facilities rents and leases	1,714
	<hr/>
Total Expenditures and Other Uses	189,430
	<hr/>
Excess of Revenues and Other Sources Over Expenditures and Other Uses	14,984
	<hr/>
Fund Balance, July 1, 2006	19,081
	<hr/>
Fund Balance, June 30, 2007	\$ 34,065
	<hr/>

See accompanying independent auditors' report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Child Development Fund
Schedule of Revenues and Other Sources, Expenditures, and Other Uses
by Function, and Changes in Fund Balance
Year Ended June 30, 2007
(in thousands)

Revenues and Other Sources:	
Federal revenues	\$ 15,447
Other state revenues	92,309
Other local revenues	8,916
Transfers in	<u>7,133</u>
Total Revenues and Other Sources	<u>123,805</u>
Expenditures and Other Uses:	
Instruction	81,814
Supervision of instruction	12,030
School administration	14,164
Guidance & counseling services	208
Health services	987
Community services	48
Other general administration	646
Plant maintenance & operations	6,448
Facilities acquisition & construction	149
Facilities rents and leases	449
Interfund transfers	<u>2,000</u>
Total Expenditures and Other Uses	<u>118,943</u>
Excess of Revenues and Other Sources Over Expenditures and Other Uses	4,862
Fund Balance, July 1, 2006	<u>6,202</u>
Fund Balance, June 30, 2007	<u><u>\$ 11,064</u></u>

See accompanying independent auditors' report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
All Funds
Schedule of Fund Equity
Year Ended June 30, 2007
(in thousands)

	General Fund	Adult Education Fund	Cafeteria Fund	Child Development Fund	Deferred Maintenance Fund	Bond Interest & Redemption Fund
Reserved for:						
Revolving and imprest funds	\$ 2,836	\$ 119	\$ —	\$ 37	\$ —	\$ —
Inventories	8,108	91	7,559	65	—	—
Debt service	—	—	—	—	—	360,140
Prepays	—	—	—	—	—	—
General reserve	1	—	—	—	—	—
Participants' equity	—	—	—	—	—	—
Other restricted balances (detail on page 125)	322,158	—	—	—	—	—
Total Reserved Fund Equity	<u>333,103</u>	<u>210</u>	<u>7,559</u>	<u>102</u>	<u>—</u>	<u>360,140</u>
Unreserved:						
Designated for:						
Subsequent year expenditures	207,003	13,797	46,410	10,962	153,902	—
Economic uncertainties	71,538	—	—	—	—	—
Total Designated	<u>278,541</u>	<u>13,797</u>	<u>46,410</u>	<u>10,962</u>	<u>153,902</u>	<u>—</u>
Undesignated fund equity	<u>83,591</u>	<u>20,058</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total Unreserved Fund Equity	<u>362,132</u>	<u>33,855</u>	<u>46,410</u>	<u>10,962</u>	<u>153,902</u>	<u>—</u>
Total Fund Equity	<u>\$ 695,235</u>	<u>\$ 34,065</u>	<u>\$ 53,969</u>	<u>\$ 11,064</u>	<u>\$ 153,902</u>	<u>\$ 360,140</u>

See accompanying independent auditors' report.

Tax Override Fund	Capital Services Fund	Building Fund	Building Account – Bond Proceeds	Building Account – Measure K	Building Account – Measure R	Building Account – Measure Y	State School Building Lease – Purchase Fund
\$ —	\$ —	\$ —	\$ 3,000	\$ —	\$ 300	\$ —	\$ —
—	—	—	—	—	—	—	—
207	22,928	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
207	22,928	—	3,000	—	300	—	—
—	—	2,108	136,624	346,536	358,835	107,743	4,066
—	—	—	—	—	—	—	—
—	—	2,108	136,624	346,536	358,835	107,743	4,066
—	—	—	—	—	—	—	—
—	—	2,108	136,624	346,536	358,835	107,743	4,066
\$ 207	\$ 22,928	\$ 2,108	\$ 139,624	\$ 346,536	\$ 359,135	\$ 107,743	\$ 4,066

(Continued)

LOS ANGELES UNIFIED SCHOOL DISTRICT
All Funds
Schedule of Fund Equity (Continued)
Year Ended June 30, 2007
(In thousands)

	Special Reserve Fund	Special Reserve Fund – FEMA – Hazard Mitigation	Special Reserve Fund – Community Redevelopment Agency	Capital Facilities Account Fund	County School Facilities Fund	County School Facilities Fund – Prop 47
Reserved for:						
Revolving and imprest funds	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Inventories	—	—	—	—	—	—
Debt service	—	—	—	—	—	—
Prepays	—	—	—	—	—	—
General reserve	—	—	—	—	—	—
Participants' equity	—	—	—	—	—	—
Other restricted balances (detail on page 125)	—	—	—	—	—	—
Total Reserved Fund Equity	—	—	—	—	—	—
Unreserved:						
Designated for:						
Subsequent year expenditures	192,076	—	4,960	152,963	49,954	1,077
Economic uncertainties	—	—	—	—	—	—
Total Designated	192,076	—	4,960	152,963	49,954	1,077
Undesignated fund equity	—	2,043	11,083	—	—	—
Total Unreserved Fund Equity	192,076	2,043	16,043	152,963	49,954	1,077
Total Fund Equity	<u>\$ 192,076</u>	<u>\$ 2,043</u>	<u>\$ 16,043</u>	<u>\$ 152,963</u>	<u>\$ 49,954</u>	<u>\$ 1,077</u>

See accompanying independent auditors' report.

County School Facilities Fund – Prop 55	County School Facilities Fund – Prop 1D	Health and Welfare Benefits Fund	Workers’ Compensation Self – Insurance Fund	Liability Self – Insurance Fund	Annuity Reserve Fund	Attendance Incentive Reserve
\$ —	\$ —	\$ —	\$ 2,000	\$ 500	\$ —	\$ —
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	10,946	—	4,651	—	—
—	—	—	—	—	—	—
—	—	—	—	—	472	763
—	—	—	—	—	—	—
—	—	10,946	2,000	5,151	472	763
368,507	16,003	18,823	58,333	—	—	—
—	—	—	—	—	—	—
368,507	16,003	18,823	58,333	—	—	—
—	—	—	—	—	—	—
368,507	16,003	18,823	58,333	—	—	—
<u>\$ 368,507</u>	<u>\$ 16,003</u>	<u>\$ 29,769</u>	<u>\$ 60,333</u>	<u>\$ 5,151</u>	<u>\$ 472</u>	<u>\$ 763</u>

LOS ANGELES UNIFIED SCHOOL DISTRICT

All Funds

Schedule of Revenues and Other Financing Sources

Year Ended June 30, 2007

(in thousands)

	SACS Object Code	General Fund	Adult Education	Cafeteria	Special Revenue Child Development
Revenue Limit Sources:					
Principal Apportionment:					
State Aid – current year	8011	\$ 2,830,081	\$ 179,214	\$ —	\$ —
Charter School Gen Purpose Entitlement – State Aid	8015	25,735	—	—	—
State Aid – prior years	8019	22,643	473	—	—
Revenue Limit Transfers:					
PERS Reduction Transfer	8092	23,261	—	—	—
ROC Subsidy Transfers from Adult Education	8091	10,600	(10,600)	—	—
Principal Apportionment Net of Transfers		2,912,320	169,087	—	—
Tax Relief Subventions:					
Homeowners' Exemptions	8021	7,250	—	—	—
Other Subventions/In-lieu of Taxes	8029	6,885	—	—	—
County & District Taxes:					
Secured Roll Taxes	8041	660,618	—	—	—
Unsecured Roll Taxes	8042	29,110	—	—	—
Prior Years' Taxes	8043	70,275	—	—	—
Supplemental Taxes	8044	36,701	—	—	—
Penalties/Int. – Delinquent Revenue Limit Taxes	8048	439	—	—	—
Miscellaneous Funds (EC 41604):					
Royalties and Bonuses	8081	8	—	—	—
Less: Nonrevenue Limit (50%) Adjustment	8089	(4)	—	—	—
Local Revenue Limit Sources		811,282	—	—	—
Total Revenue Limit Sources		3,723,602	169,087	—	—
Federal Revenues:					
Fed Rev Maintenance and Operation PY	8110	121	—	—	—
Special Education Entitlement per UDC	8181	120,300	—	—	—
Discretionary Grants	8182	17,862	—	—	—
Child Nutrition Program	8220	—	—	203,003	—
Forest Reserve Funds	8260	38	—	—	—
FEMA	8281	841	—	—	—
Vocational Program Post Secondary & Adult	8290	8,464	3,571	—	—
Workability II, Transitions Partnership	8290	1,308	—	—	—
Adult Ed ESL	8290	—	11,892	—	—
Bilingual Ed Discretionary Grant	8290	794	—	—	—
Federal Child Care, Center-based	8290	—	—	—	15,429
Child Nutrition: Nutrition Education	8290	5,680	—	—	—
Donated Commodities	8290	—	—	12,287	—
NCLB/IASA	8290	567,619	—	—	—
JTPA – Excess Authority	8290	1,307	10	—	—
Medical Billing Option	8290	8,103	—	—	—
Workforce Investment Act (WIA)	8290	—	1	—	—
Other Federal Revenues	8290	43,188	2,132	—	18
Total Federal Revenues		\$ 775,625	\$ 17,606	\$ 215,290	\$ 15,447

Funds		Debt Service Funds	Capital Projects Funds	District Bond Funds	Internal Service Funds	Non Expendable Trust Funds	Total
Deferred Maintenance	Total						
\$ —	\$ 179,214	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 3,009,295
—	—	—	—	—	—	—	25,735
—	473	—	—	—	—	—	23,116
—	—	—	—	—	—	—	23,261
—	(10,600)	—	—	—	—	—	—
—	169,087	—	—	—	—	—	3,081,407
—	—	—	—	—	—	—	7,250
—	—	—	—	—	—	—	6,885
—	—	—	—	—	—	—	660,618
—	—	—	—	—	—	—	29,110
—	—	—	—	—	—	—	70,275
—	—	—	—	—	—	—	36,701
—	—	—	—	—	—	—	439
—	—	—	—	—	—	—	8
—	—	—	—	—	—	—	(4)
—	—	—	—	—	—	—	811,282
—	169,087	—	—	—	—	—	3,892,689
—	—	—	—	—	—	—	121
—	—	—	—	—	—	—	120,300
—	—	—	—	—	—	—	17,862
—	203,003	—	—	—	—	—	203,003
—	—	—	—	—	—	—	38
—	—	—	24	—	—	—	865
—	3,571	—	—	—	—	—	12,035
—	—	—	—	—	—	—	1,308
—	11,892	—	—	—	—	—	11,892
—	—	—	—	—	—	—	794
—	15,429	—	—	—	—	—	15,429
—	—	—	—	—	—	—	5,680
—	12,287	—	—	—	—	—	12,287
—	—	—	—	—	—	—	567,619
—	10	—	—	—	—	—	1,317
—	—	—	—	—	—	—	8,103
—	1	—	—	—	—	—	1
—	2,150	—	—	—	—	—	45,338
\$ —	\$ 248,343	\$ —	\$ 24	\$ —	\$ —	\$ —	\$ 1,023,992

LOS ANGELES UNIFIED SCHOOL DISTRICT

All Funds

Schedule of Revenues and Other Financing Sources (Continued)

Year Ended June 30, 2007

(in thousands)

	SACS Object Code	General Fund	Special Revenue		
			Adult Education	Cafeteria	Child Development
Other State Revenues:					
Principal Apportionment:					
ROC/P Entitlement:					
Current year	8311	\$ 63,138	\$ —	\$ —	\$ —
Prior years	8319	3,534	—	—	—
Spec. Ed. Master Plan:					
Current year	8311	391,406	—	—	—
Prior years	8319	525	—	—	—
Gifted and Talented Pupils:					
Current year	8311	5,747	—	—	—
Special Purpose Apportionment:					
Home-to-School Transportation	8311	43,138	—	—	—
School Improvement Program	8311	5,838	—	—	—
Economic Impact Aid	8311	188,418	—	—	—
Special Ed Transportation	8311	47,907	—	—	—
Special Instructional Allowances:					
Year Round School Incentive	8425	71,604	—	—	—
Class Size Reduction Grades K-3	8434	202,244	—	—	—
Class Size Reduction Grades 9-12	8435	11,454	—	—	—
Charter School Categorical Block Grant	8480	2,850	—	—	—
Other State Revenues:					
Child Nutrition Program	8520	—	—	18,231	—
Children Centers Apportionment	8530	—	—	—	81,406
Deferred Maintenance Allowance	8540	—	—	—	—
School Facilities Apportionment	8545	—	—	—	—
Mandated Costs Reimbursements	8550	100,009	—	—	—
State Lottery Revenue	8560	109,338	—	—	—
Tax Relief Subventions – Restricted Levies:					
Homeowners' Exemptions	8571	—	—	—	—
Other subv./In lieu of Taxes	8572	—	—	—	—
State Preschool	8590	—	—	—	10,129
Community-Based English Tutoring	8590	—	8,256	—	—
Healthy Start: After Sch Lrng and Safe Neighborhood	8590	56,099	—	—	—
Teacher Recruitment and Student Support	8590	10,159	—	—	—
English Lang Acquisition Prog., Student Assistance	8590	10,606	—	—	—
Art and Music Block Grant	8590	10,889	—	—	—
Art, Music, and PE Supplies and Equipment	8590	54,559	—	—	—
Supplemental School Counseling Gr 7-12	8590	19,972	—	—	—
Instructional Material Block Grant (IMA)	8590	45,597	—	—	—
High Priority Schools Grant	8590	57,230	—	—	—
Professional Development Block Grant AB825	8590	28,049	—	—	—
Targeted Instructional Improvement Blk Grt-AB825	8590	553,104	—	—	—
School and Library Improvement Block Grant	8590	52,652	—	—	—
Discretionary Block Grant-School Site	8590	45,910	—	—	—
Discretionary Block Grant-School District	8590	15,406	—	—	—
Instructional Mat'l, Library Mat'l and Ed Tech	8590	11,069	—	—	—
All Other State Revenues	8590	83,654	2,047	—	774
Total Other State Revenues		\$ 2,302,105	\$ 10,303	\$ 18,231	\$ 92,309

Funds		Debt Service Funds	Capital Projects Funds	District Bond Funds	Internal Service Funds	Non Expendable Trust Funds	Total
Deferred Maintenance	Total						
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 63,138
—	—	—	—	—	—	—	3,534
—	—	—	—	—	—	—	391,406
—	—	—	—	—	—	—	525
—	—	—	—	—	—	—	5,747
—	—	—	—	—	—	—	43,138
—	—	—	—	—	—	—	5,838
—	—	—	—	—	—	—	188,418
—	—	—	—	—	—	—	47,907
—	—	—	—	—	—	—	71,604
—	—	—	—	—	—	—	202,244
—	—	—	—	—	—	—	11,454
—	—	—	—	—	—	—	2,850
—	18,231	—	—	—	—	—	18,231
—	81,406	—	—	—	—	—	81,406
30,210	30,210	—	—	—	—	—	30,210
—	—	—	396,707	—	—	—	396,707
—	—	—	—	—	—	—	100,009
—	—	—	—	—	—	—	109,338
—	—	3,357	—	—	—	—	3,357
—	—	108	—	—	—	—	108
—	10,129	—	—	—	—	—	10,129
—	8,256	—	—	—	—	—	8,256
—	—	—	—	—	—	—	56,099
—	—	—	—	—	—	—	10,159
—	—	—	—	—	—	—	10,606
—	—	—	—	—	—	—	10,889
—	—	—	—	—	—	—	54,559
—	—	—	—	—	—	—	19,972
—	—	—	—	—	—	—	45,597
—	—	—	—	—	—	—	57,230
—	—	—	—	—	—	—	28,049
—	—	—	—	—	—	—	553,104
—	—	—	—	—	—	—	52,652
—	—	—	—	—	—	—	45,910
—	—	—	—	—	—	—	15,406
—	—	—	—	—	—	—	11,069
—	2,821	—	649	—	—	—	87,124
\$ 30,210	\$ 151,053	\$ 3,465	\$ 397,356	\$ —	\$ —	\$ —	\$ 2,853,979

LOS ANGELES UNIFIED SCHOOL DISTRICT
All Funds
Schedule of Revenues and Other Financing Sources (Continued)
Year Ended June 30, 2007
(in thousands)

	SACS Object Code	General Fund	Adult Education	Cafeteria	Special Revenue Child Development
Other Local Revenues:					
County and District Taxes:					
Other Restricted & Voted Indebtedness Levies:					
Secured Roll	8611	\$ —	\$ —	\$ —	\$ —
Unsecured Roll	8612	—	—	—	—
Prior Years' Taxes	8613	—	—	—	—
Supplemental Taxes	8614	—	—	—	—
Community Redevelopment Funds not					
Subject to Revenue Limit Deduction	8625	—	—	—	—
Penalty & Interest on Delinquent Non Revenue Taxes	8629	—	—	—	—
Sales:					
Sale of Equipment/Supplies	8631	557	—	—	—
Food Service Sales	8634	—	—	18,050	—
Leases and Rentals	8650	4,134	—	—	—
Interest on Deposit	8660	55,434	2,566	1,617	—
Net Increase (Decrease) on the Fair Value of Investments	8662	—	—	—	—
Fees and Contracts:					
Adult Education Fees	8671	—	540	—	—
Nonresident Students	8672	115	—	—	—
Child Development Parent Fees	8673	—	—	—	2,064
In-District Premiums/Contributions	8674	—	—	—	—
Mitigation/Developer Fees	8681	—	—	—	—
All Other Fees and Contracts	8689	11,126	—	—	—
Other Local Revenues:					
Misc Funds Nonrev Limit (50%) Adjustments	8691	4	—	—	—
All Other Local Revenues	8699	41,822	113	45	6,852
Other Local Tuition	8710	12	—	—	—
Charter Schools Funding In-Lieu of Property Taxes	8780	7,076	—	—	—
Total Other Local Revenues		<u>120,280</u>	<u>3,219</u>	<u>19,712</u>	<u>8,916</u>
Subtotal – Revenues		<u>6,921,612</u>	<u>200,215</u>	<u>253,233</u>	<u>116,672</u>
Other Financing Sources:					
Interfund Transfers In:					
From General Fund	8911	—	—	—	7,133
From Special Reserve Fund	8912	28,900	—	—	—
From All Other Funds	8913	—	—	—	—
From General, Special Reserve, & Building Funds	8915	—	—	—	—
From General – In Cafeteria Fund	8916	—	—	288	—
Other Authorized Interfund Transfers In	8919	32,000	4,199	—	—
Subtotal, Interfund Transfers In		<u>60,900</u>	<u>4,199</u>	<u>288</u>	<u>7,133</u>
Other Sources:					
Issuance of bonds	8951	—	—	—	—
Premium on bonds issued		—	—	—	—
Refunding bonds issued		—	—	—	—
Premium on refunding bonds issued		—	—	—	—
Proceeds from Capital Leases	8972	2,394	—	—	—
All Other Financing Sources	8979	2,935	—	—	—
Subtotal, Other Sources		<u>5,329</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total Other Financing Sources		<u>66,229</u>	<u>4,199</u>	<u>288</u>	<u>7,133</u>
Total Revenues and Other Financing Sources		<u>\$ 6,987,841</u>	<u>\$ 204,414</u>	<u>\$ 253,521</u>	<u>\$ 123,805</u>

See accompanying independent auditors' report.

<u>Funds</u> <u>Deferred</u>		<u>Debt</u> <u>Service</u> <u>Funds</u>	<u>Capital</u> <u>Projects</u> <u>Funds</u>	<u>District</u> <u>Bond</u> <u>Funds</u>	<u>Internal</u> <u>Service</u> <u>Funds</u>	<u>Non</u> <u>Expendable</u> <u>Trust</u> <u>Funds</u>	<u>Total</u>
<u>Maintenance</u>	<u>Total</u>						
\$ —	\$ —	\$ 369,039	\$ —	\$ —	\$ —	\$ —	\$ 369,039
—	—	14,968	—	—	—	—	14,968
—	—	31,365	—	—	—	—	31,365
—	—	24,320	—	—	—	—	24,320
—	—	—	4,479	—	—	—	4,479
—	—	1,793	—	—	—	—	1,793
—	—	—	—	—	—	—	557
—	18,050	—	—	—	—	—	18,050
—	—	—	345	—	—	—	4,479
7,371	11,554	8,879	53,858	71,021	34,700	842	236,288
—	—	(134)	—	—	—	—	(134)
—	540	—	—	—	—	—	540
—	—	—	—	—	—	—	115
—	2,064	—	—	—	—	—	2,064
—	—	—	—	—	925,232	—	925,232
—	—	—	95,222	—	—	—	95,222
—	—	—	—	—	40	—	11,166
—	—	—	—	—	—	—	4
—	7,010	191	359	326	110	—	49,818
—	—	—	—	—	—	—	12
—	—	—	—	—	—	—	7,076
<u>7,371</u>	<u>39,218</u>	<u>450,421</u>	<u>154,263</u>	<u>71,347</u>	<u>960,082</u>	<u>842</u>	<u>1,796,453</u>
<u>37,581</u>	<u>607,701</u>	<u>453,886</u>	<u>551,643</u>	<u>71,347</u>	<u>960,082</u>	<u>842</u>	<u>9,567,113</u>
—	7,133	—	—	—	—	—	7,133
—	—	—	109	—	—	—	29,009
—	—	—	2,601	—	—	—	2,601
30,188	30,188	—	—	—	—	—	30,188
—	288	—	—	—	—	—	288
—	4,199	35,142	78,067	144,305	3,994	—	297,707
<u>30,188</u>	<u>41,808</u>	<u>35,142</u>	<u>80,777</u>	<u>144,305</u>	<u>3,994</u>	<u>—</u>	<u>366,926</u>
—	—	—	—	900,000	—	—	900,000
—	—	25,929	—	7,720	—	—	33,649
—	—	1,889,000	—	—	—	—	1,889,000
—	—	49,073	—	—	—	—	49,073
—	—	—	—	—	—	—	2,394
—	—	—	—	—	—	—	2,935
—	—	1,964,002	—	907,720	—	—	2,877,051
<u>30,188</u>	<u>41,808</u>	<u>1,999,144</u>	<u>80,777</u>	<u>1,052,025</u>	<u>3,994</u>	<u>—</u>	<u>3,243,977</u>
\$ <u>67,769</u>	\$ <u>649,509</u>	\$ <u>2,453,030</u>	\$ <u>632,420</u>	\$ <u>1,123,372</u>	\$ <u>964,076</u>	\$ <u>842</u>	\$ <u>12,811,090</u>

LOS ANGELES UNIFIED SCHOOL DISTRICT
Charter Schools
Year Ended June 30, 2007

		CDS Code	Fiscally Dependent	Fiscally Independent	Included in the District Audit
1	Canyon Elementary	19 64733 6016323	x		Yes
2	Dr. T. Alexander Jr. Science Center School	19 64733 0102491	x		Yes
3	High Tech High School	19 64733 0100677	x		Yes
4	Kenter Canyon Elementary	19 64733 6017701	x		Yes
5	Marquez Elementary	19 64733 6018063	x		Yes
6	Open Magnet Charter School	19 64733 6097927	x		Yes
7	Palisades Elementary	19 64733 6018634	x		Yes
8	Revere Middle School	19 64733 6058267	x		Yes
9	Topanga Elementary	19 64733 6019525	x		Yes
10	Westwood Elementary	19 64733 6019939	x		Yes
11	Academia Avance	19 64733 0109926		x	No
12	Academia Semillas del Pueblo	19 64733 6119929		x	No
13	Accelerated Charter	19 64733 6112536		x	No
14	Accelerated Elementary	19 64733 0100743		x	No
15	Animo Film & Theater Arts	19 64733 0111609		x	No
16	Animo Jackie Robinson	19 64733 0111583		x	No
17	Animo Justice Charter High School	19 64733 0111591		x	No
18	Animo Pat Brown	19 64733 0106849		x	No
19	Animo Ralph Bunche Charter High School	19 64733 0111575		x	No
20	Animo South Los Angeles Senior High	19 64733 0102434		x	No
21	Animo Venice Charter High School	19 64733 0106831		x	No
22	Aspire Los Angeles Elementary (Antonio Maria Lugo Academy)	19 64733 0109660		x	No
23	Bert Corona Charter School	19 64733 0106872		x	No
24	Bright Star Secondary Academy	19 64733 0112508		x	No
25	California Academy for Liberal Studies Middle School	19 64733 6118194		x	No
26	California Academy for Liberal Studies Early College High School	19 64733 0109553		x	No
27	Camino Nuevo Charter Academy	19 64733 6117667		x	No
28	Camino Nuevo Charter High School	19 64733 0106435		x	No
29	Celerity Nascent Charter School	19 64733 0108910		x	No
30	Centennial College Prep. Academy	19 64733 0112128		x	No
31	Central City Value High School	19 64733 0100800		x	No
32	Charter High School of Arts Multimedia/ Performing Arts High School (CHAMPS)	19 64733 0108878		x	No
33	Chime Charter Middle School	19 64733 0101634		x	No
34	Chime Charter School	19 64733 6119531		x	No
35	City Life Downtown Charter	19 64733 0102756		x	No
36	College Ready Academy High School #4	19 64733 0111500		x	No
37	College Ready Academy High School #6	19 64733 0111641		x	No
38	(College Ready) Math & Science	19 64733 0111658		x	No
39	Community Charter Early College High School	19 64733 0109876		x	No
40	Community Charter Middle School	19 64733 6116750		x	No
41	Community Harvest Charter	19 64733 1996636		x	No
42	Cornerstone Prep Charter School	19 64733 0100297		x	No
43	Crenshaw Arts-Technology High School	19 64733 0101659		x	No
44	Crescendo Charter Academy	19 64733 0112219		x	No
45	Crescendo Charter Elementary School	19 64733 0109959		x	No
46	Crescendo Conservatory	19 64733 0112342		x	No
47	Culture & Language Academy of Success	19 64733 0100768		x	No
48	Discovery Charter Prep	19 64733 1996594		x	No
49	Downtown Value School	19 64733 6119903		x	No
50	Excel Academy	19 64733 0112201		x	No
51	Fenton Avenue School	19 64733 6017016		x	No
52	Frederick Douglass Academy High School	19 64733 0112557		x	No

LOS ANGELES UNIFIED SCHOOL DISTRICT
Charter Schools (Continued)
Year Ended June 30, 2007

		<u>CDS Code</u>	<u>Fiscally Dependent</u>	<u>Fiscally Independent</u>	<u>Included in the District Audit</u>
53	Frederick Douglass Academy Middle School	19 64733 0112433		x	No
54	Gabriella Charter School	19 64733 0108886		x	No
55	Garr Academy of Mathematics and Entrepreneurial Studies (GAMES)	19 64733 0112334		x	No
56	Gertz-Ressler Academy High School	19 64733 0106864		x	No
57	Granada Hills Charter High School	19 64733 1933746		x	No
58	Heritage College Ready Charter High School	19 64733 0108894		x	No
59	Huntington Park College-Ready Academy Charter School	19 64733 0108936		x	No
60	Ivy Academia	19 64733 0106351		x	No
61	James Jordan Charter Middle School	19 64733 0109884		x	No
62	Jardin de la Infancia	19 64733 0106880		x	No
63	KIPP Academy of Opportunity	19 64733 0101444		x	No
64	KIPP LA College Prep	19 64733 0100867		x	No
65	LA Academy of Art & Enterprise	19 64733 0110304		x	No
66	LA Educational Achievement Partnership Senior High (LEAP)	19 64733 0101691		x	No
67	LA International Charter	19 64733 0109942		x	No
68	LA Leadership Academy	19 64733 1996610		x	No
69	Lakeview Charter Academy	19 64733 0102442		x	No
70	Larchmont Charter School	19 64733 0108928		x	No
71	Los Feliz Charter Schools for the Arts	19 64733 0112235		x	No
72	Magnolia Science Academy	19 64733 6119945		x	No
73	Milagro Charter Elementary	19 64733 0102426		x	No
74	Montague Street School	19 64733 6018204		x	No
75	Multicultural Learning Center	19 64733 6119044		x	No
76	N.E.W. Academy of Science & Arts	19 64733 0100289		x	No
77	N.E.W. Canoga Park Elementary School	19 64733 0102483		x	No
78	New Designs	19 64733 0102541		x	No
79	New Heights	19 64733 0111211		x	No
80	New Village Charter School	19 64733 0111484		x	No
81	North Valley Charter Academy	19 64733 0100776		x	No
82	Ocean School Charter	19 64733 0102335		x	No
83	Opportunities Unlimited	19 64733 0109918		x	No
84	Oscar De La Hoya Animo Senior High	19 64733 0101675		x	No
85	Our Community School	19 64733 0109934		x	No
86	Pacifica Community Charter School	19 64733 6119895		x	No
87	Pacoima Elementary	19 64733 6018642		x	No
88	Palisades Senior High	19 64733 1995836		x	No
89	Para Los Ninos Charter	19 64733 6120489		x	No
90	Port of Los Angeles Senior High	19 64733 0107755		x	No
91	Puente Charter	19 64733 6120471		x	No
92	Renaissance Arts Academy	19 64733 0101683		x	No
93	Richard Merkin Middle Academy	19 64733 0108902		x	No
94	Santa Monica Community Charter School	19 64733 6019079		x	No
95	Stella Middle Charter Academy	19 64733 0100669		x	No
96	Synergy Charter Academy	19 64733 0106427		x	No
97	Vaughn Next Century Learning Center	19 64733 6019715		x	No
98	View Park Prep Accelerated Charter High School	19 64733 0101196		x	No
99	View Park Prep Accelerated Charter School	19 64733 6117048		x	No
100	View Park Prep Accelerated Middle School Charter	19 64733 6121081		x	No
101	Wallis Annenberg High School	19 64733 0100750		x	No
102	Watts Learning Center Charter School	19 64733 6114912		x	No
103	Wisdom Academy for Young	19 64733 0112730		x	No

See accompanying independent auditors' report.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Supplementary Information

Year Ended June 30, 2007

(1) Excess Sick Leave

Audit Guide Section 19833.5(a)(3) disclosure

Los Angeles Unified School District does not provide more than 12 sick leave days in a school year to any CalSTRS member.

STATISTICAL SECTION

LOS ANGELES UNIFIED SCHOOL DISTRICT

Statistical Information

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

Contents

Financial trends

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

Revenue capacity

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

Debt capacity

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

Demographic and economic information

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

Operating information

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

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

LOS ANGELES UNIFIED SCHOOL DISTRICT
Net Assets by Components
Last Six Fiscal Years
(in thousands)
(Unaudited)

	<u>2001-2002</u>	<u>2002-2003</u>	<u>2003-2004</u>	<u>2004-2005</u>	<u>2005-2006</u>	<u>2006-2007</u>
Governmental Activities:						
Invested in capital assets, net of related debt	\$ 1,815,366	\$ 2,634,387	\$ 2,682,203	\$ 2,704,302	\$ 2,866,293	\$ 3,267,458
Restricted	1,804,397	932,298	1,034,896	701,779	1,089,165	1,540,422
Unrestricted	<u>317,112</u>	<u>304,092</u>	<u>73,611</u>	<u>310,003</u>	<u>222,743</u>	<u>396,529</u>
Total Governmental Activities Net Assets	<u>\$ 3,936,875</u>	<u>\$ 3,870,777</u>	<u>\$ 3,790,710</u>	<u>\$ 3,716,084</u>	<u>\$ 4,178,201</u>	<u>\$ 5,204,409</u>

Trend data is available only with the implementation of GASB 34 in Fiscal Year 2001-2002.

See accompanying independent auditors' report.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Changes in Net Assets

Last Six Fiscal Years

(in thousands)

(Unaudited)

	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
Expenses:						
Governmental Activities:						
Instruction	\$ 3,576,824	\$ 3,673,900	\$ 3,762,124	\$ 3,996,454	\$ 4,032,673	\$ 4,142,927
Support services – students	283,613	303,961	292,578	311,449	298,911	310,786
Support services – instructional staff	561,321	725,684	725,187	647,207	650,551	589,566
Support services – general administration	54,854	50,147	48,074	46,195	46,913	56,323
Support services – school administration	407,163	408,278	418,022	444,656	466,862	477,168
Support services – business	308,375	178,623	156,713	138,800	106,523	123,791
Operation and maintenance of plant services	596,729	598,680	631,941	588,588	599,899	638,201
Student transportation services	160,391	165,658	177,416	161,845	161,395	168,121
Data processing services	214,216	229,931	251,850	230,434	115,311	114,630
Operation of noninstructional services	281,764	270,570	254,493	273,236	282,992	288,736
Facilities acquisition and construction services	106,590	191,848	243,099	160,224	135,827	104,746
Other uses	6,505	460	661	778	799	418
Interest expense	115,280	92,250	233,585	256,372	285,051	342,058
Interagency disbursements	—	—	32,996	28,927	33,678	39,371
Depreciation – unallocated	70,078	53,054	101,156	105,026	130,561	180,328
Total Governmental Activities	6,743,703	6,943,044	7,329,895	7,390,191	7,347,946	7,577,170
Program Revenues:						
Charges for services						
Instruction	2,318	2,413	2,603	2,611	2,968	3,357
Support services – instructional staff	249	386	350	449	290	184
Support services – school administration	65	61	—	—	—	—
Support services – business	408	651	323	2,754	5,769	10,592
Operation and maintenance of plant services	2,961	4,306	12,051	4,336	4,154	4,496
Operation of noninstructional services	36,144	32,921	25,106	21,251	21,024	18,886
Facilities acquisition and construction services	37,175	43,217	69,723	77,480	85,122	95,222
Total Charges for Services	79,320	83,955	110,156	108,881	119,327	132,737
Operating grants and contributions						
Instruction	1,172,207	1,131,218	1,128,068	1,393,191	1,473,164	1,707,841
Support services – students	125,070	160,893	149,282	160,625	178,438	205,621
Support services – instructional staff	342,755	561,732	578,661	507,369	526,379	472,633
Support services – general administration	2,783	1,526	26	32	23	1
Support services – school administration	93,865	95,732	105,859	102,449	143,761	145,581
Support services – business	90,761	105,572	114,992	115,938	99,041	85,947
Operation and maintenance of plant services	93,567	71,839	77,355	117,736	131,411	150,877
Student transportation services	136,590	150,701	163,879	158,174	170,604	163,325
Data processing services	873	2,607	2,832	5,973	7,404	10,135
Operation of noninstructional services	190,044	199,193	205,688	227,186	236,391	236,113
Facilities acquisition and construction services	519	11,714	30,753	6,619	5,220	893
Other uses	15,414	240	249	273	—	—
Total Operating Grants and Contributions	2,264,448	2,492,967	2,557,644	2,795,565	2,971,836	3,178,967
Capital grants and contributions						
Support services – instructional staff	126	268	—	—	—	—
Operation and maintenance of plant services	47,930	64,494	26,636	5,454	7,719	137,763
Facilities acquisition and construction services	58,302	187,777	593,818	88,246	366,473	298,645
Total Capital Grants and Contributions	106,358	252,539	620,454	93,700	374,192	436,408
Total Program Revenues	2,450,126	2,829,461	3,288,254	2,998,146	3,465,355	3,748,112
Net Expenses	(4,293,577)	(4,113,583)	(4,041,641)	(4,392,045)	(3,882,591)	(3,829,058)
General Revenues:						
Taxes:						
Property taxes, levied for general purposes	1,038,777	1,098,628	1,199,891	850,516	644,637	811,282
Property taxes, levied for debt service	138,144	112,310	236,121	308,537	331,097	444,951
Property taxes, levied for community redevelopment	—	—	3,756	3,394	1,713	4,479
State aid – formula grants	2,189,402	2,196,960	2,094,751	2,582,322	2,781,133	2,901,720
Grants, entitlements and contributions not restricted						
to specific programs	502,878	514,667	415,325	489,060	441,396	531,067
Unrestricted investment earnings	74,023	28,378	60,898	70,589	138,346	149,311
Miscellaneous	8,336	96,542	8,519	13,001	6,386	12,456
Special item – gain on sales of capital assets	—	—	11,705	—	—	—
Total General Revenues	3,951,560	4,047,485	4,030,966	4,317,419	4,344,708	4,855,266
Change in Net Assets	\$ (342,017)	\$ (66,098)	\$ (10,675)	\$ (74,626)	\$ 462,117	\$ 1,026,208

Trend data is available only with the implementation of GASB 34 in FY 2001-2002.

See accompanying independent auditors' report.

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

	<u>2001-2002</u>	<u>2002-2003</u>	<u>2003-2004</u>	<u>2004-2005</u>	<u>2005-2006</u>	<u>2006-2007</u>
Property Taxes, Levied for:						
General purposes	\$ 1,038,777	\$ 1,098,628	\$ 1,199,891	\$ 850,516	\$ 644,637	\$ 811,282
Debt service	138,144	112,310	236,121	308,537	331,097	444,951
Community redevelopment	<u>—</u>	<u>—</u>	<u>3,756</u>	<u>3,394</u>	<u>1,713</u>	<u>4,479</u>
Total	<u>\$ 1,176,921</u>	<u>\$ 1,210,938</u>	<u>\$ 1,439,768</u>	<u>\$ 1,162,447</u>	<u>\$ 977,447</u>	<u>\$ 1,260,712</u>

Trend data is available only with the implementation of GASB 34 in FY 2001-2002.

See accompanying independent auditors' report.

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

	<u>1997-1998</u>	<u>1998-1999</u>	<u>1999-2000</u>
General Fund:			
Reserved	\$ 71,504	\$ 185,278	\$ 210,896
Unreserved	<u>521,022</u>	<u>469,483</u>	<u>395,614</u>
Total General Fund	<u>\$ 592,526</u>	<u>\$ 654,761</u>	<u>\$ 606,510</u>
District Bonds:			
Reserved	\$ —	\$ —	\$ 22,571
Unreserved	<u>177,240</u>	<u>213,661</u>	<u>244,336</u>
Total District Bonds	<u>\$ 177,240</u>	<u>\$ 213,661</u>	<u>\$ 266,907</u>
All Other Governmental Funds:			
Reserved	\$ 133,084	\$ 77,392	\$ 97,318
Unreserved, reported in:			
Special revenue funds	127,888	145,668	141,783
Capital projects funds	<u>129,488</u>	<u>138,942</u>	<u>543,984</u>
Total All Other Governmental Funds	<u>\$ 390,460</u>	<u>\$ 362,002</u>	<u>\$ 783,085</u>

See accompanying independent auditors' report.

<u>2000-2001</u>	<u>2001-2002</u>	<u>2002-2003</u>	<u>2003-2004</u>	<u>2004-2005</u>	<u>2005-2006</u>	<u>2006-2007</u>
\$ 363,905	\$ 202,674	\$ 236,766	\$ 171,216	\$ 96,540	\$ 144,673	\$ 333,103
<u>368,420</u>	<u>379,690</u>	<u>342,273</u>	<u>152,766</u>	<u>253,029</u>	<u>289,839</u>	<u>362,132</u>
<u>\$ 732,325</u>	<u>\$ 582,364</u>	<u>\$ 579,039</u>	<u>\$ 323,982</u>	<u>\$ 349,569</u>	<u>\$ 434,512</u>	<u>\$ 695,235</u>
\$ 25,763	\$ 20,404	\$ 17,545	\$ —	\$ 7,328	\$ 3,300	\$ 3,300
<u>537,506</u>	<u>667,432</u>	<u>2,917,720</u>	<u>1,676,001</u>	<u>1,123,595</u>	<u>1,096,859</u>	<u>949,738</u>
<u>\$ 563,269</u>	<u>\$ 687,836</u>	<u>\$ 2,935,265</u>	<u>\$ 1,676,001</u>	<u>\$ 1,130,923</u>	<u>\$ 1,100,159</u>	<u>\$ 953,038</u>
\$ 135,598	\$ 177,347	\$ 227,898	\$ 227,216	\$ 232,269	\$ 310,349	\$ 391,146
113,294	129,544	98,068	44,013	101,059	187,178	245,129
<u>747,617</u>	<u>615,708</u>	<u>586,229</u>	<u>1,330,959</u>	<u>736,408</u>	<u>773,041</u>	<u>804,840</u>
<u>\$ 996,509</u>	<u>\$ 922,599</u>	<u>\$ 912,195</u>	<u>\$ 1,602,188</u>	<u>\$ 1,069,736</u>	<u>\$ 1,270,568</u>	<u>\$ 1,441,115</u>

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

	<u>1997-1998</u>	<u>1998-1999</u>	<u>1999-2000</u>
Revenues:			
Revenue limit sources	\$ 2,549,222	\$ 2,669,411	\$ 2,819,422
Federal revenues	454,281	504,998	592,508
Other state revenues	1,462,532	1,617,343	1,939,748
Other local revenues	186,448	218,269	286,464
Total Revenues	<u>4,652,483</u>	<u>5,010,021</u>	<u>5,638,142</u>
Expenditures:			
Current:			
Certificated salaries	2,160,655	2,401,413	2,523,725
Classified salaries	724,673	813,978	882,109
Employee benefits	666,233	716,837	766,455
Books and supplies	317,490	324,847	395,193
Services and other operating expenditures	418,934	489,278	590,074
Capital outlay	341,979	416,359	362,680
Debt service – principal	108,407	120,902	40,169
Debt service – bond, COPs, and capital leases interest	—	25,568	46,530
Debt service – refunding bond issuance cost	—	—	—
Debt service – TRANS interest	—	—	7,958
Other outgo	—	—	—
Total Expenditures	<u>4,738,371</u>	<u>5,309,182</u>	<u>5,614,893</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(85,888)</u>	<u>(299,161)</u>	<u>23,249</u>
Other Financing Sources (Uses):			
Transfers in	217,664	119,144	422,092
Transfers out	(217,664)	(119,144)	(422,092)
Issuance of bonds	354,926	350,000	300,000
Premium on bonds issued	—	—	—
Refunding bonds issued	—	—	—
Premium on refunding bonds issued	—	—	—
Issuance of COPs	147,974	—	34,606
Discount on issuance of refunding bonds	—	—	—
Payment to refunded bonds escrow agent	—	—	—
Payment to refunded COPs escrow agent	—	—	—
CA Energy Commission loan	—	—	—
State school facilities apportionments	19,941	18,814	68,014
Special item - proceeds from Sullivan Canyon sale	—	—	—
Insurance proceeds - fire damage	—	—	—
Capital leases	—	—	—
Children center facilities revolving fund	—	—	—
Other financing sources	—	—	—
Other financing uses	—	—	—
Total Other Financing Sources	<u>522,841</u>	<u>368,814</u>	<u>402,620</u>
Net Change in Fund Balances	<u>\$ 436,953</u>	<u>\$ 69,653</u>	<u>\$ 425,869</u>
Debt Service as A Percentage of Noncapital Expenditures	2.5%	3.0%	1.8%

See accompanying independent auditors' report.

<u>2000-2001</u>	<u>2001-2002</u>	<u>2002-2003</u>	<u>2003-2004</u>	<u>2004-2005</u>	<u>2005-2006</u>	<u>2006-2007</u>
\$ 3,181,588	\$ 3,407,354	\$ 3,483,050	\$ 3,436,839	\$ 3,575,257	\$ 3,724,599	\$ 3,892,689
601,388	691,622	824,684	984,482	1,071,628	1,150,060	1,023,992
2,057,373	1,936,512	2,137,919	2,434,073	2,109,674	2,419,412	2,853,979
366,511	349,889	419,927	451,220	549,264	637,941	835,529
<u>6,206,860</u>	<u>6,385,377</u>	<u>6,865,580</u>	<u>7,306,614</u>	<u>7,305,823</u>	<u>7,932,012</u>	<u>8,606,189</u>
2,872,065	2,969,537	3,066,319	3,055,482	3,110,756	3,187,441	3,362,475
986,491	1,050,980	1,066,527	1,065,409	1,069,595	1,098,558	1,180,482
920,801	1,061,783	1,214,906	1,312,887	1,349,301	1,418,575	1,440,468
477,507	496,524	495,117	468,036	499,411	567,167	507,486
634,840	657,540	766,443	822,234	647,151	691,388	785,742
412,427	760,784	704,931	1,003,568	1,398,243	1,532,862	1,494,934
39,399	105,321	93,608	114,150	110,501	94,843	153,258
78,882	91,526	105,687	225,574	232,333	241,131	285,315
—	—	—	—	1,337	2,732	9,665
14,664	20,231	2,487	6,472	—	—	—
—	—	(50)	40,529	33,748	41,695	46,865
<u>6,437,076</u>	<u>7,214,226</u>	<u>7,515,975</u>	<u>8,114,341</u>	<u>8,452,376</u>	<u>8,876,392</u>	<u>9,266,690</u>
<u>(230,216)</u>	<u>(828,849)</u>	<u>(650,395)</u>	<u>(807,727)</u>	<u>(1,146,553)</u>	<u>(944,380)</u>	<u>(660,501)</u>
295,058	360,338	264,190	172,148	598,061	381,658	362,932
(295,058)	(360,338)	(263,998)	(171,934)	(598,061)	(381,658)	(366,926)
386,655	500,000	2,607,345	—	200,000	1,115,712	900,000
—	—	—	—	4,124	64,283	33,649
—	—	—	—	219,125	778,673	1,889,000
—	—	—	—	16,338	64,058	49,073
205,261	222,391	272,303	—	219,790	10,000	—
—	—	—	—	—	—	(1,324)
—	—	—	—	(234,126)	(656,098)	(1,927,084)
—	—	—	—	(333,958)	(178,618)	—
—	—	—	—	1,318	63	—
153,739	—	—	—	—	—	—
—	—	—	11,918	—	—	—
—	—	—	—	—	—	2,935
—	5,975	3,888	7,630	1,999	1,318	2,394
—	441	518	—	—	—	—
—	—	2,159	—	—	—	—
—	—	(2,210)	—	—	—	—
<u>745,655</u>	<u>728,807</u>	<u>2,884,195</u>	<u>19,762</u>	<u>94,610</u>	<u>1,199,391</u>	<u>944,649</u>
\$ <u>515,439</u>	\$ <u>(100,042)</u>	\$ <u>2,233,800</u>	\$ <u>(787,965)</u>	\$ <u>(1,051,943)</u>	\$ <u>255,011</u>	\$ <u>284,148</u>
2.2%	3.4%	3.0%	4.9%	4.9%	4.6%	5.8%

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

Fiscal year	Certificated Salaries	Classified Salaries	Employee Benefits	Books and Supplies	Services and Other Oper. Exp.
1997-1998	\$ 2,160,655	\$ 724,673	\$ 639,210	\$ 317,490	\$ 418,594
1998-1999	2,401,413	813,977	660,532	324,847	489,093
1999-2000	2,512,041	878,749	763,856	393,713	587,450
2000-2001	2,856,783	981,602	845,340	475,529	629,724
2001-2002	2,949,992	1,044,050	1,056,848 ⁽²⁾	492,982	650,543
2002-2003	3,036,964	1,056,274	1,207,073	490,211	757,868
2003-2004	3,055,482	1,065,409	1,312,887	468,036	821,490
2004-2005	3,110,756	1,069,595	1,349,301	499,411	646,373
2005-2006	3,187,441	1,098,558	1,418,575	567,167	691,388
2006-2007	3,362,475	1,180,482	1,440,468	507,486	785,742

Notes:

⁽¹⁾ "Other Outgo" includes Tuition for Handicapped Pupils and Transfer to Charter Schools of funding in-lieu of property taxes.

⁽²⁾ Beginning in fiscal year 2001-2002, PERS Reduction is reflected under "Employee Benefits".
Prior to 2001-2002, PERS Reduction was reflected under "Other Outgo".

See accompanying independent auditors' report.

Capital Outlay	Debt Service	Other Outgo ⁽¹⁾	Operating Transfers Out	Total Expenditures and Other Uses
\$ 341,979	\$ 108,407	\$ 27,363	\$ 217,664	\$ 4,956,035
416,356	146,470	56,490	119,144	5,428,322
359,124	51,662	42,582	422,092	6,011,269
409,618	132,517	71,389	295,058	6,697,560
756,064	217,078	(387) ⁽²⁾	360,338	7,527,508
691,793	201,782	(145)	263,998	7,705,818
1,003,568	346,196	41,273	171,934	8,286,275
1,398,243	344,171	602,610	598,061	9,618,521
1,532,862	338,706	876,411	381,658	10,092,766
1,494,934	448,238	1,975,273	366,926	11,562,024

LOS ANGELES UNIFIED SCHOOL DISTRICT
Governmental Fund Types
Expenditures and Other Uses by Goal and Function
Last Five Fiscal Years
(in thousands)
(Unaudited)

	<u>2002-2003</u>	<u>2003-2004</u>	<u>2004-2005</u>	<u>2005-2006</u>	<u>2006-2007</u>
Instructional Goals:					
General education	\$ 3,673,054	\$ 3,741,979	\$ 3,935,655	\$ 4,145,863	\$ 4,270,273
Special education	1,166,539	1,214,874	1,195,855	1,252,592	1,333,134
Others	97,706	99,995	94,496	93,176	94,206
	<u>4,937,299</u>	<u>5,056,848</u>	<u>5,226,006</u>	<u>5,491,631</u>	<u>5,697,613</u>
Noninstructional Goals:					
Community services	25,371	24,258	26,423	27,165	30,269
Child care services	6,920	5,234	7,887	3,656	4,408
	<u>32,291</u>	<u>29,492</u>	<u>34,310</u>	<u>30,821</u>	<u>34,677</u>
Support Services	1,195,756	1,207,134	1,058,764	1,083,003	1,182,086
Facilities Acquisition	853,255	1,219,838	1,522,494	1,635,060	1,581,955
Food Services	220,978	212,280	222,640	241,888	253,798
Other Outgo:					
Debt service	201,782	346,196	344,171	517,324	2,386,554
All other outgo	264,457	214,487	1,210,136	1,093,039	425,341
	<u>466,239</u>	<u>560,683</u>	<u>1,554,307</u>	<u>1,610,363</u>	<u>2,811,895</u>
Total Expenditures and Other Uses	<u>\$ 7,705,818</u>	<u>\$ 8,286,275</u>	<u>\$ 9,618,521</u>	<u>\$ 10,092,766</u>	<u>\$ 11,562,024</u>

Trend data is available only with the District's implementation of SACS in Fiscal Year 2002-2003.

See accompanying independent auditors' report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Governmental Fund Types
Revenues by Source (SACS Report Categories)
Last Ten Fiscal Years
(in thousands)
(Unaudited)

Fiscal Year	Revenue Limit Sources	Federal	Other State	Other Local	Other Financing Sources	Total
1997-1998	\$ 2,549,222	\$ 454,281	\$ 1,462,532	\$ 186,448	\$ 740,505	\$ 5,392,988
1998-1999	2,669,411	504,998	1,617,343	218,269	487,958	5,497,979
1999-2000	2,803,911	590,308	1,931,649	282,503	817,112	6,425,483
2000-2001	3,166,947	598,540	2,044,908	357,231	1,040,713	7,208,339
2001-2002	3,388,475	686,278	1,922,377	325,743	1,067,900	7,390,773
2002-2003	3,456,958	814,681	2,118,662	401,287	3,148,244	9,939,832
2003-2004	3,436,839	984,482	2,434,073	451,220	191,696	7,498,310
2004-2005	3,575,257	1,071,628	2,109,674	549,264	1,260,755	8,566,578
2005-2006	3,724,599	1,150,060	2,419,412	637,941	2,415,765	10,347,777
2006-2007	3,892,689	1,023,992	2,853,979	835,529	3,239,983	11,846,172

See accompanying independent auditors' report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Assessed Value of Taxable Property
Last Ten Fiscal Years
(in thousands)
(Unaudited)

Fiscal Year	Secured*	Unsecured*	Total	Increase (Decrease) Over Preceding Year		Total A.D.A.**	Assessed Value per Unit of A.D.A.
				Amount	Rate		
1997-1998	\$ 200,529,601	\$ 16,934,361	\$ 217,463,962	\$ 1,098,150	0.51	731,206	\$ 297
1998-1999	205,280,714	18,081,722	223,362,436	5,898,474	2.71	719,105	311
1999-2000	218,916,146	18,927,746	237,843,892	14,481,456	6.48	732,409	325
2000-2001	233,797,971	20,142,603	253,940,574	16,096,682	6.77	740,293	*** 343
2001-2002	249,496,423	22,018,503	271,514,926	17,574,352	6.92	762,688	*** 356
2002-2003	266,383,265	21,142,670	287,525,935	16,011,009	5.90	766,137	*** 375
2003-2004	287,673,344	20,855,436	308,528,780	21,002,845	7.30	758,605	*** 407
2004-2005	311,419,822	20,505,315	331,925,137	23,396,357	7.58	746,605	445
2005-2006	343,302,944	20,566,535	363,869,479	31,944,342	9.62	722,564	504
2006-2007	382,212,502	20,396,335	402,608,837	38,739,358	10.65	710,770	566

* Source: 2006-2007 Los Angeles County Auditor-Controller "Taxpayers' Guide"

** Source: A.D.A. – Average Daily Attendance, Annual Report

*** Adjusted to exclude fiscally independent charter schools

See accompanying independent auditors' report.



LOS ANGELES UNIFIED SCHOOL DISTRICT
Property Tax Rates – All Direct and Overlapping Governments
(Per \$100 of assessed value)
Last Ten Fiscal Years
(Unaudited)

Fiscal Year	Unified General	Unified Bonds	Total Schools Tax	State-Wide for All Agencies
1997-1998	0.001622	0.010395	0.012017	1.000000
1998-1999	0.000328	0.024421	0.024749	1.000000
1999-2000	0.000373	0.031155	0.031528	1.000000
2000-2001	0.000363	0.040402	0.040765	1.000000
2001-2002	—	0.048129	0.048129	1.000000
2002-2003	0.000107	0.036866	0.036973	1.000000
2003-2004	0.000160	0.076985	0.077145	1.000000
2004-2005	0.000143	0.088696	0.088839	1.000000
2005-2006	0.000107	0.084239	0.084346	1.000000
2006-2007	0.000079	0.106735	0.106814	1.000000

Source: 2006-2007 Los Angeles County Auditor-Controller “Taxpayers’ Guide”

See accompanying independent auditors’ report.

Total District Tax	Metropolitan Water District	Los Angeles County General	City of Los Angeles District No.1	County Flood Control District
1.012017	0.008900	0.001584	0.031098	0.002197
1.024749	0.008900	0.001451	0.030161	0.001953
1.031528	0.008900	0.001422	0.031113	0.001765
1.040765	0.008800	0.001314	0.026391	0.001552
1.048129	0.007700	0.001128	0.040051	0.001073
1.036973	0.006700	0.001033	0.042312	0.000881
1.077145	0.006100	0.000992	0.050574	0.000462
1.088839	0.005800	0.000923	0.055733	0.000245
1.084346	0.005200	0.000795	0.051289	0.000049
1.106814	0.004700	0.000663	0.045354	0.000052

LOS ANGELES UNIFIED SCHOOL DISTRICT

Largest Local Secured Taxpayers

Year Ended June 30, 2007

(in thousands)

(Unaudited)

	Property Owner	Primary Land Use	2006-2007 Assessed Valuation	% of Total ⁽¹⁾
1	Douglas Emmett Realty Funds	Office Building	\$ 2,362,525	0.62%
2	Ardean Realty Finance Partnership LP	Office Building	1,341,588	0.35
3	Universal Studios LLC	Motion Picture Studio	1,337,430	0.35
4	Anheuser Busch Inc.	Industrial	826,131	0.22
5	Maguire Partners, 355 S. Grand LLC	Office Building	544,750	0.14
6	One Hundred Towers LLC	Office Building	543,861	0.14
7	Duesenberg Investment Company	Office Building	529,099	0.14
8	Trizec 333 LA LLC	Office Building	422,269	0.11
9	Casden Park LA Brea LLC	Apartments	381,730	0.10
10	Paramount Pictures Corp.	Motion Picture Studio	369,429	0.10
11	Trizec 601 Figueroa LLC	Office Building	365,350	0.10
12	Rreef America REIT II Corp. BBBB	Office Building	355,000	0.09
13	Twentieth Century Fox Film Corp.	Motion Picture Studio	343,965	0.09
14	1999 Stars LLC	Office Building	328,422	0.09
15	Century City Mall LLC	Shopping Center	325,890	0.09
16	Library Square Associates LLC	Office Building	294,949	0.08
17	515 555 Flower Associates LLC	Office Building	289,213	0.08
18	Sunstone Century Star LLC	Hotel	283,250	0.07
19	2121 Avenue of the Stars LLC	Office Building	276,500	0.07
20	Maguire Properties 555 W. Fifth LLC	Office Building	270,785	0.07
			<u>\$ 11,792,136</u>	<u>3.09%</u>

⁽¹⁾ 2006-2007 Assessed Valuation: \$381,923,173

Source: California Municipal Statistics, Inc.

See accompanying independent auditors' report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Property Tax Levies and Collections
Last Ten Fiscal Years
(in thousands)
(Unaudited)

Fiscal Year		Total Tax Levy	ERAF Funds ⁽²⁾	Current Tax Collections	Delinquent & Other Unpaid Tax Levies ⁽¹⁾	Current Delinquency Rate ⁽³⁾
1997-1998	\$	442,619	\$ 428,745	\$ 832,010	\$ 33,855	4.07%
1998-1999		486,496	420,226	834,727	22,342	2.68
1999-2000		532,436	434,175	941,023	19,589	2.08
2000-2001		583,508	465,002	1,037,958	29,973	2.89
2001-2002		652,455	493,649	1,125,788	29,264	2.60
2002-2003		656,436	536,530	1,190,192	13,881	1.17
2003-2004		821,820	576,038	1,386,560	34,987	2.52
2004-2005		929,248	171,052	1,091,325	34,128	3.13
2005-2006		991,275	76,068	1,026,351	30,963	3.02
2006-2007		1,173,752	—	1,134,757	101,640	8.96

⁽¹⁾ Includes prior years' delinquencies.

⁽²⁾ Educational Revenue Augmentation Funds (ERAF) are added to tax levies received by the District.

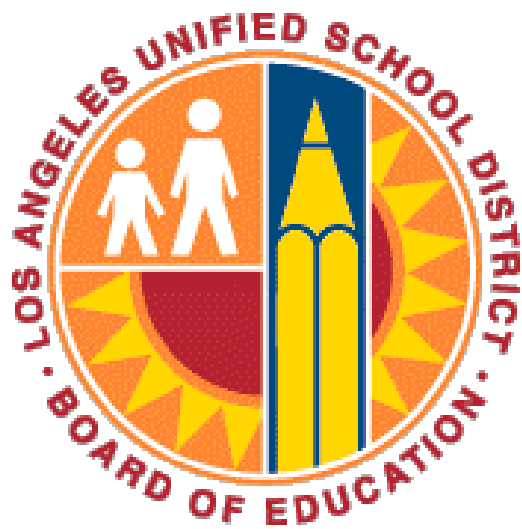
⁽³⁾ Delinquent and Other Unpaid Tax Levies divided by Current Tax Collections.

See accompanying independent auditors' report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Revenue Limit Per Unit of Average Daily Attendance
Last Ten Fiscal Years
(Unaudited)

Fiscal Year		K-12 Base Revenue Limit		Adult Base Revenue Limit
1997-1998	\$	3,910.18	\$	1,942.66
1998-1999		4,282.13		1,991.48
1999-2000		4,342.13		2,022.90
2000-2001		4,480.13		2,101.66
2001-2002		4,654.13		2,196.82
2002-2003		4,747.13		2,242.12
2003-2004		4,835.13		2,242.12
2004-2005		4,968.66		2,292.26
2005-2006		5,179.66		2,389.22
2006-2007		5,544.56		2,530.66

See accompanying independent auditors' report.



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

	1997-1998		1998-1999	
	Amount	Percent	Amount	Percent
Revenues and other sources				
Revenue limit sources	\$ 2,549,222	47.27%	\$ 2,669,411	48.54%
Federal revenues	454,281	8.42	504,998	9.19
Other state revenues	1,462,532	27.12	1,617,343	29.42
Other local revenues	186,448	3.46	218,269	3.97
Operating transfers in	217,664	4.04	119,144	2.17
Proceeds from issuance of bonds	354,926	6.58	350,000	6.37
Premium on bonds issued	—	—	—	—
Proceeds from refunding bonds issued	—	—	—	—
Premium on refunding bonds issued	—	—	—	—
State school facilities apportionments	19,941	0.37	18,814	0.34
Proceeds from Refunding Cert. of Participation ⁽¹⁾	61,462	1.14	—	—
Proceeds from Certif. of Participation/Long-term Capital Lease ⁽¹⁾	86,512	1.60	—	—
Proceeds from CA Energy Commission loan	—	—	—	—
Proceeds from Sullivan Canyon sale	—	—	—	—
Insurance proceeds - fire damage	—	—	—	—
Children Center facilities fund	—	—	—	—
Total Revenues and Other Sources	\$ 5,392,988	100.00%	\$ 5,497,979	100.00%
Expenditures and other uses				
Current:				
Certificated salaries	\$ 2,160,655	43.59%	\$ 2,401,413	44.25%
Classified salaries	724,673	14.62	813,977	14.99
Employee benefits ^{(2) (3)}	639,210	12.90	716,837	13.21
Books and supplies	317,490	6.41	324,847	5.98
Services and other operating expenditures ⁽²⁾	418,594	8.45	489,278	9.01
Capital outlay	341,979	6.90	416,359	7.67
Debt service	108,407	2.19	120,902	2.23
Other outgo ^{(2) (3)}	27,363	0.55	25,568	0.47
Operating transfers out ⁽⁴⁾	217,664	4.39	119,144	2.19
Discount on issuance of refunding bonds	—	—	—	—
Payment to refunded bonds escrow agent	—	—	—	—
Payment to refunded COPs escrow agent	—	—	—	—
Total Expenditures and Other Uses	\$ 4,956,035	100.00%	\$ 5,428,325	100.00%

⁽¹⁾ The 2001-2002 COPs proceeds were used to acquire and improve real properties, including the new Administration Building and the former Ambassador Hotel site, and the refunding of the 1991 COPs that refunded the 1988 COPs for the Bravo Medical Magnet Senior High School Project. The 2002-2003 COPs proceeds were used for information technology systems, warehouse acquisition, administration building improvements and multiple school projects such as: air-conditioning, relocatable classrooms, gymnasium improvements, computer and telephone equipment, school police vehicles, sports and parking facilities, school museum and other projects. The 2004-2005 COPs proceeds were used to refund a portion of prior year issuances and make administration building improvements. The 2005-2006 COPs proceeds were used to modernize nine schools to accommodate existing or planned academy programs that address student career pathway/higher education interests.

See accompanying independent auditors' report.

1999-2000			2000-2001			2001-2002		
Amount	Percent		Amount	Percent		Amount	Percent	
\$ 2,819,422	43.50%		\$ 3,181,588	43.90%		\$ 3,388,475	45.84%	
592,508	9.14		601,388	8.30		686,278	9.28	
1,958,982	30.22		2,057,373	28.39		1,922,377	26.01	
286,464	4.42		366,511	5.06		325,743	4.41	
422,092	6.51		295,058	4.07		339,093	4.59	
300,000	4.63		386,655	5.33		500,000	6.77	
—	—		—	—		—	—	
—	—		—	—		—	—	
—	—		—	—		—	—	
68,014	1.05		153,739	2.12		—	—	
—	—		—	—		—	—	
—	—		—	—		—	—	
34,606	0.53		205,261	2.83		228,366	3.09	
—	—		—	—		—	—	
—	—		—	—		—	—	
—	—		—	—		—	—	
—	—		—	—		441	0.01	
<u>\$ 6,482,088</u>	<u>100.00%</u>		<u>\$ 7,247,573</u>	<u>100.00%</u>		<u>\$ 7,390,773</u>	<u>100.00%</u>	

\$ 2,523,725	41.80%		\$ 2,872,065	42.67%		\$ 2,949,992	39.20%	
882,109	14.61		986,491	14.65		1,044,050	13.87	
766,455	12.70		849,113	12.61		1,056,848	14.04	
395,193	6.55		477,507	7.09		492,982	6.55	
590,074	9.77		634,680	9.43		650,543	8.64	
362,680	6.01		412,427	6.13		756,064	10.04	
51,696	0.86		132,945	1.97		217,078	2.88	
42,961	0.71		71,848	1.07		(387)	(0.01)	
422,092	6.99		295,058	4.38		360,338	4.79	
—	—		—	—		—	—	
—	—		—	—		—	—	
—	—		—	—		—	—	
<u>\$ 6,036,985</u>	<u>100.00%</u>		<u>\$ 6,732,134</u>	<u>100.00%</u>		<u>\$ 7,527,508</u>	<u>100.00%</u>	

⁽²⁾ "Other outgo" includes Tuition for Handicapped Pupils. Starting from fiscal year 2003-2004, Charter Schools In-lieu of Taxes is included in total expenditures under object 7280 as Other transfers out. Previously, this was a reduction of the revenues.

⁽³⁾ Starting from fiscal year 2001-2002, PERS Reduction is included under "Employee benefits". Prior to 2001-2002, PERS Reduction was included under "Other outgo".

(Continued)

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

	2002-2003		2003-2004	
	Amount	Percent	Amount	Percent
Revenues and other sources				
Revenue limit sources	\$ 3,456,958	34.77%	\$ 3,436,839	45.83%
Federal revenues	814,681	8.20	984,482	13.13
Other state revenues	2,118,662	21.31	2,434,073	32.46
Other local revenues	401,287	4.04	451,220	6.02
Operating transfers in	264,190	2.66	172,148	2.30
Proceeds from issuance of bonds	2,607,345	26.23	—	—
Premium on bonds issued	—	—	—	—
Proceeds from refunding bonds issued	—	—	—	—
Premium on refunding bonds issued	—	—	—	—
State school facilities apportionments	—	—	—	—
Proceeds from Refunding Cert. of Participation ⁽¹⁾	—	—	—	—
Proceeds from Certif. of Participation/Long-term Capital Lease ⁽¹⁾	276,191	2.78	7,630	0.10
Proceeds from CA Energy Commission loan	—	—	—	—
Proceeds from Sullivan Canyon sale	—	—	11,918	0.16
Insurance proceeds - fire damage	—	—	—	—
Children Center facilities fund	518	0.01	—	—
Total Revenues and Other Sources	<u>\$ 9,939,832</u>	<u>100.00%</u>	<u>\$ 7,498,310</u>	<u>100.00%</u>
Expenditures and other uses				
Current:				
Certificated salaries	\$ 3,036,964	39.41%	\$ 3,055,482	36.88%
Classified salaries	1,056,274	13.71	1,065,409	12.86
Employee benefits ^{(2) (3)}	1,207,073	15.66	1,312,887	15.84
Books and supplies	490,211	6.36	468,036	5.65
Services and other operating expenditures ⁽²⁾	757,868	9.83	821,490	9.91
Capital outlay	691,793	8.98	1,003,568	12.11
Debt service	201,782	2.62	346,196	4.18
Other outgo ^{(2) (3)}	(145)	—	41,273	0.50
Operating transfers out ⁽⁴⁾	263,998	3.43	171,934	2.07
Discount on issuance of refunding bonds	—	—	—	—
Payment to refunded bonds escrow agent	—	—	—	—
Payment to refunded COPs escrow agent	—	—	—	—
Total Expenditures and Other Uses	<u>\$ 7,705,818</u>	<u>100.00%</u>	<u>\$ 8,286,275</u>	<u>100.00%</u>

⁽¹⁾ The 2001-2002 COPs proceeds were used to acquire and improve real properties, including the new Administration Building and the former Ambassador Hotel site, and the refunding of the 1991 COPs that refunded the 1988 COPS for the Bravo Medical Magnet Senior High School Project. The 2002-2003 COPs proceeds were used for information technology systems, warehouse acquisition, administration building improvements and multiple school projects such as: air-conditioning, relocatable classrooms, gymnasium improvements, computer and telephone equipment, school police vehicles, sports and parking facilities, school museum and other projects. The 2004-2005 COPs proceeds were used to refund a portion of prior year issuances and make administration building improvements. The 2005-2006 COPs proceeds were used to modernize nine schools to accommodate existing or planned academy programs that address student career pathway/higher education interests.

See accompanying independent auditors' report.

2004-2005			2005-2006			2006-2007		
Amount		Percent	Amount		Percent	Amount		Percent
\$	3,575,257	41.73%	\$	3,724,599	35.99%	\$	3,892,689	32.86%
	1,071,628	12.51		1,150,060	11.11		1,023,992	8.65
	2,109,674	24.63		2,419,412	23.38		2,853,979	24.10
	549,264	6.41		637,941	6.17		835,529	7.05
	598,061	6.98		381,658	3.69		362,932	3.06
	200,000	2.33		1,115,712	10.78		900,000	7.60
	4,124	0.05		64,283	0.62		33,649	0.28
	219,125	2.56		778,673	7.53		1,889,000	15.95
	16,338	0.19		64,058	0.62		49,073	0.41
	—	—		—	—		—	—
	—	—		—	—		—	—
	—	—		—	—		—	—
	221,789	2.59		11,318	0.11		2,394	0.02
	1,318	0.02		63	—		—	—
	—	—		—	—		—	—
	—	—		—	—		2,935	0.02
	—	—		—	—		—	—
\$	<u>8,566,578</u>	<u>100.00%</u>	\$	<u>10,347,777</u>	<u>100.00%</u>	\$	<u>11,846,172</u>	<u>100.00%</u>
\$	3,110,756	32.34%	\$	3,187,441	31.58%	\$	3,362,475	29.07%
	1,069,595	11.12		1,098,558	10.88		1,180,482	10.21
	1,349,301	14.03		1,418,575	14.06		1,440,468	12.46
	499,411	5.19		567,167	5.62		507,486	4.39
	646,373	6.72		691,388	6.85		785,742	6.80
	1,398,243	14.54		1,532,862	15.19		1,494,934	12.93
	344,171	3.58		338,706	3.36		448,238	3.88
	34,526	0.36		41,695	0.41		46,865	0.41
	598,061	6.22		381,658	3.78		366,926	3.17
	—	—		—	—		1,324	0.01
	234,126	2.43		656,098	6.50		1,927,084	16.67
	333,958	3.47		178,618	1.77		—	—
\$	<u>9,618,521</u>	<u>100.00%</u>	\$	<u>10,092,766</u>	<u>100.00%</u>	\$	<u>11,562,024</u>	<u>100.00%</u>

⁽²⁾ "Other outgo" includes Tuition for Handicapped Pupils. Starting from fiscal year 2003-2004, Charter Schools In-lieu of Taxes is included in total expenditures under object 7280 as Other transfers out. Previously, this was a reduction of the revenues.

⁽³⁾ Starting from fiscal year 2001-2002, PERS Reduction is included under "Employee benefits". Prior to 2001-2002, PERS Reduction was included under "Other outgo".

(Continued)

LOS ANGELES UNIFIED SCHOOL DISTRICT
Governmental Fund Types
Schedule of Revenues and Other Sources, Expenditures and Other Uses
by State-Defined Object (Continued)
Last Ten Fiscal Years (in Thousands)
(Unaudited)

(4) Table below shows Detail of Operating transfers out (in thousands):

From	To	1997-1998	1998-1999
General	Charter	\$ —	\$ —
General	Child Development	5,431	3,792
General	Special Reserve	85,214	49,072
General	Special Reserve - Community Redevelopment Agency	—	—
General	Special Reserve - FEMA - Earthquake	28,871	8,348
General	Special Reserve - FEMA - Hazard Mitigation	4,433	4,606
General	Health & Welfare	—	—
General	Deferred Maintenance	21,261	25,851
General	Adult Education	—	—
General	Capital Services	100,373	24,343
General	Building - Measure R	—	—
General	Cafeteria	165	—
General	State School Building Lease - Purchase	(49,246)	—
Capital Services	Building - Measure Y	—	—
Special Reserve	Capital Services	602	1,456
Special Reserve	General	—	—
Special Reserve	Building - Measure K	—	—
Special Reserve	Building - Measure R	—	—
Capital Facilities	Capital Services	3,630	436
Capital Facilities	State School Building Lease - Purchase	(879)	1,240
Deferred Maintenance	State School Building Lease - Purchase	2,300	—
State School Building Lease - Purchase	Capital Services	—	—
County School Facilities	Capital Services	—	—
County School Facilities	Special Reserve	—	—
County School Facilities	Building - Measure K	—	—
County School Facilities - Prop 47	Building - Bond Proceeds	—	—
County School Facilities - Prop 47	Building - Measure K	—	—
County School Facilities - Prop 55	Special Reserve	—	—
County School Facilities - Prop 55	Building - Measure K	—	—
County School Facilities - Prop 55	Building - Measure R	—	—
Adult Education	Special Reserve	164	—
Adult Education	General	—	—
Child Development	General	—	—
Special Reserve - FEMA - Earthquake	General	—	—
Special Reserve - FEMA - Earthquake	County School Facilities-Prop 55	—	—
Special Reserve - FEMA - Hazard Mitigation	General	—	—
Annuity	General	—	—
Attendance Incentive	General	—	—
Cafeteria	General	—	—
Cafeteria	Charter	—	—
Building - Measure R	Building - Bond Proceeds	—	—
Building - Measure R	County School Facilities	—	—
Building - Measure R	Building - Measure K	—	—
Building - Measure Y	General	—	—
Building - Measure Y	Capital Services	—	—
Building - Measure Y	Building - Measure K	—	—
Building - Measure K	County School Facilities - Prop 47	—	—
Building - Measure K	Special Reserve	—	—
Building - Measure K	Building - Measure R	—	—
Building - Measure K	Building - Bond Proceeds	—	—
Building - Bond Proceeds	Building - Measure K	—	—
Building - Bond Proceeds	Capital Services	15,345	—
Capital Services	General	—	—
Capital Services	Special Reserve	—	—
		<u>\$ 217,664</u>	<u>\$ 119,144</u>

See accompanying independent auditors' report.

1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
\$ —	\$ —	\$ 20,240	\$ —	\$ —	\$ —	\$ —	\$ —
5,504	7,569	8,947	8,475	8,412	8,065	8,764	7,133
354,958	186,927	170,845	168,805	12,970	110,540	27,403	109
—	—	1,662	1,419	3,757	—	—	—
5,883	7,539	26,555	9,167	3,806	—	2,225	—
12,560	15,860	9,109	9,613	25,681	2,225	—	—
—	—	—	—	—	—	—	3,994
9,557	22,335	24,191	2,134	8,140	23,300	30,000	30,188
—	—	—	—	—	—	—	4,199
31,380	31,562	76,132	37,655	51,430	198,026	4,169	9,758
—	—	—	—	—	59	—	—
—	—	—	—	—	—	11,140	288
—	—	—	—	—	—	—	—
—	—	—	—	—	—	1	—
(38)	834	—	(5,866)	20,633	28,800	—	1,265
—	—	—	—	—	17,155	57,312	28,900
—	—	—	—	—	—	—	61,228
—	—	—	—	—	—	—	2
—	14,351	18,034	17,928	23,260	24,045	21,606	22,215
2,043	8,081	1,303	6,070	5,714	7,613	—	2,601
—	—	—	—	—	—	—	—
—	—	—	—	—	—	2,629	—
—	—	—	—	—	—	3,046	—
—	—	—	—	—	—	—	3
—	—	—	—	—	—	—	1
—	—	—	—	—	—	—	1,006
—	—	—	—	—	—	—	15
—	—	—	—	—	—	—	42,457
—	—	—	—	—	—	—	68,910
—	—	—	—	—	—	—	2,387
245	—	—	—	—	—	—	—
—	—	—	2,421	2,583	—	—	—
—	—	—	2,068	1,980	2,100	2,000	2,000
—	—	—	854	628	213	520	—
—	—	—	—	—	—	—	120
—	—	—	725	298	149	2,225	—
—	—	—	154	—	—	—	—
—	—	—	38	—	—	—	—
—	—	2,315	2,530	2,642	1,251	—	—
—	—	1,005	—	—	—	—	—
—	—	—	—	—	149,995	—	1
—	—	—	—	—	—	—	1,475
—	—	—	—	—	—	—	1,563
—	—	—	—	—	—	30,000	30,000
—	—	—	—	—	—	178,618	1,904
—	—	—	—	—	—	—	8,864
—	—	—	—	—	—	—	6,105
—	—	—	—	—	—	—	27,907
—	—	—	—	—	—	—	173
—	—	—	—	—	—	—	146
—	—	—	—	—	—	—	9
—	—	—	—	—	—	—	—
—	—	—	—	—	7,370	—	—
—	—	—	—	—	17,155	—	—
\$ 422,092	\$ 295,058	\$ 360,338	\$ 264,190	\$ 171,934	\$ 598,061	\$ 381,658	\$ 366,926

LOS ANGELES UNIFIED SCHOOL DISTRICT
Ratio of Annual Debt Service for General Bonded Debt and Certificates of
Participation (COPs) to Total General Governmental Expenditures
Last Ten Fiscal Years
(in thousands)
(Unaudited)

Fiscal Year	Principal	Interest	Total Debt Service ⁽¹⁾	Total General Governmental Expenditures	Ratio of Debt service to Total General Governmental Expenditures
1996-1997	\$ 30,005	\$ 12,915	\$ 42,920	\$ 4,241,652	1.01%
1997-1998	68,890	23,452	92,342	4,956,035	1.86
1998-1999	97,065	38,917	135,982	5,428,325	2.51
1999-2000	39,055	46,294	85,349	6,011,269	1.42
2000-2001	38,265	78,704	116,969	6,697,560	1.75
2001-2002	97,935	91,386	189,321	7,527,508	2.52
2002-2003	86,400	89,292	175,692	7,705,818	2.28
2003-2004	107,370	231,349	338,719	8,286,275	4.09
2004-2005	248,025	248,661	496,686	9,628,421	5.16
2005-2006	89,885	237,622	327,507	10,092,766	3.24
2006-2007	149,230	284,196	433,426	11,562,024	3.75

Notes:

⁽¹⁾ Payments for General Obligation Bonds and COPs, excluding fees paid in other cities, bond issuance, and other costs.

See accompanying independent auditors' report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Ratio of Net General Bonded Debt and Certificates of Participation (COPs) to
Assessed Value and Net Debt Per Capita
Last Ten Fiscal Years
(Dollars in thousands except Net Debt per Capita)
(Unaudited)

Fiscal Year	Population Los Angeles Unified *	Total Assessed Value	Gross Debt ⁽¹⁾	Debt Service Monies Available	Net Debt ⁽¹⁾	Ratio of Net Debt to Assessed Value	Net Debt per Capita
1997-1998	4,542,361	\$ 217,463,962	\$ 697,560	\$ 116,472	\$ 581,088	0.2672	% \$ 128
1998-1999	4,601,269	223,362,436	950,495	61,020	889,475	0.3982	193
1999-2000	4,675,227	237,843,892	1,234,287	81,529	1,152,758	0.4847	247
2000-2001	4,636,724	253,940,575	1,790,392	117,148	1,673,244	0.6589	361
2001-2002	4,502,647	271,514,926	2,395,127	159,062	2,236,065	0.8236	497
2002-2003	4,660,473	287,525,935	5,191,382	211,507	4,979,875	1.7320	1,069
2003-2004	4,718,101	308,528,780	5,085,570	208,215	4,877,355	1.5808	1,034
2004-2005	4,775,778	331,925,137	5,095,029	224,306	4,870,723	1.4674	1,020
2005-2006	4,784,682	363,869,479	6,233,663	283,891	5,949,772	1.6351	1,244
2006-2007	4,825,016	402,608,837	7,058,754	360,140	6,698,614	1.6638	1,388

* Estimate

⁽¹⁾ Includes bonded debts (General Obligation Bonds) and COPs.

Sources: 2005-2006 Los Angeles County Auditor-Controller "Taxpayers' Guide"
Los Angeles County Department of Regional Research Section

See accompanying independent auditors' report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Schedule of Direct and Overlapping Bonded Debt
Year Ended June 30, 2007
(Dollars in thousands)
(Unaudited)

Government	Percentage Applicable	Amount Applicable
Direct:		
Los Angeles Unified School District		
General Obligation Bonds	100.000%	\$ 6,645,329
Certificates of Participation	100.000	413,425
		<u>7,058,754</u>
Overlapping:		
Los Angeles County General Fund Obligations	45.684	495,604
Los Angeles County Pension Obligations	45.684	249,823
Los Angeles County Superintendent of Schools Certificates of Participation	45.684	9,053
Los Angeles County Flood Control District	46.257	52,529
Metropolitan Water District	22.725	81,609
Los Angeles Community College District	81.786	822,113
City of Los Angeles	99.914	1,410,684
City of Los Angeles General Fund and Judgment Obligations	99.914	1,486,915
Other City General Fund and Pension Obligations	various	176,549
Los Angeles County Sanitation Districts		
Nos. 1, 2, 3, 4, 5, 8, 9, 16 and 23 Authorities	various	55,959
Los Angeles County Regional Park & Open Space Assessment District	45.684	138,987
Los Angeles Metropolitan Transportation Agency Benefit Assessment Districts	100.000	63,640
City Community Facilities Districts	100.000	144,435
City of Los Angeles Assessment District #1	100.000	10,509
City of Los Angeles Landscaping and Special Tax Assessment District	99.914	157,375
Other City and Special District 1915 Act Bonds	100.000	28,505
Other Cities	various	14,068
Palos Verdes Library District	5.047	497
		<u>5,398,854</u>
Total Overlapping		5,398,854
Total Gross Direct and Overlapping Bonded Debt		12,457,608 ⁽¹⁾
Less:		
Los Angeles Unified School District (amount set-aside in Building Fund to make payments on 2000 Series A Qualified Zone Academic Bonds)		4,760
Los Angeles Unified School District (economic defeasance of 2005 Qualified Zone Academic Bonds resulting from investment agreement)		7,594
City self-supporting bonds		13,033
		<u>25,387</u>
Total Net Direct and Overlapping Bonded Debt		\$ 12,432,221
State School Building Aid Repayable as of 6/30/07	\$ 591	

⁽¹⁾ Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds, and nonbonded capital lease obligations.

Source: California Municipal Statistics, Inc. and District records.

See accompanying independent auditors' report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Legal Debt Margin Information
Last Ten Fiscal Years
(in thousands)
(Unaudited)

Fiscal Year	Debt Limit	Total Amount of Debt Applicable to Debt Limit	Legal Debt Margin	Total Amount of Debt Applicable to Debt Limit as a Percentage of Debt Limit
1997-1998	\$ 5,436,599	\$ 581,088	\$ 4,855,511 ⁽¹⁾	10.69 %
1998-1999	5,584,061	889,475	4,694,586 ⁽¹⁾	15.93
1999-2000	5,946,097	1,160,358	4,785,739 ⁽¹⁾	19.51
2000-2001	6,348,514	1,680,844	4,667,670 ⁽¹⁾	26.48
2001-2002	6,787,873	2,243,665	4,544,208 ⁽¹⁾	33.05
2002-2003	7,188,148	4,199,512	2,988,636	58.42
2003-2004	7,713,219	4,162,372	3,550,847	53.96
2004-2005	8,298,128	4,268,184	4,029,944	51.44
2005-2006	9,096,737	5,520,705	3,576,032	60.69
2006-2007	10,065,221	6,285,189	3,780,032	62.44

Computation of Legal Debt Margin for Fiscal Year Ended June 30, 2007

Assessed valuation (net taxable)	\$ 399,510,059
Plus exempt property	\$ 3,098,778
Total Assessed Valuation	\$ 402,608,837
Debt limit – 2.5% of Assessed Valuation per Education Code Section 15106 ⁽²⁾	10,065,221
Bonded Debt:	
General Obligation Bonds	6,645,329
Assets available for payment of principal:	
Bond Interest & Redemption Fund	<u>(360,140)</u>
Total Amount of Debt Applicable to Debt Limit	<u>6,285,189</u>
Legal Debt Margin (bonded debt) ⁽¹⁾	<u>\$ 3,780,032</u>

Source: Los Angeles County Auditor-Controller “Taxpayers’ Guide”

⁽¹⁾ The computation of legal debt margin prior to fiscal year 2002-2003 includes Certificates of Participation.

⁽²⁾ Converted rate from 10% of 25% of full cash value (2.5%) to 2.5% of 100% of full cash value (2.5%).

See accompanying independent auditors’ report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Demographic Statistics
Last Ten Fiscal Years
(in thousands)
(Unaudited)

Year	Population City of Los Angeles	Population Los Angeles Unified*	Population County of Los Angeles	School Enrollment County of Los Angeles	School Enrollment Los Angeles Unified	Unemployment Rate County of Los Angeles
1997-1998	3,722	4,542	9,603	1,583	879	6.5%
1998-1999	3,782	4,601	9,728	1,618	913	5.8
1999-2000	3,823	4,675	9,884	1,651	875	5.7
2000-2001	3,803	4,637	9,803	1,682	889	5.8
2001-2002	3,695	4,503	9,519	1,711	907	6.8
2002-2003	3,864	4,660	9,980	1,736	905	6.8
2003-2004	3,912	4,718	10,103	1,743	879	6.2
2004-2005	3,958	4,776	10,227	1,734	847	5.2
2005-2006	3,976	4,785	10,246	1,708	877	4.5
2006-2007	4,018	4,825	10,332	1,673	860	4.8

* Estimate

Sources: Los Angeles County Office of Regional Planning Research Section
California State Department of Finance.
Los Angeles County Office of Education Information Services Unit.
California State Department of Education, Educational Demographics Unit
District's Statistical Records – October Enrollment for Fiscal Year.
California Employment Development Department.

See accompanying independent auditors' report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Principal Employers
Year Ended June 30, 2007
(Unaudited)

Employer	Employees	Rank	Percentage of Total County Employment
Kaiser Permanente	32,180	1	0.70%
Northrop Grumman Corp.	21,000	2	0.45
Boeing Co.	15,825	3	0.34
Kroger Co. ⁽¹⁾	14,000	4	0.30
University of Southern California	12,379	5	0.27
Bank of America Corp.	12,200	6	0.26
Vons	12,116	7	0.26
Target Corp.	12,066	8	0.26
AT&T Inc. ⁽²⁾	9,500	9	0.21
Cedars-Sinai Health System	8,817	10	0.19
Total	150,083		3.24%

⁽¹⁾ Los Angeles Business Journal estimate

⁽²⁾ Formerly SBC Communications Inc.

Sources: Los Angeles Business Journal, "The Lists 2007" from the August 21, 2006 issue.

See accompanying independent auditors' report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Average Daily Attendance/Hours of Attendance
Annual Report
Last Ten Fiscal Years
(Unaudited)

	1997-1998	1998-1999	1999-2000	2000-2001
Elementary:				
Kindergarten	59,312	55,963	55,675	52,649
Grades 1-3	181,125	180,558	180,409	172,706
Grades 4-6	149,046	148,901	156,334	156,021
Grades 7-8	85,286	83,670	86,023	87,223
Special Education	21,310	20,927	22,680	22,327
County Special Education*	—	—	—	—
Opportunity Schools	72	63	60	92
Home or Hospital	167	201	210	203
Community Day Schools	85	77	148	159
County Community Schools**	—	—	—	7
Total Elementary	496,403	490,360	501,539	491,387
Secondary:				
Regular Classes	145,396	137,758	140,440	137,439
Special Education	8,448	8,780	8,700	9,634
County Special Education*	—	—	—	—
Compulsory Continuation Education	3,231	2,944	2,769	2,785
Opportunity Schools	956	875	820	875
Home or Hospital	113	93	99	94
Community Day Schools	236	264	297	255
County Community Schools**	—	—	—	244
Total Secondary	158,380	150,714	153,125	151,326
Block grant funded fiscally affiliated charters**				
Revenue Limit Funded Charters	—	—	—	19,952
Total Block Grant Funded Fiscally Affiliated Charters	—	—	—	19,952
Adult program:				
ROC/P Mandated	17,225	17,892	18,813	18,865
Classes for Adults - Mandated	56,893	57,684	56,408	55,781
Concurrently Enrolled Adults	2,305	2,455	2,524	2,982
Full-time Independent Study***	—	—	—	—
Total Adult Program	76,423	78,031	77,745	77,628
Total Average Daily Attendance	731,206	719,105	732,409	740,293
Summer School Hours of Attendance				
Elementary	3,443,886	3,487,072	7,140,461	5,990,462
Secondary	5,230,377	4,792,230	4,988,748	4,305,605
Dependent Charter	—	—	—	378,575
Total Hours	8,674,263	8,279,302	12,129,209	10,674,642

* Starting 2001-2002, these classifications are being presented separately to conform with state reports.

** Starting 2000-2001, these classifications are being presented separately to conform with state reports.

*** Students 21 years or older and students 19 or older not continuously enrolled since their 18th birthday, participating in full-time independent study.

**** Included with Elementary and Secondary hours.

See accompanying independent auditors' report.

2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
52,071	50,741	49,775	48,806	47,876	46,131
176,474	173,178	169,239	160,224	151,592	145,181
156,347	156,944	159,617	159,615	152,341	143,384
90,474	93,818	97,978	94,396	91,576	92,832
23,130	23,302	23,585	22,107	20,435	19,740
4	6	8	—	—	—
97	13	8	14	10	12
203	164	152	158	159	159
141	190	196	190	172	148
12	17	10	19	16	19
498,953	498,373	500,568	485,529	464,177	447,606
142,870	148,631	150,239	152,901	152,848	151,323
10,219	10,393	11,026	11,274	11,350	11,253
17	17	21	1	—	—
2,858	2,866	3,031	3,171	3,198	2,972
912	430	328	400	407	399
90	88	96	121	120	125
238	674	733	736	757	716
149	143	127	175	156	93
157,353	163,242	165,601	168,779	168,836	166,881
20,010	17,681	5,143	5,990	5,958	5,936
20,010	17,681	5,143	5,990	5,958	5,936
19,846	19,233	20,125	19,110	14,395	18,857
63,355	63,590	62,570	61,748	63,305	64,867
3,170	4,015	4,592	5,446	5,886	6,594
1	3	6	3	7	29
86,372	86,841	87,293	86,307	83,593	90,347
762,688	766,137	758,605	746,605	722,564	710,770
6,978,428	7,645,522	8,855,212	12,526,699	12,061,970	9,974,314
5,237,002	5,486,137	5,941,513	6,350,873	8,929,199	8,357,150
408,580	195,142	****	****	****	****
12,624,010	13,326,801	14,796,725	18,877,572	20,991,169	18,331,464

LOS ANGELES UNIFIED SCHOOL DISTRICT
Full-Time Equivalent District Employees by Function
Last Five Fiscal Years
(Unaudited)

	<u>2002-2003</u>	<u>2003-2004</u>	<u>2004-2005</u>	<u>2005-2006</u>	<u>2006-2007</u>
Governmental Activities:					
Instruction	53,905	54,151	53,601	52,608	52,769
Support services – students	3,043	2,954	3,074	3,091	3,060
Support services – instructional staff	5,290	5,079	5,327	5,560	5,280
Support services – general administration	204	173	193	209	222
Support services – school administration	5,685	5,720	5,780	5,870	6,045
Support services – business	1,605	1,748	1,441	1,119	1,154
Operation and maintenance of plant services	7,195	7,591	7,398	7,537	7,835
Student transportation services	1,314	1,279	1,229	1,174	1,236
Data processing services	476	515	519	557	722
Operation of noninstructional services	3,935	3,449	3,389	3,232	3,394
Facilities acquisition and construction services	538	545	884	937	994
Total Governmental Activities	<u>83,190</u>	<u>83,204</u>	<u>82,835</u>	<u>81,894</u>	<u>82,711</u>

Trend data is available only with the District's implementation of SACS in fiscal year 2002-2003.

See accompanying independent auditors' report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Capital Assets by Function
Last Five Fiscal Years
(in thousands)
(Unaudited)

	<u>2002-2003</u>	<u>2003-2004</u>	<u>2004-2005</u>	<u>2005-2006</u>	<u>2006-2007</u>
Governmental Activities:					
Instruction	\$ 546,694	\$ 528,679	\$ 513,717	\$ 497,404	\$ 478,190
Support services – students	2,264	2,662	2,795	2,823	2,850
Support services – instructional staff	28,251	44,718	55,793	109,660	64,517
Support services – general administration	3,489	4,037	4,077	4,076	4,125
Support services – school administration	60,293	60,410	60,447	60,447	71,013
Support services – business	27,488	31,371	31,397	30,818	32,499
Operation and maintenance of plant services	129,770	140,029	165,668	177,094	139,831
Student transportation services	49,205	49,201	49,235	49,357	49,153
Data processing services	367,824	373,820	401,997	388,367	438,732
Operation of noninstructional services	9,475	9,712	9,750	9,977	11,806
Facilities acquisition and construction services	<u>5,403,186</u>	<u>6,328,779</u>	<u>7,656,251</u>	<u>9,131,797</u>	<u>10,639,963</u>
Total Governmental Activities	<u>\$ 6,627,939</u>	<u>\$ 7,573,418</u>	<u>\$ 8,951,127</u>	<u>\$ 10,461,820</u>	<u>\$ 11,932,679</u>

Trend data is available only with the District's implementation of SACS in Fiscal Year 2002-2003.

See accompanying independent auditors' report.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Miscellaneous Statistical and Other Data

Year Ended June 30, 2007

(Unaudited)

Geographical Location: The Los Angeles Unified School District is a political subdivision of the State of California. It is located in the western section of Los Angeles County and includes virtually all the city of Los Angeles and all or significant portions of the cities of Bell, Carson, Commerce, Cudahy, Gardena, Hawthorne, Huntington Park, Lomita, Maywood, Rancho Palos Verdes, San Fernando, South Gate, Vernon, and West Hollywood, in addition to considerable unincorporated territories devoted to homes and industry.

Geographical Area: 710 square miles

Administrative Offices: 333 South Beaudry Avenue, Los Angeles, CA 90017

Form of Government: The District is governed by a seven-member Board of Education elected by district to serve alternating four-year terms

	Expiration of term
Mónica García, President	June 30, 2009
Marlene Canter	June 30, 2009
Julie Korenstein	June 30, 2009
Marguerite Poindexter LaMotte	June 30, 2011
Tamar Galatzan	June 30, 2011
Yolie Flores Aguilar	June 30, 2011
Richard Vladovic	June 30, 2011

The Superintendent of Schools is David L. Brewer III

Date of Establishment: 1854 as the Common Schools for the City of Los Angeles and became a unified school district in 1960.

Fiscal Year: July 1 – June 30

Number of Schools:	(As of October)	2006-2007	2005-2006
Elementary Schools		437	432
Middle/Junior High Schools		74	74
Senior High Schools		61	53
Options Schools		59	59
Special Education Schools		17	18
Magnet Schools		22	22
Magnet Centers		138	138
Community Adult Schools		24	24
Regional Occupational Centers		5	5
Skills Centers		5	5
Regional Occupational Program		1	1
Early Education Centers		100	100
Infant Centers		4	4
Primary School Centers		27	26
Newcomer Schools		1	1
Multi-level Schools		10	8
Total Schools and Centers		985	970

Enrollment by Level:	(As of October)	2006-2007	2005-2006
Elementary Schools		307,692	324,094
Middle/Junior High Schools		141,745	145,264
Senior High Schools		167,113	171,560
Magnet Schools/Centers		53,277	53,266
Special Education Schools		3,673	3,908
Total K-12 Enrollment		673,500	698,092
Community Adult Schools		108,096	101,406
Occupational Centers and Skills Centers		37,672	36,803
Total Adult/ROC Enrollment		145,768	138,209
Total Enrollment		819,268	836,301
Early Education Centers		11,052	10,947

See accompanying independent auditors' report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Miscellaneous Statistical and Other Data (Continued)
Year Ended June 30, 2007
(Unaudited)

Average Student-Teacher Ratio
& Cost Per Student: (Last Ten Fiscal Years)

Fiscal Year	Student Enrollment	Teaching Staff ⁽¹⁾	Student-Teacher Ratio	Total Primary Government Expense (in thousands) ⁽²⁾	Cost Per Student (in dollars) ⁽²⁾
2006-2007	830,320	34,929	23.77 : 1	7,577,170	9,126
2005-2006	847,248	35,646	23.77 : 1	7,347,946	8,673
2004-2005	878,521	35,807	24.53 : 1	7,390,191	8,412
2003-2004	911,410	36,180	25.19 : 1	7,329,895	8,042
2002-2003	905,020	36,185	25.01 : 1	6,943,044	7,672
2001-2002	906,789	36,822	24.63 : 1	6,743,703	7,437
2000-2001	889,030	35,884	24.78 : 1		
1999-2000	875,009	34,652	25.25 : 1		
1998-1999	913,119	33,847	26.98 : 1		
1997-1998	878,852	31,513	27.89 : 1		

⁽¹⁾ Source: California Department of Education. Based on full-time equivalent as of October.

⁽²⁾ Trend data is available only with the District's implementation of GASB 34 in Fiscal Year 2001-2002.

Students in free
and reduced lunch program:

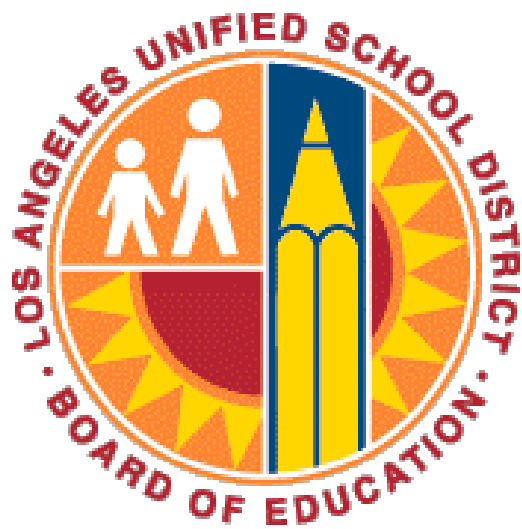
	Number	Percentage
Elementary	40,296,148	86.97 %
Secondary	17,220,905	89.70 %
Total	57,517,053	87.77 %

Teachers by Education Level: (As of December 2006)

	Number of Credentialed	Average Teacher Pay of Credentialed	Number of Non-Credentialed	Average Teacher Pay of Non-Credentialed
Bachelor's Degree	1,040	\$ 47,059	1,199	\$ 40,137
Bachelor's Degree + 14 semester units	861	48,978	312	41,151
Bachelor's Degree + 28 semester units	2,957	50,873	323	42,477
Bachelor's Degree + 42 semester units	3,770	53,823	131	45,926
Bachelor's Degree + 56 semester units	3,346	57,153	74	49,254
Bachelor's Degree + 70 semester units	3,085	61,419	39	53,714
Bachelor's Degree + 84 semester units	2,821	65,083	29	52,889
Bachelor's Degree + 98 semester units	7,104	69,960	43	58,545
Bachelor's Degree + 98 semester units + 15-19 years of service	2,398	75,024	—	71,662
Bachelor's Degree + 98 semester units + 20-24 years of service	1,351	75,597	—	72,213
Bachelor's Degree + 98 semester units + 25-29 years of service	1,215	77,598	—	73,457
Bachelor's Degree + 98 semester units + 30 or more years of service	825	78,906	—	74,722
Master's Degree	9,632	+584 *	184	+584 *
Doctorate	467	+1,168 *	38	+1,168 *
Total	40,872		2,372	

* Amount in addition to Bachelor's Degree pay.

See accompanying independent auditors' report.



**STATE AND FEDERAL
COMPLIANCE
INFORMATION
SECTION**

LOS ANGELES UNIFIED SCHOOL DISTRICT
Schedule of Average Daily Attendance/Hours of Attendance
Year Ended June 30, 2007

	Second Period Report	Annual Report
Elementary:		
General Education:		
Kindergarten	45,986	46,131
Grades 1-3	145,537	145,181
Grades 4-8	237,308	236,216
Opportunity Schools	10	12
Home or Hospital	148	159
Community Day Schools	121	148
County Community Schools	21	19
Special Education	19,417	19,740
Total Elementary	448,548	447,606
Secondary:		
General Education:		
Regular Classes	154,424	151,323
Continuation Education	3,017	2,972
Opportunity Schools	392	399
Home or Hospital	113	125
Community Day Schools	672	716
County Community Schools	100	93
Special Education	11,232	11,253
Total Secondary	169,950	166,881
Block Grant Funded Fiscally Affiliated Charter	5,992	5,936
Adult Program:		
Regional Occupational Centers & Programs	16,168	18,857
Classes for Adults – Mandated	63,711	64,867
Concurrently Enrolled Adults	6,098	6,594
Full-time Independent Study*	25	29
Total Adult Program	86,002	90,347
Total Average Daily Attendance	710,492	710,770
	Hours of Attendance	
Summer School:		
Elementary	7,513,739	9,974,314
Secondary	6,704,324	8,357,150
Total Hours	14,218,063	18,331,464

* Students 21 years or older and students 19 or older not continuously enrolled since their 18th birthday, participating in full-time independent study.

See accompanying independent auditors' report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2007

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Grantor or Pass-Through Entity ID Number	Program Cluster Expenditures	Total Federal Expenditures
U.S. Department of Agriculture				
Passed through California Department of Health Services:				
Child Nutrition Network	10.561	04-35450	\$	5,679,772
Passed through California Department of Education:				
Child Nutrition School Programs Breakfast	10.553	19-64733	49,852,715	
Child Nutrition School Programs Lunch	10.555	19-64733	139,215,275	
Child Nutrition School Programs Snack	10.555	19-64733	5,017,982	
Donated Food Commodities	10.555	19-64733	12,287,075	
Child Nutrition Summer Food Services Program Operations	10.559	6473-W	1,051,748	
Child Nutrition Summer Food Services Program Sponsor Administration	10.559	6473-W	108,731	
Subtotal expenditures – Child Nutrition Cluster				207,533,526
Child Nutrition Child Care Food Program Claims	10.558	19-2016-3A & C	7,416,200	
Child Nutrition Child Care Food Program – Cash in Lieu of Commodities	10.558	19-2016-3A & C	340,129	
Subtotal expenditures – Child Care Food Program				7,756,329
Forest Reserve	10.665	Not available		37,685
Subtotal Pass-Through Programs				221,007,312
Total U.S. Department of Agriculture				221,007,312
U.S. Department of Commerce:				
Passed through Corporation for Public Broadcast				
Public Broadcasting Programs	11.550	1714		901,407
Subtotal Pass-Through Programs				901,407
Total U.S. Department of Commerce				901,407
U.S. Department of Housing & Urban Development:				
Passed through County of Los Angeles				
Community Development Block Grant	14.218	E96215-06	16,000	
Passed through City of Carson				
Carson Guidance	14.218	86-0162-0-1-451	11,000	
Subtotal expenditures – Comm. Develop. Block Grants				27,000
Passed through Children's Collective, Inc				
Community Development Block Grant-Youth				
Opportunities Programs	14.227	C040106	123,886	
Children Collective Youth Program	14.227	C040107	51,897	
Subtotal expenditures – Comm. Develop. Block Grants				175,783
Passed through Community Partner Development Corp.				
Youth Building Program	14.243	Y03IMCA0093		373
Subtotal Pass-Through Programs				203,156
Total U.S. Department of of Housing and Urban Development				203,156
U.S. Department of Justice:				
Community Oriented Policing Services in Schools Award	16.710	2004SHWX0121		1,870,897
Subtotal Direct Program				1,870,897
Total U.S. Department of Justice				1,870,897
U.S. Department of Labor:				
Passed through California Department of Education:				
Employment Development Department Trade Act				
East Los Angeles Skill Center	17.245	Contract # 990098	80,188	
Employment Development Department Trade Act				
Los Angeles Occupational Center	17.245	Contract # 200344	144,655	
Employment Development Department Trade Act				
Harbor Occupational Center	17.245	Contract # 200348	16,241	
Subtotal expenditures – Trade Adjustment Assistance				241,084
California Health Science Education Instruction	17.260	06-24832-647B-01	4,493	
Passed through County of Los Angeles:				
Department of Public Social Services – Greater Avenues for Independence Prog.	17.258	98G429	9,236	
Department of Public Social Services – Greater Avenues for Independence Prog.	17.258	200105	1,241	

LOS ANGELES UNIFIED SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2007

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Grantor or Pass-Through Entity ID Number	Program Cluster Expenditures	Total Federal Expenditures
Passed through City of Los Angeles:				
Workforce Investment Act – Youth	17.259	110456	\$ 599,953	
Workforce Investment Act – Adult	17.258	109802	10,000	
Passed through Carson/Lomita/Torrance Private Industry Council:				
Welfare to Work	17.259	C2006-164	32,928	
Workforce Investment Act – Youth	17.259	C2005-139	51,206	
Passed through Goodwill Industries of Southern California:				
Workforce Investment Act – Youth	17.259	NONE	17,518	
Passed through Mexican Opportunity Foundation:				
Workforce Investment Act – Youth	17.259	Not Available	3,300	
Workforce Investment Act – Youth	17.259	Not Available	3,000	
Passed through Para Los Ninos				
Workforce Investment Act – Youth	17.259	T3483-B	118,126	
Workforce Investment Act – Youth 15%	17.259	R659705-B	137,733	
Passed through University of California, Los Angeles:				
Workforce Investment Act – Youth	17.259	4952S HB316	19,499	
Workforce Investment Act – Youth	17.259	4952S HB327	43,535	
Passed through Watts Labor Community Action Council:				
Workforce Investment Act – Adult	17.258	110136	71,236	
Workforce Investment Act – Dislocated Worker	17.260	110136	51,584	
Workforce Investment Act – Youth	17.259	110189 TC	75,789	
Workforce Investment Act – Youth	17.259	110189 HS	24,610	
Passed through HUB Cities Consortium:				
Workforce Investment Act – Adult	17.258	CA-07AD01	20,135	
Passed through Catholic Charities of Los Angeles:				
Workforce Investment Act – Youth	17.259	Not Available	34,635	
Workforce Investment Act – Youth	17.259	Not Available	34,298	
Subtotal expenditures – Workforce Investment Act Cluster				1,364,055
Subtotal Pass-Through Programs				1,605,139
Total U.S. Department of Labor				1,605,139
U.S. Department of Transportation:				
School Safe Traffic Zone	20.600	PS0607	131,282	
School Safe Traffic Zone	20.600	PT0612	82,240	
Subtotal Direct Programs				213,522
Total U.S. Department of Transportation				213,522
National Aeronautics and Space Administration:				
2006 FIRST Robotics Competition	43.001	1280858		22,679
Total National Aeronautics and Space Administration				22,679
National Science Foundation :				
Urban Systemic Initiative	47.076	EHR-0227016	197,573	
Urban Systemic Initiative	47.076	DRL-0085037	2,442,804	
Wide Chge. Experimental Study	47.076	X260470/PA05545	160,000	
Subtotal Direct Programs				2,800,377
Total National Science Foundation				2,800,377
U.S. Environmental Protection Agency:				
Environmental Protection Agency – Indoor Air Quality	66.034	XA-97970801-2		28,580
Total U.S. Environmental Protection Agency				28,580
U.S. Department of Education:				
Impact Aid	84.041	S041B-2005-0701	21,702	
Impact Aid	84.041	S041B-2006-0701	99,215	
Subtotal expenditures – Impact Aid				120,917
Indian Education	84.060	B060A050283		200,759
ESEA Magnet School Assistance	84.165	075284901		248,028
Safe and Drug Free Schools-Improv Edu	84.215	Q215E060268	366,885	
Funds for Improvement of Ed. – Elementary and Secondary Schools	84.215	Q215E040418	407,745	

LOS ANGELES UNIFIED SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2007

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Grantor or Pass-Through Entity ID Number	Program Cluster Expenditures	Total Federal Expenditures
Small Learning Communities	84.215	V215L022072	\$ 62,410	
Small Learning Communities	84.215	V215L030035	12,000	
Small Learning Communities	84.215	V215L032230	331,748	
Small Learning Communities	84.215	V215L042114	878,582	
Small Learning Communities	84.215	V215L042267	627,354	
Small Learning Communities	84.215	V215L052108	2,237,978	
Small Learning Communities	84.215	S215L060084	754,088	
Teaching American History Grants	84.215	S215X020191	26,145	
Teaching American History Grants	84.215	U215X030096	609,377	
Subtotal expenditures – Fund for the Imp. of Education				6,314,312
Bilingual Ed – Comprehensive School Grants	84.290	T290U010410		43,141
Bilingual Ed – Comprehensive School Grants	84.293	T293B060105	95,295	
Bilingual Ed – Comprehensive School Grants	84.293	T293B990033	48,237	
Foreign Language Assistance	84.293	T293B030116	170,231	
Foreign Language Assistance	84.293	T293B030169	553	
Foreign Language Assistance	84.293	T293B040179	189,117	
Subtotal expenditures – Foreign Language Assistance				503,433
Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP)	84.334	P334A000061-05	300,633	
GEAR-UP	84.334	P334A050008	614,822	
GEAR-UP	84.334	P334A050178	2,665,649	
GEAR-UP	84.334	P334A050205	630,929	
GEAR-UP	84.334	P334A050217	856,121	
GEAR-UP	84.334	P334A060124	148,711	
Subtotal expenditures – GEAR-UP				5,216,865
Los Angeles Early Deciders	84.336	P336C050011		378,186
Subtotal Direct Programs				13,025,641
Passed through California Department of Education:				
Workforce Investment Act – Adult Basic Ed/ESL	84.002	PCA 14508	11,892,021	
Workforce Investment Act – Adult Secondary Ed	84.002	06 13978 64733	631,350	
Eng Lit & Civic Ed-Adult-FY04	84.002	06 14109 64733	1,443,964	
Subtotal expenditures – Adult Education				13,967,335
Title I Program Improvement	84.010	14106	2,930	
Elementary and Secondary Education Act, Title I	84.010	14329	374,285,268	
Elementary and Secondary Education Act, Title I Delinquent	84.010	14357	1,768,198	
Elementary and Secondary Education Act, Title I Neglected	84.010	14329	2,611,629	
School Assist & Intervention Team	84.010	14417	560,602	
School Assist & Intervention Team	84.010	14579	4,332,861	
Title I Program Improvement – District Intervention	84.010	14581	5,845,201	
Subtotal expenditures – Title I Grants				389,406,689
Migrant Ed – Regular & Summer	84.011	14326/03628		938,231
Special Ed:IDEA Basic Local Assistance Entitlement	84.027	01-3379-6473-01	120,300,599	
Special Education Handicapped SFP	84.027	13682	10,944,374	
Special Education Handicapped SFP	84.027	14466	1,800	
Special Education Handicapped SFP	84.027A	14466	10,579	
IDEA Preschool	84.173	14866	207,599	
Preschool Expansion Grant	84.173	13430	5,423,925	
Preschool Expansion Grant	84.173	13431	86,623	
IDEA-Perform Pln Smping-Pilot	84.173	14795	9,368	
Subtotal expenditures – Special Education Cluster				136,984,867
Regional Occupational Center College Work Study	84.033	075284901		197,942
Carl D. Perkins – General Education	84.048	13924	8,463,827	
Carl D. Perkins – Vocational and Technical Education	84.048	13923	3,570,809	
Subtotal expenditures – Career and Technical Education				12,034,636
Infant & Toddler	84.181	23761		1,178,111
Title IV – Safe and Drug Free Schools-State	84.186	Q186A060005		4,379,461
Homeless Education Project	84.196	14332		122,740
Twenty-first Century Learning Centers	84.287	14349	7,180,349	
Twenty-first Century Learning Centers	84.287	14350	15,000	
Twenty-first Century Learning Centers	84.287	14535	1,055,819	
Twenty-first Century Learning Centers	84.287	14681	13,192	
Subtotal expenditures – Twenty-First Century Community Learning Centers				8,264,360
Improving America's Schools Act – Title V Innovative Strategies	84.298	1964733		9,113,310

LOS ANGELES UNIFIED SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2007

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Grantor or Pass-Through Entity ID Number	Program Cluster Expenditures	Total Federal Expenditures
No Child Left Behind (NCLB) Title II – Enhancing Education Through Technology-Competitive	84.318	14368	\$ 6,185,988	
No Child Left Behind Title II – Enhancing Education Through Technology – Formula	84.318	14334	5,593,840	
Subtotal expenditures – Education Technology Grants				11,779,828
Advanced Placement	84.330	14831		387,050
No Child Left Behind-Title I-Comprehensive School Reform	84.332	14325		1,644,290
Reading First	84.357	14328		39,929,480
Title III, Limited English Proficient Professional Dev	84.365	10084	43,079,540	
Title III, Limited English Proficient Student Program	84.365	14346	2,997,706	
Subtotal expenditures – English Language Acquisition				46,077,246
No Child Left Behind Title II-B – Math	84.366	14512		403,500
No Child Left Behind Title II-A – Teacher Quality	84.367	S367A020005A		55,301,367
Compliance Monitoring Interventions & Monitoring Prog	Not Available	PCA01035		16,787
Emergency Impact Aid for Displaced Students	84.938C	Not Available		1,212,181
Passed through Los Angeles County Office of Education: Arts in Education – Arts in the Middle (AIM) Project	84.351D	U351D050021		146,630
Passed through State Department of Rehabilitation: Workability II – Regional Occupational Center	84.126	26403		511,090
Rehab-Transition Partnership Program	84.158	24724		953,593
Passed through University of California at Los Angeles: California State Gear Up 07	84.334	10088	8,977	
California State Gear Up 06	84.334	10088	6,034	
Subtotal expenditures – GEAR-UP				15,011
Passed through Berkeley Policy Associates Berkeley Policy Associates Source Program	84.305	R305F050274		7,826
Subtotal Pass-Through Programs				734,973,561
Total U.S. Department of Education				747,999,202
U.S. Department of Health & Human Services:				
Substance Abuse and Mental Health Service Administration (SAMHSA)	93.243	U9SM54286A	37,945	
SAMHSA-Trauma School Adaption	93.243	U9SM57283A	533,227	
Subtotal expenditures – SAMHSA				571,172
Family Literacy	93.822	FAN-13973		40,481
School Health Program	93.938	U87/CCU922664		519,468
Subtotal Direct Programs				1,131,121
Passed through County of Los Angeles: Refugee Act of 1980	93.576	24791		107,068
Passed through California Department of Education: California Instructional Materials and Supplies	93.575	CIMS-6245	18,578	
Child Care Center	93.596	CCTR-6164	15,428,725	
Subtotal expenditures – Child Care Development Fund				15,447,303
Passed through California Department. of Health Services: Medi-Cal Billing Option	93.778	940830	8,653,685	
Passed through Los Angeles County of Education: Medi-Cal Administrative Activity	93.778	CS0501360	5,586,469	
Subtotal expenditures – Medicaid Cluster				14,240,154
Passed through Rand Corporation Children Exposed to Violence	93.242	9920050094		26,971
Cmty Academic Partnership-Youth Obesity	93.307	9920060034		8,327
Subtotal Pass-Through Programs				29,829,823
Total U.S. Department of Health & Human Services				30,960,944

LOS ANGELES UNIFIED SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2007

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Grantor or Pass-Through Entity ID Number	Program Cluster Expenditures	Total Federal Program Expenditures
Corporation for National & Community Service:				
Passed through California Department of Education:				
CalServe – Learn and Serve America	94.004	13161		249,812
Subtotal Pass-Through Programs				<u>249,812</u>
Total Corporation for National & Community Service				<u>249,812</u>
U.S. Department of Homeland Security:				
Passed through Governor's Office of Emergency Services:				
Federal Emergency Management Agency (FEMA) –				
Public Assistance	83.544	PA037-91146		2,737,566
FEMA – Hazard Mitigation	83.548	PA037-91146		23,512
FEMA – 1577-DR2005 Winter Storms	97.036	10014		1,592
FEMA – Hazard Mitigation Grant	97.039	20050011		419,779
Subtotal Pass-Through Programs				<u>3,182,449</u>
Total U.S. Department of Homeland Security				<u>3,182,449</u>
U.S. Department of Military & Veterans Affairs:				
Direct Program:				
Reserve Officer Training Corps Vitalization Act	12.400	Not available		<u>1,962,227</u>
Subtotal Direct Program				<u>1,962,227</u>
Passed through California Military Department:				
At Risk Youth	Not available	T0122		<u>1,220,037</u>
Subtotal Pass-Through Program				<u>1,220,037</u>
Total U.S. Department of Military & Veterans Affairs				<u>3,182,264</u>
Total Expenditures of Federal Awards				<u>\$ 1,014,227,740</u>

The accompanying notes are an integral part of this schedule.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2007

(1) General

The accompanying schedule of expenditures of federal awards presents the expenditures of all federal financial assistance programs for the Los Angeles Unified School District (District). The District's reporting entity is defined in the notes to the District's basic financial statements.

(2) Basis of Accounting

The accompanying schedule of expenditures of federal awards is presented using the modified accrual basis of accounting, as described in Note 1 of the notes to the District's basic financial statements. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the District's basic financial statements but agrees in all material respects.

(3) Noncash Assistance

Included in the schedule of expenditures of federal awards is (CFDA #10.555) \$12,287,075 of donated food commodities received from the U.S. Department of Agriculture, passed-through the State of California, during the year ended June 30, 2007.

(4) Subrecipient Awards

Of the federal expenditures presented in the schedule of expenditures of federal awards, the District provided a significant amount of funding to various subrecipients. Due to the extensive number of federal programs and volume of subrecipients, it is not practical to display the detailed subrecipient information in the schedule of expenditures of federal awards.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Schedule of Instructional Time Offered
Year Ended June 30, 2007
(Unaudited)

Grade Level	1982-1983 Actual Minutes Offered	1986-1987 Minutes Requirements	2006-2007 Actual minutes offered	Number of Days Traditional Calendar	Number of Days Multi-track Calendar	Complied with Instructional Minutes and Days Provisions
Kindergarten	31,680	36,000	36,000	180	163	Yes
Grades 1 to 3	48,800	50,400	55,100	180	163	Yes
Grades 4 to 6 ⁽¹⁾	48,800	54,000	55,100	180	163	Yes
Grades 7 to 8 ^{(2) (3)}	62,160	54,000	62,160 or 65,300	180	163	Yes
Grades 9 to 12 ⁽³⁾	62,160	64,800	65,300	180	163	Yes

(1) Elementary schools only.

(2) Middle schools with grade configurations 6 – 8 approved for common planning time have at least 62,160 yearly instructional minutes. Middle schools with grade configurations 6 – 8 not approved for common planning time have at least 65,300 yearly instructional minutes

(3) Beginning 2001-2002, the number of shortened and minimum days available to three-track middle schools not approved for common planning time and three-track high schools was reduced from 20 to 18 shortened days and from 10 to 9 minimum days.

See accompanying independent auditors' report and notes to state compliance information.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Schedule of Financial Trends and Analysis
Year Ended June 30, 2007
(Dollars in thousands)
(Unaudited)

	2007-2008 Budgeted	2006-2007 Actual	2005-2006* Actual	2004-2005 Actual	2003-2004 Actual
General Fund:					
Revenues	\$ 7,035,095	\$ 6,921,612	\$ 6,472,011	\$ 6,204,479	\$ 5,848,129
Other Financing Sources	124,449	66,229	93,438	251,345	27,893
Total Revenues and Other Financing Sources	7,159,544	6,987,841	6,565,449	6,455,824	5,876,022
Expenditures	7,113,224	6,677,691	6,404,053	6,094,131	6,022,550
Other Financing Uses	94,427	49,427	76,453	336,106	108,529
Total Expenditures and Other Financing Uses	7,207,651	6,727,118	6,480,506	6,430,237	6,131,079
Change in Fund Balance	(48,107)	260,723	84,943	25,587	(255,057)
Beginning Fund Balance*	518,342	434,512	349,569	323,982	579,039
Ending Fund Balance	\$ 470,235	\$ 695,235	\$ 434,512	\$ 349,569	\$ 323,982
Available Reserves**	\$ 164,572	\$ 155,129	\$ 148,748	\$ 133,403	\$ 63,037
Designated for Economic Uncertainties	\$ 72,382	\$ 71,538	\$ 67,638	\$ 33,269	\$ 31,669
Undesignated Fund Balance	\$ 92,190	\$ 83,591	\$ 81,110	\$ 100,134	\$ 31,368
Available Reserves as a Percentage of Total Expenditures and Other Financing Uses	2.28%	2.31%	2.30%	2.07%	1.03%
Total Long-Term Debt	\$ 8,653,796	\$ 7,702,792	\$ 7,053,182	\$ 5,935,608	\$ 5,755,078
Average Daily Attendance (ADA) at P-2 excluding regional occupational centers programs and adult programs	680,835	624,490	643,874	665,237	693,579

The General Fund has maintained a positive ending fund balance for the past four fiscal years presented in this schedule.

For a district this size, the State has recommended available reserves to be at least 1% of total General Fund expenditures and other financing uses. During fiscal years 2003-2004 and 2004-2005, amounts designated for economic uncertainties were temporarily reset at one-half of the minimum State reserve level of one percent. The District has been able to meet these requirements for the past four fiscal years.

* Budgeted beginning fund balance includes audit adjustment.

** Available reserves consist of all undesignated fund balances and funds designated for economic uncertainties.

See accompanying notes to state compliance information.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Schedule to Reconcile the Annual Financial Budget Report (SACS)
with Audited Financial Statements
Year Ended June 30, 2007
(in thousands)
(Unaudited)

	<u>All Fund Types</u>
June 30, 2007 Unaudited Actual Financial Reports Fund Balances	\$ 3,209,208
Adjustment:	
Record other financing sources re: refunding bonds	1,971,722
Record other financing uses and related expenditures re: refunding bonds	(1,971,722)
Record expenditures re: arbitrage rebate on bond issuances	(2,184)
Record expenditures re: accrual of progress payments on construction contracts	<u>(21,148)</u>
June 30, 2007 Audited Financial Statement Fund Balances	\$ <u><u>3,185,876</u></u>

See accompanying notes to state compliance information.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to State Compliance Information

Year Ended June 30, 2007

(1) Purpose of Schedules

(a) *Schedule of Average Daily Attendance*

Average daily attendance is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

(b) *Schedule of Instructional Time Offered*

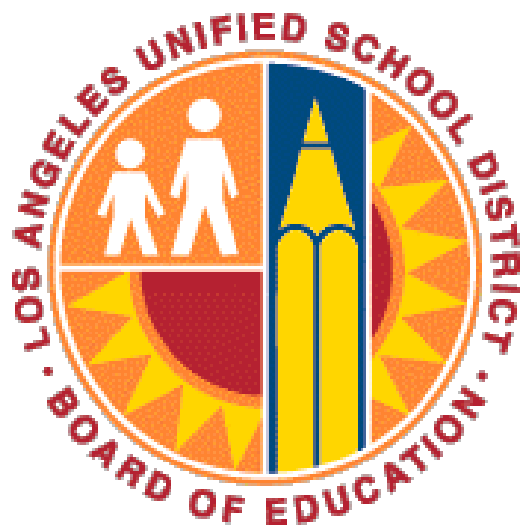
The District has received incentive funding for increasing instructional time as provided by the Incentive for longer instructional day. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of Education Code Sections 46201 through 46206.

(c) *Schedule of Financial Trends and Analysis*

This schedule focuses on financial trends by displaying past years' data along with current budget information and evaluates the District's ability to continue as a going concern for a reasonable period of time.

(d) *Reconciliation of Unaudited Actual Financial Reports with Audited Financial Statements*

This schedule provides the information necessary to reconcile the differences between fund balances reported on the unaudited actual financial reports and the audited financial statements.





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355 South Grand Avenue
Los Angeles, CA 90071-1568

**Report on Internal Control over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards***

The Honorable Board of Education
Los Angeles Unified School District:

We have audited the financial statements of governmental activities, each major fund, and the aggregate remaining fund information of the Los Angeles Unified School District (the District) as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 5, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the Education Audit Appeals Panel's *Standards and Procedures for Audits of California K-12 Local Educational Agencies*.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider deficiencies FS-07-01 and 02 described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

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

reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that deficiency FS-07-01 of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the District in a separate letter dated December 5, 2008.

The District's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Education, the Audit, Business, and Technology Committee, District management, federal awarding agencies, state awarding agencies, and pass-through entities, and is not intended to be, and should not be used by anyone other than these specified parties.

KPMG LLP

December 5, 2008



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

**Report on Compliance with Requirements Applicable to
Each Major Program and on Internal Control over Compliance in Accordance
with OMB Circular A-133**

The Honorable Board of Education
Los Angeles Unified School District:

Compliance

We have audited the compliance of the Los Angeles Unified School District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

As described in the table below and in the accompanying schedule of findings and questioned costs, the District did not comply with requirements that are applicable to the following programs:

Compliance requirement	Program Name and Catalog of Federal Domestic Assistance (CFDA) number	Finding number
Allowable Costs	Child Nutrition Cluster: School Breakfast Program, CFDA 10.553; National School Lunch Program, CFDA 10.555; Summer Food Service Program for Children, CFDA 10.559; Child and Adult Care Food Program, CFDA 10.558; Food Stamp Cluster: State Administrative Matching Grants for Food Stamp Program, CFDA 10.561; Title I Grants to Local Educational Agencies, CFDA 84.010; Vocational Education Basic Grants to States, CFDA 84.048; Safe and Drug Free Schools and Communities, CFDA 84.186; Fund for the Improvement of Education, CFDA 84.215; Twenty-First Century Community Learning Centers, CFDA 84.287; State Grants for Innovative Programs, CFDA 84.298; Reading First State Grants, CFDA 84.357; English Language Acquisition Grants, CFDA 84.365; Improving Teacher Quality State Grants, CFDA 84.367	F-07-01, F-07-02

Compliance requirement	Program Name and Catalog of Federal Domestic Assistance (CFDA) number	Finding number
Matching	Gaining Early Awareness and Readiness for Undergraduate Programs, CFDA 84.334	F-07-12
Earmarking	Vocational Education Basic Grants to States, CFDA 84.048; Twenty-First Century Community Learning Centers, CFDA 84.287; Reading First State Grants, CFDA 84.357; Safe and Drug Free Schools and Communities, CFDA 84.186; English Language Acquisition Grants, CFDA 84.365	F-07-15, F-07-16
Period of Availability	Title I Grants to Local Educational Agencies, CFDA 84.010; Special Education Cluster: Special Education Grants to States, CFDA 84.027; Special Education Pre-School Grants, CFDA 84.173; Safe and Drug Free Schools, CFDA 84.186; State Grants for Innovative Programs, CFDA 84.298; English Language Acquisition Grants, CFDA 84.365; Improving Teacher Quality State Grants, CFDA 84.367; Reading First State Grants, CFDA 84.357	F-07-18, F-07-19
Procurement, Suspension and Debarment	Food Stamp Cluster: State Administrative Matching Grants for Food Stamp Program, CFDA 10.561; Title I Grants to Local Educational Agencies, CFDA 84.010; Vocational Education Basic Grants to States, CFDA 84.048; Safe and Drug Free Schools and Communities, CFDA 84.186; Fund for the Improvement of Education, CFDA 84.215; Twenty-First Century Community Learning Centers, CFDA 84.287; State Grants for Innovative Programs, CFDA 84.298; Reading First State Grants, CFDA 84.357; English Language Acquisition Grants, CFDA 84.365; Child Care and Development Fund, CFDA 93.575; Child Care and Development Block Grant: Child Care Mandatory and Matching Funds of the Child Care and Development Fund, CFDA 93.596	F-07-21
Reporting	Vocational Education Basic Grants to States, CFDA 84.048; Gaining Early Awareness and Readiness for Undergraduate Programs, CFDA 84.334; Special Education Cluster: Special Education Grants to States, CFDA 84.027; Special Education Pre-School Grants, CFDA 84.173	F-07-25, F-07-27, F-07-28
Subrecipient Monitoring	Twenty-First Century Community Learning Centers, CFDA 84.287	F-07-29
Special Tests and Provisions – Assessment of Need	Improving Teacher Quality State Grants, CFDA 84.367	F-07-32

Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to those programs.

In our opinion, because of the effects of the noncompliance described in the table above, the District did not comply, in all material respects, with the requirements referred to above that are applicable to the State Grants for Innovative Programs (CFDA 84.298), Reading First State Grants (CFDA 84.357), and Improving Teacher Quality State Grants (CFDA 84.367) programs. Also, in our opinion, except for the

noncompliance described in the table, the District complied, in all material respects, with the requirements that are applicable to each of its other major federal programs for the year ended June 30, 2007. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items: F-07-01, F-07-02, F-07-04, F-07-05, F-07-06, F-07-07, F-07-08, F-07-09, F-07-10, F-07-14, F-07-17, F-07-19, F-07-20, F-07-21, F-07-23, F-07-24, F-07-29, F-07-30, F-07-31, and F-07-34.

Internal Control over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items: F-07-01, F-07-02, F-07-03, F-07-04, F-07-07, F-07-08, F-07-10, F-07-11, F-07-12, F-07-13, F-07-14, F-07-15, F-07-16, F-07-17, F-07-18, F-07-19, F-07-20, F-07-21, F-07-22, F-07-23, F-07-24, F-07-25, F-07-26, F-07-27, F-07-28, F-07-29, F-07-30, F-07-31, F-07-32, F-07-33, and F-07-35 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items: F-07-01, F-07-02, F-07-12, F-07-15, F-07-16, F-07-18, F-07-19, F-07-21, F-07-25, F-07-27, F-07-28, F-07-29, and F-07-32 to be material weaknesses.

The District's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Education, the Audit, Business, and Technology Committee, District management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 5, 2008



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Auditors' Report on State Compliance

The Honorable Board of Education
Los Angeles Unified School District:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Los Angeles Unified School District (the District), as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 5, 2008.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Education Audit Appeals Panel's *Standards and Procedures for Audits of California K-12 Local Educational Agencies* (the Guide). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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. Our audit does not provide a legal determination of the District's compliance with those requirements.

The District's management is responsible for the District's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with the state laws and regulations applicable to the following items:

	Number of Procedures in Education Audit Appeals Panel Audit Guide, <i>Standards and Procedures for Audits of California K-12 Local Educational Agencies</i>	Procedures performed
Attendance Accounting:		
Attendance Reporting	8	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	Yes
Continuation Education	10	Yes

	Number of Procedures in Education Audit Appeals Panel Audit Guide, Standards and Procedures for Audits of California K-12 Local Educational Agencies	Procedures performed
Adult Education	9	Yes
Regional Occupational Centers and Programs	6	Yes
Instructional Time for:		
School Districts	6	Yes
County Offices of Education	3	Not applicable
Community Day Schools	9	Yes
Morgan-Hart Class Size Reduction Program	7	Yes
Instructional Materials:		
General Requirements	12	Yes
K-8 only	1	Not applicable
Grades 9-12 only	1	Not applicable
Ratio of Administrative Employees to Teachers	1	Yes
Early Retirement Incentive Program	4	Not applicable
Gann Limit Calculation	1	Yes
School Construction Funds:		
School District Bonds	3	Yes
State School Facilities Funds	1	Yes
Alternative Pension Plans	2	Not applicable
Excess Sick Leave	2	Yes
Notice of Right to Elect California State Teachers Retirement System (CalSTRS) Membership	1	Yes
Proposition 20 Lottery Funds (Cardenas Textbook Act of 2000)	2	Yes
State Lottery Funds (California State Lottery Act of 1984)	2	Yes
California School Age Families Education (CAL-SAFE) Program	3	Yes
School Accountability Report Card	3	Yes

	Number of Procedures in Education Audit Appeals Panel Audit Guide, Standards and Procedures for Audits of California K-12 Local Educational Agencies	Procedures performed
Class Size Reduction:		
General Requirements	7	Yes
Option One	3	Yes
Option Two	4	Not applicable
Districts or Charter School with only one School Serving K-3	4	Not applicable
Contemporaneous Records of Attendance for Charter Schools	1	Yes
Mode of Instruction, for Charter Schools	1	Yes
Nonclassroom-based Instruction/Independent Study for Charter Schools	15	Not applicable
Determination of Funding for Nonclassroom- based Instruction for Charter Schools	3	Not applicable
Annual Instructional Minutes – Classroom Based for Charter Schools	3	Yes

Based on our audit, we found that, for items tested, the District complied with state laws and regulations referred to above, except as described in the accompanying schedule of findings and questioned costs relating to state awards. Further, based on our audit, for items not tested, nothing came to our attention to indicate that the District had not complied with the state laws and regulations.

This report is intended solely for the information and use of the Board of Education, the Audit, Business, and Technology Committee, District management, State Controller's Office, Department of Education, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 5, 2008

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

June 30, 2007

(1) Summary of Auditors' Results

Financial Statements

Type of auditor's report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? X Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? X Yes None reported
- Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? X Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? X Yes None reported

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

June 30, 2007

Identification of major programs and type of auditors' report issued on compliance for each major program:

CFDA #	Name of Federal Program	Opinion
10.553, 10.555 and 10.559	Department of Agriculture – Child Nutrition Cluster: School Breakfast Program, National School Lunch Program, Summer Food Service Program for Children	Qualified
10.558	Department of Agriculture – Child and Adult Care Food Program	Qualified
10.561	Department of Agriculture – Food Stamp Cluster: State Administrative Matching Grants for Food Stamp Program	Qualified
84.010	Department of Education – Title I Grants to Local Educational Agencies	Qualified
84.027 and 84.173	Department of Education – Special Education Cluster: Special Education Grants to States, Special Education Preschool Grants	Qualified
84.048	Department of Education – Vocational Education Basic Grants to States	Qualified
84.186	Department of Education – Safe and Drug Free Schools and Communities State Grants	Qualified
84.215	Department of Education – Fund for the Improvement of Education	Qualified
84.287	Department of Education – Twenty-First Century Community Learning Centers	Qualified
84.298	Department of Education – State Grants for Innovative Programs	Adverse
84.318	Department of Education – Education Technology State Grants	Unqualified
84.334	Department of Education – Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP)	Qualified
84.357	Department of Education – Reading First State Grants	Adverse
84.365	Department of Education – English Language Acquisition Grants	Qualified
84.367	Department of Education – Improving Teacher Quality State Grants	Adverse
93.575 and 93.596	Department of Health and Human Services – Child Care Development Fund Cluster: Child Care and Development Block Grant, Child Mandatory and Matching Funds of the Child Care and Development Fund	Qualified
93.778	Department of Health and Human Services – Medicaid Cluster: Medical Assistance Program	Unqualified
97.036 and 83.544	Department of Homeland Security – Disaster Grants – Assistance (Presidentially Declared Disasters)	Unqualified

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

- Any audit findings disclosed which are required to be reported in accordance with Section 510(a) of Circular A-133: X Yes No
- Dollar threshold used to distinguish between type A and type B programs: \$3,042,000
- Auditee qualified as low risk auditee Yes X No

State Awards

Type of auditors' report issued on compliance for state programs: Qualified

(2) Financial Statement Findings

FS-07-01 – Payroll Material Weakness

Criteria

New information systems to process financial information should be implemented using a well defined and documented systems development process that includes comprehensive project management, management approvals of all key tasks, well defined requirements, comprehensive design and development processes, rigorous, documented testing against systems requirements, adequate training, accurate data conversion and management approval prior to initiating use of the system .

Condition

In January 2007, the District implemented a set of modules of its new SAP enterprise resource planning system to process payroll. During this implementation process, the District migrated approximately 100,000 employees to the new system. Upon implementation, a substantial number of interrelated data entry, processing and programming errors occurred, preventing the District from processing accurate and timely payrolls for a significant number of its employees.

Cause and Effect

The District has a very complex problem with its payroll system. There are many aspects to the causes of the significant issues experienced, including procedural, regulatory, training, project management, budgetary, expertise and incomplete testing. According to management, the prior testing of the system did not reveal any of the processing errors that ultimately occurred. A substantial number of programming changes have been applied to the new SAP payroll subsequent to the go-live date. In some cases, programming changes caused additional processing errors.

Recommendation

We recommend that the District determine and resolve the root causes of the unsuccessful payroll system implementation, while continuing to address the tactical issues of preparing timely and accurate payrolls. The resolutions of the root cause issues should be incorporated as appropriate in District processes used for all systems projects.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Views of Responsible Officials and Planned Corrective Action

Since the implementation of the SAP system, the District has taken concerted action to resolve payroll issues encountered during the initial implementation of SAP and have determined the root causes for all issues. Currently all major issues that impacted payroll have been resolved and achieved less than 0.25% error for payroll.

The Business Tools for Schools (BTS) project has also initiated controls and processes to manage software modification and configuration changes to SAP. These controls include proper documentation of requirements, code reviews, unit testing, integration testing and user acceptance testing. Additionally the BTS is following Project Management Institute (PMI) guidelines for managing software projects and systems development.

The BTS project is in the process of establishing a governance committee comprised of department heads to set priorities and to communicate software changes and enhancements to the SAP system. The governance committee will help to prioritize work according to District priorities driven by business needs and requirements.

* * * * *

FS-07-02 – Inappropriate Access to Migrate Changes to Production

Criteria

Access to make changes to a program used for production operations should be closely controlled. Changes to production data or programs should be developed, approved and migrated in a well documented process, with evidence of management approval and with segregation of duties between those employees that make and test the change and those that have the ability to move the change to the production environment.

Condition

During our testing of the access controls related to programs and data, we identified the following instances where District employees had inappropriate access to systems or to migrate changes to a production program based on review of their job responsibilities. Specifically, we noted:

Legacy Systems in Place Prior to SAP

- We noted 245 user IDs have access to post journal entries to the general ledger.
- We noted 260 user IDs have access to modify the budget in the 'EXPB' table.
- A review of the system generated list revealed 174 user IDs have access to create, audit and release assignment transactions.
- We noted 311 of 417 users had inappropriate access to create or audit and release assignment transactions.
- One user had inappropriate access to migrate Payroll Time Reporting System (PTRS) changes to production.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

- Database Administrators (DBA's) have access to develop and migrate DB2 database changes to production. The District does not have controls in place to monitor 'DBA' activity.
- Three programmers have access to develop, test, and migrate PTRS program changes through the Endeavor application.
- One inappropriate user was found to have access to the District directory, where the files related to FIRS are saved.
- The operations group share the 'oper' account, which has access to modify the program files related to Elementary Student Information System (ESIS). The account is shared by the System A Operations staff.
- There are limited segregation of duties over program changes to FIRS.
- Seventeen users have access to update the program files related to Attendance Class Enrollment System (ACES).

SAP ERP System

- Three end users have access to the 'SAP_ALL' profile within SAP.
- The DDIC and SAP* ID's are not locked. The entire BASIS (technical) team of 8 employees has knowledge of the DDIC and SAP* generic accounts within SAP
- The 'SEC_ADMIN' ID is not locked. The entire security team of 12 employees has knowledge of the 'SEC_ADMIN' generic account within SAP.
- Seventeen users (including Business Tools for Schools (BTS) security personnel and BASIS personnel) with access to execute transactions PFCG (Activity Group Maintenance), SU01 (User Maintenance), SU02 (Maintain Authorization Profiles), and SU03 (Maintain Authorizations in Production Environment) appears excessive.
- Twenty-three accounts had inappropriate access to migrate transports (program changes) to production.
- Fourteen developers have access to migrate transports to production.
- Five payroll helpdesk employees had in appropriate access (DENTRY Accounts).
- Four accounts used during the conversion of data from the legacy systems to the SAP application also had inappropriate access and were not disabled once the application had gone live. (CONVERSION and CUTOVER accounts)

Cause and Effect

Individuals with inappropriate access to develop and migrate changes to production programs have the ability to make unauthorized changes to production programs without management's knowledge or review. This greatly increases the risk of a change that is not appropriately tested or approved affecting District operations. The use or sharing of generic IDs makes it impossible for management to determine who made the changes and to establish responsibility for those changes.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Recommendation

We recommend that management perform a complete review of access to programs and programming tools and the ability to move changes to production. Management should implement and monitor segregation of duties between these roles including eliminating and/or closely controlling all generic and other high level access accounts. This should be part of the larger management control process for authorizing, developing, testing and migrating program changes.

Views of Responsible Officials and Planned Corrective Actions

Information technology department (ITD) management agrees with the recommendation but believes that security restrictions are already in place. Endeavor is a comprehensive tool to manage and track updates, who made them and ensure “source-to-load correlation” No one has specific “inappropriate access” to modify program files in the Legacy PTRS application. PTRS production updates are not done by Standards and Docs and no one has direct access. Instead a package of migrating objects is created, the package is approved and then a production job runs to execute pre-defined “processors” which move the objects to production. The District is an extremely large business organization with various branches staffed with hundreds of resources. All journal entries are entered via IFS screens with appropriate edits. IFS Users are issued IDs which control their security access in IFS.

Activity noted in the deficiency is limited to DBA owned objects only. DBAs need to develop/create temporary objects as part of their day to day work. DBA team will continue to follow the established Management Of Change (MOC) process for moving objects from test to production. This role for DBA is acceptable to ITD management.

FIS has implemented a policy that only FIS Senior Systems Administration group will be responsible for uploading of approved – tested and accepted – application upgrades and modifications. FIS Developers/Programmers have access only to Development and Acceptance environments. Systems Administrator Group is now the only group that has access production servers.

The access to transactions SU01, SU02, SU03 and PFCG have been removed for all users except for the security team (6 members).

For the SAP standard system accounts DDIC and SAP* procedures and policies are being established to control these accounts as they are needed to run certain SAP system processes. The District is looking into a third party software to help manage and control access to these system accounts. The goal is to have these policies established and implemented by July 2008. The SAP* account has been locked. A formal migration process has been established and developers’ access to migrate transports to production have been revoked. Only the BASIS team (6 members) have access to migrate transports to production. BASIS will only migrate transports to production with written authorization from the SAP Release Manager. The “DENTRY” account was established for the help desk to resolve employee issues that were encountered during the initial implementation of SAP. These Accounts have all been disabled and locked. The “CONVERSION” and “CUTOVER” accounts established during the implementation were not disabled after the initial implementation of SAP as they were needed to help resolve critical payroll and human resource issues that were encountered. These accounts have now been disabled and locked.

* * * * *

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

(3) Federal Award Findings and Questioned Costs

Program Identification

Finding Reference Number:

F-07-01

Federal Program Title, Awarding Agency, Pass-Through Entity, Catalog of Federal Domestic Assistance (CFDA) Number, and Award Number:

Food Stamp Cluster: State Administrative Matching Grants for Food Stamp Program, *U.S. Department of Agriculture (USDA)*, Passed through the California Department of Health Services, CFDA No. 10.561, Grant Agreement 04-35450;

Child Nutrition Cluster: School Breakfast Program, National School Lunch Program, Summer Food Service Program for Children, *U.S. Department of Agriculture (USDA)*, Passed through the California Department of Education, CFDA Nos. 10.553, 10.555, and 10.559, Grant Agreement 19-64733-0000000-01;

Child and Adult Care Food Program, *U.S. Department of Agriculture (USDA)*, Passed through the California Department of Education, CFDA No. 10.558, Grant Agreement 19-2016-3A;

Title I Grants to Local Educational Agencies, *U.S. Department of Education (ED)*, Passed through the California Department of Education, CFDA No. 84.010, Grant Agreement 06-14329-6473;

Special Education Cluster: Grants to States, Preschool Grants, *U.S. Department of Education*, Passed through the California Department of Education, CFDA Nos. 84.027, and 84.173, Grant Agreements 06-13430-6473-01, 06-13682-6473-01, 06-23761-6473-01, and 06-13379-6473-01;

Vocational Education Basic Grants to States, *U.S. Department of Education (ED)*, Passed through the California Department of Education, CFDA No. 84.048, Grant Agreements 06/07-13924-64733-00, and 06-13923-64733-00;

Safe and Drug-Free Schools and Communities, *U.S. Department of Education (ED)*, Passed through the California Department of Education, CFDA No. 84.186, Grant Agreement Q186A060005;

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Fund for the Improvement of Education, *U.S. Department of Education (ED)*, CFDA No. 84.215, Grant Agreements Q215E060268, V215L042114, V215L052108, S215L060084, U215X030096, and Q215E040418;

Twenty-First Century Community Learning Center, *U.S. Department of Education (ED)*, Passed through the California Department of Education, CFDA No. 84.287, Grant Agreements 05-14349-6473-2A, 05-14349-6473-3A, and 06-14349-6473-1A;

State Grants for Innovative Programs, *U.S. Department of Education (ED)*, Passed through the California Department of Education, CFDA No. 84.298, Pass Through Identification No. 1964733;

Education Technology State Grants, *U.S. Department of Education (ED)*, Passed through the California Department of Education, CFDA No. 84.318, Grant Agreements 2005/06-14368-6473-00;

Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP), *U.S. Department of Education (ED)*, CFDA No. 84.334, Grant Agreements P334A000061-05, P334A050178-06, and P334A050205;

Reading First State Grants, *U.S. Department of Education (ED)*, Passed through the California Department of Education, CFDA No. 84.357, Grant Agreement 04-14328-6473-00;

English Language Acquisition Grants, *U.S. Department of Education (ED)*, Passed through the California Department of Education, CFDA No. 84.365, Grant Agreements 03-14346-6473-00 and 10084-6474-00;

Improving Teacher Quality State Grants, *U.S. Department of Education (ED)*, Passed through the California Department of Education, CFDA No. 84.367, Grant Agreement S367A040005A;

Child Care and Development Fund: Child Care and Development Block Grant, Child Care Mandatory and Matching Funds of the Child Care and Development Fund; U.S. Department of Health and Human Services, Passed through the California Department of Education, CFDA

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Nos. 93.575 and 93.596, Contract CCTR-6164

Compliance Requirement: Allowable Costs
State Audit Guide Finding Code: 30000 and 50000

Criteria

OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, Attachment B, Selected Items of Cost, Part 8, Compensation for Personal Services, Section H, Support of salaries and wages:

- Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.
- Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation that meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant federal agency. Such documentary support will be required where employees work on:
 - (a) More than one federal award,
 - (b) A federal award and a nonfederal award,
 - (c) An indirect cost activity and a direct cost activity,
 - (d) Two or more indirect activities which are allocated using different allocation bases, or
 - (e) An unallowable activity and a direct or indirect cost activity.
- Personnel activity reports or equivalent documentation must meet the following standards:
 - (a) They must reflect an after the fact distribution of the actual activity of each employee,
 - (b) They must account for the total activity for which each employee is compensated,
 - (c) They must be prepared at least monthly and must coincide with one or more pay periods, and
 - (d) They must be signed by the employee.

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Condition

As part of our procedures over program expenditures, we selected a sample of payroll expenditures charged to the program to ascertain if they were allowable per program regulations, accurately charged to the program, and appropriately supported in accordance with the OMB cost circular documentation requirements.

Food Stamp Cluster: In our sample of 50 payroll expenditures, we noted the following exceptions:

- We noted 23 of the 50 sampled employees did not have appropriate documentation in accordance with OMB Circular A-87 to support the payroll expenditures charged to the program:
 - 17 employees totaling \$30,772 were unable to provide either a multifunded timesheet or a semiannual certification to support the payroll expenditures charged to the program.
 - 2 employees totaling \$3,256 provided signed semiannual certifications; however, they were dated in May 2006 before the beginning of the fiscal year of July 1, 2006. Certifications should be after the fact confirmations of the time that was actually spent on the program.
 - 4 employees totaling \$748 provided signed semiannual certifications; however, they were not fully dedicated to the program and had only charged between 1 to 15 hours to the program in the semimonthly pay period. These employees would appear to be multifunded and should have completed a multifunded timesheet.
- We noted 6 of the 50 employees totaling \$25,571 that were charged as direct program expenditures; however, based upon their job description would appear to be more appropriately classified as part of the indirect cost pool. These positions noted were: building and grounds worker, two accounting technicians, office technician, two nonschool salary preparation.

Total exceptions amounted to \$60,347 of the \$105,131 sampled from the \$4,371,069 of total payroll and benefit program expenditures for the fiscal year ended June 30, 2007.

Child Nutrition Cluster and Child and Adult Care Food Program: In the sample of 55 expenditures from the pooled cafeteria fund, we noted the following exceptions:

- We noted 48 of the 55 sampled employees did not have appropriate documentation in accordance with OMB Circular A-87 to support the payroll expenditures charged to the program:
 - 30 employees totaling \$51,332 were unable to provide either a multifunded timesheet or a semiannual certification to support the payroll expenditures charged to the program.
 - 18 employees totaling \$34,858 provided signed semiannual certifications; however, they were not timely prepared. These certifications were prepared subsequent to our requests and were dated several months after the certification period-end date. Certifications should be timely prepared to comply with District and federal requirements.

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Total exceptions amounted to \$86,190 of the \$100,108 sampled from the \$110,296,931 of payroll and benefit expenditures included in the total \$246,432,250 cafeteria fund expenditures for the fiscal year ended June 30, 2007. From the cafeteria fund, \$207,533,526 was reimbursed from the Child Nutrition Cluster and \$7,756,329 from the Child and Adult Care Food Program.

Title I Grants to LEAs: In our sample of 50 payroll expenditures, we noted the following exceptions:

- We noted 25 of the 50 sampled employees did not have appropriate documentation in accordance with OMB Circular A-87 to support the payroll expenditures charged to the program:
 - 11 employees totaling \$22,966 were unable to provide either a multifunded timesheet or a semiannual certification to support the payroll expenditures charged to the program.
 - 12 employees totaling \$43,343 provided signed semiannual certifications; however, they were not timely prepared. These certifications were prepared subsequent to our requests and were dated several months after the certification period-end date. Certifications should be timely prepared to comply with District and federal requirements.
 - 2 employees totaling \$625 provided signed semiannual certifications; however, they were not fully dedicated to the program and had only charged between 5 to 6 hours to the program in the semimonthly pay period. These employees would appear to be multifunded and should have completed a multifunded timesheet.
- We noted 6 of the 50 employees totaling \$15,517 that were charged as direct program expenditures; however, based upon their job description would appear to be more appropriately classified as part of the indirect cost pool. These positions noted, it were: microcomputer support, three office technicians, fiscal specialist, nonschool salary preparation.
- We noted 6 of the 50 employees totaling \$38,843 who were special education teachers that were charged as direct program expenditures to the Title I program. These employees would appear to be incorrectly classified to the Title I program.

Total exceptions amounted to \$82,747 of the \$138,192 sampled from the \$284,810,036 of estimated total payroll and benefit program expenditures for the fiscal year ended June 30, 2007.

Special Education Cluster: In the sample of 50 expenditures, we noted the following exceptions:

- We noted 15 of the 50 sampled employees did not have appropriate documentation in accordance with OMB Circular A-87 to support the payroll expenditures charged to the program:
 - 6 employees totaling \$16,778 were unable to provide either a multifunded timesheet or a semiannual certification to support the payroll expenditures charged to the program.
 - 3 employees totaling \$12,564 provided signed semiannual certifications; however, they were not timely prepared. These certifications were prepared subsequent to our requests and were dated several months after the certification period-end date. Certifications should be timely prepared to comply with District and federal requirements.
 - 3 employees totaling \$1,308 provided signed semiannual certifications; however, they were not fully dedicated to the program and had only charged between 6 to 17 hours to the program

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in the semimonthly pay period. These employees would appear to be multifunded and should have completed a multifunded timesheet.

- 3 employees totaling \$5,196 who worked less than 40 hours did not complete multifunded timesheets. Per our discussion with the Director of Infant/Preschool Services, he indicated that their full-time employment is funded out of a different fund. Since employees typically work less than 40 hours on this program, they do not complete the additional documentation because this was not their full-time employment. The multifunded timesheet should be comprehensive of all time worked for the pay period.
- We noted 2 of the 50 sampled employees that were not paid the correct rates:
 - One employee was being paid for 8 hours a day instead of 6 hours per day, which resulted in them being overpaid by \$1,480 for 6 months out of the year.
 - One employee that was paid on the incorrect pay scale, which resulted in them being underpaid of \$49 for the month sampled and \$588 for the year.

Total exceptions amounted to \$36,738 of the \$166,467 sampled from the estimated \$130,064,339 of total payroll and benefit program expenditures for the fiscal year ended June 30, 2007.

Vocational Education Basic Grants to States: In our sample of 50 payroll expenditures, we noted the following exceptions:

- We noted 27 of the 50 sampled employees did not have appropriate documentation in accordance with OMB Circular A-87 to support the payroll expenditures charged to the program:
 - 10 employees totaling \$54,963 were unable to provide either a multifunded timesheet or a semiannual certification to support the payroll expenditures charged to the program.
 - 15 employees totaling \$37,917 provided signed semiannual certifications; however, they were not timely prepared. These certifications were prepared subsequent to our requests and were dated several months after the certification period-end date. Certifications should be timely prepared to comply with District and federal requirements.
 - 2 employees totaling \$1,022 provided signed semiannual certifications; however, they were not fully dedicated to the program and had only charged between 8 to 16 hours to the program in the semimonthly pay period. These employees would appear to be multifunded and should have completed a multifunded timesheet.

Total exceptions amounted to \$93,902 of the \$212,308 sampled from the \$5,724,732 of total payroll and benefit program expenditures for the fiscal year ended June 30, 2007.

Safe and Drug-Free Schools and Communities: In the sample of 50 payroll expenditures, we noted the following exceptions:

- We noted 25 of the 50 sampled employees did not have appropriate documentation in accordance with OMB Circular A-87 to support the payroll expenditures charged to the program:

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- 6 employees totaling \$16,112 were unable to provide either a multifunded timesheet or a semiannual certification to support the payroll expenditures charged to the program.
- 13 employees totaling \$14,130 provided signed semiannual certifications; however, they were not timely prepared. These certifications were prepared subsequent to our requests and were dated several months after the certification period-end date. Certifications should be timely prepared to comply with District and federal requirements.
- 2 employees totaling \$1,768 provided signed semiannual certifications; however, they were not fully dedicated to the program and had only charged between 6 to 15 hours to the program in the semimonthly pay period. These employees would appear to be multifunded and should have completed a multifunded timesheet.
- 4 employees totaling \$1,227 where the District indicated that the hours charged were not part of their regular duties; however, they did not provide any alternative support (i.e., sign-in sheet) to support the hours that were charged.
- We noted 1 of the 50 employees totaling \$1,253 that was charged as direct program expenditures; however, based upon their job description of stock clerk, it would appear to be more appropriately classified as part of the indirect cost pool.
- We noted 2 of the 50 employees were not paid the correct pay rate. Both were paid a higher rate that resulted in an excess of \$109 per month for each employee, which resulted in \$2,616 overcharged to the program for the year.

Total exceptions amounted to \$37,106 of the \$183,083 sampled from the \$3,011,186 of total payroll and benefit program expenditures for the fiscal year ended June 30, 2007.

Fund for the Improvement of Education: In the sample of 50 payroll expenditures, we noted the following exceptions:

- We noted 44 of the 50 sampled employees did not have appropriate documentation in accordance with OMB Circular A-87 to support the payroll expenditures charged to the program:
 - 33 employees totaling \$71,694 were unable to provide either a multifunded timesheet or a semiannual certification to support the payroll expenditures charged to the program.
 - 7 employees totaling \$27,232 provided signed semiannual certifications; however, they were not timely prepared. These certifications were prepared subsequent to our requests and were dated several months after the certification period-end date. Certifications should be timely prepared to comply with District and federal requirements.
 - 2 employees totaling \$276 provided signed semiannual certifications; however, they were not fully dedicated to the program and had only charged between 1 to 3 hours to the program in the semimonthly pay period. This employee would appear to be multifunded and should have completed a multifunded timesheet.
 - 2 employees totaling \$113 where the District indicated that the hours charged were not part of their regular duties; however, they did not provide any alternative support (i.e., sign-in sheet) to support the hours that were charged.

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- We noted 3 of the 50 sampled employees were paid for more hours than were supported by their timesheets:
 - One employee was paid for 107.4 hours but the timesheet only reported 88.2 hours, resulting in an excess of \$757 charged to the program.
 - One employee was paid for 162.5 hours but the timesheet only reported 132.8 hours, resulting in an excess of \$1,883 charged to the program.
 - One employee was paid for 186.3 hours but the timesheet only reported 163.2 hours, resulting in an excess of \$1,281 charged to the program.

Total exceptions amounted to \$103,236 of the \$124,705 sampled from the \$4,144,396 of estimated total payroll and benefit program expenditures for the fiscal year ended June 30, 2007.

Twenty-First Century Community Learning Centers: In the sample of 50 payroll expenditures, we noted the following exceptions:

- We noted 27 of the 50 sampled employees did not have appropriate documentation in accordance with OMB Circular A-87 to support the payroll expenditures charged to the program:
 - 20 employees totaling \$38,098 were unable to provide either a multifunded timesheet or a semiannual certification to support the payroll expenditures charged to the program.
 - 6 employees totaling \$3,611 provided signed semiannual certifications; however, they were not timely prepared. These certifications were prepared subsequent to our requests and were dated several months after the certification period-end date. Certifications should be timely prepared to comply with District and federal requirements.
- We noted 7 of the 50 employees totaling \$1,327 that were charged as direct program expenditures; however, based upon their job description of three custodians, three plant managers, and one building and grounds manager, it would appear they should be more appropriately classified as part of the indirect cost pool.
- We noted 6 of the 50 employees totaling \$8,156 that were charged as direct program expenditures of the District; however, they were employees of one of the District's subrecipient, Los Angeles Better Education Students for Tomorrow (LA's Best), that is a separate 501(c)(3) organization. Since these employees are not District's employees, they should not be included on the District's payroll. Payments to cover their salaries of subgrantee's should be made as subgrant expenditures. By including these employee's on the District's payroll, they could be perceived as District's employees that are entitled to District's benefits (i.e., health, retirement). A similar finding regarding the expending of subgrant funds was issued in the June 30, 2005 report as F-05-07.

Total exceptions amounted to \$46,543 of the \$63,210 sampled from the \$2,493,914 of estimated total payroll and benefit program expenditures for the fiscal year ended June 30, 2007.

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State Grants for Innovative Programs: In the sample of 50 payroll expenditures, we noted the following exceptions:

- We noted 37 of the 50 sampled employees did not have appropriate documentation in accordance with OMB Circular A-87 to support the payroll expenditures charged to the program:
 - 24 employees totaling \$193,766 were unable to provide either a multifunded timesheet or a semiannual certification to support the payroll expenditures charged to the program.
 - 8 employees totaling \$47,842 provided signed semiannual certifications; however, they were not timely prepared. These certifications were prepared subsequent to our requests and were dated several months after the certification period-end date. Certifications should be timely prepared to comply with District and federal requirements.
 - 4 employees totaling \$8,662 provided signed semiannual certifications; however, they were not fully dedicated to the program and had only charged between 5 to 102 hours to the program in the semimonthly pay period. This employee would appear to be multifunded and should have completed a multifunded timesheet.
 - 1 employee charged \$375 where the District indicated that the hours charged were not part of his regular duties; however, he did not provide any alternative support (i.e., sign-in sheet) to support the hours that were charged.
- We noted 2 of the 50 employees totaling \$14,588 that were charged as fully dedicated to program; however, based on discussion with the employees, they should be multifunded and worked the majority of their time for that pay period on the Title II, part A program.

Total exceptions amounted to \$256,940 of the \$324,801 sampled from the \$7,148,285 of total payroll and benefit program expenditures for the fiscal year ended June 30, 2007.

Education Technology State Grants: In the sample of 50 payroll expenditures, we noted the following exceptions:

- We noted 5 of the 50 sampled employees did not have appropriate documentation in accordance with OMB Circular A-87 to support the payroll expenditures charged to the program:
 - 2 employees totaling \$567 were unable to provide either a multifunded timesheet or a semiannual certification to support the payroll expenditures charged to the program.
 - 3 employees totaling \$2,850 provided signed semiannual certifications; however, they were not fully dedicated to the program and had only charged between 8 to 24 hours to the program in the semimonthly pay period. These employees would appear to be multifunded and should have completed a multifunded timesheet.

Total exceptions amounted to \$3,417 of the \$213,271 sampled from the \$4,847,142 of estimated total payroll and benefit program expenditures for the fiscal year ended June 30, 2007.

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GEAR-UP: In the sample of 50 payroll expenditures, we noted the following exceptions:

- We noted 15 of the 50 sampled employees did not have appropriate documentation in accordance with OMB Circular A-87 to support the payroll expenditures charged to the program:
 - 9 employees totaling \$18,989 were unable to provide either a multifunded timesheet or a semiannual certification to support the payroll expenditures charged to the program.
 - 4 employees totaling \$12,865 provided signed semiannual certifications; however, they were not timely prepared. These certifications were prepared subsequent to our requests and were dated several months after the certification period-end date. Certifications should be timely prepared to comply with District and federal requirements.
 - 2 employees totaling \$608 provided signed semiannual certifications; however, they were not fully dedicated to the program and had only charged between 1 to 13 hours to the program in the semimonthly pay period. This employee would appear to be multifunded and should have completed a multifunded timesheet.
- We noted 2 of the 50 employees totaling \$12,691 that were charged as direct program expenditures; however, based upon their job description, it would appear to be more appropriately classified as part of the indirect cost pool. These positions noted were office technician and nonschool salary preparation.
- We noted 1 of the 50 employees was not paid the correct pay rate. He was underpaid by \$137 for the month sampled, which resulted in \$820 undercharged to the program for a six-month period.

Total exceptions amounted to \$34,393 of the \$157,345 sampled from the \$3,564,824 of estimated total payroll and benefit program expenditures for the fiscal year ended June 30, 2007.

Reading First State Grants: In the sample of 50 payroll expenditures, we noted the following exceptions:

- We noted 35 of the 50 sampled employees did not have appropriate documentation in accordance with OMB Circular A-87 to support the payroll expenditures charged to the program:
 - 29 employees totaling \$122,488 were unable to provide either a multifunded timesheet or a semiannual certification to support the payroll expenditures charged to the program.
 - 5 employees totaling \$28,453 provided signed semiannual certifications; however, they were not timely prepared. These certifications were prepared subsequent to our requests and were dated several months after the certification period-end date. Certifications should be timely prepared to comply with District and federal requirements.
 - 1 employee charged \$341 that provided a signed semiannual certification; however, he was not fully dedicated to the program and had only charged between 6 hours to the program in the semimonthly pay period. This employee would appear to be multifunded and should have completed a multifunded timesheet.

Total exceptions amounted to \$151,282 of the \$228,953 sampled from the \$33,209,857 of total payroll and benefit program expenditures for the fiscal year ended June 30, 2007.

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English Language Acquisition Grants: In the sample of 50 payroll expenditures, we noted the following exceptions:

- We noted 40 of the 50 sampled employees did not have appropriate documentation in accordance with OMB Circular A-87 to support the payroll expenditures charged to the program:
 - 25 employees totaling \$18,624 were unable to provide either a multifunded timesheet or a semiannual certification to support the payroll expenditures charged to the program.
 - 15 employees totaling \$26,374 provided signed semiannual certifications; however, they were not timely prepared. These certifications were prepared subsequent to our requests and were dated several months after the certification period-end date. Certifications should be timely prepared to comply with District and federal requirements.
- We noted 1 of the 50 employees charging \$185 that was charged as direct program expenditures; however, based upon his job description, it would appear to be more appropriately classified as part of the indirect cost pool. This position noted was a building and grounds worker.
- We noted 2 of the 50 sampled employees with errors in amounts paid to the employees that were charged to the federally funded program:
 - One employee was paid for 176 hours; however, the timesheet supported 168 hours. This overpayment resulted in an additional \$385 paid for the month sampled and charged to the program.
 - One employee was paid at an incorrect amount of \$80 for replacement service time, which should have been paid at a rate of \$60, resulting in an excess of \$20. This same employee's salary was incorrectly annualized (i.e., paid 10 months' salary over 12-month period) by \$1,566 for the month sampled, resulting in an overcharging of \$9,396 for the six months after the implementation of the new payroll system.

Total exceptions amounted to \$54,964 of the \$79,430 sampled from the \$29,427,850 of estimated total payroll and benefit program expenditures for the fiscal year ended June 30, 2007.

Improving Teacher Quality State Grants: In the sample of 50 payroll expenditures, we noted the following exceptions:

- We noted 14 of the 14 sampled employees did not have appropriate documentation in accordance with OMB Circular A-87 to support the payroll expenditures charged to the program:
 - 1 employee totaling \$809 was unable to provide either a multifunded timesheet or a semiannual certification to support the payroll expenditures charged to the program.
 - 3 employees totaling \$16,541 provided signed semiannual certifications; however, they were not timely prepared. These certifications were prepared subsequent to our requests and were dated several months after the certification period-end date. Certifications should be timely prepared to comply with District and federal requirements.

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- We noted 2 of the 14 employees totaling \$813 that were charged as direct program expenditures; however, based upon their job description, it would appear to be more appropriately classified as part of the indirect cost pool. These positions noted were for 4 senior secretaries and a database specialist.
- We noted 8 of our 14 sampled employee and benefit expenditures totaling \$58,520 were incorrectly charged to the grant; however, upon notification, the District made a correcting journal entry to reverse the expenditures.
- Since the majority of the salary expenditures are recorded to the program by journal voucher, we selected a sample of 25 journal vouchers totaling \$1,355,669 and requested supporting detail of the employees that supported the voucher. The support for the vouchers indicated these were salary expenditures for 42 employees for the entire fiscal year. Seven of those employees 100% charged to Title II, Part A, and 35 employees charged partially to this program and to other programs. The District was unable to provide semiannual certifications and multifunded timesheets to support allocation of those salaries charged to the program.

Total exceptions amounted to \$1,431,543 of the \$1,431,543 sampled from the \$49,934,566 of total payroll and benefit program expenditures for the fiscal year ended June 30, 2007.

Child Care and Development Fund: In the sample of 25 payroll expenditures, we noted the following exceptions:

- We noted 7 of the 25 sampled employees did not have appropriate documentation in accordance with OMB Circular A-87 to support the payroll expenditures charged to the program:
 - 4 employees totaling \$18,720 were unable to provide either a multifunded timesheet or a semiannual certification to support the payroll expenditures charged to the program.
 - 3 employees totaling \$14,272 provided signed semiannual certifications; however, they were not timely prepared. These certifications were prepared subsequent to our requests and were dated several months after the certification period-end date. Certifications should be timely prepared to comply with District and federal requirements.

Total exceptions amounted to \$32,992 of the \$103,947 sampled from the \$69,919,415 of total payroll and benefit expenditures included in the total \$78,215,003 child care fund expenditures for the fiscal year ended June 30, 2007. From the child care fund, \$15,447,303 was reimbursed from the federal Child Care and Development Fund.

Cause and Effect

We noted the District's policy bulletin BUL-888 dated April 2, 2004 requires employees to complete appropriate time and effort reporting that are in accordance with OMB Circular A-87; however, it does not contain specific guidance as to the timing for its completion or where it should be submitted to be retained. It also appears there is lack of employee training and District monitoring to ensure that its policy is being followed. The significant noncompliance appeared to be a result of the lack of understanding of the policy by its employees.

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Questioned Costs: \$2,453,820 (see summary below):

- **Food Stamp Cluster:** \$60,347 (\$30,772 unsupported, \$3,256 untimely, \$748 incorrect documentation, and \$25,571 indirect charged as direct)
- **Child Nutrition and Child and Adult Food Care:** \$86,190 (\$51,332 unsupported and \$34,858 untimely)
- **Title I Grants to Local Educational Agencies:** \$82,747 (\$22,966 unsupported, \$43,343 untimely, \$625 incorrect documentation, \$15,517 indirect charged as direct - \$8,296 already included in unsupported - \$4,226 already included in untimely, \$38,843 incorrectly classified - \$567 included in unsupported - \$25,458 already included in untimely)
- **Special Education Cluster:** \$36,738 (\$16,778 unsupported, \$12,564 untimely, \$6,504 incorrect documentation, and \$1,480 - \$588 incorrect pay rates)
- **Vocational Education:** \$93,902 (\$54,963 unsupported, \$37,917 untimely, and \$1,022 incorrect documentation)
- **Safe and Drug Free Schools and Communities:** \$37,106 (\$16,112 unsupported, \$14,130 untimely, \$2,995 incorrect documentation, \$1,253 indirect charged as direct, \$2,616 incorrect pay rate)
- **Fund for the Improvement of Education:** \$103,236 (\$71,694 unsupported, \$27,232 untimely, \$389 incorrect documentation, and \$3,921 incorrect timesheet hours)
- **Twenty-First Century Community Learning Centers:** \$46,543 (\$38,098 unsupported, \$3,611 untimely, \$1,327 indirect charged as direct - \$680 already included in unsupported - \$391 already included in untimely, \$8,156 subrecipient costs charged as direct payroll - \$3,577 already included in unsupported)
- **State Grants for Innovative Programs:** \$256,940 (\$193,766 unsupported, \$47,842 untimely, \$9,037 incorrect documentation, and \$14,588 indirect charged as direct - \$8,293 already included in unsupported)
- **Education Technology State Grants:** \$3,417 (\$567 unsupported and \$2,850 incorrect documentation)
- **GEAR-UP:** \$34,393 (\$18,989 unsupported, \$12,865 untimely, \$608 incorrect documentation, \$12,691 indirect charged as direct - \$9,940 already included in untimely, less \$820 incorrect pay rate)
- **Reading First State Grants:** \$151,282 (\$122,488 unsupported, \$28,453 untimely, and \$341 incorrect documentation)
- **English Language Acquisition Grants:** \$54,964 (\$18,624 unsupported, \$26,374 untimely, \$185 indirect charged as direct, \$385 incorrect timesheet hours, and \$9,396 incorrect pay rate)
- **Improving Teacher Quality State Grants:** \$1,373,023 (\$809 + \$1,355,669 unsupported, \$16,541 untimely, \$813 indirect charged as direct - \$809 already included in unsupported)
- **Child Care and Development Fund:** \$32,992 (\$18,720 unsupported and \$14,272 untimely)

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Recommendation

We recommend the District establish monitoring controls to ensure that appropriate documentation is being prepared and retained in accordance with its policy bulletin and OMB Circular A-87. We also recommend the District assign specific responsibility for the receiving and retention of the payroll documentation required by its policy bulletin. We further recommend the District enhance the policy bulletin to establish specific time lines and submission guidance to provide more specific direction for its employees.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the findings. The District issued a revised bulletin in February 2007, which included time sheets for completion of the required certifications and introduced changes to better align the existing certification forms with federal regulations. In February 2008, the District revised its procedures in monitoring compliance with federal time reporting requirements that require the chief financial officer's office to review each school's files to determine the required certifications are being done.

* * * * *

Program Identification

Finding Reference Number:

F-07-02

Federal Program Title, Awarding
Agency, Pass-Through Entity,
CFDA Number, Award Number:

Title I Grants to Local Educational Agencies, *U.S. Department of Education (ED)*, Passed through the California Department of Education, CFDA No. 84.010, Grant Agreement 06-14329-6473;

Vocational Education Basic Grants to States: *U.S. Department of Education (ED)*, Passed through the California Department of Education, CFDA No. 84.048, Grant Agreements 06/07-13924-64733-00 and 06-13923-64733-00;

Twenty-First Century Community Learning Centers, *U.S. Department of Education (ED)*, Passed through the California Department of Education, CFDA No. 84.287, Grant Agreements 05-14349-6473-2A, 05-14349-6473-3A, and 06-14349-6473-1A;

Reading First State Grants, *U.S. Department of Education (ED)*, Passed through the California Department of Education, CFDA No. 84.357, Grant Agreement 04-14328-6473-00;

English Language Acquisition Grants, *U.S. Department of Education (ED)*, Passed through the California Department of Education, CFDA No. 84.365, Grant Agreements 03-14346-6473-00 and 10084-6474-00;

Improving Teacher Quality State Grants, *U.S. Department of Education (ED)*, Passed through the California Department of Education, CFDA No. 84.367, Grant Agreement

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

S367A040005A;

Child Care and Development Fund: Child Care and Development Block Grant, Child Care Mandatory and Matching Funds of the Child Care and Development Fund; U.S. Department of Health and Human Services, Passed through the California Department of Education, CFDA Nos. 93.575 and 93.596, Contract CCTR-6164

Compliance Requirement: Allowable Costs

State Audit Guide Finding Code: 30000 and 50000

Criteria

OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, Attachment A, General Principles for Determining Allowable Costs, Part C, Basic Guidelines:

- Factors affecting allowability of costs. To be allowable under federal awards, costs must meet the following general criteria:
 - Be necessary and reasonable for proper and efficient performance and administration of federal awards.
 - Be allocable to federal awards under the provisions of this circular.
 - Be authorized or not prohibited under state or local laws or regulations.
 - Conform to any limitations or exclusions set forth in these principles, federal laws, terms and conditions of the federal award, or other governing regulations as to types or amounts of cost items.
 - Be consistent with policies, regulations, and procedures that apply uniformly to both federal awards and other activities of the governmental unit.
 - Be accorded consistent treatment. A cost may not be assigned to a federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the federal award as an indirect cost.
 - Except as otherwise provided for in this circular, be determined in accordance with generally accepted accounting principles.
 - Not be included as a cost or used to meet cost sharing or matching requirements of any other federal award in either the current or a prior period, except as specifically provided by federal law or regulation.
 - Be the net of all applicable credits.
 - Be adequately documented.

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Schedule of Findings and Questioned Costs

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- Allocable costs.
 - A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.
 - Any cost allocable to a particular federal award or cost objective under the principles provided for in this circular may not be charged to other federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the federal awards, or for other reasons.

OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, Attachment B, Selected Items of Cost, Part 8, Compensation for Personal Services, Section H, Support of salaries and wages:

- Personnel activity reports or equivalent documentation must meet the following standards:
 - (a) They must reflect an after-the-fact distribution of the actual activity of each employee,
 - (b) They must account for the total activity for which each employee is compensated,
 - (c) They must be prepared at least monthly and must coincide with one or more pay periods, and
 - (d) They must be signed by the employee.

Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards but may be used for interim accounting purposes, provided that:

- (i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;
- (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and
- (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

Condition

As part of our procedures over program expenditures, we selected a sample of adjustments that were recorded payroll expenditures charged to the program to ascertain if they were appropriately supported in accordance with the OMB cost circular documentation requirements. We noted the accounting department posts the journal voucher expenditures to the program from a request of the program department without the documentation to support the existence and allowability of the expenditures. Accordingly there does not appear to be contemporaneous records of the expenditures at the time they were charged to the program.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Title 1 Grants to Local Educational Agencies: We noted 7 of the 10 sampled adjusting journal vouchers recorded to payroll expenditure accounts did not have appropriate documentation in accordance with OMB Circular A-87 to support the expenditures charged to the program:

- 1 journal voucher for \$12,131 was charged to the program for salary expenditures for one employee allocated to the program. The District was unable to provide a multi-funded timesheet to support the allocation of the salary charged to the program.
- 1 journal voucher for \$28,870 was charged to the program for salary expenditures for approximately 50 employees' salaries that were allocated to the program. The District was unable to provide semi-annual certifications or multi-funded timesheets to support the allocation of the salaries charged to the program.
- 5 journal vouchers selected for \$88,018, \$93,524, \$127,050, \$127,375 and \$113,936 with the explanation that these were part of the transfers of payroll expenditures from the District's reading and math programs to Title I, Title II, Part A and Title III. The support for the journal vouchers indicated these were salary expenditures for 11 employees for the fiscal year. The District was unable to provide semi-annual certifications or multi-funded timesheets to support the allocations of those salaries charged to the program. We noted the totals of these journal vouchers allocated \$1,994,528, \$1,781,232 and \$2,194,655 of salary expenditures to the programs. Budgeted estimates are only appropriate for interim allocations and must be trued up to actual amounts based on actual supporting time and effort documentation.

Total exceptions amounted to \$590,904 of the \$630,091 sampled from the \$90,551,569 payroll adjustments made to the \$284,810,036 of total payroll and benefit program expenditures for the fiscal year ended June 30, 2007.

Vocational Education Basic Grants to States: We noted 4 of the 4 sampled adjusting journal vouchers recorded to payroll expenditure accounts did not have appropriate documentation in accordance with OMB Circular A-87 to support the expenditures charged to the program:

- 1 journal voucher for \$10,171 was charged to the program with no supporting documentation.
- 3 journal vouchers for \$18,922, \$34,950, and \$14,880 where the support provided indicated the purpose of the transfer was to cover overdrawn balances on some grants. We noted the totals of these journal vouchers allocated \$109,506 of salary expenditures to the program. Allocations may not be charged to other federal awards to overcome fund deficiencies. Per review of the terms and conditions of the grant award, this program has a 12-month period of availability of grant funds with no allowable carryover provisions. Any unexpended funds must be returned to the pass-through entity.

Total exceptions amounted to \$78,923 of the \$82,260 sampled from the \$175,222 payroll adjustments made to the \$5,724,732 of total payroll and benefit program expenditures for the fiscal year ended June 30, 2007.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Twenty-First Century Community Learning Centers: We noted 3 of the 3 sampled entries to payroll expenditure accounts did not have appropriate documentation in accordance with OMB Circular A-87 to support the expenditures charged to the program:

- 1 journal voucher for \$13,508 was charged to the program for the allocation of 480 of an employee's hours. The District was unable to provide semi-annual or multi-funded timesheets to support the allocation of the salary charged to the program.
- 2 journal vouchers selected for \$35,891 and \$51,809 with the explanation that these were transfers of payroll expenditures for traveling playground supervisors performing visitation and site observations of the program. The support for the journal vouchers indicated these were salary expenditures for 36 employees for the first six months of the fiscal year. The District was unable to provide semi-annual certifications or multi-funded timesheets to support the allocations of those salaries charged to the program. We noted the total of this journal voucher allocated \$107,792 of salary expenditures to the program.

Total exceptions amounted to \$101,208 of the \$101,208 sampled from the \$1,312,912 payroll adjustments made to the \$2,493,914 of total payroll and benefit program expenditures for the fiscal year ended June 30, 2007.

Reading First State Grants: We noted 2 of the 3 sampled adjusting journal vouchers recorded to payroll expenditure accounts did not have appropriate documentation in accordance with OMB Circular A-87 to support the expenditures charged to the program:

- 2 journal vouchers for \$55,563 and \$72,374 where the only support provided was a request for transfer form requested by the program director to transfer the funds with no explanation of the reason for the transfer or other documentation to support its allowability. We noted the totals of this journal vouchers allocated \$62,221 and \$110,298 of salary expenditures to the program.

Total exceptions amounted to \$127,937 of the \$139,587 sampled from the \$15,821,703 payroll adjustments made to the \$33,209,857 of total payroll and benefit program expenditures for the fiscal year ended June 30, 2007.

English Language Acquisition Grants: We noted 1 of the 2 sampled adjusting journal vouchers recorded to payroll expenditure accounts did not have appropriate documentation in accordance with OMB Circular A-87 to support the expenditures charged to the program:

- 1 journal voucher selected for \$44,455 with the explanation that this was part of the transfers of payroll expenditures from the District's reading and math programs to Title I, Title II, Part A and Title III. The support for the journal vouchers indicated these were annual salary expenditures for 2 employees. The District was unable to provide semi-annual certifications or multi-funded timesheets to support the allocations of those salaries charged to the program. We noted the totals of this journal voucher allocated \$566,488 of salary expenditures to the programs.

Total exceptions amounted to \$44,455 of the \$49,129 sampled from the \$15,407,949 payroll adjustments made to the \$29,427,850 of total payroll and benefit program expenditures for the fiscal year ended June 30, 2007.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Improving Teacher Quality State Grants: We noted 3 of the 3 sampled adjusting journal vouchers recorded to payroll expenditure accounts did not have appropriate documentation in accordance with OMB Circular A-87 to support the expenditures charged to the program:

- 3 journal vouchers selected for \$71,994, \$79,738 and \$44,181 with the explanation that these were transfers of payroll expenditures from the District's reading and math programs to Title I, Title II, Part A and Title III. The support for the journal vouchers indicated these were allocations of annual salary expenditures for 5 employees. The District was unable to provide semi-annual certifications or multi-funded timesheets to support the allocations of those salaries charged to the program. We noted the totals of these journal vouchers allocated \$1,762,916, \$1,834,928, and \$809,623 of salary expenditures to the programs.

Total exceptions amounted to \$195,913 of the \$195,913 sampled from the \$39,518,524 payroll adjustments made to the \$49,934,566 of total payroll and benefit program expenditures for the fiscal year ended June 30, 2007.

Child Care and Development Fund: We noted 1 of the 1 sampled adjusting journal voucher recorded to payroll expenditure accounts did not have appropriate documentation in accordance with OMB Circular A-87 to support the expenditures charged to the program:

- 1 journal voucher for \$11,322 with the explanation that this was a reversal of a previous entry made for expenditures from another program. The only support provided was a request for transfer form requested by the program director to transfer the funds. We noted the total of this journal voucher indicated \$276,069 of salary expenditures was made.

Total exceptions amounted to \$11,322 of the \$11,322 sampled from the \$16,659,233 payroll adjustments made to the \$69,919,415 of total payroll and benefit expenditures included in the total \$78,215,003 child care fund expenditures for the fiscal year ended June 30, 2007. From the child care fund, \$15,447,303 was reimbursed from the federal Child Care and Development Fund.

Cause and Effect

There do not appear to be adequate controls to ensure that adjusting journal vouchers are not recorded without sufficient supporting documentation which could result in increased risk of errors.

Questioned Costs

\$1,150,662 (see summary below):

- **Title I Grants to Local Educational Agencies:** \$590,904
- **Vocational Education Basic Grants to States:** \$78,923
- **Twenty-First Century Community Learning Centers:** \$101,208
- **Reading First State Grants:** \$127,937
- **English Language Acquisition Grants:** \$44,455
- **Improving Teacher Quality State Grants:** \$195,913
- **Child Care and Development Fund:** \$11,322

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Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Recommendation

We recommend the District enhance policies and procedures to ensure that all payment vouchers are adequately supported before recording them in the general ledger. We also recommend the District establish policies and procedures to ensure that salary allocations are made based on actual time and effort documentation and not based on estimated budgeted information.

Views of Responsible Officials and Planned Corrective Actions

The District partially agrees with this finding. The District will ensure that all payment vouchers are adequately supported before recording them in the general ledger. However, it is the District's policy to allocate salaries based on payroll expenditure data. In addition, with the implementation of the SAP Time Reporting Module, adjustments could be made directly into the system to reflect actual time and effort specific to the program funding source.

* * * * *

Program Identification

Finding Reference Number:	F-07-03
Federal Program Title, Awarding Agency, Pass-Through Entity, CFDA Number, Award Number:	Special Education Cluster: Grants to States, Preschool Grants; <i>U.S. Department of Education</i> , Passed through the California Department of Education, CFDA Nos. 84.027 and 84.173, Grant Agreements 06-13430-6473-01, 06-13682-6473-01, 06-23761-6473-01, and 06-13379-6473-01; English Language Acquisition Grants, <i>U.S. Department of Education (ED)</i> , Passed through the California Department of Education, CFDA No. 84.365, Grant Agreements 03-14346-6473-00, 10084-6474-00
Compliance Requirement:	Allowable Costs
State Audit Guide Finding Code:	30000

Criteria

Code of Federal Regulations – Title 34 – Education, Part 75 – Direct Grant Programs – Subpart F – What Are the Administrative Responsibilities of a Grantee? Section 75.702 Fiscal control and fund accounting procedures.

- A grantee shall use fiscal control and fund accounting procedures that insure proper disbursement of and accounting for federal funds.

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Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Condition

Special Education Cluster: In the sample of nonpayroll expenditures, we noted 3 of the 50 items sampled did not contain evidence of appropriate review and approval of the expenditure being charged to the federally funded program.

English Language Acquisition Grants: In the sample of nonpayroll expenditures, we noted 4 of the 50 items sampled did not contain evidence of appropriate review and approval of the expenditure being charged to the federally funded program.

Cause and Effect

There does not appear to be effective enforcement of district expenditure approval policies to ensure that all expenditures charged to federally funded programs contain evidence of appropriate review and approval before paid. Without appropriate reviews and approvals of expenditures, there is increased risk of unallowable expenditures being inappropriately charged to the program.

Questioned Costs

Not applicable.

Recommendation

We recommend the District strengthen controls to ensure that all expenditures contain evidence of appropriate reviews and approvals to ensure only allowable expenditures are charged to federally funded programs.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the finding. However, the current procurement procedures have inherent layers of approvals built into the process: initiation of requisition, input in the Integrated Financial System, to payment based on a three-way match of purchase order, receiver, and invoice. We will reinforce through training and workshops that administrators follow established procurement procedures.

* * * * *

Program Identification

Finding Reference Number:	F-07-04
Federal Program Title, Awarding Agency, Pass-Through Entity, CFDA Number, Award Number:	Title I Grants to Local Educational Agencies: <i>U.S. Department of Education (ED)</i> , Passed through the California Department of Education, CFDA No. 84.010, Grant Agreement 06-14329-6473
Compliance Requirement:	Allowable Costs
State Audit Guide Finding Code:	30000 and 50000

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Criteria

OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, Attachment A, General Principles for Determining Allowable Costs, Part C, Basic Guidelines:

- Factors affecting allowability of costs. To be allowable under federal awards, costs must meet the following general criteria:
 - Be necessary and reasonable for proper and efficient performance and administration of federal awards.
 - Be allocable to federal awards under the provisions of this circular.
 - Be authorized or not prohibited under state or local laws or regulations.
 - Conform to any limitations or exclusions set forth in these principles, federal laws, terms and conditions of the federal award, or other governing regulations as to types or amounts of cost items.
 - Be consistent with policies, regulations, and procedures that apply uniformly to both federal awards and other activities of the governmental unit.
 - Be accorded consistent treatment. A cost may not be assigned to a federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the federal award as an indirect cost.
 - Except as otherwise provided for in this circular, be determined in accordance with generally accepted accounting principles.
 - Not be included as a cost or used to meet cost sharing or matching requirements of any other federal award in either the current or a prior period, except as specifically provided by federal law or regulation.
 - Be the net of all applicable credits.
 - Be adequately documented.
- Allocable costs.
 - A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.
 - Any cost allocable to a particular federal award or cost objective under the principles provided for in this circular may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal awards, or for other reasons.

Condition

In the sample of 30 year-end adjustments made to nonpayroll expenditures for its federally funded programs, we noted the following 2 exceptions:

- 2 of the 17 journal voucher adjustments totaling \$1,057 and \$37,692 was charged to the Title I program. The District was unable to provide documentation to support the adjustment was allowable.

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Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Total exceptions amounted to \$38,749 of the \$268,753 sampled nonpayroll adjustments for the fiscal year ended June 30, 2007.

Cause and Effect

There do not appear to be adequate controls to ensure that adjusting journal vouchers are not recorded without sufficient supporting documentation.

Questioned Costs

\$38,749

Recommendation

We recommend the District enhance policies and procedures to ensure that all payment vouchers are adequately supported before recording them in the general ledger.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with this finding. The District will ensure that all payment vouchers are adequately supported before recording them in the general ledger.

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Program Identification

Finding Reference Number:	F-07-05
Number:	84.215
Federal Program Title:	Fund for the Improvement of Education, <i>U.S. Department of Education (ED)</i>
Pass-Through Entity:	Not Applicable
Award Number:	Grant Agreements 05-14349-6473-2A and 06-14349-6473-1A
Compliance Requirement:	Allowable Costs
State Audit Guide Finding Code:	50000

Criteria

OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, Attachment A, General Principles for Determining Allowable Costs, and Attachment B, Selected Items of Cost:

- Entertainment – Cost of entertainment, including amusement, diversion, and social activities and any cost directly associated with such costs (such as tickets to shows or sporting events, meals, lodging, rentals, transportation, and gratuities are unallowable.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

- Travel costs.
 - a. General. Travel costs are the expenses for transportation, lodging, subsistence, and related items incurred by employees who are in travel status on official business of the governmental unit. Such costs may be charged on an actual cost basis, on a per diem or mileage basis in lieu of actual costs incurred, or on a combination of the two, provided the method used is applied to an entire trip and not to selected days of the trip, and results in charges consistent with those normally allowed in like circumstances in the governmental unit's nonfederally sponsored activities. Notwithstanding the provisions of Attachment B, Section 19, General government expenses, travel costs of officials covered by that section are allowable with the prior approval of an awarding agency when they are specifically related to Federal awards.
 - b. Lodging and subsistence. Costs incurred by employees and officers for travel, including costs of lodging, other subsistence, and incidental expenses, shall be considered reasonable and allowable only to the extent such costs do not exceed charges normally allowed by the governmental unit in its regular operations as the result of the governmental unit's written travel policy. In the absence of an acceptable, written governmental unit policy regarding travel costs, the rates and amounts established under subchapter I of Chapter 57, Title 5, United States Code (Travel and Subsistence Expenses; Mileage Allowances), or by the Administrator of General Services, or by the President (or his or her designee) pursuant to any provisions of such subchapter shall apply to travel under Federal awards (48 CFR 31.205-46(a)).

Condition

In the sample of 50 nonpayroll expenditures, we noted 2 expenditures that do not appear to be allowable in accordance with OMB Circular A-87 and program guidelines:

- An expenditure for a catered picnic lunch for 800 guests at a ninth grade high school academy totaling \$5,920 was charged without proper justification of how this lunch picnic promoted the program objectives. This picnic would not appear to meet the criteria for an allowable public relations expenditure. The District provided a copy of its application, which indicated it had planned to use the funds for the creation of freshman "Houses." The application indicated, "These Houses will be additionally personalized with House names, governing leadership councils, parent groups, regular social activities, and special assemblies." The District believed that the 'social activities' of these Houses would be allowable as a grant expenditure.
- An expenditure for a hotel room for attendance at a program retreat in March 2007 with a \$429/night rate (total charged, \$508), compared with other individuals at the same retreat with a \$179/night rate. This expenditure would not appear to be reasonable and consistent with those allowed in like circumstances. The program personnel indicated the suite was required to provide for a sitting room for after hours' discussions. They also asserted that the room was shared by two employees; however, we were unable to obtain documentation to support the other employee.

Total exceptions amounted to \$6,428 of the \$248,518 sampled of the \$1,957,256 of total estimated nonpayroll program expenditures for the fiscal year ended June 30, 2007.

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Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Cause and Effect

There does not appear to be sufficient guidance/training to ensure documentation is maintained to support program purpose and allowability in accordance with federal program guidelines.

Questioned Costs

\$6,248 of the \$248,518 sampled nonpayroll expenditures (\$5,920 picnic and \$508 hotel).

Recommendation

We recommend the District provide additional guidance/training to ensure appropriate documentation is maintained to support expenditure charged to federally funded programs.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with this finding. The District will provide additional guidance and training to ensure that appropriate documentation is maintained to support expenditures charged to the federally funded programs.

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Program Identification

Finding Reference Number:	F-07-06
Number:	84.298
Federal Program Title:	State Grants for Innovative Programs, <i>U.S. Department of Education (ED)</i>
Pass-Through Entity:	California Department of Education
Award Number:	Grant Award No. 1964733
Compliance Requirement:	Allowable Costs
State Audit Guide Finding Code:	30000 and 50000

Criteria

United States Code – Title 20 – Education, Chapter 70 – Strengthening and Improvement of Elementary and Secondary Schools, Subchapter V – Promoting Informed Parental Choice and Innovative Programs, Part A – Innovative Programs, Subpart 3 – local innovative education programs, Section 7215, Local uses of funds, (a) Innovative assistance programs:

- Funds made available to LEAs under Section 7211a of this title shall be used for innovative assistance programs, which may include any of the following:
 - (1) Programs to recruit, train, and hire highly qualified teachers to reduce class size, especially in the early grades, and professional development activities carried out in accordance with

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

subchapter II of this chapter, that give teachers, principals, and administrators the knowledge and skills to provide students with the opportunity to meet challenging state or local academic content standards and student academic achievement standards.

- (2) Technology activities related to the implementation of school-based reform efforts, including professional development to assist teachers and other school personnel (including school library media personnel) regarding how to use technology effectively in the classrooms and the school library media centers involved.
- (3) Programs for the development or acquisition and use of instructional and educational materials, including library services and materials (including media materials), academic assessments, reference materials, computer software and hardware for instructional use, and other curricular materials that are tied to high academic standards, that will be used to improve student academic achievement, and that are part of an overall education reform program.
- (4) Promising education reform projects, including magnet schools.
- (5) Programs to improve the academic achievement of educationally disadvantaged elementary school and secondary school students, including activities to prevent students from dropping out of school.
- (6) Programs to improve the literacy skills of adults, especially the parents of children served by the local educational agency, including adult education and family literacy programs.
- (7) Programs to provide for the educational needs of gifted and talented children.
- (8) The planning, design, and initial implementation of charter schools as described in part B of this subchapter.
- (9) School improvement programs or activities under sections 6316 and 6317 of this title.
- (10) Community service programs that use qualified school personnel to train and mobilize young people to measurably strengthen their communities through nonviolence, responsibility, compassion, respect, and moral courage.
- (11) Activities to promote consumer, economic, and personal finance education, such as disseminating information on and encouraging use of the best practices for teaching the basic principles of economics and promoting the concept of achieving financial literacy through the teaching of personal financial management skills (including the basic principles involved with earning, spending, saving, and investing).
- (12) Activities to promote, implement, or expand public school choice.
- (13) Programs to hire and support school nurses.
- (14) Expansion and improvement of school-based mental health services, including early identification of drug use and violence, assessment, and direct individual or group counseling

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

services provided to students, parents, and school personnel by qualified school-based mental health services personnel.

- (15) Alternative educational programs for those students who have been expelled or suspended from their regular educational setting, including programs to assist students to reenter the regular educational setting upon return from treatment or alternative educational programs.
- (16) Programs to establish or enhance prekindergarten programs for children.
- (17) Academic intervention programs that are operated jointly with community-based organizations and that support academic enrichment, and counseling programs conducted during the school day (including during extended school day or extended school year programs), for students most at risk of not meeting challenging State academic achievement standards or not completing secondary school.
- (18) Programs for cardiopulmonary resuscitation (CPR) training in schools.
- (19) Programs to establish smaller learning communities.
- (20) Activities that encourage and expand improvements throughout the area served by the local educational agency that are designed to advance student academic achievement.
- (21) Initiatives to generate, maintain, and strengthen parental and community involvement.
- (22) Programs and activities that expand learning opportunities through best-practice models designed to improve classroom learning and teaching.
- (23) Programs to provide same-gender schools and classrooms (consistent with applicable law).
- (24) Service learning activities.
- (25) School safety programs, including programs to implement the policy described in Section 9507 \1\ and which may include payment of reasonable transportation costs and tuition costs for such students.
- (26) Programs that employ research-based cognitive and perceptual development approaches and rely on a diagnostic prescriptive model to improve students' learning of academic content at the preschool, elementary, and secondary levels.
- (27) Supplemental educational services, as defined in Section 6316(e) of this title.

Condition

In the sample of nonpayroll program expenditures, we noted 5 of the 50 sampled expenditures that did not appear to fall with the program's allowable program activities. These expenditures were for 12 computers for an advisory group that assists the Board of Education. This expenditure purpose appears to be more indirect rather than direct program expenditure.

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Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Total exceptions amounted to \$38,349 of the \$1,248,145 expenditures sampled from the \$1,655,994 total nonpayroll program expenditures for the fiscal year ended June 30, 2007.

Cause and Effect

There does not appear to be sufficient guidance/training as to what types of expenses would most appropriately be classified as direct and indirect to ensure consistency when coding expenditures among the District's various federally funded programs.

Questioned Costs

\$38,349 of the \$1,248,145 nonpayroll program expenditures sampled.

Recommendation

We recommend the District provide additional guidance/training to ensure program personnel have sufficient information to assist them with classifying its federally funded expenditures.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with finding. Tighter controls will be instituted to prevent inappropriate expenditures.

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Program Identification

Finding Reference Number:	F-07-07
Number:	84.357
Federal Program Title:	Reading First State Grants, <i>U.S. Department of Education (ED)</i>
Pass-Through Entity:	California Department of Education
Award Number:	Grant Agreement 04-14328-6473-00
Compliance Requirement:	Allowable Costs
State Audit Guide Finding Code:	30000 and 50000

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Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Criteria

OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, Attachment A, General Principles for Determining Allowable Costs, Part C, Basic Guidelines:

- Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:
 - a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
 - b. Be allocable to Federal awards under the provisions of this circular.
 - c. Be authorized or not prohibited under State or local laws or regulations.
 - d. Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.
 - e. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.
 - f. Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
 - g. Except as otherwise provided for in this circular, be determined in accordance with generally accepted accounting principles.
 - h. Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period, except as specifically provided by Federal law or regulation.
 - i. Be the net of all applicable credits.
 - j. Be adequately documented.

Condition

In the sample of nonpayroll expenditures, we noted 2 of the 50 sampled expenditures were unsupported:

- 2 expenditures sampled totaling \$52,201 where the District was unable to provide supporting documentation.

Total exceptions amounted to \$52,201 of the \$4,510,110 sampled from the \$5,369,351 total nonpayroll program expenditures for the fiscal year ended June 30, 2007.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Cause and Effect

There does not appear to be sufficient guidance/training to ensure documentation is retained to support year-end expenditure accruals charged to federally funded programs.

Questioned Costs

\$52,201 undocumented expenditures of the \$4,510,110 sampled nonpayroll program expenditures

Recommendation

We recommend the District strengthen its controls over its document retention policies to ensure that sufficient documentation is maintained to support expenditures charged to its federal funded program in accordance with federal guidelines.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the finding. The District will return the unallowed amount of \$52,201 back to the state.

* * * * *

Program Identification

Finding Reference Number:	F-07-08
Federal Program Title, Awarding Agency, Pass-Through Entity, CFDA Number, Award Number:	Twenty-First Century Community Learning Centers, <i>U.S. Department of Education (ED)</i> ; Passed through the California Department of Education, CFDA No. 84.287, Grant Agreements 05-14349-6473-2A and 06-14349-6473-1A; GEAR-UP, <i>U.S. Department of Education (ED)</i> , CFDA No. 84.334, Grant Agreements P334A000061-05, P334A050178-06, and P334A050205
Compliance Requirement:	Allowable Costs
State Audit Guide Finding Code:	30000 and 50000

Criteria

Title 34 – Education, Part 76 – State-Administered Programs, Subpart F – What Conditions Must Be Met by the State and Its Subgrantees?, Section 76.569, Using the restricted indirect cost rate:

- (a) Under the programs referenced in Section 76.563, the maximum amount of indirect costs under a grant is determined by the following formula:

Indirect costs = (Restricted indirect cost rate) x (Total direct costs of the grant minus capital outlays, subgrants, and other distorting or unallowable items as specified in the grantee's indirect cost rate agreement)

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Schedule of Findings and Questioned Costs

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Condition

These programs are required to use a restricted indirect cost rate in its computation of allowable indirect costs. In our recalculations performed over the indirect cost claimed for this program, we noted the District had not deducted its subrecipient costs from the direct cost base, resulting in the over claiming of allowable indirect costs.

Twenty-First Century Community Learning Centers: In our sampled grants, which totaled approximately \$3.9 million, we noted approximately \$2.5 million of subrecipient payments that should have been excluded from the restricted indirect cost calculation. These overstated indirect costs amounted to \$88,097 of the \$133,583 originally claimed for these sampled grants.

Total program expenditures for the fiscal year ended June 30, 2007 amounted to \$8,264,360, with \$279,480 of those expenditures for indirect costs.

GEAR-UP: In our sampled grants, which totaled approximately \$3.6 million, we noted approximately \$830,000 in subrecipient payments that should have been excluded from the restricted indirect cost calculation. These overstated indirect costs amounted to \$29,133 of the \$121,980 originally claimed for these sampled grants.

Total program expenditures for the fiscal year ended June 30, 2007 amounted to \$5,216,865, with \$176,903 of those expenditures for indirect costs.

Cause and Effect

There does not appear to be sufficient guidance/training to its accountants that are preparing the indirect cost calculations.

Questioned Costs

\$117,230 (see summary below):

- Twenty-First Century Community Learning Centers: \$88,097 (\$2,509,887 subgrant payments in sampled grants x 3.51% restricted indirect cost rate)
- Gear-Up: \$29,133 (\$830,000 estimated subgrant payments in sampled grants x 3.51% restricted indirect cost rate)

Recommendation

We recommend the District provide additional guidance/training to its accountants to ensure that grants required to use the restricted indirect cost rate are calculated using the appropriate direct cost base in accordance with federal guidelines.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the finding. Policy Bulletin 4110.0 dated February 12, 2008 was issued to ensure that subrecipient awards are properly identified and monitored to ensure compliance with federal guidelines. However, effective fiscal year 2007 – 2008, the District created a new series of object codes to comply with the state requirement for a separate object code for subagreements and subawards pursuant to

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

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certain contracts, subcontracts, and subgrants in order to identify costs for exclusion from the calculation of indirect costs. This is to comply with California School Accounting Manual (CSAM) procedure 330-19/20, Subagreements for Services, January 2007.

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Program Identification

Finding Reference Number:

F-07-09

Federal Program Title, Awarding
Agency, Pass-Through Entity,
CFDA Number, Award Number:

Title I Grants to Local Educational Agencies: *U.S. Department of Education (ED)*, Passed through the California Department of Education, CFDA No. 84.010, Grant Agreement 06-14329-6473;

Vocational Education Basic Grants to States: *U.S. Department of Education (ED)*, Passed through the California Department of Education, CFDA No. 84.048, Grant Agreements 06/07-13924-64733-00 and 06-13923-64733-00;

Safe and Drug-Free Schools and Communities, *U.S. Department of Education (ED)*, Passed through the California Department of Education, CFDA No. 84.186, Grant Agreement Q186A060005;

Twenty-First Century Community Learning Centers, *U.S. Department of Education (ED)*, Passed through the California Department of Education, CFDA No. 84.287, Grant Agreements 05-14349-6473-2A, 05-14349-6473-3A, and 06-14349-6473-1A;

Education Technology State Grants, *U.S. Department of Education (ED)*, Passed through the California Department of Education, CFDA No. 84.318, Grant Agreement 2005/06-14368-6473-00;

Reading First State Grants; *U.S. Department of Education (ED)*, Passed through the California Department of Education, CFDA No. 84.357, Grant Agreement 04-14328-6473-00;

English Language Acquisition Grants, *U.S. Department of Education (ED)*, Passed through the California Department of Education, CFDA No. 84.365, Grant Agreements 03-14346-6473-00 and 10084-6474-00

Compliance Requirement:

Cash Management

State Audit Guide Finding Code:

50000

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Criteria

Code of Federal Regulations, Title 34 – Education, Part 80 – *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* – Subpart C – Post – Award Requirements, Section 80.21, Payment:

- Interest earned on advances, Except for interest earned on advances of funds exempt under the Intergovernmental Cooperation Act (31 O.K. 6501 et seq.) and the Indian Self-Determination Act (23 U.S.C. 450), grantees and subgrantees shall promptly, but at least quarterly, remit interest earned on advances to the Federal agency. The grantee or subgrantee may keep interest amounts up to \$100 per year for administrative expenses.

Condition

During the procedures performed over cash management, we noted the District estimates its interest liability for interest earned on federally funded programs on an advance basis. The District prepares the estimate of the liability based upon the estimated monthly program cash balance multiplied by the interest rate provided by the Division of School Financial Services at the County Office of Education where its pooled cash funds are held.

Title I Grants to Local Educational Agencies: We noted \$1,269,809 was earned in interest income from advances on one open grant award. The District returned \$693,967 of the interest to the federal government. The remaining \$575,842 unremitted interest appears to be net of estimated interest due back to the District.

Vocational Education Basic Grants to States: We noted an estimated \$18,623 was earned in interest income from the advances on two open grant awards. This interest amount was netted against amounts of estimated interest due back to the District, resulting in \$0 being recorded in the District's federal interest liability at the end of the fiscal year.

Safe and Drug-Free Schools and Communities: We noted \$39,112 was earned in interest income from advances on one open grant award. The District returned \$34,360 of the interest to the federal government. This \$4,752 unremitted interest appears to be the result of netting estimated interest due back to the District.

Twenty-First Century Community Learning Centers: We noted \$18,146 was earned in interest income from advances on three grant awards tested. Of these three grants tested, the District did not return \$12,057 in interest to the federal government.

Education Technology State Grants: We noted an estimated \$223,992 was earned in interest income from the advances on seven open grant awards. The District returned two payments totaling \$193,042 of the interest to the federal government. The \$30,950 unremitted interest appears to be netted of interest due back to the District.

Reading First State Grants: We noted an estimated \$1,570 was earned in interest income from the advances on two open grant awards. This interest amount was netted against amounts of estimated interest due back to the District, resulting in \$0 being remitted to the federal government.

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English Language Acquisition Grants: We noted \$73,927 was earned in interest income from advances on two open grant awards. The District returned \$50,532 to the federal government. The \$23,395 unremitted interest appears to a combination of the fourth quarter and netting of interest due back to the District.

Cause and Effect

In the prior year, we had noted that the District had reduced its estimated interest owed to the federal government by reducing its interest liability against an estimated interest receivable for months when they operated the programs on a reimbursement basis. We noted in the current year calculation that the District still reduced its interest liability against an estimated interest receivable; however, it only recorded a reduction on a quarterly basis if any one of the three months within the quarter resulted in the program operating on a reimbursement basis.

Questioned Costs

\$667,189 estimated interest earned on program advances not remitted back to the federal government (see summary below):

- **Title I Grants to Local Educational Agencies:** \$575,842
- **Vocational Education Basic Grants to States:** \$18,623
- **Safe and Drug-Free Schools and Communities:** \$4,752
- **Twenty-First Century Community Learning Centers:** \$12,057
- **Education Technology State Grants:** \$30,950
- **Reading First State Grants:** \$1,570
- **English Language Acquisition Grants:** \$23,395

Recommendation

We recommend that the District review its current interest estimation methodology to ensure compliance with federal cash management requirements and return interest to the federal government.

Views of Responsible Officials and Planned Corrective Actions

The District issued Policy Bulletin ADD-007-004 dated March 2007 to comply with OMB A-133 on cash management. Starting FY 2008, the District has revised its procedures to cease interest netting, which was communicated to its staff on July 29, 2008. The District is working with the state and federal authorities on consolidating interest remittance to allow for simplified interest calculation.

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Program Identification

Finding Reference Number:

F-07-10

Federal Program Title, Awarding Agency, Pass-Through Entity, Catalog of Federal Domestic Assistance (CFDA) Number, and Award Number:

Child Nutrition Cluster Programs: School Breakfast Program (CFDA No. 10.553), National School Lunch Program (CFDA No. 10.555), Summer Food Service Program for Children (CFDA No. 10.559); *U.S. Department of Agriculture (USDA)*, Passed through the California Department of Education, Grant Agreement 19-64733-0000000-01;

Child and Adult Care Food Program, *U.S. Department of Agriculture (USDA)*, Passed through the California Department of Education, Grant Agreement 19-2016-3A;

State Administrative Matching Grants for Food Stamp Program, *U.S. Department of Agriculture (USDA)*, Passed through the California Department of Health Services, Grant Agreement 04-354450;

Title I Grants to Local Educational Agencies: *U.S. Department of Education (ED)*, Passed through the California Department of Education, CFDA No. 84.010, Grant Agreement 06-14329-6473;

Special Education Cluster: Special Education Grants to States, CFDA No. 84.027, Special Education Preschool Grants; CFDA No. 84.173, *U.S. Department of Education (ED)*, Passed through the California Department of Education, Grant Agreements 06-13682-6473-01, 06-13379-6473-01, and 06-13430-6473-01;

Vocational Education Basic Grants to States: *U.S. Department of Education (ED)*, Passed through the California Department of Education, CFDA No. 84.048, Grant Agreements 06/07-13924-64733-00 and 06-13923-64733-00;

Safe and Drug-Free Schools and Communities, *U.S. Department of Education (ED)*, Passed through the California Department of Education, CFDA No. 84.186, Grant Agreement Q186A060005;

Fund for the Improvement of Education, *U.S. Department of Education (ED)*, CFDA No. 84.215, Grant Agreements U215X030096, Q215E040418, V215L052108, S215L060084, V215L042114, and Q215E040418;

Twenty-First Century Community Learning Centers, *U.S. Department of Education (ED)*, Passed through the

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California Department of Education, CFDA No. 84.287, Grant Agreements 05-14349-6473-2A, 05-14349-6473-3A, and 06-14349-6473-1A;

State Grants for Innovative Programs, *U.S. Department of Education (ED)*, Passed through the California Department of Education, CFDA No. 84.298, Grant Agreement 1964733;

Education Technology State Grants, *U.S. Department of Education (ED)*, Passed through the California Department of Education, CFDA No. 84.318, Grant Agreement 2005/06-14368-6473-00;

Gaining Early awareness and Readiness for Undergraduate Programs (GEAR-UP); *U.S. Department of Education (ED)*, CFDA No. 84.334, Grant Agreements P334A000061-05, P334A050178-06 and P334A050205;

Reading First State Grants; *U.S. Department of Education (ED)*, Passed through the California Department of Education, CFDA No. 84.357, Grant Agreement 04-14328-6473-00;

English Language Acquisition Grants, *U.S. Department of Education (ED)*, Passed through the California Department of Education, CFDA No. 84.365, Grant Agreements 03-14346-6473-00 and 10084-6474-00;

Improving Teacher Quality State Grants, *U.S. Department of Education (ED)*, Passed through the California Department of Education, CFDA No. 84.367, Grant Agreement S367A020005A;

Child Care Cluster: Child Care and Development Block Grant (CFDA No. 93.575), Child Care Mandatory and Matching Funds of the Child Care and Development Fund (CFDA No. 93.596), *U.S. Department of Health and Human Services (HHS)*, Passed through the California Department of Education, Contract No. CCTR-6164, Project No. 19-6473-00-6

Compliance Requirement:

Equipment Management

State Audit Guide Finding Code:

20000, 30000, and 50000

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Criteria

Code of Federal Regulations, Title 34 – Education, Part 80 – *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* – Subpart C – Post – Award Requirements, Section 80.32, Equipment, Part (d):

- Management Requirement – Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:
 - (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
 - (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
 - (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.
 - (4) Adequate maintenance procedures must be developed to keep the property in good condition.
 - (5) If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.
- Disposition – When original or replacement equipment acquired under a grant or subgrant is no longer needed for the original project or program or for other activities currently or previously supported by a Federal agency, disposition of the equipment will be made as follows:
 - (1) Items of equipment with a current per-unit fair market value of less than \$5,000 may be retained, sold, or otherwise disposed of with no further obligation to the awarding agency.
 - (2) Items of equipment with a current per unit fair market value in excess of \$5,000 may be retained or sold, and the awarding agency shall have a right to an amount calculated by multiplying the current market value or proceeds from sale by the awarding agency's share of the equipment.
 - (3) In cases where a grantee or subgrantee fails to take appropriate disposition actions, the awarding agency may direct the grantee or subgrantee to take excess and disposition actions.

Condition

The District's policy over the Control of Site Equipment, issued March 15, 2006 (REF-2177.1), requires individual schools to perform an annual inventory and maintain a permanent inventory of equipment with an original acquisition value over \$500. These voluminous hard copy equipment inventories from over 1,000 District schools and centers are required to be sent to Local District Office with a copy then forwarded to the District office of the controller (i.e., accounting department). There is currently no process

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for the accounting department to reconcile these physical inventories to District property records since there is no central equipment records database to reconcile the site-level inventories. The District does maintain an Excel workbook for financial statement purposes, which meets the District's criteria for equipment capitalization in the general ledger for amounts over \$25,000. However, equipment between \$5,000 and \$24,999 does not appear to be adequately tracked, reconciled, and maintained in accordance with federal compliance guidelines.

Due to the current structure and decentralization of the District's current equipment inventory system, it was unable to provide a listing of equipment disposed of during the fiscal year that was acquired under Federal grant program. Therefore, we were unable to determine if any equipment disposals were subject to federal disposition compliance requirements.

Questioned Costs

Not applicable.

Recommendation

We recommend that the District consider implementing a more automated system of accounting for equipment inventory with a software program, which should have the capabilities to capture all equipment over the federal equipment threshold of \$5,000. These detailed equipment records should be used both by the District to reconcile its equipment recorded in the general ledger for financial reporting purposes and at the schools to support the accuracy and completeness of the school classroom inventory equipment inventory counts.

We also recommend the District strengthen its internal control policies and procedures to prevent loss or misappropriation of assets by developing some sort of sampling of the existence of its equipment and completeness of its records. Procedures to consider include selecting a sample of equipment acquired during the year and tracing it to the physical equipment at the school site, and selecting a sample of equipment acquired in a previous year but still maintained in the permanent inventory records and tracing it to the physical equipment at the school site.

We further recommend the District review the current equipment inventory and disposal policies and procedures and consider implementing a more automated system of accounting for equipment inventory software program, which should have the capabilities to capture all equipment over the federal equipment threshold of \$5,000. It should also have the ability to generate reports to detail annual equipment acquisitions and dispositions by federal program and by school site location.

The District should also issue an update to its control of site equipment policy to include additional language regarding equipment dispositions with an estimated fair market value of \$5,000 or more and create a notification/approval form to be sent from the schools to specially funded programs group at the District office for review and discussion with grant program personnel for possible communication with the program awarding agency for proceeds received or authorization to transfer equipment to a nonfederally funded program, as applicable.

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Views of Responsible Officials and Planned Corrective Actions

The District issued Policy Bulletin BUL-3508.1 on February 4, 2008 on Inventory for equipment purchased through categorical programs, which addressed, among others, the requirement to conduct physical check on categorical equipment (page 3, E.) every two years and the results must reconcile to the inventory records. The equipment record and reconciliation for categorically purchased equipment are kept in the school, the local district, and the specially funded branch office. A separate control of equipment for capitalization of equipment over \$25,000 is kept in the Controller's Office per Policy Bulletin BUL-953. We intend to submit an enhancement to a future release of SAP that would tie these inventory records together. The intent is to reduce paperwork as well as to consolidate the recordkeeping.

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Program Identification

Finding Reference Number:	F-07-11
Federal Catalog of Domestic Assistance Number:	10.558
Federal Program Title:	Child and Adult Care Food Program: <i>U.S. Department of Agriculture (USDA)</i>
Pass-Through Entity:	California Department of Education
Award Number:	Grant Agreement 19-2016-3A
Compliance Requirement:	Eligibility
State Audit Guide Finding Code:	30000

Criteria

Code of Federal Regulations, Title 7 – Agriculture, Chapter II – Food and Nutrition Service, Department of Agriculture, Part 226 – Child and Adult Care Food Program, Subpart E – Operational Provisions, (h) Verification of eligibility:

- Verification procedures for nonpricing programs. Except for sponsoring organizations of family day care homes, state agency verification procedures for nonpricing programs shall consist of a review of all approved free and reduced price applications on file. The review of applications shall ensure that:
 - (i) The application has been correctly and completely executed by the household;
 - (ii) The institution has correctly determined and classified the eligibility of enrolled participants for free or reduced-price meals or, for family day care homes, for tier I or tier II reimbursement, based on the information included on the application submitted by the household;
 - (iii) The institution has accurately reported to the state agency the number of enrolled participants meeting the criteria for free or reduced-price meal eligibility or, for day care homes, the

LOS ANGELES UNIFIED SCHOOL DISTRICT

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number of participants meeting the criteria for tier I reimbursement, and the number of enrolled participants that do not meet the eligibility criteria for those meal.

Condition

In our procedures performed over the annual eligibility survey for free and reduced-price meals, we traced the annual eligibility summary data (October participant survey) reported to the California Department of Education to supporting documentation of eligibility participation summary reports and participant applications to ascertain the accuracy of the data reported. In our sample of 50 schools, we noted 3 schools with categorization errors in summarizing the eligibility data to be reported.

- One school over reported free meals and under reported reduced-price meals by 1 student, in the total of 157 students reported.
- One school under reported free meals and over reported reduced-price meals by 1 student, in the total of 102 students reported.
- One school over reported reduced-price meals and under reported paid meals by 1 student, in the total of 149 total students reported.

Total students reported for the 2006 – 2007 school year were 13,537, of which 9,458 were for free meals, 1,414 for reduced-price meals, 475 for paid meals, 1,940 with no applications, and 250 eligible through Department of Public Social Services.

Cause and Effect

The errors were due to updates made to the eligibility status of the student but not carried forward onto the eligibility participation summary reports. There does not appear to be effective controls in place to ensure accuracy of adjustments made to reports.

Questioned Costs

Not applicable.

Recommendation

We recommend the District strengthen controls to ensure participant data is compiled and reported accurately.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with this finding. To correct this finding, changes have been made since 2006 – 2007 fiscal year, to the meal application process, as follows: automation of meal eligibility with implementation of new meal application eligibility software, scanning and automated verification of applications, system generated reports by school location to determine free/reduced percentage based on enrollment, and blended rate for the annual October Survey for the Child and Adult Care Food Program.

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Program Identification

Finding Reference Number:	F-07-12
Federal Catalog of Domestic Assistance Number:	84.334
Federal Program Title:	Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP), <i>U.S. Department of Education (ED)</i>
Pass-Through Entity:	Not Applicable
Award Number:	Grant Award Nos. P334A050178 and P334A05205
Compliance Requirement:	Matching
State Audit Guide Finding Code:	30000 and 50000

Criteria

Code of Federal Regulations – Title 34 – Education, Part 80 – *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* – Subpart C – Post-Award Requirements, Section 80.24, Matching or cost sharing.

- Records. Costs and third-party in-kind contributions counting toward satisfying a cost sharing or matching requirement must be verifiable from the records of grantees and subgrantee or cost-type contractors. These records must show how the value placed on third-party in-kind contributions was derived. To the extent feasible, volunteer services will be supported by the same methods that the organization uses to support the allocability of regular personnel costs.

Condition

In our procedures performed over matching contributions, we selected two grants that had reported matching expenditures totaling \$2,604,829 during the fiscal year and requested documentation to support the reported matched expenditure. The District was unable to provide documentation to support one grant with a reported match of \$861,345. For the other sampled grant with a reported match of \$1,743,484, the District provided a spreadsheet that exceeded the total reported match. We noted line items on the spreadsheet for expenditures such as plant managers and room use, which would generally be indirect cost types of expenditures.

We selected a sample of 25 expenditures from the spreadsheet totaling \$850,302 and requested documentation to support the amount and nature of the expenditure to ascertain the appropriateness of the reported match. We noted the District's supporting worksheet contains budgeted estimates and not actual expenditures, and the District was unable to provide any documentation to support the sampled items. Therefore, we could not trace to general ledger accounts to verify that (a) the matching funds budgeted were actually expended or (b) they were not used as direct or other matching support for other federally funded programs. We also noted expense items for plant managers and room use, which are usually indirect costs.

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Cause and Effect

The District prepares and reports budgeted amounts that it intends to use as matching expenditures; however, it does not compile the actual expenditure information to ensure that it has actually met the required match. There do not appear to be sufficient controls in place to ensure that actual amounts are compiled and reported to the federal awarding agencies.

Questioned Costs

\$850,302

Recommendation

We recommend the District develop procedures to capture District's matching expenditures and to report those actual matched amounts on the grant performance reports to the awarding agencies. We also recommend the supporting documentation for these matching contributions be retained for audit purposes.

Views of Responsible Officials and Planned Corrective Actions

The District disagrees with this finding. The value of the in-kind services contribution of the applicant organization and its partners represent time worked on GEAR-UP activities outside the regular assignments of the employees. This time is translated into dollar amounts based on the average hourly rate with benefits for each job classification contributing to in-kind services. However, they are credited toward satisfying the match requirement for GEAR-UP grants. The auditors were provided with personnel activity reports to document these expenditures.

Auditors Comment on Views of Responsible Officials and Planned Corrective Actions

The spreadsheet and supporting schedules provided to the auditors did not support the matching amounts claimed. The District's response indicates that all matching expenditures claimed were for in-kind services. However, through discussion with the District, we noted the amounts reported are a combination of District paid employees charged to other programs, after hours in-kind donated time, and estimates of items such as benefits and use of District owned facilities. Documentation to support each type of matched expenditure reported should be appropriately designed based on the type of matched expenditure claimed. Actual expenditures paid should be supported by the general ledger to demonstrate they were not claimed from another federally funded program. Estimates for use of District owned facilities should be supported with a reasonable basis on how the value was determined.

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Program Identification

Finding Reference Number:

F-07-13

Federal Program Title, Awarding Agency, Pass-Through Entity, Catalog of Federal Domestic Assistance (CFDA) Number, Award Number and Year:

Title I Grants to Local Educational Agencies: *U.S. Department of Education (ED)*, Passed through the California Department of Education, CFDA No. 84.010, Grant Agreement 06-14329-6473;

Vocational Education Basic Grants to States: *U.S. Department*

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of Education (ED), Passed through the California Department of Education, CFDA No. 84.048, Grant Agreements 06/07-13924-64733-00 and 06-13923-64733-00;

Safe and Drug-Free Schools and Communities, *U.S. Department of Education (ED)*, Passed through the California Department of Education, CFDA No. 84.186, Grant Agreement Q186A060005;

Fund for the Improvement of Education, *U.S. Department of Education (ED)*, CFDA No. 84.215, Grant Agreements Q215E060268, V215L042114, V215L052108, S215L060084, U215X030096, and Q215E040418;

Twenty-First Century Community Learning Centers, *U.S. Department of Education (ED)*, Passed through the California Department of Education, CFDA No. 84.287, Grant Agreements 05-14349-6473-2A, 05-14349-6473-3A, and 06-14349-6473-1A;

State Grants for Innovative Programs, *U.S. Department of Education (ED)*, Passed Through the California Department of Education, CFDA No. 84.298, Pass-Through Identification No. 1964733;

Education Technology State Grants, *U.S. Department of Education (ED)*, Passed through the California Department of Education, CFDA No. 84.318, Grant Agreements 05-14334-6473 and 2004-05-14332-6473;

Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP), *U.S. Department of Education (ED)*, CFDA No. 84.334, Grant Agreements P334A000061-05, P334A050178-06, and P334A050205;

Reading First State Grants; *U.S. Department of Education (ED)*, Passed through the California Department of Education, CFDA No. 84.357, Grant Agreement 04-14328-6473-00;

English Language Acquisition Grants, *U.S. Department of Education (ED)*, Passed through the California Department of Education, CFDA No. 84.365, Grant Agreements 03-14346-6473-00 and 10084-6474-00;

Improving Teacher Quality State Grants, *U.S. Department of Education (ED)*, Passed through the California Department of Education, CFDA No. 84.367, Grant Agreement S367A040005A

Compliance Requirement:

Level of Effort – Supplement not Supplant

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

State Audit Guide Finding Code: 50000

Criteria

United States Code-Title 20 – Education – Chapter 70 – Strengthening and Improvement of Elementary and Secondary Schools – Subchapter I – Improving the Academic Achievement of the Disadvantaged, Part A – Improving Basic Programs Operated by LEAs, Subpart I – Basic program requirements, Section 6321, Fiscal requirements, (b) Federal funds to supplement, not supplant, non-Federal funds:

- In general: A state educational agency or local educational agency shall use Federal funds received under this part only to supplement the funds that would, in the absence of such Federal funds, be made available from non-Federal sources for the education of pupils participating in programs assisted under this part, and not to supplant such funds.
- Exclusion of funds: For the purpose of complying with subsections (b) and (c) of this section, a state educational agency or local educational agency may exclude supplemental state or local funds expended in any school attendance area or school for programs that meet the intent and purposes of this part.

United States Code-Title 20 – Education – Chapter 70 – Strengthening and Improvement of Elementary and Secondary Schools, Subchapter I – Improving the Academic Achievement of the Disadvantaged, Part A – Improving Basic Programs Operated by LEAs, Subpart I – basic program requirements, Section 6314, schoolwide programs, (a) Use of funds for schoolwide programs, (B) Supplemental funds:

- A school participating in a schoolwide program shall use funds available to carry out this section only to supplement the amount of funds that would, in the absence of funds under this part, be made available from non-Federal sources for the school, including funds needed to provide services that are required by law for children with disabilities and children with limited English proficiency.

Condition

In our procedures performed to ascertain if any of the federal programs subject to nonsupplanting requirements had supplemented and not supplanted existing or required school expenditures, we obtained an analysis from the District, which included the total amounts of general fund expenditures that were expended at each of its school sites for the last two fiscal years to support that it had not decreased its general fund support to its schools. We noted approximately two-thirds of the District's schools qualified as schoolwide programs based on the student demographics; however, they are not operating any schoolwide programs.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

In our review of the analysis, we noted numerous individual schools that had decreased the amount of general fund expenditures from the prior year; however, in total the District had increased its total general fund expenditures for all schools by 5% from the prior year. We also noted a number of programs that had decreased their federal program expenditures from the prior fiscal year as noted in the table below:

CFDA	Federal program name	Program expenditures fiscal year ended June 30, 2007	Program expenditures fiscal year ended June 30, 2006	Increase (decrease)
84.010	Title 1 Grants to Local Educational Agencies	\$ 391,050,978	489,905,332	(20)%
84.048	Vocational Education Basic Grants to States	12,034,636	12,403,735	(3)
84.186	Safe and Drug Free Schools and Communities	4,379,461	3,706,068	18
84.215	Fund for the Improvement of Education	6,314,313	5,435,335	16
84.287	Twenty-First Century Community Learning Centers	8,264,360	26,846,440	(69)
84.298	State Grants for Innovative Programs	9,113,310	28,075,492	(68)
84.318	Education Technology State Grants	11,779,828	8,198,199	44
84.334	GEAR-UP	5,231,874	4,747,279	10
84.357	Reading First State Grants	39,929,480	43,388,514	(8)
84.365	English Language Acquisition Grants	46,077,245	27,152,452	70
84.367	Improving Teacher Quality State Grants	55,301,367	54,339,765	2
	Total	\$ 589,476,852	704,198,611	(16)%
Fund 1	General Fund School Expenditures	\$ 2,696,707,769	2,568,422,784	5%

In our samples of salary expenditures that were charged to these programs, we noted expenditures for positions, such as special education teachers, hearing impaired instructional aids, English teachers, bilingual Spanish teachers, etc., which appear to be required by specific laws. We also noted expenditures for positions, such as principals, assistant principals, administrative secretaries, plant managers, maintenance workers, etc.

Cause and Effect

There does not appear to be sufficient knowledge of documentation requirements to support its non-supplanting.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Questioned Costs

Not determined.

Recommendation

We recommend the District seek additional guidance from its cognizant agency or pass-through entity as how to better address documentation requirements to support that the District did not supplant by finding services that are required by law.

Views of Responsible Officials and Planned Connective Actions

The District disagrees with the finding. As noted by the auditors, the District provided analysis that shows that District is not supplanting general fund with federal money. Further, the District monitors expenditures with applicable federal rules and regulations to ensure that expenditures are appropriately incurred to supplement, not supplant, the federal programs.

* * * * *

Program Identification

Finding Reference Number:	F-07-14
Federal Program Title, Awarding Agency, Pass-Through Entity, Catalog of Federal Domestic Assistance (CFDA) Number, Award Number and Year:	State Grants for Innovative Programs, <i>U.S. Department of Education</i> , Passed through the California Department of Education, CFDA No. 84.298, Pass-Through Identification 1964733; Education Technology State Grants, <i>U.S. Department of Education (ED)</i> , Passed through the California Department of Education, CFDA No. 84.318, Grant Agreements 05-14334-6473 and 2004-05-14332-6473
Compliance Requirement:	Earmarking – Transferability
State Audit Guide Finding Code:	30000 and 50000

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Criteria

United States Code, Title 20 – Education, Chapter 70 – Strengthening And Improvement of Elementary and Secondary Schools, Subchapter VI – Flexibility and Accountability, Part A – Improving Academic Achievement, subpart 2 – Funding Transferability for state and local educational agencies, Section 7305b, Transferability of funds, (b) Transfers by local educational agencies, (1) Authority to transfer funds, (B) Agencies identified for improvement:

- In accordance with this subpart, a local educational agency identified for improvement under Section 6316(c) of this title may transfer not more than 30% of the funds allocated to it (including funds transferred under subparagraph (C)) under each of the provisions listed in paragraph (2) for a fiscal year:
 - (i) to its allocation for school improvement for such fiscal year under Section 6303 of this title; or
 - (ii) to any other allocation for such fiscal year if such transferred funds are used only for local educational agency improvement activities consistent with Section 6316(c) of this title.

Condition

In our procedures performed over transferability provisions of No Child Left Behind, we reviewed the District's consolidated application for amounts that were transferred between its eligible programs. We noted the transfer made from the Education Technology Program to the Innovative Grant Program, which exceeded the allowable limit for a District identified for improvement. The District performs these transfers under the transferability provisions between the programs as payments are received. It received \$2,494,614 for the Education Technology program on January 22, 2007 and of that amount it transferred \$730,089 to the Innovative Grant Program, which was approximately 50%. Since it is a district identified for improvement, the maximum allowable transfer of 30% would have been \$448,384; thus, the transfer exceeded the maximum allowable amount by \$281,705.

Cause and Effect

There does not appear to be effective communication of the reduced transferability limitations due to the District's improvement status or appropriately designed controls to ensure the District does not exceed its 30% limitation.

Questioned Costs

\$281,705 that exceeded the maximum allowable transferable limit.

Recommendation

We recommend the District ensure transferability limitations based on the District's improvement status are effectively communicated to all applicable employees and appropriate controls are in place to ensure that federal limitations are not exceed.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Views of Responsible Officials and Planned Corrective Actions

The District agrees with this finding. In future, we will verify at the end of the year if total transfers fall within the 30% allowed taking into account allocations made within the fiscal year.

* * * * *

Program Identification

Finding Reference Number:	F-07-15
Federal Program Title, Awarding Agency, Pass-Through Entity, Catalog of Federal Domestic Assistance (CFDA) Number, Award Number and Year:	<p>Vocational Education Basic Grants to States: <i>U.S. Department of Education (ED)</i>, Passed through the California Department of Education, CFDA No. 84.048, Grant Agreements 06/07-13924-64733-00 and 13923-64733-00;</p> <p>Twenty-First Century Community Learning Centers, <i>U.S. Department of Education (ED)</i> Passed through the California Department of Education, CFDA No. 84.287, Grant Agreement;</p> <p>Reading First State Grants, <i>U.S. Department of Education (ED)</i>, Passed through the California Department of Education, CFDA No. 84.357, Grant Agreement 04-14328-6473-00</p>
Compliance Requirement:	Earmarking – Administration
State Audit Guide Finding Code:	30000 and 50000

Criteria

United States Code Title 20 – Education, Chapter 44 – Vocational and Technical Education, Subchapter I – Vocational and Technical Education Assistance to the States, Part C – Local Provisions, Section 2355, Local uses of funds, d) Administrative costs:

- Each eligible recipient receiving funds under this part shall not use more than 5% of the funds for administrative costs associated with the administration of activities assisted under this section.

California Department of Education (CDE), *21st Century Community Learning Centers Program Budget and Information Packet*, After School Partnerships Office, October 2005, Budget Information, Administrative and Indirect Costs:

- No more than 15% of paid grant funds may be used for administrative costs each year. Indirect costs are included in administrative costs, and cannot exceed an agency's CDE-approved indirect cost rate or 5%, whichever is less.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

United States Code – Title 20 – Education, Chapter 70 – Strengthening and Improvement of Elementary and Secondary Schools, Subchapter I– Improving the Academic Achievement of the Disadvantaged, Part B – Student Reading Skills Improvement Grants, subpart 1 – Reading first, Section 6362, Formula grants to State educational agencies, (c) Subgrants to local educational agencies, (8) Local planning and administration:

- An eligible local educational agency that receives a subgrant under this subsection may use not more than 3.5% of the funds provided under the subgrant for planning and administration.

Condition

Vocational Education Basic Grants to States: In our review of the documentation provided to support that the District did not exceed its 5% administrative earmarking limitation for the program, we noted the following errors or omissions in the documentation:

- The District reports and claims total expenditures on the California Department of Education (CDE) 101-A report, which indicated the only administration expenditures claimed for the fiscal year ended June 30, 2007 was the 3.51% allowable indirect costs with no other administrative costs reported.
- Through our discussions with the District and review of expenditures, we noted other District office expenditures that would be administrative in nature (i.e., salaries, benefits and other costs for program director and staff) incurred to administer the program that should also be included in the total administrative expenditures. The administrative expenditures reported appear to be understated, and we are unable to ascertain the complete understated amount.

Total direct program expenditures (not including indirect costs) for the fiscal year were \$11,629,610 of which 5% would amount to \$581,480. The general ledger indicated \$405,026 was recorded for indirect costs; however, we were unable to ascertain if no more than \$176,454 was expended on additional District administration costs during the fiscal year ended June 30, 2007.

Twenty-First Century Community Learning Centers: In our review of the documentation provided to support that the District did not exceed its 15% administrative earmarking limitation for the program, we noted the following errors or omissions in the documentation:

- The District does not record administrative expenditures in separate general ledger accounts from the direct program expenditures. The District was unable to provide documentation so that an assessment could be made on the current fiscal year expenditures for the year ended June 30, 2007.
- The District calculated the total available for administrative purposes by taking 15% of the total awarded amounts of 2005 – 2006 and 2006 – 2007; however, by using the total award budget of \$17.8 million instead of the actual expenditures of \$15.4 million, the District would be overstating the maximum allowable administration by approximately \$357,000 due to the underspending of the grant budget.
- The District was unable to break down the administrative (including indirect costs) and direct program costs for its subrecipient agencies for the first two quarters of the fiscal year; therefore, they charged 100% of those costs as direct costs. Since the District was unable to produce that amount, we were unable to ascertain the total not included in the earmarking calculation.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

- The District expends program funds for a not-for-profit organization to perform some programmatic services in addition to consulting services to assist with the implementation and administration of the programs. The calculation of the administrative cost earmarking limit should include the administrative consulting costs paid to the not-for-profit organization. Since the not-for-profit organization does not provide information or documentation to support the break down of administrative expenditures, we were unable to ascertain the total that may not be included in the earmarking calculation.
- We also noted 3 employees that were being charged as direct costs that would appear to be more administrative/indirect costs. The job titles for these employees included a building and grounds worker and two plant managers. These misclassifications of direct costs would understate the actual administrative costs.

Total direct program expenditures (not including indirect costs) for the fiscal year were \$7,984,880 of which 15% would amount to \$1,197,732. The general ledger indicated \$279,480 was recorded for indirect costs; however, we were unable to ascertain if no more than \$918,252 was expended on additional District administration costs during the fiscal year ended June 30, 2007.

Reading First State Grants: In our review of the documentation provided to support that the District did not exceed its 3.5% administrative earmarking limitation for the program, we noted the following errors or omissions in the documentation:

- The District reports and claims total expenditures on the California Department of Education (CDE) on the Expenditure Detail Report/Budget Revision Reports, which indicate that the District is claiming the entire 3.5% allowable administration costs for its indirect costs of \$1,350,272.
- Through our discussions with the District and review of expenditure information, we noted other District office expenditures that would be administrative in nature (i.e., salaries, benefits, and other costs for Reading First office personnel, including coordinators, secretaries, and the director) incurred to administer the program, which should also be included in the total administrative expenditures. Since the District had already claimed approximately 100% of its administrative expenditures for indirect costs, these additional expenditures would appear to cause the District to exceed its earmarking limitation for the fiscal year ended June 30, 2007.

Total direct program expenditures (not including indirect costs) for the fiscal year were \$38,579,208 of which 3.5% would amount to \$1,350,272. The general ledger indicated \$1,350,272 was recorded for indirect costs; however, we were unable to ascertain the amount that was expended on additional District administration costs, which would exceed the allowable administrative costs during the fiscal year ended June 30, 2007.

Cause and Effect

There do not appear to be appropriate designed policies and procedures in place to ensure the accurate accumulation of information and calculation of the administrative expenditures to ensure that the District complies with its administrative earmarks.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Questioned Costs

Not determined.

Recommendation

We recommend the District strengthen policies and procedures to ensure that administrative costs are appropriate computed and not charged over the allowable maximum.

Views of Responsible Officials and Planned Corrective Actions

The District disagrees with the finding. The District is properly accounting for costs and appropriate expenses to the programs. However, the District will review opportunities to develop a distinct identifier to properly attribute allowable direct costs and allowable administrative costs.

Auditors Comment on Views of Responsible Officials and Planned Corrective Actions

Information supporting amounts claimed was not provided to the auditors by District personnel.

* * * * *

Program Identification

Finding Reference Number:	F-07-16
Federal Program Title, Awarding Agency, Pass-Through Entity, CFDA Number, Award Number:	Safe and Drug-Free Schools and Communities, <i>U.S. Department of Education (ED)</i> , Passed through the California Department of Education, CFDA No. 84.186, Grant Agreement Q186A060005; English Language Acquisition Grants, <i>U.S. Department of Education (ED)</i> , Passed through the California Department of Education, CFDA No. 84.365, Grant Agreements 03-14346-6473-00 and 10084-6474-00
Compliance Requirement:	Earmarking – Administration
State Audit Guide Finding Code:	30000 and 50000

Criteria

United States Code – Title 20 – Education, Chapter 70 – Strengthening and Improvement of Elementary and Secondary Schools, Subchapter IV – Twenty-First Century Schools, Part A – Safe and Drug-Free Schools and Communities, subpart 1 – state grants, Section 7114, local educational agency program:

- (a)(2) Administrative costs – Of the amount received under paragraph (1), a local educational agency may use not more than 2% for the administrative costs of carrying out its responsibilities under this subpart.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

United States Code – Title 20 – Education, Chapter 70 – Strengthening and Improvement of Elementary and Secondary Schools, Subchapter III – Language Instruction For Limited English Proficient and Immigrant Students, Part A-English Language Acquisition, Language Enhancement, and Academic Achievement Act, Subpart 1 – grants and subgrants for English language acquisition and language enhancement, Section 6825, Subgrants to eligible entities:

- (b) Administrative expenses – Each eligible entity receiving funds under Section 6824(a) of this title for a fiscal year may use not more than 2% of such funds for the cost of administering this subpart.

Condition

Safe and Drug-Free Schools and Communities: During procedures performed over program earmarking requirements, we noted that the District had claimed over the program administrative expenditures limit of 2% for the year.

- The District's policy for claiming administrative costs included both the program administrative costs plus the indirect cost rate of 3.51%. The total direct program expenditures (not including indirect costs) for the fiscal year ended June 30, 2007 were \$4,230,954 of which 2.00% would amount to \$84,619; however, the District had claimed \$148,507 of administrative expenditures to the program.
- Through our discussions with the District and review of budget and expenditure information, we noted other District office expenditures that would be administrative in nature (i.e., salaries, benefits, and other costs for Health Education office personnel, including facilitators, advisors, and the director) incurred to administer the program that should be included in the total administrative expenditures. Since the District had already claimed approximately over 100% of its administrative expenditures for indirect costs, these additional expenditures would appear to cause the District to further exceed its earmarking limitation for the fiscal year ended June 30, 2007; however, since the District was unable to provide the actual additional administrative costs, we are unable to determine the additional amount that it exceeded the administrative cap.

English Language Acquisition Grants: During procedures performed over program earmarking requirements, we noted that the District had claimed in excess of the program administrative expenditures limit of 2% for the year.

- The District's policy for claiming administrative costs included both the program administrative costs plus the indirect cost rate of 3.51%. The total direct program expenditures (not including indirect costs) for the fiscal year ended June 30, 2007 were \$44,814,777 of which 2.00% would amount to \$896,296; however, the District had claimed \$1,944,227 of centralized services administrative expenditures plus \$1,562,469 of indirect costs to the program.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Cause and Effect

Based on guidance provided by the California Department of Education, the District believed that it was entitled to both administrative costs plus its indirect cost rate. However, federal regulations indicate that indirect costs are included in the total allowable administrative costs.

Questioned Costs

\$2,674,288 (see summary below):

- Safe and Drug-Free Schools and Communities: \$63,888 (known amounts only) (\$84,619 allowable – \$148,507 claimed)
- English Language Acquisition Grants: \$2,610,400 (known amounts only) (\$896,296 allowable – \$1,944,227 claimed – \$1,562,469 indirect costs).

Recommendation

We recommend the District strengthen its policies and procedures to ensure that administrative costs are appropriately computed and not charged over the allowable maximum.

Views of Responsible Officials and Planned Corrective Actions

The District disagrees with this finding. The California Department of Education has provided guidance that indicates that the District may charge indirect costs PLUS 2% administrative costs. The District is in full compliance with this guidance.

Auditors Comment on Views of Responsible Officials and Planned Corrective Actions

We are performing an audit of compliance with Federal requirements, which provide for no more than 2% of funds to be used for administration.

* * * * *

Program Identification

Finding Reference Number:	F-07-17
Federal Catalog of Domestic Assistance Number(s):	84.318
Federal Program Titles:	Education Technology State Grants, <i>U.S. Department of Education (ED)</i>
Pass-Through Entity:	California Department of Education
Award Number:	Grant Award No. 2005-06-14368 and 05-14334-6473
Compliance Requirement:	Earmarking – Professional development
State Audit Guide Finding Code:	30000 and 50000

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Criteria

United States Code – Title 20 – Education, Chapter 70 – Strengthening and Improvement of Elementary and Secondary Schools Subchapter II – Preparing, Training, and Recruiting High Quality Teachers and Principals, Part D – Enhancing Education Through Technology, Subpart 1 – State and Local Technology Grants, Section 6766, Local activities, (a) Professional development:

- A recipient of funds made available under Section 6762(a)(2) of this title shall use not less than 25% of such funds to provide ongoing, sustained, and intensive, high-quality professional development. The recipient shall provide professional development in the integration of advanced technologies, including emerging technologies, into curricula and instruction and in using those technologies to create new learning environments, such as professional development in the use of technology:
 - (a) to access data and resources to develop curricula and instructional materials;
 - (b) to enable teachers:
 - (i) to use the Internet and other technology to communicate with parents, other teachers, principals, and administrators; and
 - (ii) to retrieve Internet-based learning resources; and
 - (c) to lead to improvements in classroom instruction in the core academic subjects, that effectively prepare students to meet challenging state academic content standards, including increasing student technology literacy, and student academic achievement standards.

Condition

In our procedures performed over earmarking requirements for two grants, we noted the District's calculations of the percentage of total expenditures used for professional development to be 42% and 28%, which appear to exceed the minimum 25% requirement. The District manually tracked professional development expenditures on a spreadsheet used to compile the amounts reported. To test the accuracy of those amounts reported, we selected 50 expenditures included on the supporting spreadsheet and requested to review documentation to support the amount and nature of the expenditure. In our sample of 50 reported professional development expenditures, we noted the following exceptions:

- 4 sampled expenditures totaling \$2,666 were for teachers' stipends that should have been charged to another program, thus not eligible for professional development.
- 12 sampled expenditures totaling \$39,409 where the District was unable to provide sufficient documentation to support the nature and/or amount of the expenditure.

Total exceptions amounted to \$42,075 of the \$626,631 sampled from the expenditures reported as professional development for the two grants tested, which totaled \$4,377,581 of professional development from the final expenditure reports.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Cause and Effect

There do not appear to be sufficient monitoring controls over the manual spreadsheet used to compile the expenditures that are being used to support the District's compliance with the 25% professional development earmark.

Questioned Costs

Undetermined.

Recommendation

We recommend the District strengthen controls to ensure that only allowable expenditures are reported as professional development and that all documentation required to support the amounts claimed is maintained and available for audit.

Views of Responsible Officials and Planned Corrective Actions

The District partially agrees with this finding. The District agrees that the stipend amounts should not be included in the professional development earmark. However, the other charges were appropriately included in the earmarking calculations. The District will review the controls and procedures regarding transactions included in the spreadsheet for the professional development earmark.

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LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Program Identification

Finding Reference Number:	F-07-18
Federal Program Title, Awarding Agency, Pass-Through Entity, Catalog of Federal Domestic Assistance (CFDA) Number, Award Number and Year:	<p>Title I Grants to Local Educational Agencies: <i>U.S. Department of Education (ED)</i>, Passed through the California Department of Education, CFDA No. 84.010, Grant Agreement 06-14329-6473;</p> <p>Special Education Cluster: Grants to States, Preschool Grants; <i>U.S. Department of Education</i>, Passed through the California Department of Education, CFDA Nos. 84.027 and 84.173, Grant Agreements 06-13430-6473-01, 06-13682-6473-01, 06-23761-6473-01, and 06-13379-6473-01;</p> <p>Safe and Drug-Free Schools and Communities, <i>U.S. Department of Education (ED)</i>, Passed through the California Department of Education, CFDA No. 84.186, Grant Agreement Q186A060005;</p> <p>State Grants for Innovative Programs, <i>U.S. Department of Education (ED)</i>, Passed Through the California Department of Education, CFDA No. 84.298, Pass-Through Identification No. 1964733;</p> <p>English Language Acquisition Grants, <i>U.S. Department of Education (ED)</i>, Passed through the California Department of Education, CFDA No. 84.365, Grant Agreements 03-14346-6473-00 and 10084-6474-00;</p> <p>Improving Teacher Quality State Grants, <i>U.S. Department of Education (ED)</i>, Passed through the California Department of Education, CFDA No. 84.367, Grant Agreement S367A040005A</p>
Compliance Requirement:	Period of availability
State Audit Guide Finding Code:	30000 and 50000

Criteria

Code of Federal Regulations Title 34 – Education, Part 80 – *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* – Subpart C – Post-Award Requirements, Section 80.23, Period of availability of funds:

- General: Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case, the carryover balances may be charged for costs resulting from obligations of the subsequent funding period.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

- Liquidation of obligations: A grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation) to coincide with the submission of the annual Financial Status Report (SF-269). The federal agency may extend this deadline at the request of the grantee.

State of California Department of Education, Special Education Division, *Authorized Expenditures and Accountability 2006 – 2007*, Part H – On What Date Must Federal Funds be “Expended or Legally Obligated”?

- All federal funds issued through the Special Education Division for the fiscal year 2006 – 2007 must be expended or legally obligated by June 30, 2007. Any funds that have not been expended or legally obligated by that date must be returned to the state. Outstanding obligations must be liquidated within one year following the end of the grant period.

Condition

Title I Grants to Local Educational Agencies: The District combined the expenditures for the two grant awards open during the fiscal year into one program account; therefore, we were unable to determine which specific expenditures were applied to which grant award to perform tests of accuracy of those allocations. The 2005 – 2006 grant has a period of availability from July 1, 2005 to September 30, 2007 and the 2006 – 2007 grant from July 1, 2006 to September 30, 2008. These grants have overlapping periods of availability during the fiscal year due to No Child Left Behind (NCLB) carryover provisions. According to Part II of their 2006 – 2007 Consolidated Application, the District had carried over \$54,344,362 from its fiscal year 2005 – 2006 grant. Using the District’s first-in-first-out (FIFO) methodology, \$336,706,617 would have been expended from its fiscal year 2006 – 2007 grant. We were unable to assess the appropriateness of these allocations.

The program cannot carry over more than 15% of its Title I expenditures beyond the initial 15 months of availability. However, since the grants for each year are commingled into the one program account, we were unable to ascertain the appropriateness of allocations made to various grant award years.

Special Education Cluster: The District combined the expenditures for the two grant awards open during the fiscal year into one program account; therefore, we were unable to determine which specific expenditures were applied to which grant award to perform tests of accuracy of those allocations. The 2005 – 2006 grant has a period of availability from July 1, 2005 to September 30, 2006 and the 2006 – 2007 grant from July 1, 2006 to September 30, 2007. These grants have overlapping periods of availability for three months during the fiscal year. The District manually allocates the expenditures between the two overlapping periods. The supplemental information provided with the grant agreement indicates that separate accounting be kept for each grant awards; however, the District has not opened separate accounts for each grant award agreement for each award year to ensure that transactions are not commingled with subsequent year federal funds.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

In the sample of 50 expenditures, we noted the following exceptions:

- 5 sampled expenditures totaling \$158,260 that were obligated in May 2005, with services provided in June and July 2006; however, these expenditures were not liquidated until August and September of 2006, which is past the deadline of June 30, 2006 for special education funds obligated for 2004 – 2005.
- 9 expenditures sampled totaling \$237,605 where the District was unable to provide sufficient documentation.
- 2 samples where there was no evidence of review and approval of the expenditure charged to the program.

Total exceptions amounted to \$495,865 of the \$845,582 sampled from the \$136,974,283 total program expenditures for the fiscal year ended June 30, 2007.

Safe and Drug-Free Schools and Communities: The District combined the expenditures for the two grant awards open during the fiscal year into one program account; therefore, we were unable to determine which specific expenditures were applied to which grant award to perform tests of accuracy of those allocations. The 2005 – 2006 grant has a period of availability from July 1, 2005 to September 30, 2007 and the 2006 – 2007 grant from July 1, 2006 to September 30, 2008. These grants have overlapping periods of availability during the fiscal year due to No Child Left Behind (NCLB) carryover provisions. According to Part II of their 2006 – 2007 Consolidated Application, the District had carried over \$1,782,232 from its fiscal year 2005 – 2006 grant. Using the District's FIFO methodology, \$2,597,229 would have been expended from its fiscal year 2006 – 2007 grant. We were unable to assess the appropriateness of these allocations.

The program cannot carry over more than 25% of its expenditures beyond the initial 15 months of availability. However, since the grants for each year are commingled into the one program account, we were unable to ascertain the appropriateness of allocations made to various grant award years.

State Grants for Innovative Programs: The District combined the expenditures for the two grant awards open during the fiscal year into one program account; therefore, we were unable to determine which specific expenditures were applied to which grant award to perform tests of accuracy of those allocations. The 2005 – 2006 grant has a period of availability from July 1, 2005 to September 30, 2007 and the 2006 – 2007 grant from July 1, 2006 to September 30, 2008. These grants have overlapping periods of availability during the fiscal year due to NCLB carryover provisions. According to Part II of its 2006 – 2007 Consolidated Application, the District had carried over \$5,943,578 from its fiscal year 2005 – 2006 grant. Using the District's FIFO methodology, \$3,169,732 would have been expended from its fiscal year 2006 – 2007 grant. We were unable to assess the appropriateness of these allocations.

English Language Acquisition: The District combined the expenditures for the two grant awards open during the fiscal year into one program account; therefore, we were unable to determine which specific expenditures were applied to which grant award to perform tests of accuracy of those allocations. The 2005 – 2006 grant has a period of availability from July 1, 2005 to September 30, 2007 and the 2006 – 2007 grant from July 1, 2006 to September 30, 2008. These grants have overlapping periods of availability during the fiscal year due to NCLB carryover provisions. According to Part II of 2006 – 2007 its

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Consolidated Application, the District had carried over \$31,415,608 from its fiscal year 2005 – 2006 grant. Using the District’s FIFO methodology, \$14,661,637 would have been expended from its fiscal year 2006 – 2007 grant. We were unable to assess the appropriateness of these allocations.

Improving Teacher Quality State Grants: The District combined the expenditures for the two grant awards open during the fiscal year into one program account; therefore, we were unable to determine which specific expenditures were applied to which grant award to perform tests of accuracy of those allocations. The 2005 – 2006 grant has a period of availability from July 1, 2005 to September 30, 2007 and the 2006 – 2007 grant from July 1, 2006 to September 30, 2008. These grants have overlapping periods of availability during the fiscal year due to NCLB carryover provisions. According to Part II of its 2006 – 2007 its Consolidated Application, the District had carried over \$1,898,475 from its fiscal year 2005 – 2006 grant. Using the District’s FIFO methodology, \$53,402,892 would have been expended from its fiscal year 2006 – 2007 grant. We were unable to assess the appropriateness of these allocations.

Cause and Effect

Through discussions with District’s accounting personnel, we noted that new project/program codes are not established for reoccurring grant awards (i.e., entitlements, formula grants, etc.) for each grant award year where the District is expected to receive funding in the subsequent year. Thus, funding is commingled from multiple award years in the general ledger. By not using separate project/program codes each year, there is no clear cutoff of expenditures being charged in specific award year or budget period, which increases the risk that the District could charge expenditures to the incorrect period, claim the expenditures against two different awards in overlapping periods, or not liquidate the funds within the required time period. The District prepares manual reconciliations between the award years, but there was no evidence that these are reviewed and approved in many instances.

We also noted the District had previously established some automated budget controls over nonrecurring grants, where they established separate project/program codes for each grant. The project/program codes were not closed due to the extended closing period caused by a new accounting system implementation, which allowed some expenditures to be charged after the grant-end date.

Questioned Costs

Not applicable.

Recommendation

We recommend the District establish separate program/project codes for each grant award for each award year to ensure that reported program expenditures for each grant award year can be appropriately supported by the general ledger for each grant award. We also recommend the District reestablish its automated controls over posting to grant awards to ensure that expenditures are not inadvertently posted to a closed award. We further recommend the District strengthen controls over its monitoring of outstanding obligations to ensure that they are liquidated within the required periods in accordance with federal program requirements.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the findings. However, the District's current practices are adequate to report federal expenditures by year of grant award. In addition, a request will be submitted to BTS/SAP to have the ability to post accounting transactions to the appropriate fiscal/grant year.

* * * * *

Program Identification

Finding Reference Number:

F-07-19

Federal Program Title, Awarding Agency, Pass-Through Entity, Catalog of Federal Domestic Assistance (CFDA) Number, Award Number and Year:

Vocational Education Basic Grants to States: *U.S. Department of Education (ED)*, Passed through the California Department of Education, CFDA No. 84.048, Grant Agreements 06/07-13924-64733-00 and 06-13923-64733-00;

Twenty-First Century Community Learning Centers, *U.S. Department of Education (ED)*, Passed through the California Department of Education, CFDA No. 84.287, Grant Agreements 05-14349-6473-2A, 05-14349-6473-3A and 06-14349-6473-1A;

Education Technology State Grants, *U.S. Department of Education (ED)*, Passed through the California Department of Education, CFDA No. 84.318, Grant Agreement 2005/06-14368-6473-00;

Reading First State Grants; *U.S. Department of Education (ED)*, Passed through the California Department of Education, CFDA No. 84.357, Grant Agreement 04-14328-6473-00;

Child Care and Development Fund: Child Care and Development Block Grant, Child Care Mandatory and Matching Funds of the Child Care and Development Fund; *U.S. Department of Health and Human Services*, Passed through the California Department of Education, CFDA Nos. 93.575 and 93.596, Contract CCTR-6164

Compliance Requirement:

Period of Availability

State Audit Guide Finding Code:

30000 and 50000

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Criteria

Code of Federal Regulations Title 34 – Education, Part 80 – *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* – Subpart C – Post-Award Requirements, Section 80.23, Period of availability of funds:

- General: Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case, the carryover balances may be charged for costs resulting from obligations of the subsequent funding period.
- Liquidation of obligations: A grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation) to coincide with the submission of the annual Financial Status Report (SF-269). The federal agency may extend this deadline at the request of the grantee.

Code of Federal Regulations Title 45 – Public Welfare and Human Services, Part 98 – Child Care and Development Fund, Subpart G – Financial Management, Section 98.60 – Availability of funds:

- The following obligation and liquidation provisions apply to states and territories:
 - (2)(i) Mandatory Funds for States requesting Matching Funds per Section 98.53 shall be obligated in the fiscal year in which the funds are granted and are available until expended.

Vocational Education Basic Grants to States: In the sample of 50 expenditures, we noted the following exceptions:

- 1 expenditure for \$370 paid for services performed in August 2006 that was charged to a grant with a service period ended June 30, 2006.
- 3 expenditures totaling \$11,090 that paid 102 days, 108 days, and 203 days after the end of the grant award period of June 30, 2006, which was past the 90-day liquidation period.

Total exceptions amounted to \$11,460 of the \$843,511 sampled from the \$12,034,636 total program expenditures for the fiscal year ended June 30, 2007.

Twenty-First Century Community Learning Centers: In the sample of 50 expenditures, we noted the following exceptions:

- 6 expenditures totaling \$55,082 where the District was unable to provide documentation to support the service period to determine whether the expense was incurred in the proper period.
- 3 expenditures totaling \$139,905 for services performed in June 2006 and July 2005 through April 2006 that were charged to a grant with a service period beginning July 1, 2006.

Total exceptions amounted to \$194,987 of the \$1,079,057 sampled from the \$8,264,360 total program expenditures for the fiscal year ended June 30, 2007.

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Education Technology State Grants: In the sample of 51 expenditures, we noted the following exceptions:

- 1 expenditure for \$2,533 that was incurred in September 2006; however, the grant award period ended August 31, 2006.

Total exceptions amounted to \$2,533 of the \$2,404,128 sampled from the \$11,779,828 total program expenditures for the fiscal year ended June 30, 2007.

Reading First State Grants: In the sample of 50 expenditures, we noted the following exceptions:

- 1 expenditure for \$500 for a teacher stipend for services performed in June 2006 was charged to a grant with a service period beginning July 1, 2006.
- 2 expenditures totaling \$1,500,638 where the District was unable to provide documentation to support the service period to determine whether the expense was incurred in the proper period.
- 4 expenditures totaling \$3,149,222 that were accrued as of the fiscal year ended June 30, 2007; however, they were still unpaid 11 months after year-end. This would take them past the 90-day liquidation period after the end of the grant award periods of September 30, 2006 and August 31, 2007.

Total exceptions amounted to \$4,650,360 of the \$9,648,120 sampled from the \$39,929,480 total program expenditures for the fiscal year ended June 30, 2007.

Child Care and Development Fund: In the sample of 50 expenditures, we noted the following exceptions:

- 2 expenditures totaling \$1,978 for services performed in July 2005 through April 2006 that were charged to a grant with a service period beginning July 1, 2006.

Total exceptions amounted to \$1,978 of the \$154,381 sampled from the \$15,447,303 total program expenditures for the fiscal year ended June 30, 2007.

Cause and Effect

Through discussions with District accounting personnel, we noted that new project/program codes are not established for reoccurring grant awards (i.e., entitlements, formula grants, etc.) for each grant award year where the District is expected to receive funding in the subsequent year. Thus, funding is commingled from multiple award years in the general ledger. By not using separate project/program codes each year, there is no clear cutoff of expenditures being charged in specific award year or budget period, which increases the risk that the District could charge expenditures to the incorrect period, claim the expenditures against two different awards in overlapping periods, or not liquidate the funds within the required time period. The District prepares manual reconciliations between the award years, but there was no evidence that these are reviewed and approved in many instances.

We also noted the District had previously established some automated budget controls over nonrecurring grants, where they established separate project/program codes for each grant. The project/program codes

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Schedule of Findings and Questioned Costs

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were not closed due to the extended closing period caused by a new accounting system implementation, which allowed some expenditure to be charged after the grant-end date.

Questioned Costs

Not applicable.

Recommendation

We recommend the District establish separate program/project codes for each grant award for each award year to ensure that reported program expenditures for each grant award year can be appropriately supported by the general ledger for each grant award. We also recommend the District reestablish its automated controls over posting to grant awards to ensure that expenditures are not inadvertently posted to a closed award. We further recommend the District strengthen controls over its monitoring of outstanding obligations to ensure that they are liquidated within the required periods in accordance with federal program requirements.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the findings. However, the District's current practices are adequate to report federal expenditures by year of grant award. In addition, a request will be submitted to BTS/SAP to have the ability to post accounting transactions to the appropriate fiscal/grant year.

* * * * *

Program Identification

Finding Reference Number:

F-07-20

Federal Program Title, Awarding Agency, Pass-Through Entity, CFDA Number, Award Number:

Food Stamp Cluster: State Administrative Matching Grants for Food Stamp Program: *U.S. Department of Agriculture (USDA)*, Passed through the California Department of Health Services, CFDA No. 10.561, Grant Agreement 04-35450;

Child Nutrition Cluster: School Breakfast Program, National School Lunch Program, Summer Food Service Program for Children: *U.S. Department of Agriculture (USDA)*, Passed through the California Department of Education, CFDA Nos. 10.553, 10.555, and 10.559, Grant Agreement 19-64733-0000000-01;

Child and Adult Care Food Program: *U.S. Department of Agriculture (USDA)*, Passed through the California Department of Education, CFDA No. 10.558, Grant Agreement 19-2016-3A;

Title I Grants to Local Educational Agencies: *U.S. Department of Education (ED)*, Passed through the California Department of Education, CFDA No. 84.010, Grant Agreement 06-14329-6473;

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Special Education Cluster: Grants to States, Preschool Grants; *U.S. Department of Education (ED)*, Passed through the California Department of Education, CFDA Nos. 84.027 and 84.173, Grant Agreements 06-13430-6473-01, 06-13682-6473-01, 06-23761-6473-01 and 06-13379-6473-01;

Vocational Education Basic Grants to States: *U.S. Department of Education (ED)*, Passed through the California Department of Education, CFDA No. 84.048, Grant Agreements 06/07-13924-64733-00 and 06-13923-64733-00;

Safe and Drug Free Schools and Communities, *U.S. Department of Education (ED)*, Passed through the California Department of Education, CFDA No. 84.186, Grant Agreement Q186A060005;

Twenty-First Century Community Learning Centers, *U.S. Department of Education (ED)*, Passed through the California Department of Education, CFDA No. 84.287, Grant Agreements 05-14349-6473-2A, 05-14349-6473-3A and 06-14349-6473-1A;

State Grants for Innovative Programs, *U.S. Department of Education (ED)*, Passed Through the California Department of Education, CFDA No. 84.298, Pass-Through Identification No. 1964733;

Education Technology State Grants, *U.S. Department of Education (ED)*, Passed through the California Department of Education, CFDA No. 84.318, Grant Agreement 2005/06-14368-6473-00;

Reading First State Grants; *U.S. Department of Education (ED)*, Passed through the California Department of Education, CFDA No. 84.357, Grant Agreement 04-14328-6473-00;

English Language Acquisition Grants, *U.S. Department of Education (ED)*, Passed through the California Department of Education, CFDA No. 84.365, Grant Agreements 03-14346-6473-00 and 10084-6474-00;

Child Care and Development Fund: Child Care and Development Block Grant, Child Care Mandatory and Matching Funds of the Child Care and Development Fund; U.S. Department of Health and Human Services, Passed through the California Department of Education, CFDA Nos. 93.575 and 93.596, Contract CCTR-6164

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Compliance Requirement: Procurement, Suspension, and Debarment
State Audit Guide Finding Code: 30000 and 50000

Criteria

Code of Federal Regulations, Title 34 – Education, Part 80 – Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, Section 80.35, Subawards to debarred and suspended parties:

- Grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in federal assistance programs under Executive Order 12549, “Debarment and Suspension.”

Condition

Food Stamp Cluster: During our procedures performed over suspension and debarment, we noted 1 exception out of 50 expenditures sampled for a contract totaling \$108,529 that did not contain a certification for the potential contractor or subcontractor regarding debarment, suspension, and other ineligibility and voluntary exclusion. We also noted there was no documentation to support investigation of the Excluded Parties List System (EPLS) Web site was performed.

Child Nutrition Cluster and Child and Adult Care Food Program: During our procedures performed over suspension and debarment, we noted 2 exceptions out of 50 expenditures sampled for contracts totaling \$75,856 that did not contain a certification for the potential contractor or subcontractor regarding debarment, suspension, and other ineligibility and voluntary exclusion. We also noted there was no documentation to support investigation of the Excluded Parties List System (EPLS) Web site was performed.

Title I Grants to Local Educational Agencies: During our procedures performed over suspension and debarment, we noted 3 exceptions out of 50 expenditures sampled for contracts totaling \$560,627 that did not contain a certification for the potential contractor or subcontractor regarding debarment, suspension, and other ineligibility and voluntary exclusion. We also noted there was no documentation to support investigation of the Excluded Parties List System (EPLS) Website was performed.

Special Education Cluster: During our procedures performed over suspension and debarment, we noted 7 exceptions out of 50 expenditures sampled for contracts totaling \$2,270,000 that did not contain a certification for the potential contractor or subcontractor regarding debarment, suspension, and other ineligibility and voluntary exclusion. We also noted there was no documentation to support investigation of the Excluded Parties List System (EPLS) Web site was performed.

Vocational Education Basic Grants to States: During our procedures performed over suspension and debarment, we noted 8 exceptions out of 50 expenditures sampled for contracts totaling \$197,855 that did not contain a certification for the potential contractor or subcontractor regarding debarment, suspension, and other ineligibility and voluntary exclusion. We also noted there was no documentation to support investigation of the Excluded Parties List System (EPLS) Web site was performed.

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Safe and Drug-Free Schools and Communities: During our procedures performed over suspension and debarment, we noted 13 exceptions out of 50 expenditures sampled for contracts totaling \$789,232 that did not contain a certification for the potential contractor or subcontractor regarding debarment, suspension, and other ineligibility and voluntary exclusion. We also noted there was no documentation to support investigation of the Excluded Parties List System (EPLS) Web site was performed.

Twenty-First Century Community Learning Centers: During our procedures performed over suspension and debarment, we noted 2 exceptions out of 50 expenditures sampled for contracts totaling \$92,444 that did not contain a certification for the potential contractor or subcontractor regarding debarment, suspension, and other ineligibility and voluntary exclusion. We also noted there was no documentation to support investigation of the Excluded Parties List System (EPLS) Web site was performed.

State Grants for Innovative Programs: During our procedures performed over suspension and debarment, we noted 2 exceptions out of 50 expenditures sampled for contracts totaling \$384,793 that did not contain a certification for the potential contractor or subcontractor regarding debarment, suspension, and other ineligibility and voluntary exclusion. We also noted there was no documentation to support investigation of the Excluded Parties List System (EPLS) Web site was performed.

Education Technology State Grants: During our procedures performed over suspension and debarment, we noted 3 exceptions out of 50 expenditures sampled for contracts totaling \$145,483 that did not contain a certification for the potential contractor or subcontractor regarding debarment, suspension, and other ineligibility and voluntary exclusion. We also noted there was no documentation to support investigation of the Excluded Parties List System (EPLS) Web site was performed.

Reading First State Grants: During our procedures performed over suspension and debarment, we noted 3 exceptions out of 50 expenditures sampled for contracts totaling \$422,541 that did not contain a certification for the potential contractor or subcontractor regarding debarment, suspension, and other ineligibility and voluntary exclusion. We also noted there was no documentation to support investigation of the Excluded Parties List System (EPLS) Web site was performed.

English Language Acquisition: During our procedures performed over suspension and debarment, we noted 10 exceptions out of 50 expenditures sampled for contracts totaling \$9,622,210 that did not contain a certification for the potential contractor or subcontractor regarding debarment, suspension, and other ineligibility and voluntary exclusion. We also noted there was no documentation to support investigation of the Excluded Parties List System (EPLS) Web site was performed.

Child Care and Development Block Grant: During our procedures performed over suspension and debarment, we noted 3 exceptions out of 50 expenditures sampled for contracts totaling \$1,005,532 that did not contain a certification for the potential contractor or subcontractor regarding debarment, suspension, and other ineligibility and voluntary exclusion. We also noted there was no documentation to support investigation of the Excluded Parties List System (EPLS) Web site was performed.

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Schedule of Findings and Questioned Costs

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Cause and Effect

Per discussion with the chief procurement officer, we noted the District procurement policy manual is still in the process of being drafted to ensure that sufficient appropriate policies and procedures are enacted. We also noted the District standard contract template does not include self-certification statements for nonsuspension or debarment unless the contract value was over \$100,000. We further noted that the District policy is to not review the EPLS Web site unless the contract is over \$100,000. In the previous year, the District performed a comparison of its vendor listing to a download of the EPLS system, but there was no evidence that this had been performed in the current year. We were unable to identify effective controls in place to ensure that all program vendors were not suspended or debarred. It appears that the combination of these policy deficiencies substantially contributed to the exceptions noted.

Questioned Costs

Not applicable.

Recommendation

We recommend that the District update its policies, procedures, and standard templates for all contract and procurement types to ensure they incorporate and comply with federal suspension and debarment regulations.

Views of Responsible Officials and Planned Corrective Actions

Procurement Services Branch issued the Procurement Manual on September 1, 2008 to consolidate numerous bulletins, reference guides, and memorandums regarding procurement that requires, among others, that the contract process includes a debarment certification to be issued by prospective bidders.

* * * * *

Program Identification

Finding Reference Number:

F-07-21

Federal Program Title, Awarding
Agency, Pass-Through Entity,
CFDA Number, Award Number:

Food Stamp Cluster: State Administrative Matching Grants for
Food Stamp Program: *U.S. Department of Agriculture*
(*USDA*), Passed through the California Department of Health
Services, CFDA No. 10.561, Grant Agreement 04-35450;

Child Nutrition Cluster: School Breakfast Program, National
School Lunch Program, Summer Food Service Program for
Children: *U.S. Department of Agriculture (USDA)*, Passed
through the California Department of Education, CFDA
Nos. 10.553, 10.555 and 10.559, Grant Agreement
19-64733-0000000-01;

Child and Adult Care Food Program: *U.S. Department of*
Agriculture (USDA), Passed through the California
Department of Education, CFDA 10.558, Grant Agreement
19-2016-3A;

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Title I Grants to Local Educational Agencies: *U.S. Department of Education (ED)*, Passed through the California Department of Education, CFDA No. 84.010, Grant Agreement 06-14329-6473;

Special Education Cluster: Grants to States, Preschool Grants; *U.S. Department of Education (ED)*, Passed through the California Department of Education, CFDA Nos. 84.027 and 84.173, Grant Agreements 06-13430-6473-01, 06-13682-6473-01, 06-23761-6473-01, and 06-13379-6473-01;

Vocational Education Basic Grants to States: *U.S. Department of Education (ED)*, Passed through the California Department of Education, CFDA No. 84.048, Grant Agreements 06/07-13924-64733-00 and 06-13923-64733-00;

Safe and Drug-Free Schools and Communities, *U.S. Department of Education (ED)*, Passed through the California Department of Education, CFDA No. 84.186, Grant Agreement Q186A060005;

Fund for the Improvement of Education, *U.S. Department of Education (ED)*, CFDA No. 84.215, Grant Agreements Q215E060268, V215L042114, V215L052108, S215L060084, U215X030096 and Q215E040418;

Twenty-First Century Community Learning Centers, *U.S. Department of Education (ED)*, Passed through the California Department of Education, CFDA No. 84.287, Grant Agreements 05-14349-6473-2A, 05-14349-6473-3A and 06-14349-6473-1A;

State Grants for Innovative Programs, *U.S. Department of Education (ED)*, Passed Through the California Department of Education, CFDA No. 84.298, Pass-Through Identification No. 1964733;

Education Technology State Grants, *U.S. Department of Education (ED)*, Passed through the California Department of Education, CFDA No. 84.318, Grant Agreements 2005/06-14368-6473-00;

Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP), *U.S. Department of Education (ED)*, CFDA No. 84.334, Grant Agreements P334A000061-05, P334A050178-06 and P334A050205;

Reading First State Grants; *U.S. Department of Education (ED)*, Passed through the California Department of Education,

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CFDA No. 84.357, Grant Agreement 04-14328-6473-00;

English Language Acquisition Grants, *U.S. Department of Education (ED)*, Passed through the California Department of Education, CFDA No. 84.365, Grant Agreements 03-14346-6473-00 and 10084-6474-00;

Improving Teacher Quality State Grants, *U.S. Department of Education (ED)*, Passed through the California Department of Education, CFDA No. 84.367, Grant Agreement S367A040005A;

Child Care and Development Fund: Child Care and Development Block Grant, Child Care Mandatory and Matching Funds of the Child Care and Development Fund; U.S. Department of Health and Human Services, Passed through the California Department of Education, CFDA Nos. 93.575 and 93.596, Contract CCTR-6164

Compliance Requirement:

Procurement, Suspension and Debarment

State Audit Guide Finding Code:

30000 and 50000

Criteria

Code of Federal Regulations, Title 34 – Education, Part 80 – *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* – Subpart C – Post-Award Requirements, Section 80.36, Procurement:

- Procurement standards:
 - i. Grantees and subgrantees will use their own procurement procedures, which reflect applicable state and local laws and regulations, provided that the procurements conform to applicable federal law and the standards identified in this section.
 - ii. Grantees and subgrantees will maintain records sufficient to detail the significant history of a procurement. These records will include, but are not necessarily limited to the following: Rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

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Schedule of Findings and Questioned Costs

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- Methods of procurement to be followed:
 - i. Procurement by noncompetitive proposals is procurement through solicitation of a proposal from only one source, or after solicitation of a number of sources, competition is determined inadequate.
 - a. Procurement by noncompetitive proposals may be used only when the award of a contract is infeasible under small purchase procedures, sealed bids or competitive proposals and one of the following circumstances applies:
 - (A) The item is available only from a single source;
 - (B) The public exigency or emergency for the requirement will not permit a delay resulting from competitive solicitation;
 - (C) The awarding agency authorizes noncompetitive proposals; or
 - (D) After solicitation of a number of sources, competition is determined inadequate.
 - ii. Cost analysis, i.e., verifying the proposed cost data, the projections of the data, and the evaluation of the specific elements of costs and profits, is required.

Condition

Food Stamp Cluster: In the sample of 50 expenditures, we noted the following 36 exceptions:

- Of the expenditures from p-cards, purchase orders or contracts less than \$3,500 requiring two telephone quotes or an approved waiver meeting the criteria for a noncompetitive proposal under District policy, we noted no evidence of compliance with the policy for 27 of the 27 sampled expenditures. We also noted 2 samples that did not contain evidence of review and approval in accordance with District policies.
- Of the expenditures from purchase orders or contracts over \$62,400, which require requests for proposal or an approved waiver meeting the criteria for a noncompetitive proposal under District policy, we noted no evidence of compliance with the policy for 2 of the 8 sampled expenditures.
- Of the expenditures purchased under the District book purchase order policy, which allows for books to be purchased from the state-adopted centralized list without competitive bidding, we noted 7 of the 7 items sampled were not from the state-adopted list nor was there evidence of a request for proposal or a completed waiver for competitive bidding.

Total exceptions amounted to \$489,593 of the \$787,387 sampled from the \$1,116,103 of total nonpayroll program expenditures for the fiscal year ended June 30, 2007.

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Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Child Nutrition Cluster and Child and Adult Care Food Program: In the sample of 50 expenditures, we noted the following 2 exceptions:

- Of the expenditures from purchase orders or contracts \$3,500 to \$62,400, which require either 3 written quotations or an approved waiver meeting the criteria for a noncompetitive proposal under District policy, we noted no evidence of compliance with the policy for 2 of the 4 sampled contracts.

Total exceptions amounted to \$75,855 of the \$4,502,741 sampled nonpayroll contract expenditures for the fiscal year ended June 30, 2007.

Title I Grants to Local Educational Agencies: In the sample of 50 expenditures, we noted the following 30 exceptions:

- Of the expenditures from p-cards, purchase orders or contracts less than \$3,500 requiring two telephone quotes or an approved waiver meeting the criteria for a noncompetitive proposal under District's policy, we noted no evidence of compliance with the policy for 10 of the 12 sampled expenditures.
- Of the expenditures from purchase orders or contracts between \$3,500 to \$62,400, which require either 3 written quotations or an approved waiver meeting the criteria for a noncompetitive proposal under District policy, we noted no evidence of compliance with the policy for 9 of the 10 sampled expenditures.
- Of the expenditures from purchase orders or contracts over \$62,400, which require requests for proposal or an approved waiver meeting the criteria for a noncompetitive proposal under District policy, we noted no evidence of compliance with the policy for 1 of 2 sampled expenditures.
- Of the expenditures purchased under the District book purchase order policy, which allows for books to be purchased from the state-adopted centralized list without competitive bidding, we noted 10 of the 10 items sampled were not from the state-adopted list nor was there evidence of a request for proposal or a completed waiver for competitive bidding.

Total exceptions amounted to \$183,454 of the \$2,505,855 sampled from the estimated \$92,985,258 total nonpayroll program expenditures for the fiscal year ended June 30, 2007.

Special Education Cluster: In the sample of 50 expenditures, we noted the following 15 exceptions:

- Of the expenditures from p-cards, purchase orders or contracts less than \$3,500 requiring two telephone quotes or an approved waiver meeting the criteria for a noncompetitive proposal under District policy, we noted no evidence of compliance with the policy for 10 of the 15 expenditures sampled.
- Of the expenditures from purchase orders or contracts \$3,500 to \$62,400, which require either 3 written quotations or an approved waiver meeting the criteria for a noncompetitive proposal under District policy, we noted no evidence of compliance with the policy for 3 of the 9 sampled expenditures in the procurement files.
- Of the expenditures purchased under the District book purchase order policy, which allows for books to be purchased from the state-adopted centralized list without competitive bidding, we noted 2 of

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the 2 items sampled were not from the state-adopted list nor was there evidence of a request for proposal or a completed waiver for competitive bidding.

Total exceptions amounted to \$16,032 of the \$822,478 sampled from the estimated \$2,265,557 total nonpayroll program expenditures for the fiscal year ended June 30, 2007.

Vocational Education Basic Grants to States: In the sample of 50 expenditures, we noted the following 21 exceptions:

- Of the expenditures from p-cards, purchase orders or contracts less than \$3,500 requiring two telephone quotes or an approved waiver meeting the criteria for a noncompetitive proposal under District policy, we noted no evidence of compliance with the policy for 11 of the 16 samples.
- Of the expenditures from purchase orders or contracts \$3,500 to \$62,400, which require either 3 written quotations or an approved waiver meeting the criteria for a noncompetitive proposal under District policy, we noted no evidence of compliance with the policy for 3 of the 15 samples in the procurement file.
- Of the expenditures purchased under the District's book purchase order policy, which allows for books to be purchased from the state-adopted centralized list without competitive bidding, we noted 7 of the 7 items sampled were not from the state-adopted list nor was there evidence of a request for proposal or a completed waiver for competitive bidding.

Total exceptions amounted to \$159,746 of the \$702,047 sampled from the \$5,904,879 total nonpayroll program expenditures for the fiscal year ended June 30, 2007.

Safe and Drug-Free Schools and Communities: In the sample of 50 expenditures, we noted the following 27 exceptions:

- Of the expenditures from p-cards, purchase orders or contracts less than \$3,500 requiring two telephone quotes or an approved waiver meeting the criteria for a noncompetitive proposal under District policy, we noted no evidence of compliance with the policy for 4 of the 16 sampled.
- Of the expenditures from purchase orders or contracts \$3,500 to \$62,400, which require either 3 written quotations or an approved waiver meeting the criteria for a noncompetitive proposal under District policy, we noted no evidence of compliance with the policy for 5 of the 6 sampled.
- Of the expenditures purchased under the District book purchase order policy, which allows for books to be purchased from the state-adopted centralized list without competitive bidding, we noted 18 of the 18 items sampled were not from the state-adopted list nor was there evidence of a request for proposal or a completed waiver for competitive bidding.

Total exceptions amounted to \$825,268 of the \$1,080,134 sampled from the \$1,219,769 total nonpayroll program expenditures for the fiscal year ended June 30, 2007.

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Fund for the Improvement of Education: In the sample of 50 expenditures, we noted the following 33 exceptions:

- Of the expenditures from p-cards, purchase orders or contracts less than \$3,500 requiring two telephone quotes or an approved waiver meeting the criteria for a noncompetitive proposal under District policy, we noted no evidence of compliance with the policy for 12 of the 14 expenditures sampled.
- Of the expenditures from purchase orders or contracts between \$3,500 to \$62,400, which require either 3 written quotations or an approved waiver meeting the criteria for a noncompetitive proposal under District policy, we noted no evidence of compliance with the policy for 10 of the 13 samples in the procurement file.
- Of the expenditures purchased under the District book purchase order policy, which allows for books to be purchased from the state-adopted centralized list without competitive bidding, we noted 11 of the 11 items sampled were not from the state-adopted list nor was there evidence of a request for proposal or a completed waiver for competitive bidding.

Total exceptions amounted to \$140,827 of the \$248,518 sampled from the estimated \$1,957,256 total nonpayroll program expenditures for the fiscal year ended June 30, 2007.

Twenty-First Century Community Learning Centers: In the sample of 18 nonsubrecipient expenditures, we noted the following 8 exceptions:

- Of the expenditures from p-cards, purchase orders or contracts less than \$3,500 requiring two telephone quotes or an approved waiver meeting the criteria for a noncompetitive proposal under District policy, we noted no evidence of compliance with the policy for 4 of the 6 sample types.
- Of the expenditures from purchase orders or contracts between \$3,500 to \$62,400, which require either 3 written quotations or an approved waiver meeting the criteria for a noncompetitive proposal under District policy, we noted no evidence of compliance with the policy for 2 of the 9 sample types.
- Of the expenditures purchased under the District book purchase order policy, which allows for books to be purchased from the state-adopted centralized list without competitive bidding, we noted 2 of the 2 items sampled were not from the state-adopted list nor was there evidence of a request for proposal or a completed waiver for competitive bidding.

Total exceptions amounted to \$112,163 of the \$167,796 sampled of the \$910,066 of total estimated nonpayroll nonsubrecipient program expenditures for the fiscal year ended June 30, 2007.

State Grants for Innovative Programs: In the sample of 50 expenditures, we noted the following 31 exceptions:

- Of the expenditures from purchase orders or contracts \$3,500 to \$62,400, which require either 3 written quotations or an approved waiver meeting the criteria for a noncompetitive proposal under District policy, we noted no evidence of compliance with the policy for 10 of the 24 sampled expenditures.

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- Of the expenditures from contracts or purchase orders over \$62,400, which require requests for proposal or an approved waiver meeting the criteria for a noncompetitive proposal under District policy, we noted no evidence of compliance with the policy for 3 of the 3 sampled expenditures.
- Of the expenditures purchased under the District book purchase order policy, which allows for books to be purchased from the state-adopted centralized list without competitive bidding, we noted 18 of the 18 items sampled expenditures were not from the state-adopted list nor was there evidence of a request for proposal or a completed waiver for competitive bidding.

Total exceptions amounted to \$490,258 of the \$601,961 expenditures sampled from the \$1,655,994 total nonpayroll or indirect program expenditures for the fiscal year ended June 30, 2007.

Education Technology State Grants: In the sample of 30 expenditures, we noted the following 7 exceptions:

- Of the expenditures from purchase orders or contracts between \$3,500 to \$62,400, which require either 3 written quotations or an approved waiver meeting the criteria for a noncompetitive proposal under District policy, we noted no evidence of compliance with the policy for 4 of the 16 samples in the procurement file.
- Of the expenditures purchased under the District book purchase order policy, which allows for books to be purchased from the state-adopted centralized list without competitive bidding, we noted 3 of the 3 items sampled were not from the state-adopted list nor was there evidence of a request for proposal or a completed waiver for competitive bidding.

Total exceptions amounted to \$224,168 of the \$2,402,056 sampled from the \$6,533,231 total nonpayroll program expenditures for the fiscal year ended June 30, 2007.

GEAR-UP: In the sample of 50 nonpayroll expenditures, we noted the following 9 exceptions:

- Of the expenditures from p-cards, purchase orders or contracts less than \$3,500 requiring two telephone quotes or an approved waiver meeting the criteria for a noncompetitive proposal under District policy, we noted no evidence of compliance with the policy for 3 of the 8 sampled expenditures.
- Of the expenditures from purchase orders or contracts \$3,500 to \$62,400, which require either 3 written quotations or an approved waiver meeting the criteria for a noncompetitive proposal under District policy, we noted no evidence of compliance with the policy for 3 of the 9 samples in the procurement file.
- Of the expenditures purchased under the District book purchase order policy, which allows for books to be purchased from the state-adopted centralized list without competitive bidding, we noted 3 of the 4 items sampled were not from the state-adopted list nor was there evidence of a request for proposal or a completed waiver for competitive bidding.

Total exceptions amounted to \$30,367 of the \$377,314 sampled from the estimated \$1,489,639 total nonpayroll program expenditures for the fiscal year ended June 30, 2007.

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Reading First State Grants: In the sample of 50 expenditures, we noted the following 22 exceptions:

- Of the expenditures from p-cards, purchase orders or contracts less than \$3,500 requiring two telephone quotes or an approved waiver meeting the criteria for a noncompetitive proposal under District policy, we noted no evidence of compliance with the policy for 6 of the 10 sampled expenditures.
- Of the expenditures from purchase orders or contracts \$3,500 to \$62,400, which require either 3 written quotations or an approved waiver meeting the criteria for a noncompetitive proposal under District policy, we noted no evidence of compliance with the policy for 5 of the 14 samples in the procurement file. We also noted one of the sampled expenditures without evidence of proper review and approval.
- Of the expenditures purchased under the District book purchase order policy, which allows for books to be purchased from the state-adopted centralized list without competitive bidding, we noted 11 of the 11 items sampled were not from the state-adopted list nor was there evidence of a request for proposal or a completed waiver for competitive bidding.

Total exceptions amounted to \$610,673 of the \$4,500,858 sampled from the \$5,369,351 total nonpayroll program expenditures for the fiscal year ended June 30, 2007.

English Language Acquisition: In the sample of 50 expenditures, we noted the following 24 exceptions:

- Of the expenditures from p-cards, purchase orders or contracts less than \$3,500 requiring two telephone quotes or an approved waiver meeting the criteria for a noncompetitive proposal under District policy, we noted no evidence of compliance with the policy for 5 of the 5 samples.
- Of the expenditures from purchase orders or contracts \$3,500 to \$62,400, which require either 3 written quotations or an approved waiver meeting the criteria for a noncompetitive proposal under District policy, we noted no evidence of compliance with the policy for 9 of the 13 samples in the procurement file.
- Of the expenditures purchased under the District book purchase order policy, which allows for books to be purchased from the state-adopted centralized list without competitive bidding, we noted 9 of the 10 items sampled were not from the state-adopted list nor was there evidence of a request for proposal or a completed waiver for competitive bidding.
- We also noted the chief procurement officer's signature indicating approval of the purchase orders over \$100,000, which is required by District policy for 1 of the 9 samples over \$100,000.

Total exceptions amounted to \$269,285 of the \$4,789,178 sampled from the estimated \$15,086,926 total nonpayroll program expenditures for the fiscal year ended June 30, 2007.

Improving Teacher Quality: In the sample of 50 expenditures, we noted the following 5 exceptions:

- Of the expenditures from p-cards, purchase orders or contracts less than \$3,500 requiring two telephone quotes or an approved waiver meeting the criteria for a noncompetitive proposal under District policy, we noted no evidence of compliance with the policy for 2 of the 4 sampled expenditures.

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- Of the expenditures from purchase orders or contracts \$3,500 to \$62,400, which require either 3 written quotations or an approved waiver meeting the criteria for a noncompetitive proposal under District policy, we noted no evidence of compliance with the policy for 3 of the 24 sampled expenditures.

Total exceptions amounted to \$16,317 of the \$1,104,537 sampled from the \$3,491,545 total nonpayroll program expenditures for the fiscal year ended June 30, 2007.

Child Care Cluster: In the sample of 50 expenditures, we noted the following 25 exceptions:

- Of the expenditures from p-cards, purchase orders or contracts less than \$3,500 requiring two telephone quotes or an approved waiver meeting the criteria for a noncompetitive proposal under District policy, we noted no evidence of compliance with the policy for 18 of the 30 sampled expenditures. We also noted there was no evidence of review and approval for 6 of the sampled expenditures.
- Of the expenditures from purchase orders or contracts between \$3,500 to \$62,400, which require either 3 written quotations or an approved waiver meeting the criteria for a noncompetitive proposal under District policy, we noted no evidence of compliance with the policy for 5 of the 7 sampled expenditures.
- Of the expenditures from purchase orders or contracts above \$62,400, which require a formal bid or an approved waiver meeting the criteria for a noncompetitive proposal under District policy, we noted no evidence of compliance with the policy for 2 of the 3 sampled expenditures.

Total exceptions amounted to \$107,099 of the \$272,030 sampled from nonpayroll program expenditures for the fiscal year ended June 30, 2007.

Cause and Effect

There does not appear to be effective monitoring and enforcement of district procurement policies to ensure that sufficient and appropriate documentation is obtained to acquire the good or service for the federally funded program. Also, there does not appear to be effective documentation retention policies at the schools, where a significant amount of the documentation is needed to support the expenditures for the programs, to ensure that appropriate documentation can be provided to support the expenditures charged to the federally funded program. Without sufficient and appropriate documentation to support the expenditures charged to the program in accordance with federal guidelines, those expenditures could be required to be paid back to the federal government.

Questioned Costs

Not determined.

Recommendation

We recommend the District strengthen its controls over its procurement approval process and document retention policies to ensure that required policies of the District are being followed with proper documentation maintained in the procurement files.

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Views of Responsible Officials and Planned Corrective Actions

District agrees with the findings. The implementation of Procurement Manual addresses and corrects findings. It is the District's policy that payments are processed only if vendors have a valid contract or purchase order executed by an authorized District personnel (pp. 5 and 93, Procurement Manual). The District's retention policy strictly complies with California Code of Regulations, Title 5, Section 16020 et seq.

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Program Identification

Finding Reference Number:	F-07-22
Federal Catalog of Domestic Assistance Number(s):	10.553, 10.555, and 10.559
Federal Program Title(s):	Child Nutrition Cluster: School Breakfast Program, National School Lunch Program, Summer Food Service Program for Children, <i>U.S. Department of Agriculture (USDA)</i>
Pass-Through Entity:	California Department of Education
Award Number:	Grant Agreement 19-64733-0000000-01Q
Compliance Requirement:	Program Income
State Audit Guide Finding Code:	30000

Criteria

Title 7 – Agriculture, Chapter II – Food and Nutrition Service, Department of Agriculture, Part 210 – National School Lunch Program, Subpart B – Reimbursement Process for States and School Food Authorities, Section 210.8, Claims for reimbursement:

- Internal controls. The school food authority shall establish internal controls which ensure the accuracy of lunch counts prior to the submission of the monthly Claim for Reimbursement. At a minimum, these internal controls shall include: an on-site review of the lunch counting and claiming system employed by each school within the jurisdiction of the school food authority; comparisons of daily free, reduced-price and paid lunch counts against data that will assist in the identification of lunch counts in excess of the number of free, reduced-price, and paid lunches served each day to children eligible for such lunches; and a system for following up on those lunch counts that suggest the likelihood of lunch-counting problems.

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Condition

In our procedures performed over the collection of cash at the school sites, we noted that cash collected for meals served is reconciled at the school level and reported to the District on a weekly report. We noted the following deficiencies in internal controls over the cash collection process:

- As part of the reconciliation process at the school level, the cafeteria personnel reconcile the cash in the register to the register sales tape, but this sales tape to support the cash collected is not sent to the District or retained at the school sites for audit purposes.
- We also noted the weekly report template used to report cash collected contains places for signatures of a preparer and the cafeteria manager as the reviewer; however, there is no requirement that prohibits the cafeteria manager from both preparing and reviewing the weekly report. We noted instances where the reports were both prepared and reviewed by the cafeteria manager.
- These weekly reports are sent to the District office, where they input the information into the District's claiming system. To test the accuracy of the data input, we compared a sample of the meals and supplements from the District's meals claiming system and compared to the corresponding schools' weekly reports. We noted there was no evidence of review of the data input into the meal claiming system for 15 of the 30 inputs sampled.
- We selected a sample of weekly reports and reperformed the reconciliation of the cash from the weekly report to the amounts recorded in the District's meal claiming system and deposit slip for the bank account. We noted 1 of our 50 sampled deposits, where the cash recorded on the weekly report and the District's meal claiming system was less than the amount included on the bank deposit slip.

In our sample of 5 schools for 10 weeks, we tested a total of \$6,025 cash collected for 125 operating days sampled. The District has 777 school sites participating in the school lunch program with 298 proposed operating days per year, which would amount to approximately 231,546 operating days for all schools with an estimated \$11,160,517 cash collected for the fiscal year.

Cause and Effect

There does not appear to be enforcement of controls designed by the District to ensure appropriate segregation of duties and adequate reviews of reconciliations being performed. Based on the estimated total cash collected for the fiscal year, control deficiencies could result in more than inconsequential noncompliance.

Questioned Costs

Not applicable.

Recommendation

We recommend the District strengthen controls over cash collection and reporting process.

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Views of Responsible Officials and Planned Corrective Actions

The District agrees with the finding. Food Services Branch implemented procedures to strengthen and tighten controls on cash collection. Worksheets were developed to assist schools to reconcile the cash collection to sales. If discrepancies are identified, area food service supervisors are notified. Food Services Branch is in the process of implementing a Point-of-Sale system at all of the District's school cafeterias. The goal of this project is to strengthen and further improve the controls on cash collections.

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Program Identification

Finding Reference Number:	F-07-23
Federal Catalog of Domestic Assistance Numbers:	10.558
Federal Program Title:	Child and Adult Care Food Program: <i>U.S. Department of Agriculture (USDA)</i>
Pass-Through Entity:	California Department of Education
Award Number:	Grant Agreement 19-2016-3A
Compliance Requirement:	Reporting
State Audit Guide Finding Code:	30000 and 50000

Criteria

Title 7 – Agriculture, Chapter II – Food and Nutrition Service, Department of Agriculture, Part 226 – Child and Adult Care Food Program, Subpart E – Operational Provisions, Section 226.17, Child care center provisions:

- All child care centers, independent or sponsored, shall meet the following requirements:
 - Each child care center must maintain daily records of time of service meal counts by type (breakfast, lunch, supper, and snack) served to enrolled children, and to adults performing labor necessary to the food service.

Title 7 – Agriculture, Chapter II – Food and Nutrition Service, Department of Agriculture, Part 226 – Child and Adult Care Food Program, Subpart D – Payment Provisions, Section 226.11, Program payments for centers.

- Each state agency must base reimbursement to each child care institution or outside-school-hours institution on the number of meals, by type (breakfast, lunch, supper, and snack) served to children multiplied by the assigned rates of reimbursement.

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Condition

In our procedures performed over the monthly claim reports, we noted the District's early education centers (the centers) compile meals served each day into weekly reports. These weekly reports are sent to the District office, where they input the information into the District's claiming system. Reports from the claiming system are then used to prepare the monthly claims. In order to test the accuracy of the meals claimed, we tested: 1) the meals from weekly summary reports to supporting attendance information; 2) meals from the District's claiming system to the weekly summaries; and 3) monthly claims to the District's claiming system reports.

- (1) To test the accuracy of the weekly summary reports, we compared the reported number of meals served for days included on the report to the parent sign-in sheets to ascertain whether meals reported did not exceed the children in attendance. In our sample of 50 days from the weekly reports sampled from 8 child care centers, we noted the following exceptions at 2 of the centers tested:
 - One center with 4 of the 5 days from the weekly report tested, where reported snacks served was greater than number of students supported by the parent sign-in sheets. We noted 31 over reported of the 465 snacks tested from the weekly reports at this center.
 - One center with 3 of 10 days from the weekly reports tested, where 2 days reported lunches served were less than the number of students supported by the parent sign-in sheets and one day was greater. We noted a net underreported of 13 of the 629 lunches tested from weekly reports at this center.
- (2) To test the accuracy of the data input into the District's meal claiming system, we compared a sample of the meals and snacks from the District's meals claiming system with the corresponding center's weekly summary reports. We noted 1 of the 50 samples in the reports, where the center had reported 474 snacks but none of them were recorded in the District's meal claiming system. We also noted there was no evidence of review of the data input into the meal claiming system for 12 of the 30 inputs sampled.

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- (3) To test the accuracy of the final adjusted monthly claims, we compared the numbers of meals claimed in the final adjusted claim reports to supporting reports from the District's meal claiming system. We noted 8 of the 12 claims exceeded the supporting claiming system reports. These differences noted were as follows:

Claimed Meals and Snacks that Exceeded the Supporting System Reports

Month	Breakfast	Lunch	Snack
July	—	—	—
August	259	300	226
September	377	268	388
October	—	—	—
November	—	—	—
December	—	—	192
January	1,013	1,039	1,156
February	1,321	1,300	1,258
March	1,625	1,737	1,513
April	1,299	1,333	1,190
May	—	—	—
June	5,047	4,743	4,702
Total	10,941	10,720	10,625

Meals Reported on Adjusted Final Claim Reports

Month	Breakfast	Lunch	Snack
July	140,906	156,318	159,481
August	159,266	181,839	183,417
September	153,780	153,999	169,612
October	181,554	179,707	194,451
November	163,490	161,470	175,580
December	123,586	127,084	133,022
January	168,426	171,045	184,962
February	166,330	164,041	177,398
March	200,264	198,134	212,925
April	177,683	180,356	191,846
May	179,953	177,261	184,406
June	172,608	177,936	187,568
Total	1,987,846	2,029,190	2,154,668

Total exceptions from the 3 procedures amounted to 31,830 (31 over reported – 13 under reported – 474 under reported + 10,941 unsupported + 10,720 unsupported + 10,625 unsupported) over claimed meals and snacks from the total 6,171,704 meals and snacks claimed.

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Cause and Effect

The differences in procedures 1 and 2 appeared to be the results of manual errors that were not detected by the District's control processes. The differences noted in procedure 3 were due to manual additions made by the accounting department to the monthly claim reports. Through discussion with the financial analyst, we noted they had received e-mails and/or phone calls with requests for the adjustments from the centers; however, we were unable to obtain specific detail documentation to support the adjustments.

Questioned Costs

\$38,248 (total grant expenditures of \$7,416,200/6,171,704 meals claimed X 31,830 differences).

Recommendation

We recommend the District strengthen controls to ensure claims are complied and reported accurately. We also recommend the District record any adjustments into its meal claiming system, since it is the supporting record for the number of meals claimed, with any documentation to support adjustments reviewed for appropriateness and retained for audit purposes.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the finding. Food Services Branch is in the process of implementing a Point-of-Sale system at all of the District's school cafeterias. The goal of this project is to strengthen and further improve the controls on cash collections.

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Program Identification

Finding Reference Number:	F-07-24
Federal Catalog of Domestic Assistance Number(s):	10.553, 10.555, and 10.559
Federal Program Title(s):	Child Nutrition Cluster: School Breakfast Program, National School Lunch Program, Summer Food Service Program for Children, <i>U.S. Department of Agriculture (USDA)</i>
Pass-Through Entity:	California Department of Education
Award Number:	Grant Agreement 19-64733-0000000-01
Compliance Requirement:	Reporting
State Audit Guide Finding Code:	30000 and 50000

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Criteria

Code of Federal Regulations Title 7 – Agriculture, Chapter II – Food and Nutrition Service, Department of Agriculture, Part 210 – National School Lunch Program, Subpart B – Reimbursement Process for States and School Food Authorities, Section 210.8, Claims for reimbursement:

- Internal controls. The school food authority shall establish internal controls which ensure the accuracy of lunch counts prior to the submission of the monthly Claim for Reimbursement. At a minimum, these internal controls shall include: an on-site review of the lunch counting and claiming system employed by each school within the jurisdiction of the school food authority; comparisons of daily free, reduced-price, and paid lunch counts against data which will assist in the identification of lunch counts in excess of the number of free, reduced-price, and paid lunches served each day to children eligible for such lunches; and a system for following up on those lunch counts which suggest the likelihood of lunch counting problems.
- Consolidated claim. The state agency may authorize a school food authority to submit a consolidated Claim for Reimbursement for all schools under its jurisdiction, provided that, the data on each school's operations required in this section are maintained on file at the local office of the school food authority and the claim separates consolidated data for commodity schools from data for other schools. Unless otherwise approved by FNS, the Claim for Reimbursement for any month shall include only lunches and meal supplements served in that month except if the first or last month of Program operations for any school year contains 10 operating days or less, such month may be combined with the Claim for Reimbursement for the appropriate adjacent month. However, Claims for Reimbursement may not combine operations occurring in two fiscal years. If a single State agency administers any combination of the Child Nutrition Programs, a school food authority shall be able to use a common claim form with respect to claims for reimbursement for meals served under those programs.
- School food authority claims review process. Prior to the submission of a monthly Claim for Reimbursement, each school food authority shall review the lunch count data for each school under its jurisdiction to ensure the accuracy of the monthly Claim for Reimbursement. The objective of this review is to ensure that monthly claims include only the number of free, reduced-price, and paid lunches served on any day of operation to children currently eligible for such lunches.

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Condition

In our procedures performed over the monthly claim reports, we noted the District's school cafeteria personnel (the centers) compile meals served each day into weekly reports. These weekly reports are sent to the District office, where they input the information into the District's claiming system. Reports from the claiming system are then used to prepare the monthly claims. In order to test the accuracy of the meals claimed, we tested: 1) the meals from weekly summary reports to supporting attendance information; 2) meals from the District's claiming system to the weekly summaries; 3) monthly claims to the District's claiming system reports.

- (1) To test the accuracy of the data input into the District's meal claiming system, we compared a sample of the meals and supplements from the District's meals claiming system to the corresponding center's weekly summary reports. We noted there was no evidence of review of the data input into the meal claiming system for 15 of the 30 inputs sampled.
- (2) To test the accuracy of the final adjusted monthly claims, we compared the numbers of meals claimed in the final adjusted claim reports to supporting reports from the District's meal claiming system. We noted 11 of the 12 claims exceeded the supporting claiming system reports. These differences noted were as follows:

Claimed Meals That Exceeded the Supporting System Reports

Month	Breakfast	Lunch	Supplements
July	4,839	17,182	13,375
August	4,007	4,660	376
September	2,468	3,301	1,733
October	—	—	408
November	—	100	690
December	—	—	1,290
January	21,495	30,416	5,869
February	2,885	11,436	1,051
March	19,371	24,395	11,120
April	9,252	15,549	3,728
May	—	—	—
June	21,742	45,280	8,513
Total	86,059	152,319	48,153

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Meals Reported on Adjusted Final Claim Reports

Month	Breakfast	Lunch	Supplements
July	1,097,238	2,560,059	248,762
August	1,327,836	2,643,966	336,123
September	3,099,605	6,319,080	593,877
October	3,554,254	6,972,380	784,268
November	3,286,287	6,336,057	727,636
December	1,930,055	3,716,305	410,179
January	2,951,967	5,873,377	685,634
February	3,037,865	6,030,321	763,874
March	3,718,451	7,232,202	973,938
April	3,051,870	5,958,112	811,227
May	3,596,079	6,991,097	788,100
June	2,519,464	4,936,548	616,057
Total	33,170,971	65,569,504	7,739,675

Total exceptions amounted to 251,135 claimed meals and supplements without adequate supporting documentation from the total 106,480,150 meals and supplements claimed.

Cause and Effect

The differences in procedures 1 and 2 appeared to be the results of manual errors that were not detected by the District's control processes. The differences noted in procedure 3 were due to manual additions made by the accounting department to the monthly claim reports. Through discussion with the financial analyst, we noted they had received e-mails and/or phone calls with requests for the adjustments from the centers; however, we were unable to obtain specific detail documentation to support the adjustments.

Questioned Costs

\$457,755 (total grant expenditures of \$194,085,972/106,480,150 meals claimed X 251,135 differences).

Recommendation

We recommend the District strengthen controls to ensure claims are complied and reported accurately. We also recommend the District record any adjustments into its meal claiming system, since it is the supporting record for the number of meals claimed, with any documentation to support adjustments reviewed for appropriateness and retained for audit purposes.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the finding. Food Services Branch is in the process of implementing a Point-of-Sale system at all of the District's school cafeterias. The goal of this project is to strengthen and further improve the controls on cash collections.

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Program Identification

Finding Reference Number:	F-07-25
Federal Catalog of Domestic Assistance Number:	84.048
Federal Program Title:	Vocational Education Basic Grants to States (Perkins III), <i>U.S. Department of Education (ED)</i>
Pass-Through Entity:	California Department of Education
Award Number:	Grant Agreement 13924 and 13923
Compliance Requirement:	Reporting
State Audit Guide Finding Code:	30000 and 50000

Criteria

Code of Federal Regulations Title 34 – Education, Part 80 – *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*, Subpart C – Post – Award Requirements, Section 80.20, Standards for financial management systems. Financial Administration:

- A state must expand and account for grant funds in accordance with state laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the state, as well as its subgrantees and cost-type contractors, must be sufficient to:
 - Permit preparation of reports required by this part and the statutes authorizing the grant and
 - Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions or applicable statutes.

Condition

In our procedures performed over programmatic reporting, we noted that the District compiles CDE Form 101: *E1 Report of Career Technical Education Enrollment and Program Completion* (CDE Form 101 or E1) for both adult education and secondary education by retrieving data submitted by individual schools and the Student Information System (SIS). In order to test the accuracy of the data reported on the E1, we traced 13 items of student population data reported on the E1 to the SIS and noted discrepancies between the numbers of students reported:

- In the adult education E1 report for school year 2005 – 2006, we were unable to reconcile the data for 6 of the 6 line items sampled to the baseline information from the Student Information System.
- In the secondary education E1 report for school year 2005 – 2006, we were unable to reconcile the data for 7 of the 7 line items sampled to the baseline information from the Student Information System.

LOS ANGELES UNIFIED SCHOOL DISTRICT

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Cause and Effect

We were unable to identify a District policy requiring them to maintain evidence to retain documentation supporting numbers reported and any reconciliation between the information submitted by the individual schools and the Student Information System.

Questioned Costs

Not applicable.

Recommendation

We recommend the District maintain evidence from the individual schools and the Student Information System used to support the CDE Form 101: *E1 Report of Career Technical Education Enrollment and Program Completion*.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with this finding. The District will centralize the reporting of data by aggregating the school level information for the adult education CDE Form 101 or E1 report. In order to limit the variances in the reports and to improve the reconciliation of data, schools will be notified at the end of the school year to observe the cut-off date for entering statistical data into the Adult Student Information System (ASIS) database. Additionally, the action plan will integrate Secondary student information periodically from the K12 student database into the ASIS database to capture the twelfth grade completer and diplomas received data.

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Program Identification

Finding Reference Number:	F-07-26
CFDA Numbers:	84.287
Federal Program Titles:	Twenty-First Century Community Learning Centers, <i>U.S. Department of Education (ED)</i>
Pass-Through Entity:	California Department of Education
Award Number:	Grant Agreements 05-14349-6473-2A and 06-14349-6473-1A
Compliance Requirement:	Reporting
State Audit Guide Finding Code:	30000

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Criteria

Code of Federal Regulations, Title 34 – Education, Part 80 – *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*, Subpart C – Post – Award Requirements, Section 80.20, Standards for financial management systems – Financial Administration:

- A state must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to:
 - Permit preparation of reports required by this part and the statutes authorizing the grant, and
 - Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions or applicable statutes.
- The financial management systems of other grantees and subgrantees must meet the following standards:
 - Financial reporting: Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.
 - Accounting records: Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

Condition

In our procedures performed over attendance reporting, we noted that the District prepares Semiannual Attendance Reports based on attendance information obtained from the individual after school providers. In order to test the accuracy of the reported attendance information, we traced a sample of the attendance reported to the supporting attendance sheets obtained from the after-school providers. In addition, we verified that the attendance reports were approved by the program coordinator.

- In our sample from the Semiannual Attendance Reports, we noted that the attendance report for 1 of the 50 schools was not approved by the Program Coordinator, as evidenced by his signature.

Cause and Effect

We noted that the controls over the review and approval of monthly attendance sheets were not operating effectively.

Questioned Costs

Not applicable.

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Recommendation

We recommend the District strengthen its controls over the review of the Quarterly and Final Expenditure Reports and the Semiannual Attendance Reports to ensure data used to prepare the report is complete and accurate.

Views of Responsible Officials and Planned Corrective Actions

The District partially agrees with this finding. There was an approval by the program coordinator on the revised attendance report submitted to the California Department of Education. The District will ensure all reports submitted and reviewed are approved by an administrator.

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Program Identification

Finding Reference Number:	F-07-27
Federal Catalog of Domestic Assistance Numbers:	84.334
Federal Program Title:	Gaining Early Awareness and Readiness for Undergraduate Programs, <i>U.S. Department of Education (ED)</i>
Pass-Through Entity:	California Department of Education
Award Number:	Grant Agreements P334A050178, and P334A050205
Compliance Requirement:	Reporting
State Audit Guide Finding Code:	30000 and 50000

Criteria

Code of Federal Regulations, Title 34 – Education, Part 80 – *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*, Subpart C – Post – Award Requirements, Section 80.20, Standards for financial management systems – Financial Administration:

- A state must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to:
 - Permit preparation of reports required by this part and the statutes authorizing the grant, and
 - Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions or applicable statutes.
- The financial management systems of other grantees and subgrantees must meet the following standards:
 - Financial reporting: Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

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- Accounting records: Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

Condition

In our procedures performed over performance reporting, we noted that the District prepares the Annual Performance Reports for Partnership and State Projects (APRs) using information primarily from the general ledger. The District submitted reports for the Project Higher Learning Grant for Local Districts 1 and 2 (P334A050178) and the Project Grant for Local District 8 (P334A050205) during the fiscal year. In order to test the accuracy of the information on the two reports, we traced data on a sample basis from the reports to the general ledger. We also verified that the APRs were approved by the applicable certifying official.

The District was unable to provide information from the general ledger to support 29 of the 30 line items sampled in the two reports. Line items not supported included: actual federal expenditures (Section III), actual matching contributions (Section III), and time on grant (Section III). Furthermore, the APR for the Local District 8 Grant was not signed and approved by the certifying official.

Cause and Effect

The differences noted in the APRs are due to the general ledger being one month behind in salaries and two months behind in benefits and indirect costs. The District had estimated these amounts for the purposes of the APR submission. Furthermore, the implementation of SAP software resulted in significant errors and the District estimated March 31st data for report submission. However, no amended reports were submitted to the federal agency upon finalization of the expenditures.

Questioned Costs

Undetermined.

Recommendation

We recommend the District strengthen its current controls over reporting to ensure that reports are completed accurately.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the findings. Currently, SAP reporting has been enhanced to produce data needed for reports to be submitted on time. Timeliness of corrections will be enforced at the certification and time reporting steps.

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Program Identification

Finding Reference Number:	F-07-28
Federal Catalog of Domestic Assistance Number(s):	84.027 and 84.173
Federal Program Title:	Special Education Cluster: Grants to States Preschool Grants, U.S. Department of Education (ED)
Pass-Through Entity:	California Department of Education
Award Number and Year Awarded:	Grant Agreements 06-13430-6473-01 and 06-13682-6473-01
Compliance Requirement:	Reporting
State Audit Guide Finding Code:	30000 and 50000

Criteria

Title 34 – Education, Part 80 – *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*, Subpart C – Post – Award Requirements, Section 80.20, Standards for financial management systems – Financial Administration.

- A state must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to:
 - Permit preparation of reports required by this part and the statutes authorizing the grant, and
 - Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions or applicable statutes.
- The financial management systems of other grantees and subgrantees must meet the following standards:
 - Financial reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.
 - Accounting records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

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Condition

In our procedures performed over financial reporting, we noted that the District prepared the Mid-year and Final Reports for the Local Assistance Entitlement program and the Federal Preschool Grant, Preschool Local Entitlement and Early Intervention Fund, Part C programs using information from the Integrated Financial System (IFS) from July through December and from Systems Applications and Products (SAP) Systems from January through July. In order to test the accuracy of the information the reports, we selected a sample of reports and traced total expenditures reported to IFS and/or SAP.

The District was unable to provide general ledger documentation to support total expenditures reported on 3 of the 4 mid-year expenditure reports submitted during the fiscal year ended June 30, 2007.

Cause and Effect

The differences noted in the mid-year expenditure reports were due to adjustments made to prior accounting periods in the general ledger, which remained open after the report is submitted, without retaining the report to support the point-in-time expenditure reporting. Updates are continually made to the expenditures in the general ledger until the period is closed in the system. Reconciliations are not performed.

Questioned Costs

Undetermined.

Recommendation

We recommend the District strengthen its current controls over reporting to ensure that supporting documentation is maintained for all reports submitted. Furthermore, we recommend the District perform reconciliation of expenditures reported on the mid-year expenditure report and the year-end expenditures per the general ledger.

Views of Responsible Officials and Planned Corrective Actions

The District disagrees with the findings. The expenditures reported to the auditor covers the period from July 1 through June 30. Although expenditures in the system (FRDB) covers the period from July 1 through September 30, entries are made to adjust the expenditures to specific years.

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Year ended June 30, 2007

Program Identification

Finding Reference Number:	F-07-29
Federal Program Title, Awarding Agency, Pass-Through Entity, Catalog of Federal Domestic Assistance (CFDA) Number, Award Number and Year:	Twenty-First Century Community Learning Centers, <i>U.S. Department of Education (ED)</i> ; Passed through the California Department of Education, CFDA No. 84.287, Grant Agreements 05-14349-6473-2A and 06-14349-6473-1A; Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP), <i>U.S. Department of Education (ED)</i> , CFDA No. 84.334, Grant Agreements P334A000061-05, P334A050178-06, and P334A050205
Compliance Requirement:	Subrecipient Monitoring
State Audit Guide Finding Code:	50000

Criteria

United States Code, Title 31 – Money and Finance, Subtitle V – General Assistance Administration, Chapter 75 – Requirements for Single Audits, Section 7502, Audit requirements; exemptions:

- Each pass-through entity shall:
 - (a) provide such subrecipient the program names (and any identifying numbers) from which such assistance is derived, and the federal requirements which govern the use of such awards and the requirements of this chapter;
 - (b) monitor the subrecipient's use of federal awards through site visits, limited scope audits, or other means;
 - (c) review the audit of a subrecipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, as defined by the Director, pertaining to federal awards provided to the subrecipient by the pass-through entity; and
 - (d) require each of its subrecipients of federal awards to permit, as a condition of receiving federal awards, the independent auditor of the pass-through entity to have such access to the subrecipient's records and financial statements as may be necessary for the pass-through entity to comply with this chapter.

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Condition

Twenty-First Century Community Learning Centers: During our procedures performed over subrecipient monitoring, we noted the following:

- The District performs site visits on its subrecipients to ascertain whether they are operating the program in accordance with the requirements, but were unable to provide 33 of the 50 sampled completed site visit observation forms. We also noted 1 of the 17 monitoring forms provided was incomplete.
- The District did not make determinations of which subrecipients expended a total of \$500,000 or more in federal awards to assess the completeness of the A-133 audits received. We did note that they had received A-133 reports for all but one subrecipient that they had paid more than \$500,000 during the fiscal year. In our review of the subrecipient audits, we noted the following:
 - 2 subrecipients with payments totaling \$397,562 that were each paid over \$100,000 during the fiscal year, where the District did not obtain A-133 report or other audited financial statement, or review the federal single audit clearinghouse to ascertain whether required audits had been performed.
 - 1 subrecipient paid \$1,364,095 where the District did not obtain an A-133 report or review the federal single audit clearinghouse to ascertain whether the audit was performed or whether any findings were issued for audits of their program. Our review of the clearinghouse showed the last audit on record was for the fiscal year ended June 30, 2005.
 - 4 subrecipients with payments totaling \$1,741,769 that had obtained A-133 audits; however, their reports contained errors such as incorrect CFDA number, the District program was not included on the schedule of expenditure of federal awards (SEFA), or contained materially incorrect reported expenditures, and the District did not communicate the errors to the subrecipients for them to be corrected in future audits.
 - 1 subrecipient that was paid \$2.2 million, where the program was audited and resulted in two findings issued. The District did not issue management decisions on these findings to the subrecipient.
 - 2 subrecipients paid \$154,317 that submitted financial statement audits instead of A-133 audits to the District. In reviewing the federal single audit clearinghouse, we noted these subrecipients had received A-133 audits; however, the District's program was not included on the SEFA.

Total program expenditures for the fiscal year ended June 30, 2007 amounted to \$8,264,360, with approximately \$6,600,000 of those expenditures paid to subrecipients.

GEAR-UP: During our procedures performed over subrecipient monitoring, we noted 9 of the 10 program subrecipient contracts did not contain appropriate award identification information (i.e., CFDA No., federal awarding agency,). These contracts with incomplete award identification totaled \$2,261,760 of the \$2,284,760 total subrecipient award contracts.

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Total program expenditures for the fiscal year ended June 30, 2007 amounted to \$5,231,874, with approximately \$830,000 of those expenditures paid to subrecipients.

Cause and Effect

For the Twenty-First Century Community Learning Centers program, there does not appear to be sufficient guidance/training of federal pass-through entity requirements to ensure that adequate subrecipient monitoring is performed.

For the Gear-Up program, the District indicated it had added the appropriate award information to new subrecipient contracts that are issued after June 30, 2007. The program director indicated she verbally communicated all the additional program information to the existing subrecipients; however, the District did not issue contract amendments to existing multiyear contracts to formally supplement the required award identification information.

Questioned Costs

Not applicable.

Recommendation

We recommend the District provide additional guidance/training to ensure subrecipient awards are properly identified and monitored to ensure their compliance with federal guidelines.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with this finding. The District is obtaining A-133 documents from subrecipients and is taking additional steps to implement procedures and controls to ensure that site observations take place monthly and that visits are properly documented. In addition, the following policies and procedures were also added to subrecipient contracts:

- A staff person is dedicated to requesting, reviewing, and following up on subrecipient audits and findings.
- Staff will regularly monitor, the Web site <http://harvester.census.gov> to determine which recipients have received over \$500,000 in federal funding and review those audits online, if not provided with a copy.
- Reminder notices will be sent to subrecipients advising subrecipients of potential consequences, such as withholding funding for lack of compliance for those subrecipients who fail to provide audits.
- As a follow-up to finding regarding site visits and tracking of documentation, staff has been assigned to log completion of site observations and receipt of observation forms, which are reviewed quarterly for accuracy and completeness.

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Year ended June 30, 2007

Program Identification

Finding Reference Number:	F-07-30
Federal Program Title, Awarding Agency, Pass-Through Entity, CFDA Number, Award Number:	<p>Title I Grants to Local Educational Agencies: <i>U.S. Department of Education (ED)</i>, Passed through the California Department of Education, CFDA No. 84.010, Grant Agreement 06-14329-6473;</p> <p>Safe and Drug-Free Schools and Communities, <i>U.S. Department of Education (ED)</i>, Passed through the California Department of Education, CFDA No. 84.186, Grant Agreement Q186A060005;</p> <p>Twenty-First Century Community Learning Centers, <i>U.S. Department of Education (ED)</i>, Passed through the California Department of Education, CFDA No. 84.287, Grant Agreements 05-14349-6473-2A, 05-14349-6473-3A, and 06-14349-6473-1A;</p> <p>Education Technology State Grants, <i>U.S. Department of Education (ED)</i>, Passed through the California Department of Education, CFDA No. 84.318, Grant Agreements 2005/06-14368-6473-00;</p> <p>Reading First State Grants; <i>U.S. Department of Education (ED)</i>, Passed through the California Department of Education, CFDA No. 84.357, Grant Agreement 04-14328-6473-00;</p> <p>English Language Acquisition Grants, <i>U.S. Department of Education (ED)</i>, Passed through the California Department of Education, CFDA No. 84.365, Grant Agreements 03-14346-6473-00 and 03-10084-6474-00;</p> <p>Improving Teacher Quality State Grants, <i>U.S. Department of Education (ED)</i>, Passed through the California Department of Education, CFDA No. 84.367, Grant Agreement S367A040005A</p>
Compliance Requirement:	Special Tests and Provisions – Participation of Private School Children
State Audit Guide Finding Code:	50000

Criteria

Code of Federal Regulations, Title 34 – Education – Secondary Education, Department of Education – Part 299 – General Provisions – Subpart E – Services to Private School Students and Teachers,

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Section 299.6, What are the responsibilities of a recipient of funds for providing services to children and teachers in private schools?

- (a) General. An agency or consortium of agencies receiving funds under an applicable program listed in paragraph (b) of this section, after timely and meaningful consultation with appropriate private school officials (in accordance with the statute), shall provide special educational services or other benefits under this subpart on an equitable basis to eligible children who are enrolled in private elementary and secondary schools, and to their teachers and other educational personnel.

United States Code, Title 20 – Education, Chapter 70 – Strengthening and Improvement of Elementary and Secondary Schools, Subchapter IX – General Provisions, Part E – Uniform Provisions, subpart 1 – private schools, Section 7881, Participation by private school children and teachers – (c) Consultation:

- (1) In general. To ensure timely and meaningful consultation, a State educational agency, local educational agency, educational service agency, consortium of those agencies, or entity shall consult with appropriate private school officials during the design and development of the programs under this chapter, on issues such as:
 - (a) how the children's needs will be identified;
 - (b) what services will be offered;
 - (c) how, where, and by whom the services will be provided;
 - (d) how the services will be assessed and how the results of the assessment will be used to improve those services;
 - (e) the size and scope of the equitable services to be provided to the eligible private school children, teachers, and other educational personnel and the amount of funds available for those services; and
 - (f) how and when the agency, consortium, or entity will make decisions about the delivery of services, including a thorough consideration and analysis of the views of the private school officials on the provision of contract services through potential third-party providers.
- (2) Disagreement. If the agency, consortium, or entity disagrees with the views of the private school officials on the provision of services through a contract, the agency, consortium, or entity shall provide to the private school officials a written explanation of the reasons why the local educational agency has chosen not to use a contractor.
- (3) Timing. The consultation required by paragraph (1) shall occur before the agency, consortium, or entity makes any decision that affects the opportunities of eligible private school children, teachers, and other educational personnel to participate in programs under this chapter, and shall continue throughout the implementation and assessment of activities under this section.
- (4) Discussion required. The consultation required by paragraph (1) shall include a discussion of service delivery mechanisms that the agency, consortium, or entity could use to provide equitable services to eligible private school children, teachers, administrators, and other staff.

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Condition

The District is its own Local Educational Agency (LEA) and receives all of the funding for the No Child Left Behind (NCLB) programs for the schools within its attendance area boundaries and has the responsibility for consulting and distributing those funds to schools, which includes private schools. In our procedures performed to ascertain if private schools were timely and appropriately consulted regarding their ability to receive NCLB funding, we noted the following errors or omissions:

- (1) We selected a sample of 50 schools from the State of California Web site of private schools that fall within the District's attendance area boundaries and requested documentation to support it had notified the private school of the annual general information meeting in May 2006 to discuss federal funding sources available to private schools for the fiscal year ended June 30, 2007. We noted the District could not provide documentation to support the notification to 2 of the 50 private schools sampled.
- (2) For the schools that had attended the general information meetings, we selected a sample of schools that had expressed interest in participating in the specified program. We requested that the District provide support for the consultation for those programs and noted the following exceptions:
 - **Title I Grants to Local Educational Agencies** – We noted the District did not perform timely consultations with the interested private schools. The District's policy is to wait until after the standardized tests scores are released in late November to begin consultations for a school year that begins in July. In our sample of 30 consultations made, we noted all 30 were completed between October 16, 2006 and February 24, 2007, which is significantly into the school year. The District does not provide estimated allocations at earlier consultations for the Title I program as it does for its other programs.
 - **Safe and Drug-Free Schools and Communities** – We noted the District did not perform timely consultations with the interested private schools. The consultations were scheduled for May but were not performed until November and December 2006, which was almost 50% into the school year. The District was also unable to provide documentation to support consultations or attempts to notify the private schools regarding a scheduled meeting to discuss services and funding for 8 of the 19 private schools that indicated they were interested.
 - **Twenty-First Century Community Learning Centers** – The District was unable to provide documentation to support consultations or attempts to notify the private schools regarding the scheduled meeting to discuss services and funding available for 7 of the 16 private schools that indicated they were interested.
 - **English Language Acquisition** – The District was unable to provide documentation to support consultations or attempts to notify the private schools regarding the scheduled meeting to discuss services and funding available for 7 of the 50 private schools that indicated they were interested. We also noted an additional 2 schools where the District provided support for consultations; however, the services were not provided.

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Cause and Effect

The District indicated they had sent notifications to all private schools that were listed on the California Department of Education Web site when the notifications were mailed in February 2006. We noted the listing of schools on the Web site as of that date was for the 2004 – 2005 school year. The District did not perform any additional procedures to ascertain any new schools that would be eligible for funding that were not included on the 2004 – 2005 listing. The two exceptions noted were included on the 2005 – 2006 listing was posted in May 2006, which was available in sufficient time to allow them to participate in the 2006 – 2007 program.

Questioned Costs

Not determined.

Recommendation

We recommend the District strengthen processes and controls to ensure that all eligible private schools notified of their ability to participate and are timely consulted of goods and services available.

Views of Responsible Officials and Planned Corrective Actions

As a result of condition 1 of the finding, it was determined that the House Upon the Rock and the New Covenant Academy were sent certified letters by the LEA notifying them of their eligibility to participate in Title II, Part A services. House Upon the Rock and New Covenant Academy did receive certified letters from the LEA inviting them to participate in NCLB services.

As a result of condition 2 of the finding, the Title II, Part A private schools office (NCLB Private Schools Support) immediately initiated procedures on a monthly basis to review and verify the names of any nonprofit private schools that were not identified on the previous month's California Department of Education Private School Data List. Private schools were then sent a letter informing them of their eligibility to participate and receive Title II, Part A benefits and services based upon timely and meaningful consultation.

Auditors' Comment on Views of Responsible Officials and Planned Corrective Actions

The District maintains the certified mail receipts rather than a copy of the letter sent as proof of notification. The District provided the certification mail receipts for all but the two schools noted. Upon our inquiry regarding the two missing certified mail receipts, the District notified us of the flaw in their process as noted in the cause and effect paragraph.

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Program Identification

Finding Reference Number:	F-07-31
Federal Program Title, Awarding Agency, Pass-Through Entity, Catalog of Federal Domestic Assistance (CFDA) Number, Award Number and Year:	Safe and Drug Free-Schools and Communities, <i>U.S. Department of Education (ED)</i> , Passed through the California Department of Education, CFDA No. 84.186, Grant Agreement Q186A060005; English Language Acquisition Grants, <i>U.S. Department of Education (ED)</i> , Passed through the California Department of Education, CFDA No. 84.365, Grant Agreements 03-14346-6473-00, and 10084-6474-00; Improving Teacher Quality State Grants, <i>U.S. Department of Education (ED)</i> , Passed through the California Department of Education, CFDA No. 84.367, Grant Agreement S367A040005A
Compliance Requirement:	Special Tests and Provisions – Participation of Private School Children
State Audit Guide Finding Code:	30000 and 50000

Criteria

Code of Federal Regulations, Title 34 – Education – Secondary Education, Department of Education, Part 299 – General Provisions – Subpart E – Services to Private School Students and Teachers, Section 299.7; What are the factors for determining equitable participation of children and teachers in private schools:

(a) Equal expenditures:

- (1) Expenditures of funds made by an agency or consortium of agencies under a program listed in Section 299.6 (b) for services for eligible private school children and their teachers and other educational personnel must be equal on a per-pupil basis to the amount of funds expended for participating public school children and their teachers and other educational personnel, taking into account the number and educational needs of those children and their teachers and other educational personnel.
- (2) Before determining equal expenditures under paragraph (a)(1) of this section, an agency or consortium of agencies shall pay for the reasonable and necessary administrative costs of providing services to public and private school children and their teachers and other educational personnel from the agency's or consortium of agencies' total allocation of funds under the applicable ESEA program.

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- (b) Services on an equitable basis:
 - (1) The services that an agency or consortium of agencies provides to eligible private school children and their teachers and other educational personnel must also be equitable in comparison to the services and other benefits provided to public school children and their teachers or other educational personnel participating in a program under this subpart.
 - (2) Services are equitable if the agency or consortium of agencies:
 - (i) Addresses and assesses the specific needs and educational progress of eligible private school children and their teachers and other educational personnel on a comparable basis to public school children and their teachers and other educational personnel;
 - (ii) Determines the number of students and their teachers and other educational personnel to be served on an equitable basis;
 - (iii) Meets the equal expenditure requirements under paragraph (a) of this section; and
 - (iv) Provides private school children and their teachers and other educational personnel with an opportunity to participate that:
 - (a) Is equitable to the opportunity and benefits provided to public school children and their teachers and other educational personnel; and
 - (b) Provides reasonable promise of participating private school children meeting challenging academic standards called for by the State's student performance standards and of private school teachers and other educational personnel assisting their students in meeting high standards.
 - (3) The agency or consortium of agencies shall make the final decisions with respect to the services to be provided to eligible private school children and their teachers and the other educational personnel.
- (c) If the needs of private school children, their teachers, and other educational personnel are different from the needs of children, teachers, and other educational personnel in the public schools, the agency or consortium of agencies shall provide program benefits for the private school children, teachers, and other educational personnel that are different from the benefits it provides for the public school children, and their teachers, and other educational personnel.

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Year ended June 30, 2007

Condition

In our review of the per-pupil allocations that were offered to the participating private schools, we noted the “per-pupil allocation” available to private schools was initially calculated in May 2006. The final calculations based on actual entitlements with adjustments were made in January 2007, which resulted in a change in per-pupil allocations for 3 programs. Two of the three programs resulted in an increased per-pupil allocation. We were unable to obtain documentation to support that the District notified and provided the participating schools of the additional available award allocation.

- Improving Teacher Quality (Title II, Part A) initial estimated per-pupil allocation of \$60.21 with a final per-pupil allocation of \$70.23, an increase of \$10.02 per-pupil.
- Safe and Drug-Free Schools and Communities (Title IV, Part A) initial estimated per-pupil allocation of \$4.62 with a final allocation of \$4.85, an increase of \$.23 per-pupil.
- English Language Acquisition (Title III) initial estimated per-pupil allocation of \$80 with a final allocation of \$91, an increase of \$11.00 per-pupil.

Total enrollment of private school students was 88,395; however, we were not able to obtain the total enrollment of actual participating students in these programs.

Cause and Effect

There does not appear to be sufficient policies and procedures in place to ensure private schools are notified of changes in allocations to allow them the opportunity to request increases in program allocations.

Questioned Costs

Not determined.

Recommendation

We recommend enhance policies and procedures to ensure participating private schools are timely notified of any changes in per-pupil allocation amounts available.

Views of Responsible Officials and Planned Corrective Actions

The District disagrees with the finding. Formal notification of the final Title II, Part A allocation award was provided to all qualified, nonprofit, participating private schools by the LEA in 2006 – 2007. A letter dated January 22, 2007 that was sent to the Los Angeles Archdiocese, who represents 134 private schools receiving Title II, Part A services within the LEA. The notice informs the consortium that the estimated Title II, Part A allocation award had been adjusted, thereby increasing the per-pupil allocation by \$10.02.

Auditors Comment on Views of Responsible Officials and Planned Corrective Actions

The Los Angeles Archdiocese was only 1 of the 47 private schools that were participating in the program. Correspondence to inform of the increase should have been provided to all participating schools.

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LOS ANGELES UNIFIED SCHOOL DISTRICT

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Program Identification

Finding Reference Number:	F-07-32
CFDA Numbers:	84.367
Federal Program Titles:	Improving Teacher Quality, <i>U.S. Department of Education (ED)</i>
Pass-Through Entity:	California Department of Education
Award Number and Year Awarded:	Grant Agreements
Compliance Requirement:	Special Tests and Provisions – Assessment of Need
State Audit Guide Finding Code:	50000

Criteria

United States Code, Title 20 – Education – Chapter 70 – Strengthening and Improvement of Elementary and Secondary Schools Subchapter II – Preparing, Training, and Recruiting High-Quality Teachers and Principals, Part A – Teacher and Principal Training and Recruiting Fund, Subpart 2 – Subgrants to local educational agencies, Section 6622, Local applications and needs assessment, (b) contents, and (c) needs assessment:

- A description of the results of the needs assessment described in subsection (c) of this section.
- In general – To be eligible to receive a subgrant under this subpart, a local educational agency shall conduct an assessment of local needs for professional development and hiring, as identified by the local educational agency and school staff.
- Requirements – Such needs assessment shall be conducted with the involvement of teachers, including teachers participating in programs under part A of subchapter I of this chapter, and shall take into account the activities that need to be conducted in order to give teachers the means, including subject matter knowledge and teaching skills, and to give principals the instructional leadership skills to help teachers, to provide students with the opportunity to meet challenging State and local student academic achievement standards.

Improving Teacher Quality State Grants, *ESEA Title II, Part A, Non-Regulatory Guidance*, Revised, October 5, 2006, Academic Improvement and Teacher Quality Programs, Office of Elementary and Secondary Education, U.S. Department of Education.

- **D-11 What is the purpose of the LEA needs assessment and how does the LEA use it?** The purpose of the needs assessment is to determine the needs of the LEA's teaching force in order to be able to have all students meet challenging State content and academic achievement standards. An LEA may want to use information, such as student achievement data, information about numbers of teachers (disaggregated by subject taught and grade level) who lack full teacher certification or

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Schedule of Findings and Questioned Costs

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licensure, assessments by administrators and mentor teachers who evaluate teacher and student performance, and teacher self-evaluations.

The LEA uses the needs assessment to identify local teacher quality needs. Among other things, the assessment should identify those needs that must be addressed if the LEA does not have all teachers highly qualified. The assessment should take into account:

- (1) The activities that the LEA must conduct in order to give teachers the means to provide all students with the opportunity to meet challenging State content and academic achievement standards; and
- (2) The activities that the LEA needs to conduct in order to give principals the instructional leadership skills to help teachers provide all students with the opportunity to meet challenging State content and academic achievement standards (Section 2122(c)(2)).

A needs assessment also identifies those areas that an LEA should strengthen, such as areas of weakness in student academic achievement, as part of a meaningful plan for professional development and hiring. The LEA uses the results of this assessment to plan its Title II, Part A activities, keeping in mind its student achievement goals and its plan for ensuring that all teachers in core academic areas meet the “highly qualified” requirements.

- **D-14. After conducting its needs assessment, must the LEA target its use of Title II, Part A funds?** Yes. The LEA must target funds to schools that (1) have the lowest proportion of highly qualified teachers, (2) have the largest average class size, or (3) are identified for school improvement under Section 1116(b) of Title I, Part A (Section 2122 (b)(3)).

In addition, in considering its best use of Title II, Part A funds, an LEA should consider whether to target Title II, Part A funds to help it meet its responsibilities under Title I. These include providing assurances that the LEA will: (1) work in consultation with schools as the schools develop and implement their plans or activities under Section 1119 (Section 1112(c)(1)(H)); (2) comply with the requirements of Section 1119 regarding the qualifications of teachers and paraprofessionals and professional development (Section 1112(c)(1)(I)); and (3) ensure, through incentives for voluntary transfers, professional development, recruitment programs, or other effective strategies, that low-income students and minority students are not taught at higher rates than other students by unqualified, out-of-field, or inexperienced teachers (Section 1112(c)(1)(L)).

- **D-16. Must staff at individual schools be involved in developing an LEA’s needs assessment?** Yes. The law states that the needs assessment must reflect the needs for professional development “as identified by the [LEA] and school staff,” and requires the LEA to conduct its needs assessment “with the involvement of teachers, including teachers participating in programs under part A of Title I” (Section 2122(c)(1) and (2)). Therefore, the LEA needs to involve teachers at individual schools in the needs assessment process. How it does so (e.g., through surveys, focus groups, and other means of collecting data) is left to the LEA and its staff to decide.
- **D-17. Should an LEA needs assessment examine strategies for eliminating the achievement gap that separates low-income and minority students from other students?** Yes. Since the law requires each LEA to develop a strategy for closing this achievement gap (Section 2122(b)(2)), the LEA presumably will want to use the needs assessment process to engage teachers, principals, and other staff in identifying key professional development and hiring needs in this critical area.

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Condition

The District asserted it has a process to prepare its needs assessment. It begins with the local superintendents periodically meeting with the directors and principals to assess the needs of students and teachers. The assistant superintendent collects information gathered in the comprehensive needs assessment performed on a biannual basis from the local district superintendents. However, there is no evidence that these processes were performed. We were unable to obtain the results of these needs assessments that were indicated to have been performed biannually.

The District was able to provide meeting agendas that indicated schools had discussed various educational professional development topics. However, none of the documentation provided supported that the District assessed its hiring and professional development needs as described in the Title II, Part A non-regulatory guidance and targeted these program funds to meet those needs. Since we were unable to obtain the results of any District hiring and professional development assessments, we are able to assess if the Title II, Part A funds were used to meet those assessed needs.

Cause and Effect

We were unable to obtain any District policy for the compilation and dissemination of information regarding the required needs assessment. Since this program is part of the consolidated application, the District is not required to submit a specific annual application to the State that contains the results of its needs assessment conducted. Without specific policies and procedures on how to conduct the assessment, there is increased risk that it will not be conducted to focus on federally determined targets and priorities.

Questioned Costs

Not applicable.

Recommendation

We recommend the District establish formal policies and procedures for conducting the required needs assessment to ensure the District complies with federal guidelines.

Views of Responsible Officials and Planned Corrective Actions

The District currently performs the required needs assessments. The District will review its policy for the compilation of information regarding the required needs assessments.

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LOS ANGELES UNIFIED SCHOOL DISTRICT

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Year ended June 30, 2007

Program Identification

Finding Reference Number:	F-07-33
Federal Catalog of Domestic Assistance Number(s):	84.365
Federal Program Titles:	English Language Acquisition Program, <i>U.S. Department of Education (ED)</i>
Pass-Through Entity:	California Department of Education
Award Number:	Grant Agreements
Compliance Requirement:	Special Tests and Provisions – Parental Notification
State Audit Guide Finding Code:	50000

Criteria

Elementary & Secondary Education Act, Subpart 5 – Administration, Part c – General Provisions, Section 3302, Parental Notification:

- (a) In General – Each eligible entity using funds provided under this title to provide a language instruction educational program shall, not later than 30 days after the beginning of the school year, inform a parent or the parents of a limited English proficient child identified for participation in, or participating in, such program of:
- (1) the reasons for the identification of their child as limited English proficient and in need of placement in a language instruction educational program;
 - (2) the child's level of English proficiency, how such level was assessed, and the status of the child's academic achievement;
 - (3) the method of instruction used in the program in which their child is, or will be, participating, and the methods of instruction used in other available programs, including how such programs differ in content, instruction goals, and use of English and a native language in instruction;
 - (4) how the program in which their child is, or will be participating will meet the educational strengths and needs of the child;
 - (5) how such program will specifically help their child learn English, and meet age-appropriate academic achievement standards for grade promotion and graduation;
 - (6) the specific exit requirements for such program, the expected rate of transition from such program into classrooms that are not tailored for limited English proficient children, and the expected rate of graduation from secondary school for such program if funds under this title are used for children in secondary schools;

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- (7) in the case of a child with a disability, how such program meets the objectives of the individualized education program of the child; and
- (8) information pertaining to parental rights that includes written guidance
 - (A) detailing:
 - (i) the right that parents have to have their child immediately removed from such program upon their request and
 - (ii) the options that parents have to decline to enroll their child in such program or to choose another program or method of instruction, if available and
 - (B) assisting parents in selecting among various programs and methods of instruction, if more than one program or method is offered by the eligible entity.
- (b) Separate Notification – In addition to providing the information required to be provided under subsection (a), each eligible entity that is using funds provided under this title to provide a language instruction educational program, and that has failed to make progress on the annual measurable achievement objectives described in Section 3122 for any fiscal year for which part A is in effect, shall separately inform a parent or the parents of a child identified for participation in such program, or participating in such program, of such failure not later than 30 days after such failure occurs.
- (c) Receipt of Information – The information required to be provided under subsections (a) and (b) to a parent shall be provided in an understandable and uniform format and, to the extent practicable, in a language that the parent can understand.

Condition

In our procedures performed over participating limited English proficiency (LEP) students, we requested copies of the required parental notifications for the students participating in the program during the 2006 – 2007 school year. In our sample of 50 participating students, the District was unable to provide support for 9 of the 50 sampled student parental notifications. In addition, we noted 5 additional sampled students where support for the parent notification was provided; however, based on the dates these letters were issued, the notifications were not issued within 30 days from the beginning of the school year. These letters were dated subsequent to the last day of the 2006 – 2007 school year.

Cause and Effect

We were unable to identify controls in place to reduce the risk of noncompliance that students participating in the program receive the required notification. There does not appear to be effective controls in place to ensure that all parents of participating students are timely notified, nor does there appear to be effective document policies to ensure that all required documentation is retained and available for audit purposes.

Questioned Costs

Not applicable.

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Recommendation

We recommend the District establish strengthen policies and procedures to ensure all parental notifications are timely made and supporting documentation is maintained.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the finding. The federal and state guidelines with regard to notification of parents within 30 days were inconsistent in the 2006 – 2007 academic calendar year. In 2007 – 2008, the California Department of Education provided guidance for complying with the parental notifications. The District has published policies and procedures for schools consistent with the requirement for parental notification.

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Program Identification

Finding Reference Number:	F-07-34
Federal Catalog of Domestic Assistance Number(s):	84.010
Federal Program Titles:	Title I Grants to LEAs, <i>U.S. Department of Education (ED)</i>
Pass-Through Entity:	California Department of Education
Award Number	Grant Agreements
Compliance Requirement:	Special Tests and Provisions – Highly Qualified Teachers and Paraprofessionals
State Audit Guide Finding Code:	50000

Criteria

Title 34 – Education, Secondary Education, Department of Education, Part 200, Title I – Improving The Academic Achievement of the Disadvantaged, Subpart A – Improving Basic Programs Operated by Local Educational Agencies, Section 200.55, Qualifications of teachers:

- All teachers of core academic subjects. (1) Not later than the end of the 2005 – 2006 school year, each state that receives funds under subpart A of this part, and each LEA in that state, must ensure that all public elementary and secondary school teachers in the state who teach core academic subjects, including teachers employed by an LEA to provide services to eligible private school students under Section 200.62, are highly qualified as defined in Section 200.56.

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Title 34 – Education, Secondary Education, Department of Education, Part 200 – Title I – Improving The Academic Achievement of the Disadvantaged, Subpart A – Improving Basic Programs Operated by Local Educational Agencies, Section 200.58, Qualifications of paraprofessionals:

- New paraprofessionals. A paraprofessional covered under paragraph (a) of this section, who is hired after January 8, 2002, must have:
 - (1) Completed at least two years of study at an institution of higher education;
 - (2) Obtained an associate's or higher degree; or
 - (3) (i) Met a rigorous standard of quality, and can demonstrate through a formal State or local academic assessment knowledge of, and the ability to assist in instructing, as appropriate:
 - (a) Reading/language arts, writing, and mathematics or
 - (b) Reading readiness, writing readiness, and mathematics readiness.
 - (ii) A secondary school diploma or its recognized equivalent is necessary, but not sufficient, to meet the requirement in paragraph (c)(3)(i) of this section.
- Existing paraprofessionals. Each paraprofessional, who was hired on or before January 8, 2002, must meet the requirements in paragraph (c) of this section no later than January 8, 2006.

Condition

During our procedures performed to ascertain if the District was in compliance with the highly qualified teacher and paraprofessional requirements, we made inquiries with the District as to its compliance status as of June 30, 2007. The District provided us with a copy of its Staffing Plan for 2007 – 2008 dated January 31, 2007 and its interoffice correspondence regarding the Equitable Distribution of Qualified Teachers dated June 21, 2007. These documents indicated it had identified approximately 930 teachers and 600 paraprofessionals that were not currently in compliance with the NCLB highly qualified requirements.

The District employed approximately 33,700 teachers and 14,200 paraprofessionals during the year ended June 30, 2007.

Cause and Effect

The District indicated challenges in hiring and placement of prospective teachers who may have been hesitant to serve at low-performing schools. It was this inability to attract desirable candidates that appeared to contribute to the numbers of nonhighly qualified teachers and paraprofessionals.

Questioned Costs

Not applicable.

Recommendation

We recommend the District implement policies and procedures to ensure the remainder of its teachers and paraprofessionals obtain their highly qualified status to comply with NCLB requirements.

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Year ended June 30, 2007

Views of Responsible Officials and Planned Corrective Actions

The District has submitted its Compliance, Monitoring, Intervention and Sanctions (CMIS) Plan to the California Department of Education last August 2008 to improve teacher quality by increasing credentialed teachers, reducing provisional interns, expanding the credentialing programs, implementing the Verification Process for Special Settings (VPSS) program with the end in view of achieving 95% NCLB compliant teachers at all schools by fiscal year 2010-2011.

The District is now only hiring paraprofessionals who are fully-NCLB compliant and assigning the remaining non-complaint paraprofessional to non-Title I schools. Paraprofessionals not meeting the requirements have been reduced through training and professional development.

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Program Identification

Finding Reference Number:	F-07-35
Federal Catalog of Domestic Assistance Number(s):	83.544 and 97.036
Federal Program Titles:	Public Assistance Grants
Pass-Through Entity:	State of California Governor's Office of Emergency Services
Award Number:	FEMA-1008-DR-CA and P.A. 037-91146
Compliance Requirement:	Other
State Audit Guide Finding Code:	30000 and 50000

Criteria

OMB Circular A-133 – Audits of States, Local Governments, and Non-Profit Organizations, Subpart C – Auditees, Section 310, Financial Statements – b. Schedule of Expenditures of Federal Awards.

- The auditee shall also prepare a SEFA for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a federal program has multiple award years, the auditee may list the amount of federal awards expended for each award year separately. At a minimum, the schedule shall:
 - (1) List individual federal programs by federal agency. For federal programs included in a cluster of programs, list individual federal programs within a cluster of programs. For R&D, total federal awards expended shall be shown either by individual award or by federal agency and major subdivision within the federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
 - (2) For federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.

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- (3) Provide total federal awards expended for each individual federal program and the CFDA number or other identifying number when the CFDA information is not available.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the federal awards expended in the form of noncash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year-end. While not required, it is preferable to present this information in the schedule.

Condition

In the sample of 30 expenditures recorded during the fiscal year and reported on the schedule of expenditure of federal awards (SEFA), we noted 6 expenditures that totaled \$229,424 that were not allowable per the applicable Damage Survey Report (DSR) and the Public Assistance Grant Acceleration Program (GAP) Instructional Guide issued by the Governor's Office of Emergency Services.

All six expenditures were for Americans with Disabilities Act (ADA) expenses and construction for five school projects, where expenditures had not yet been claimed for reimbursement, but were incurred during the current fiscal year. We noted in the three other school projects sampled, where expenditures had been claimed for reimbursement during the fiscal year, that the same unallowable expenditures had been properly excluded from the claim reimbursement requests. However, even though these unallowable ADA expenditures have not been claimed for reimbursement, they were reported on the SEFA as federal expenditures for the current fiscal year, which overstates the total federal expenditures for the year.

Total exceptions amounted to \$229,424 of the \$890,820 sampled from the \$2,737,566 total nonpayroll program expenditures for the fiscal year ended June 30, 2007.

Cause and Effect

These unallowable expenditures appear to be commingled with allowable expenditures in the general ledger, causing the over reporting of federally funded expenditures on the SEFA. Overstating the federal program expenditures can have an impact on the federal major program audit determination formula, which can result in a federal program being audited but was not required.

Questioned Costs

Not applicable.

Recommendation

We recommend the District establish segregation of accounts to ensure allowable and unallowable expenditures are recorded to allow for more accurate reporting of federal expenditures on its SEFA.

LOS ANGELES UNIFIED SCHOOL DISTRICT

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Views of Responsible Officials and Planned Corrective Actions

The District agrees with the finding. Additional controls will be implemented to ensure that only allowable expenditures are recorded on Federal Public Assistance Grants, claimed for reimbursement, and reported on the SEFA. District will further review for ineligible ADA expenditures to be transferred to a suitable alternate funding source.

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(4) Findings and Questioned Costs Relating to State Awards

S-07-01 Attendance Accounting – Independent Study – Required Elements of Independent Study Agreement

State Audit Guide Finding Code: 40000

School Affected

City of Angels

Criteria

California Education Code 51747, part (c) – a requirement that a current written agreement for each independent study pupil shall be maintained on file including, but not limited to, all of the following:

- The manner, time, frequency, and place for submitting a pupil's assignments and for reporting his or her progress.
- The duration of the independent study agreement, including the beginning and ending dates for the pupil's participation in independent study under the agreement. No independent study agreement shall be valid for any period longer than one semester, or one-half year for a school on a year-round calendar.

Condition, Cause and Effect

We selected a sample of 73 written agreements for required elements. From this sample, we noted 2 agreements that did not contain the required elements:

- The District was unable to provide a 2006-2007 fall semester written agreement for one student sample. The agreement provided was for the fall 2005-2006 semester.
- One agreement for the fall semester for 2006-2007 did not contain the beginning date of the agreement.

This is a repeat finding from June 30, 2006 (S-06-05) and June 30, 2005 (S-05-05).

Questioned Costs

\$5,978 [138 days ineligible/128 days = 1.0781 x \$5,545]

LOS ANGELES UNIFIED SCHOOL DISTRICT

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Recommendation

We recommend that the District monitor the agreements enacted by the teachers with the students and parents to ensure that they are accurate and complete.

View of Responsible Officials and Planned Corrective Actions

The District agrees with the finding. The review process will be strengthened. Monthly student files, including master agreements, will be checked for errors or inaccuracies. Incoming students will not be allowed to enroll unless master agreements are complete.

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S-07-02 Attendance Accounting – Continuation Education – Attendance Computations

State Audit Guide Finding Codes: 10000 and 40000

School Affected

Central Continuation High School

Moneta Continuation High School

Criteria

Title 5, California Code of Regulations, Section 401(d) – in all classes for adults, continuation schools, and classes, and regional occupational centers and programs, attendance shall be reported to the supervising administrator at least once each school month.

California Education Code, Section 46300(a) – in computing average daily attendance of a school district or county office of education, there shall be included the attendance of pupils while engaged in educational activities required of those pupils and under the immediate supervision and control of an employee of the district or county office who possessed a valid certification document, registered as required by law.

California Education Code, Section 46170 – in continuation high schools and continuation education classes, a day of attendance is 180 minutes of attendance but no pupil shall be credited with more than 15 hours of attendance per school per week, proportionately reduced for those school weeks having weekday holidays on which classes are not held.

Condition, Cause and Effect

For the schools noted above, we attempted to trace the School Weekly Attendance Summary to the *Monthly Statistical Report* submitted to the District for the fourth school month. The School Weekly Attendance Summary for one school indicated a total of 2,484 hours (828 days) of apportionment attendance and the *Monthly Statistical Report* submitted to the District indicated a total of 2,476 hours (825.33 days) of apportionment attendance. These errors appeared to be manual compilation errors in transferring data from the weekly attendance summary to the monthly summaries, which are ultimately included on the *Second Principal Report* (P2) or *Annual Summary Report* (P3). As such, the P3 appears to be understated by 8 hours (2.67 days).

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In addition, we selected a sample of 50 students for four weeks of attendance in the District's second school month for a total of 2,429 apportionment hours claimed. We attempted to trace apportionment hours claimed per the daily attendance record to the weekly summaries and noted differences in 4 of the 50 participants that resulted in a net 7 hour (2.33 days) understatement of apportionment hours claimed by the District. The following is a summary of the differences noted:

- Two students were understated by one hour of apportionment attendance.
- One student was overstated by one hour of apportionment attendance.
- One student was understated by six hours of apportionment attendance.

Furthermore, for the 1,047 days of claimed attendance, we noted that the annual P3 was understated by 26 days of attendance as a result of unsubstantiated revisions for the fourth school month for one school.

This is a repeat finding from June 30, 2006 (S-06-08) and June 30, 2005 (S-05-07).

Questioned Costs

\$(1,343) [31 days understated/128 days = 0.2422 x \$5,545]

Recommendation

We recommend that the District strengthen its review process over the compilation of the *Monthly Statistical Reports* to ensure that the report accurately reflects student attendance in days.

View of Responsible Officials and Planned Corrective Actions

The District agrees with the finding. The compilation of attendance records will be computerized to ensure that all activities during the statistical month are documented and accounted for accurately.

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S-07-03 Attendance Accounting – Continuation Education – Work Experience

State Audit Guide Finding Codes: 10000 and 40000

Schools Affected

Central Continuation High School

Moneta Continuation High School

Criteria

California Education Code 48400 – all persons 16 years of age or older and under 18 years of age, not otherwise exempted by this chapter, shall attend upon special continuation education classes maintained by the governing board of the high school district in which they reside, or by the governing board of a neighboring high school district, for not less than four 60-minute hours per week for the regularly established annual school term. Such minimum attendance requirement of four 60-minute hours per week

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may be satisfied by any combination of attendance upon special continuation education classes and regional occupational centers or programs.

California Education Code Section 51760.3(b) – all pupils are required to receive at least one instructional period per week of classroom work experience instruction or counseling.

Condition, Cause and Effect

For the two continuation schools sampled, we selected a sample of 50 work experience student participants, which claimed a total of 300.23 work experience hours, and tested one week for each participant within the fourth school month to ensure there was documentation to support the eligibility of the participant for the week sampled. One of the eligibility requirements is for the student to attend continuation education classes for at least four 60-minute hours of that participation week. In our sample, 5 of the 50 students attended less than the required four 60-minute hours of continuation education classes. Those exceptions are as follows:

- **Moneta Continuation High School**
 - 3 of the 25 sampled students each reported 10 hours of work experience but only attended three 60-minute hours of school attendance for the week sampled.
 - 1 of the 25 sampled students reported 10 hours of work experience but only attended two 60-minute hours of school attendance for the week sampled.
- **Central Continuation High School**
 - 1 of the 25 sampled students reported 5.75 hours of work experience, but did not attend any continuation classes for the week sampled.

Another eligibility requirement is for the participating student to attend at least one instructional period per week of classroom work experience instruction or counseling. We noted 1 of the 2 schools sampled, Moneta Continuation High School, did not maintain documentation to support that its sampled 25 participants attended the required period of work experience instruction or counseling. The hours sampled for work experience at this school totaled 230 of the 300.23 hours.

This is a repeat finding from June 30, 2006 (S-06-09) and June 30, 2005 (S-05-08).

Questioned Costs

\$3,393 [78.33 days overstatement (230 Moneta hours + 5 Central hours/3)/128 = 0.6120 ADA x \$5,545]

Recommendation

We recommend that the school monitor the students' attendance of the periods of work experience instruction to ensure that they do not claim any hours of work experience for which the student does not attend the required instruction.

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Schedule of Findings and Questioned Costs

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Views of Responsible Officials and Planned Corrective Actions

The District agrees with finding. The District has instituted additional training for school and clerical staff on work experience program guidelines, attendance reporting, and accounting for work experience.

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S-07-04 Attendance Accounting – Adult Education – Concurrently Enrolled Students

State Audit Guide Finding Codes: 10000 and 40000

Schools Affected

Venice Adult School

Manual Arts Community Adult School

Criteria

California Code of Education, Section 50500.1 – high school pupils who have completed a counseling session that involved the pupil, a certificated representative of the high school, and the pupil's parent or guardian, and who have a school record that contains written documentation of the session and a statement that the pupil is voluntarily enrolling in the adult education course or class will enhance the pupil's progress toward meeting the educational requirements for graduation from high school.

Condition, Cause and Effect

In our sample of concurrently enrolled students, we noted exceptions in the documentation requirements in 14 of the 50 sampled. We noted differences in the following documentation areas:

- Eleven students did not have evidence of a counseling session.
- One student did not have evidence of a parent/guardian signature.
- One student did not have evidence of a counseling session or a parent/guardian signature.
- One student did not have evidence of a certificated representative of the high school signature, counseling session or a parent/guardian signature.

This is a repeat finding from June 30, 2006 (S-06-07) and June 30, 2005 (S-05-06).

Questioned Costs

\$3,972 [824 hours ineligible/3 hours per day/175 fixed divisor x \$2,531]

Recommendation

We recommend that the school strengthen the review process over the Concurrently Enrolled Student Agreements to ensure the agreements are complete.

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Year ended June 30, 2007

View of Responsible Officials and Planned Corrective Action

The District agrees with the finding. Schools will provide training to counseling staff on the proper completion of concurrent referral forms. In addition, school administrators will review concurrent referral forms to ensure completeness (i.e., signatures and documentation of counseling sessions) before the student is enrolled into the adult program.

* * * * *

S-07-05 Attendance Accounting – Regional Occupational Schools – Attendance Computations

State Audit Guide Finding Codes: 10000 and 40000

Schools Affected

Venice Skills Center

Los Angeles Technology Center

Criteria

Title 5, California Code of Regulations, Section 401(d) – in all classes for adults, continuation schools, and classes, and regional occupational centers and programs, attendance shall be reported to the supervising administrator at least once each school month. For apportionment purposes, attendance of a pupil upon schools or classes maintained by a school district or a county superintendent may be counted when the pupil is present during the time lawfully prescribed for the school or class in which he is enrolled and when such attendance meets the requirements prescribed by Education Code Section 46300.

Condition, Cause and Effect

We traced the hours reported on the Adult Student Information System (Adult SIS) reports to the supporting adult weekly attendance forms, which are completed by the classroom teacher daily and submitted to the Adult SIS to be scanned to record attendance. A total of 4,629.5 hours of attendance was sampled and tested. We noted differences for both schools sampled in 2 of the 148 students sampled. However, the overstatements and understatements had a net effect of zero on the apportionment hours:

- One student was understated by one hour
- One student was overstated by one hour

Questioned Costs

\$0 [(1 hour overstated/3 hours per day/175 fixed divisor x \$3,170) – (1 hour understated/3 hours per day/175 fixed divisor x \$3,170)]

Recommendation

We recommend that the school emphasize the need to take greater care in completing the scantrons that are used to record attendance to ensure that they are properly completed and legible.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the finding. Schools will provide training regarding the proper completion of scantrons used to record student attendance. Additional staff will review scantrons for completeness and legibility.

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S-07-06 Attendance Accounting – Community Day Schools – Minimum School Day

State Audit Guide Finding Codes: 10000 and 40000

School Affected

West Hollywood Community Day School

Criteria

California Code of Education, Section 48663(a) – the minimum school day in a community day school is 360 minutes of classroom instruction provided by a certificated employee of the district reporting the attendance of the pupils for apportionment funding.

Condition, Cause and Effect

We selected a sample of 50 students and recalculated the periods indicated in their class schedules to ensure that they were consistent with the periods in the school bell schedule that made up the 360 minutes of class instruction time for one week at each school. We noted differences for one student in that the student was only scheduled for 5 periods (1 through 4 and 6), or 300 minutes of class instruction time. The school asserted that the student was scheduled to remain in the main office for the 5th period, however, they were unable to provide supporting documentation to substantiate that the student had classroom instruction at that time.

Questioned Costs

\$51 [5 hours ineligible/3 hours per day/180 fixed divisor x \$5,545]

Recommendation

We recommend that the school ensure that each student's class schedule includes, at a minimum, the number of periods required to meet the minimum school day requirements.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the finding. The District will ensure that school administrators implement proper accounting of students' time while engaged in nonclassroom instruction.

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LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

S-07-07 Attendance Accounting – Dependent Charter Schools – Attendance Computations

State Audit Guide Finding Codes: 10000 and 40000

School Affected

Pacific Palisades Elementary School

Criteria

California Education Code, Section 46300(a) – in computing average daily attendance of a school district or county office of education, there shall be included the attendance of pupils while engaged in educational activities required of those pupils and under the immediate supervision and control of an employee of the district or county office who possessed a valid certification document, registered as required by law.

Condition, Cause and Effect

We selected a sample of 11 teachers and assessed the mathematical accuracy of the daily attendance records, which are completed by the classroom teacher daily and submitted to compile the monthly summary report. A total of 4,135 days of attendance were tested for mathematical accuracy. We noted differences for one teacher sampled. Attendance per the daily attendance record totals was overstated by one day. This error appeared to be a manual computation error on the daily attendance record. This data is used to compile the monthly statistical reports, which are ultimately included on the *Second Principal Report* (P2) or *Annual Summary Report* (P3). As such, the P3 appears to be overstated by 1 day.

Questioned Costs

\$43 [1 day overstated/128 days = 0.0078 x \$5,545]

Recommendation

We recommend that the school strengthen its review process over the computation of the daily attendance records to ensure that the report accurately reflects student attendance in days.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the finding. A compilation of attendance records will be computerized to ensure that all activities during the statistical month are documented and accounted for accurately.

* * * * *

S-07-08 Attendance Reporting – Teacher Credentialing

State Audit Guide Finding Codes: 10000 and 40000

Schools Affected

Ford Blvd. Elementary School

Berendo Middle School

Palms Middle School

LOS ANGELES UNIFIED SCHOOL DISTRICT

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Year ended June 30, 2007

Locke High School

Criteria

California Education Code, Section 44253.3 – (a) the commission shall issue a certificate that authorizes the holder to provide all of the following services to limited-English-proficient pupils:

- (1) Instruction for English language development in preschool, kindergarten, grades 1 to 12, inclusive, and classes organized primarily for adults, except when the requirement specified in paragraph (1) of subdivision (b) is satisfied by the possession of a children's center instructional permit pursuant to Sections 8363 and 44252.7, a children's center supervision permit pursuant to Section 8363, or a designated subjects teaching credential in adult education pursuant to Section 44260.2. If the requirement specified in paragraph (1) of subdivision (b) is satisfied by the possession of a children's center instructional permit, or a children's center supervision permit, instruction for English language development is limited to the programs authorized by that permit. If the requirement specified in paragraph (1) of subdivision (b) is satisfied by the possession of a designated subjects teaching credential in adult education, instruction for English language development is limited to classes organized primarily for adults.
- (2) Specially designed content instruction delivered in English in the subjects and at the levels authorized by the teacher's prerequisite credential or permit used to satisfy the requirement specified in paragraph (1) of subdivision (b). The minimum requirements for the certificate shall include all of the following:
 - (1) Possession of a valid California teaching credential, services credential, visiting faculty permit, children's center instructional permit, or children's center supervision permit, which credential or permit authorizes the holder to provide instruction to pupils in preschool, kindergarten, any of grades 1 to 12, inclusive, or classes primarily organized for adults, except for any of the following:
 - (A) Emergency credentials or permits.
 - (B) Exchange credentials as specified in Section 44333.
 - (C) District intern credentials as specified in Section 44325.
 - (D) Sojourn certificated employee credentials as specified in Section 44856.
 - (E) Teacher education internship credentials as specified in Article 3 (commencing with Section 44450) of Chapter 3.
 - (2) Passage of one or more examinations that the commission determines are necessary for demonstrating the knowledge and skills required for effective delivery of the services authorized by the certificate.

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- (3) Completion of at least six semester units, or nine quarter units, of coursework in a second language at a regionally accredited institution of postsecondary education. The commission shall establish minimum standards for scholarship in the required coursework. The commission shall also establish alternative ways in which the requirement can be satisfied by language-learning experience that creates an awareness of the challenges of second-language acquisition and development. (c) Completion of coursework in human relations in accordance with the commission's standards of program quality and effectiveness that includes, at a minimum, instruction in the following:
- (1) The nature and content of culture.
 - (2) Crosscultural contact and interactions.
 - (3) Cultural diversity in the United States and California.
 - (4) Providing instruction responsive to the diversity of the pupil population.
 - (5) Recognizing and responding to behavior related to the characteristics listed in Section 220.
 - (6) Techniques for the peaceful resolution of conflict.
- (d) The commission shall establish alternative requirements for a teacher to earn the certificate, which shall be awarded as a supplementary authorization pursuant to subdivision (e) of Section 44225. (e) A teacher who possesses a credential or permit described in paragraph (1) of subdivision (b) and is able to present a valid out-of-state credential or certificate that authorizes the instruction of English language learners may qualify for the certificate issued under this section by submitting an application and fee to the commission. (f) The certificate shall remain valid as long as the prerequisite credential or permit specified in paragraph (1) of subdivision (b) remains valid.

Condition, Cause and Effect

During our procedures performed over regular and special day classes, adult education, continuation, and community day school for each class sampled for attendance procedures, we reviewed the classroom teacher's credentials to determine if they possessed valid credentials and if their teaching position assigned was consistent with the certification. We tested a total of 234 teachers and noted four exceptions for K-12 teachers without English instruction certification that taught a class in which more than 20% of the pupils were English learners.

- Berendo Middle School-2 teachers taught a class with more than 20% of English learners without proper English instruction certification.
- Palms Middle School-1 teacher taught a class with more than 20% of English learners without proper English instruction certification.
- Locke High School-1 teacher taught a class with more than 20% of English learners without proper English instruction certification.

Questioned Costs

Not applicable.

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Recommendation

We recommend that the school and District implement controls to maintain that the teachers who instruct English learners possess proper English teaching credentials.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the finding. An ongoing internal audit is being performed to ensure that teachers are authorized for their assignments.

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S-07-09 Morgan-Hart Class Size Reduction – Eligible Classes

State Audit Guide Finding Code: 40000

Schools Affected

Grant Senior High School

Hollywood High School

Criteria

California Education Code, Section 52084 – a school district's application to implement a program pursuant to this chapter shall comprise the following:

- Certification that the grade 9 course or the two grade 9 courses included in the program count toward completion of the graduation requirements established in subparagraph (A), (B), (C), or (D) of paragraph (1) of subdivision (a) of Section 51225.3; provided, however, that one of the courses included in the program shall be English.
- Certification that the classes identified pursuant to subdivision (b) in each participating school shall on the average have no more than 20 pupils per certificated teacher and no more than 22 pupils in any participating class.

Condition, Cause and Effect

In our sample of 50 classes at 10 schools claimed as part of the Morgan-Hart class size reduction program, we noted the following:

- 3 of the 50 classes contained over 22 students enrolled in classes in days that were sampled.
 - In the 15 days sampled for each class, we noted that a total of 11 days contained students ranging from 23 to 26.

This is a repeat finding from June 30, 2006 (S-06-12).

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Based on interpretation of the California Education Code, the District believes that as long as they maintained no more than 22 students per class averaged throughout the year, any single days with 22 or more students would not constitute noncompliance. Our reported exception is based on the criteria of the *State Audit Guide*, which appears to indicate that any days with 22 or more enrolled students per class would constitute an exception. When we averaged the number of students in attendance, these schools averaged less than 22 students for the 15 days sampled. However, based on the 15 individual class days sampled, our questioned costs are as follows:

Questioned Costs

School name	Weighted class size, as reported	Days per year	Full year equivalent enrollment	Rate	Amount
Grant High School (Burawski)	17.93	180	\$ 10.85	204	2,213
Grant High School (Foreman)	17.93	180	9.53	204	1,944
Hollywood High School (Smithberg)	16.31	163	10.99	204	2,242
	<u>52.17</u>		<u>\$ 31.37</u>		<u>6,399</u>

Recommendation

We recommend that the District continue to work with the State Controllers Office and the California Department of Education on obtaining clarification as to eligible classes for Morgan Hart Class Size Reduction Program and ensure that only eligible classes are then claimed.

Views of Responsible Officials and Planned Corrective Actions

The District disagrees with finding. All schools singled out were in compliance with the requirements of Morgan-Hart Class Size Reduction Program which allows schools on the average to have no more than 20 pupils per teacher and no more than 22 pupils per class. The audit testwork confirmed that the computed ratios were under the established required ratios.

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Schedule of Findings and Questioned Costs

Year ended June 30, 2007

S-07-10 Instructional Materials – Sufficiency of Mathematics, Science, History-Social Science, and English/Language Arts Textbooks and Instructional Materials

State Audit Guide Finding Codes: 40000 and 70000

Schools Affected

Beckford Elementary	Grant High School	Crenshaw High School	Wilson High school
Birmingham High School	Harding Elementary	Hamilton School Complex	Elizabeth Learning Center
Canoga Park High School	Herrick Elementary	Mann Middle School	International ST Learning Center
Chatsworth High School	Lankershim Elementary	Marquez Elementary	Lillian Elementary
Cleveland High School	Lewis High School	Revere Middle School	Loma Vista Elementary
Einstein High School	Mt. Lukens High School	University High School	Maywood Academy
Haskell Elementary	Osceola Elementary	Bancroft Middle School	Park Avenue Elementary
Justice Elementary	Polytechnic High School	Belmont High School	Fremont High School
Mulholland Middle School	San Fernando High School	Contreras Learning Complex	Gompers Middle School
Napa Elementary	Saticoy Elementary	Downtown Business Magnet	Riley High School – Cyesis
Reseda High School	Sunland Elementary	Fairfax High School	Banning High School
Soces Magnet	Sylmar High School	Irving Middle School	Carson Elementary
Taft High School	Telfair Elementary	Whitman High School	Carson High School
Vanalden Elementary	Toluca Lake Elementary	Adams Middle School	Gardena High School
Woodland Hills Elementary	Van Nuys High School	Carver Middle School	Fulton College Prep
Chandler Elementary	Vena Elementary	Central Los Angeles New Middle School #4	Audubon Middle School
Earhart High School	Verdugo Hills	Lincoln High School	Utah Elementary
Fair Elementary	Victory Elementary	Santee Education Complex	

Criteria

California Education Code, Section 60200 – the state board shall adopt basic instructional materials for use in kindergarten and grades 1 to 8, inclusive, for governing boards, subject to the following provisions:

(a) The state board shall adopt at least five basic instructional materials for all applicable grade levels in each of the following categories:

- (1) Language arts, including, but not limited to, spelling and reading. However, the state board may not adopt basic instructional materials in this category or the category specified by paragraph in the year succeeding the year in which the state board adopts basic instructional materials in this category for the same grade level.

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- (2) Mathematics. However, the state board may not adopt basic instructional materials in this category or the category specified by paragraph (1) in the year succeeding the year in which the state board adopts basic instructional materials in this category for the same grade level.
- (3) Science.
- (4) Social science.
- (5) Bilingual or bicultural subjects.
- (6) Any other subject, discipline, or interdisciplinary areas for which the state board determines the adoption of instructional materials to be necessary or desirable.

California Education Code, Section 60119 – Pupil Textbook and Instructional Materials Incentive Program:

- If the governing board determines that there are insufficient textbooks or instructional materials, or both, the governing board shall provide information to classroom teachers and to the public setting forth, in the resolution, for each school in which an insufficiency exists, the percentage of pupils who lack sufficient standards-aligned textbooks or instructional materials in each subject area and the reasons that each pupil does not have sufficient textbooks or instructional materials, or both, and take any action, except an action that would require reimbursement by the Commission on State Mandates, to ensure that each pupil has sufficient textbooks or instructional materials, or both, within two months of the beginning of the school year in which the determination is made.
- For purposes of this section, “sufficient textbooks or instructional materials” means that each pupil, including English learners, has a standards-aligned textbook or instructional materials, or both, to use in class and to take home. This paragraph does not require two sets of textbooks or instructional materials for each pupil. Sufficient textbooks or instructional materials do not include photocopied sheets from only a portion of a textbook or instructional materials copied to address a shortage.

Condition, Cause and Effect

In our sample of 50 instructional material purchases, we noted the following exception:

- Ford Elementary School - one textbook, in the amount of \$60,055, was not adopted by the State Board of Education.

On October 24, 2006, the Board of Education had declared there were insufficient textbooks in core subject areas as of September 28, 2006. The District’s quantification of percentages of pupils with textbook insufficiencies for the fiscal year indicated 70 schools with reported insufficient textbooks in one or more core subject areas. The insufficiencies noted were as follows:

- The 24 schools with Math textbook insufficiencies reported percentages of pupils lacking textbooks ranging from 9% to 100%, with 13 of those 24 schools with 75% or greater insufficiencies noted.
- The 36 schools with English textbook insufficiencies reported percentages of pupils lacking textbooks ranging from 1% to 100%, with 17 of those 36 schools with 75% or greater insufficiencies noted.

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- The 29 schools with Science textbook insufficiencies reported percentages of pupils lacking textbooks ranging from 2% to 100%, with 13 of those 29 schools with 75% of greater insufficiencies noted.
- The 34 schools with Social Science textbook insufficiencies reported percentages of pupils lacking textbooks ranging from 2% to 100%, with 11 of those 34 schools with 75% or greater insufficiencies noted.

The Board directed the Superintendent of Schools, or designee, to ensure that all necessary actions are taken to timely remedy all noted textbook and/or instructional material deficiencies at the schools where insufficiencies were noted. The District indicated they placed orders for the schools with noted insufficiencies; however, we were unable to obtain documentation that supported the District's corrective action was completed timely so that the students received the textbooks within two months of the beginning of the school year.

This is a repeat finding from June 30, 2006 (S-06-13) and June 30, 2005 (S-05-14). Although the District had made considerable progress over the last year toward developing a system to identify and quantify textbook insufficiencies within its schools, it appears they have not yet implemented a system to monitor and track the resolution of those insufficiencies to ensure they are resolved within the required time frames.

Questioned Costs

\$43,880,657 (full amount of Instructional Materials Funding Realignment Program).

Recommendation

We recommend that the District ensure that the all schools purchase instructional materials adopted by the State Board of Education and that the District take steps to ensure noted textbook insufficiencies are timely remedied.

Views of Responsible Officials and Planned Corrective Actions

Staff for the District agrees in part and disagrees in part with findings S-07-10 and S-07-11.

First, staff believes the hearing on the textbook and instructional materials resolution (the Textbook Resolution) was timely and fully compliant with the requirements of Section 60119 of the Education Code insofar as (1) the hearing was held within the first eight weeks of any track beginning in August or September, and (2) directed action be taken to remedy those insufficiencies noted in the Textbook Resolution.

In addition, staff believes that, pursuant to the direction contained in the Textbook Resolution, any noted deficiencies were remedied promptly and each school at which an insufficiency was noted communicated this and other relevant information to their respective school communities.

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Finally, staff notes that the District has continued to implement policies and procedures requiring each teacher, principal, and representative of the local districts to certify sufficiency on an annual basis as part of the Textbook Resolution hearing process. As a result of these enhanced, policies, and procedures, the Board of Education was able to certify sufficiency at each of the hearings for the 2007 and 2008 school years. Staff believes that it will be able to continue to do so on a going-forward basis.

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S-07-11 Instructional Materials – Sufficiency of Foreign Language or Health Textbooks and Instructional Materials or Laboratory Science Equipment

State Audit Guide Finding Codes: 40000 and 70000

Schools Affected

Andarsol Elementary	Limerick Elementary	Valley Alternative Magnet	Haddon Elementary
Birmingham High School	Newcastle Elementary	Van Gogh Elementary	Harding Elementary
Danube Elementary	Monroe High School	Carpenter Elementary	Herrick Elementary
Justice Elementary	Soces Magnet	Earhart Continuation High School	Polytechnic School
Lanai Elementary	Taft High School	Fulton College Prep	Rio Vista Elementary
San Fernando	Telfair Elementary	Mann Middle School	Contreas Learning Complex
Saticoy Elementary	Van Nuys High School	University High School	Whitman High School
Sylmar School	Audubon Middle School	Belmont High School	Bell High School
Elizabeth Learning Center	Park Avenue Elementary	Carson Elementary	Gardena High School
International ST Learning Center	Barrett Elementary	Carson High School	Manhattan Elementary
Lillian Elementary	Gompers Middle School	Fries Elementary	

Criteria

California Education Code, Section 60119 – Pupil Textbook and Instructional Materials Incentive Program:

- If the governing board determines that there are insufficient textbooks or instructional materials, or both, the governing board shall provide information to classroom teachers and to the public setting forth, for each school in which an insufficiency exists, the percentage of pupils who lack sufficient standards-aligned textbooks or instructional materials in each subject area and the reasons that each pupil does not have sufficient textbooks or instructional materials, or both, and take any action, except an action that would require reimbursement by the Commission on State Mandates, to ensure that each pupil has sufficient textbooks or instructional materials, or both, within two months of the beginning of the school year in which the determination is made.

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Schedule of Findings and Questioned Costs

Year ended June 30, 2007

- As part of the hearing required pursuant to this section, the governing board shall also make a written determination as to whether each pupil enrolled in a foreign language or health course has sufficient textbooks or instructional materials that are consistent with the content and cycles of the curriculum frameworks adopted by the state board for those subjects. The governing board shall also determine the availability of laboratory science equipment as applicable to science laboratory courses offered in grades 9 to 12, inclusive. The provision of the textbooks, instructional materials, or science equipment specified in this subparagraph is not a condition of receipt of funds provided by this subdivision.

Condition, Cause and Effect

On October 24, 2006, the Board of Education had declared there were insufficiencies in Health and Language textbooks as of September 28, 2006. We also noted that the Board had declared that there were insufficiencies in science laboratory materials in the District's senior high schools. The District's quantification of percentages of pupils with textbook insufficiencies for the fiscal year indicated 29 and 17 schools with reported insufficient Health and Language textbooks, respectively.

- The 29 schools with Health textbook insufficiencies reported percentages of pupils lacking textbooks ranging from 15% to 100%, with 6 of those 29 schools with 75% or greater insufficiencies noted.
- The 17 schools with Language textbook insufficiencies reported percentages of pupils lacking textbooks ranging from 9% to 100%, with 10 of the 17 schools with 75% or greater insufficiencies noted.

The Board directed the Superintendent of Schools, or designee, to ensure that all necessary actions are taken to timely remedy all noted textbook and/or instructional material deficiencies at the schools where insufficiencies were noted. The District indicated that they placed orders for the schools with noted insufficiencies; however, we were unable to obtain documentation that supported that the District's corrective action was completed timely so that the students received the textbooks within two months of the beginning of the school year.

Although the District had made considerable progress over the last year toward developing a system to identify and quantify textbook insufficiencies within its schools, it appears they have not yet implemented a system to monitor and track the resolution of those insufficiencies to ensure that they are resolved within the required time frames.

Questioned Costs

Not applicable.

Recommendation

We recommend that the District take steps to ensure noted textbook insufficiencies are timely remedied.

Views of Responsible Officials and Planned Corrective Actions

Staff for the District agrees in part and disagrees in part with findings S-07-10 and S-07-11.

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First, staff believes that the hearing on the textbook and instructional materials resolution (Textbook Resolution) was timely and fully compliant with the requirements of Section 60119 of the Education Code insofar as (1) the hearing was held within the first eight weeks of any track beginning in August or September, and (2) directed action be taken to remedy those insufficiencies noted in the Textbook Resolution.

In addition, staff believes that, pursuant to the direction contained in the Textbook Resolution, any noted deficiencies were remedied promptly and each school at which an insufficiency was noted communicated this and other relevant information to their respective school communities.

Finally, staff notes that the District has continued to implement policies and procedures requiring each teacher, principal, and representative of the local districts to certify sufficiency on an annual basis as part of the Textbook Resolution hearing process. As a result of these enhanced, policies, and procedures, the Board of Education was able to certify sufficiency at each of the hearings for the 2007 and 2008 school years. Staff believes that it will be able to continue to do so on a going-forward basis.

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S-07-12 Attendance Accounting – Adult Education – Attendance Computations

State Audit Guide Finding Codes: 10000 and 40000

Schools Affected

Manual Arts Community Adult School

Venice Community Adult School

Criteria

Title 5, California Code of Regulations, Section 401(d) – in all classes for adults, continuation schools, and classes, and regional occupational centers and programs, attendance shall be reported to the supervising administrator at least once each school month.

California Education Code, Section 46300 – in computing average daily attendance of a school district or county office of education, there shall be included the attendance of pupils while engaged in educational activities required of those pupils under the immediate supervision and control of an employee of the district or county office who possessed a valid certification document, registered as required by law.

Condition, Cause and Effect

For one of the schools noted above, we attempted to trace the School's Monthly Attendance Summary by teacher to the Class Hours List by Program, used for compiling the Monthly Statistical Report submitted to the District for the fourth school month. The School's Monthly Attendance Summary indicated a total of 281 hours of apportionment attendance for one teacher and the Monthly Statistical Report submitted to the District indicated a total of 273 hours of apportionment attendance for the same teacher. These errors appeared to be system errors in transferring data from the monthly attendance summary by teacher to the monthly summaries used to compile the monthly statistical, which are ultimately included on the second

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Principal Report (P2) or Annual Summary Report (P3). As such, the P3 appears to be understated by eight hours.

Furthermore, we attempted to trace the attendance per the P2 to the P3 and noted differences:

- **Manual Arts Community Adult School** – The P3 was overstated by 11 hours (3.67 days) of attendance as a result of unsubstantiated revisions.
- **Venice Adult School** – The P3 was understated by 59 hours (20 days) of attendance as a result of unsubstantiated revisions.

This is a repeat finding from June 30, 2006 (S-06-06).

Questioned Costs

(\$270) [56 hours understated/3 hours per day/175 fixed divisor x \$2,531]

Recommendation

We recommend that the District strengthen its review process over the compilation of the Monthly Statistical Reports to ensure that the report accurately reflects student attendance in days.

View of Responsible Officials and Planned Corrective Actions

The District agrees with the finding. Schools will be required to strengthen the review process on the Monthly Statistical Reports. A report will be generated and reviewed for any discrepancies. This will ensure consistency of data between the monthly statistical reports and student information system.

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S-07-13 Attendance Accounting – Community Day School – Attendance Reporting

State Audit Guide Finding Codes: 10000 and 40000

Schools Affected

West Hollywood Day School

Aggeler Day School

Criteria

California Education Code, Section 48663 – (a) the minimum school day in a community day school is 360 minutes of classroom instruction provided by a certificated employee of the district reporting the attendance of the pupils for apportionment funding, (b) a pupil enrolled in a community day school may not generate more than one day of community day school attendance credit in a school day for any purpose. Five clock hours of attendance in one school day shall be deemed to be one-half of attendance, for purposes of additional funding pursuant to Section 48664. Six clock hours or more of attendance in one school day shall be deemed to be one day of attendance, for purposes of additional funding pursuant to Section 48664.

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Condition, Cause and Effect

For the two community day schools sampled, we traced the hours reported on the student information system AT-06 reports, to the supporting copies of the monthly teacher attendance record, which is completed by the classroom teacher daily for each hour attended. The student information system data is used to compile the *Second Principal Report* (P2) and *Annual Summary Report* (P3). A total of 50 students were sampled for six daily hours for five days. A total of 1,295 reported hours of apportionment attendance, and 205 nonapportioned absences were sampled, of which we noted differences in three of the fifty students for 4 of the 250 days; a total difference of 4 hours of apportionment attendance understated. The following summarizes the student differences:

- Four student days' actual hours of apportionment attendance were understated by one hour.

We selected one week in the fourth month and traced the hours reported on the AT-06 to the monthly teacher attendance to verify 5th and 6th period credit reported for the purposes of additional funding for all 50 samples. We noted differences in 14 of the 50 students sampled. The following summarizes the student differences:

- Four students were overstated by 1 hour (half day attendance per hour) for 5th period credit and 2 hours (half day attendance per hour) for 6th period credit
- One student was overstated by 1 hour (half day attendance per hour) for 5th period credit and 3 hours (half day attendance per hour) for 6th period credit
- Four students were overstated by 1 hour (half day attendance per hour) for 6th period credit
- Five students were overstated by 2 hours (half day attendance per hour) for 6th period credit

This is a repeat finding from June 30, 2006 (S-06-10) and June 30, 2005 (S-05-10).

Questioned Costs

\$379 [26 hours overstated/180 (fixed divisor) = 0.1444 ADA x \$2,624]

Recommendation

We recommend that the school review the current hourly attendance record-keeping procedures to ensure that the school records accurately reflect each hour of student attendance or absence.

View of Responsible Officials and Planned Corrective Actions

The District agrees with the finding. Certificated school staff are required to adhere to correct coding and record-keeping for student attendance on rosters. The clerical staff review records to ensure that the rosters and Student Information System reports are consistent.

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S-07-14 Regular and Special Day Classes – Elementary Schools – Attendance Computations

State Audit Guide Finding Codes: 10000 and 40000

Schools Affected

49 th Street Elementary School	Barret Elementary School	Eastman Elementary School	Manchester Elementary School
93 rd Street Elementary School	Burbank Elementary School	Fair Elementary School	Sunny Brae Elementary School
Arminta Elementary School	Calahan Elementary School	Ford Elementary School	Sunny Brae Elementary School
Banneker Elementary School	Canterbury Elementary School	Leland Elementary School	Telfair Elementary School
Baldwin Hills Elementary School	Coldwater Canyon Elementary School	Main Street Elementary School	

Criteria

California Education Code, Section 46300(a) – in computing average daily attendance of a school district or county office of education, there shall be included the attendance of pupils while engaged in educational activities required of those pupils under the immediate supervision and control of an employee of the district or county office who possessed a valid certification document, registered as required by law.

Condition, Cause and Effect

In our sample of 25 schools, we traced daily attendance records for a sample of teachers to the monthly teacher controls card. We then traced the monthly control cards to the monthly school statistical report totals, which in turn were traced to the *Second Principal Report (P2)* and the *Annual Summary Report (P3)* for the fourth school month. We traced a total of 124 teachers for the fourth school month, and noted differences between the monthly school statistical report totals and the P2 report and the P3 report. In certain circumstances, the School revised the Monthly Statistical Reports; however, it was not able to provide audit evidence of the changes. All unsubstantiated revisions were deemed differences.

We also traced the days reported on the Monthly School Statistical Reports to the student apportionment attendance record card, which is completed by the classroom teacher daily for a total of 14,490 days of attendance, 537 excused, and 412 unexcused absences, and noted differences for 18 of the 25 schools sampled.

The following summarizes the differences:

- **49th Street Elementary School** – 381 days of attendance, 3 excused and 3 unexcused absences sampled, and noted the following differences:
 - The P3 report was understated by one day of attendance and overstated by one day of excused absence as a result of unsubstantiated revisions.

LOS ANGELES UNIFIED SCHOOL DISTRICT

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Year ended June 30, 2007

- **93rd Street Elementary School** – 363 days of attendance, 7 excused and 2 unexcused absences sampled, and noted the following differences for 1 of the 18 students:
 - One student was overstated by one day of attendance and understated by one day of unexcused absence.
 - The daily attendance record was overstated by one day of attendance and understated by one day of excused absence as a result of mathematical errors.
 - The P2 was overstated by one day of attendance and understated by two days of unexcused absence as a result of unsubstantiated revisions.
- **Arminta Elementary School** – 128 days of attendance, 10 excused and 24 unexcused absences sampled, and noted the following differences for 1 of the 10 students:
 - One student was overstated by two days of attendance and understated by two days of unexcused absences.
- **Baldwin Hills Elementary School** – 488 days of attendance, 6 excused and 6 unexcused absences sampled, and noted the following differences for 2 of the 25 students:
 - One student was overstated by one day of attendance and understated by one day of excused absence.
 - One student was overstated by one day of attendance and understated by one day of unexcused absence.
- **Banneker Elementary School** – 938 days of attendance, 57 excused and 54 unexcused absences sampled, and noted the following differences:
 - The monthly statistical was overstated by five days of attendance.
- **Barrett Elementary School** – 1,110 days of attendance, 2 excused and 8 unexcused absences sampled, and noted the following differences for 4 of the 56 students:
 - One student was overstated by four days of attendance and four days of excused absence.
 - One student was overstated by one day of attendance and one day of unexcused absence.
 - Two students were overstated by one day of attendance and one day of excused absence.
- **Burbank Elementary School** – 251 days of attendance, 28 excused and 16 unexcused absences sampled, and noted the following differences for 4 of the 20 students:
 - One student was overstated by one day of attendance and understated by one day of excused absence.
 - One student was overstated by two days of attendance and understated by one day of excused absence and one day of unexcused absence.
 - One student was overstated by one day of attendance and two days of unexcused absence and understated by three days of excused absences.

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Year ended June 30, 2007

- One student was understated by one day of attendance and overstated by one day of excused absence.
- **Calahan Elementary School** – 407 days of attendance, 50 excused and 23 unexcused absences sampled, and noted the following differences for 1 of the 24 students:
 - One student was overstated by one day of attendance and understated by one day of excused absence.
- **Canterbury Elementary School** – 896 days of attendance, 77 excused and 57 unexcused absences sampled, and noted the following differences for 1 of the 54 students:
 - One student was overstated by one day of attendance and understated by one day of excused absence.
- **Coldwater Canyon Elementary School** – 242 days of attendance, 9 excused and 14 unexcused absences sampled, and noted the following differences for 1 of the 19 students:
 - One student was overstated by one day of attendance and understated by one day of unexcused absence.
- **Eastman Elementary School** – 1,234 days of attendance, 2 excused and 4 unexcused absences sampled, and noted the following differences for 3 of the 62 students:
 - One student was overstated by three days of attendance and understated by three days of excused absences.
 - Two students were overstated by one day of attendance and understated by one day of excused absence.
- **Fair Elementary School** – 336 days of attendance, 26 excused and 14 unexcused absences sampled, and noted the following differences for 3 of the 62 students:
 - One student was overstated by one day of attendance and understated by one day of excused absence.
 - One student was overstated by one day of attendance and understated by one day of unexcused absence.
- **Ford Elementary School** – 1,151 days of attendance, 7 excused and 2 unexcused absences sampled, and noted the following differences for 1 of the 58 students and 1 of the 7 teachers:
 - One student was overstated by one day of attendance and understated by one day of excused absence.
 - One class/ teacher was overstated by seven days of attendance and understated by seven days of excused absences.

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Schedule of Findings and Questioned Costs

Year ended June 30, 2007

- **Leland Elementary School** – 517 days of attendance, 1 excused and 2 unexcused absences sampled, and noted the following differences for 1 of the 5 teachers:
 - One class/teacher was understated by five days of attendance and overstated by five days not enrolled.
- **Main Street Elementary School** – 293 days of attendance, 4 excused and 1 unexcused absences sampled, and noted the following differences for 2 of the 17 students:
 - Two students were overstated by one day of attendance and understated by one day of excused absence.
- **Manchester Elementary School** – 1,062 days of attendance, 3 excused, and 13 unexcused absences sampled, and noted the following differences in the monthly statistical reports
 - The P2 was overstated by three days of attendance and understated by three days of excused absences as a result of unsubstantiated revisions.
- **Sunny Brae Elementary School** – 618 days of attendance, 41 excused and 41 unexcused absences sampled, and noted the following differences for 5 of the 35 students:
 - One student was overstated by one day of attendance and understated by one day of excused absence.
 - One student was overstated by two days of attendance and understated by two days of excused absences.
 - One student was overstated by three days of attendance and understated by two days of excused and one day of unexcused absences.
 - Two students were overstated by one day of attendance and understated by one day of unexcused absence.
- **Telfair Elementary School** – 938 days of attendance, 57 excused and 54 unexcused absences sampled, and noted the following differences for 3 of the 62 students:
 - One student was overstated by five days of attendance and understated by five days not enrolled.
 - The annual P3 was understated by five days of attendance as a result of unsubstantiated revisions.

This is a repeat finding from June 30, 2006 (S-06-02) and June 30, 2005 (S-05-01).

Questioned Costs

\$1,964 [0.3541 Total ADA overstated x \$5,545]

1 day 49th Street understated/148 days in 4-track-D school year = (0.0068) ADA

2 days 93rd Street overstated/121 days in 4-track-A school year = 0.0165 ADA

1 day 93rd Street overstated/128 days in 4-track-B school year = 0.0078 ADA

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2 days 93rd Street understated/148 days in 4-track-D school year = (0.0135) ADA
2 days Arminta overstated/128 days in 4-track-B school year = 0.0156 ADA
2 days Baldwin Hills overstated/128 days in single-track school year = 0.0156 ADA
5 days Banneker overstated/128 days in single-track school year = 0.0391 ADA
7 days Barrett overstated/128 days in single-track school year = 0.0547 ADA
3 days Burbank overstated/128 days in single-track school year = 0.0234 ADA
1 day Calahan overstated/128 days in single-track school year = 0.0078 ADA
1 day Canterbury overstated/128 days in single-track school year = 0.0078 ADA
1 day Coldwater Canyon overstated/148 days in 3-track-C school year = 0.0068 ADA
5 days Eastman overstated/128 days in single-track school year = 0.0391 ADA
1 day Fair overstated/111 days in 4-track-C school year = 0.0090 ADA
1 day Fair overstated/121 days in 4-track-A school year = 0.0083 ADA
8 days Ford overstated/128 days in single-track school year = 0.0625 ADA
5 days Leland understated/128 days in single-track school year = (0.0391) ADA
2 days Main Street overstated/148 days in 4-track-D school year = 0.0135 ADA
3 days Manchester overstated/128 days in single-track school year = 0.0234 ADA
8 days Sunny Brae overstated/128 days in single-track school year = 0.0625 ADA

Recommendation

We recommend that the District ensure that its schools strengthen the review process over the compilation of the Monthly Statistical Reports so that they accurately reflect student attendance days.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the finding. The District will ensure that attendance records are consistent and accurate. Revised statistical reports will be submitted, as needed.

* * * * *

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

S-07-15 Regular and Special Day Classes – Secondary Schools and Independent Study – Attendance Computations

State Audit Guide Finding Codes: 10000 and 40000

Schools Affected

Berendo Middle School	King Middle School	Palms Middle School	Stevenson Middle School
Locke High School	Northridge Academy High School	Roosevelt High School	City of Angels School

Criteria

California Education Code, Section 46300(a) – in computing average daily attendance of a school district or county office of education, there shall be included the attendance of pupils who were engaged in educational activities required of those pupils under the immediate supervision and control of an employee of the district or county office who possessed a valid certification document, registered as required by law.

California Education Code, Section 51747.5, part (b) – school districts and county offices of education may claim apportionment credit for independent study only to the extent of the time value of pupil or student work products, as personally judged in each instance by a certificated teacher.

Condition, Cause and Effect

In our sample of eight schools, we traced the Monthly School Statistical Report totals to the *Second Principal Report* (P2) and the *Annual Summary Report* (P3) for the fourth school month. We traced a total of 90 teachers for the fourth school month, and noted differences between the Monthly Statistical Report totals and the P2 report and P3. In certain circumstances, the School revised the Monthly Statistical Reports; however, it was not able to provide audit evidence of the changes. All unsubstantiated revisions were deemed differences.

We also traced the days reported on the Monthly School Statistical Reports to the student apportionment attendance record card, which is completed by the classroom teacher daily for a total of 9,201 days of attendance, 1,059 excused, and 700 unexcused absences and noted differences for 7 of the 8 schools sampled.

- **Berendo Middle School** – 390 days of attendance, 70 excused and 10 unexcused absences sampled, and noted the following differences for 1 of the 50 students:
 - One student was understated by one day of attendance and overstated by one day of unexcused absence.
- **King Middle School** – 587 days of attendance, 93 excused and 10 unexcused absences sampled, and noted the following differences for 3 of the 48 students:
 - One student was overstated by one day of attendance and understated by one day of excused absence.
 - One student was understated by one day of attendance and overstated by one day of excused absence.

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- One student was understated by one day of attendance and overstated one day of unexcused absence.
- **Palms Middle School** – 1,573 days of attendance, 203 excused and 60 unexcused absences sampled, and noted the following differences for 8 of the 92 students:
 - One student was understated by two days of attendance and overstated by two days of unexcused absences.
 - Four students were understated by one day of attendance and two days of unexcused absences and overstated by three days of excused absences.
 - One student was understated by one day of attendance and one day of unexcused absence and overstated by two days of excused absences.
 - One student was understated by two days of attendance and four days of unexcused absences and overstated by six days of excused absences.
- **Stevenson Middle School** – 2,174 days of attendance, 222 excused and 116 unexcused absences sampled, and noted the following differences for 6 of the 126 students:
 - One student was understated by three days of attendance and overstated by three days of unexcused absences.
 - One student was understated by one day of attendance and overstated by one day of excused absence.
 - One student was understated by four days of attendance and overstated by four days of unexcused absences.
 - Three students were understated by one day of attendance and overstated by one day of unexcused absence.
- **Locke High School** – 1,952 days of attendance, 126 excused and 346 unexcused absences sampled, and noted the following differences for 8 of the 122 students:
 - One student was overstated by 14 days of attendance and understated by 14 days of unexcused absence.
 - One student was understated by three days of attendance and two days of unexcused absences and overstated by five days of excused absences.
 - Four students were understated by one day of attendance and overstated by one day of unexcused absence.
 - One student was understated by two days of attendance and overstated by one day of excused absence and one day of unexcused absence.
 - One student was overstated by two days of attendance and understated by two days of unexcused absence.
 - The annual P3 was understated by 85 days of attendance as a result of unsubstantiated revisions.

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Schedule of Findings and Questioned Costs

Year ended June 30, 2007

- **Northridge Academy High School** – 828 days of attendance, 77 excused and 15 unexcused absences sampled, and noted the following differences for 5 of the 46 students:
 - One student was understated by one day of attendance and overstated by one day of excused absence.
 - One student was understated by one day of attendance and overstated one day of unexcused absence.
 - One student was overstated by one day of attendance and understated by one day of unexcused absence.
 - One student was overstated by one day of attendance and understated by one day of excused absence.
 - One student was understated by three days of attendance and overstated by one day of excused absence and two days of unexcused absences.
- **Roosevelt High School** – 1,143 days of attendance, 200 excused and 117 unexcused absences sampled, and noted the following differences for 5 of the 95 students:
 - One student was overstated by three days of attendance and one day of excused absence and understated by four days of unexcused absence.
 - One student was understated by one day of attendance and overstated by one day of excused absence.
 - Two students were overstated by one day of attendance and understated by one day of unexcused absence.
 - One student was understated by one day of attendance and overstated by one day of unexcused absence.
- **City of Angels Independent Study School** – 957 days of claimed attendance sampled and noted differences:
 - The P3 report was understated by 38 days of attendance as a result of unsubstantiated revisions.

This is a repeat finding from June 30, 2006 (S-06-07) and June 30, 2005 (S-05-02).

Questioned Costs

\$(4,782) [(0.8625) Total ADA understated x \$5,545]

1 day Berendo understated/148 days in 3-track-C school year = (0.0068) ADA

1 day King understated/148 days in 3-track-C school year = (0.0068) ADA

1 day King understated/119 days in 3-track-B school year = (0.0084) ADA

9 days Palms understated/128 days in single-track school year = (0.0703) ADA

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Year ended June 30, 2007

11 days Stevenson understated/128 days in single-track school year = (0.0859) ADA

78 days Locke understated/128 days in single-track school year = (0.6093) ADA

3 days Northridge understated/128 days in single-track school year = (0.0234) ADA

3 days Roosevelt overstated/119 days in 3-track-B school year = 0.2521 ADA

1 day Roosevelt understated/148 days in 3-track-C school year = (0.0068) ADA

38 days City of Angels understated/128 days in single-track school year = (0.2969) ADA

Recommendation

We recommend that the District ensure that its schools strengthen the review process over the compilation of the Monthly Statistical Reports so that they accurately reflect student attendance days.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the finding. The Secondary Student Information System (SSIS) is being implemented to enable the schools to make updates/corrections to student attendance at anytime during the school year. Currently, SSIS provides an audit trail of when changes are made to student attendance record, and by whom. The District will review alternative ways to provide acceptable audit trail.

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S-07-16 School Accountability Report Card – Availability of Sufficient Textbooks

State Audit Guide Finding Codes: 10000 and 40000

Schools Affected

Barrett Elementary	Chandler Elementary	Fair Elementary	Marquez Elementary
Telfair Elementary	Birmingham High School	Sylmar High School	Cleveland High School

Criteria

California Education Code 33126 – (a) The school accountability report card shall provide data by which a parent can make meaningful comparisons between public schools that will enable him or her to make informed decisions on the school in which to enroll his or her children. (b) The school accountability report card shall include, but is not limited to, assessment of the following school conditions:

- Quality and currency of textbooks and other instructional materials, including whether textbooks and other materials meet state standards and are adopted by the state board for kindergarten and grades 1 to 8, inclusive, and adopted by the governing boards of school districts for grades 9 to 12, inclusive, and the ratio of textbooks per pupil and the year the textbooks were adopted.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

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- The availability of sufficient textbooks and other instructional materials, as determined pursuant to Section 60119, for each pupil, including English learners, in each of the areas enumerated in clauses (i) to (iv), inclusive. If the governing board determines, pursuant to Section 60119 that there are insufficient textbooks or instructional materials, or both, it shall include information for each school in which an insufficiency exists, identifying the percentage of pupils who lack sufficient standards-aligned textbooks or instructional materials in each subject area. The subject areas to be included are all of the following:
 - (i) The core curriculum areas of reading/language arts, mathematics, science, and history/social science.
 - (ii) Foreign language and health.
 - (iii) Science laboratory equipment for grades 9 to 12, inclusive, as appropriate.
 - (iv) Visual and performing arts.

Condition, Cause and Effect

In our sample of 50 schools tested for appropriate disclosure regarding the availability of sufficient textbooks or other instructional materials on the *School Accountability Report Card* (SARC), we noted none of the schools in our sample had reported insufficiencies in textbooks. However, when we compared the information from the District's Board Resolution regarding the sufficiency of instructional materials to the schools sampled, we noted 8 of the 50 schools had not reported the insufficiencies of textbooks noted in the Board Resolution in its SARC.

The District indicated the SARC information is posted as of different dates in time. They indicated that the textbook information was as of November 2007. The District indicated they did not believe insufficiencies were required to be reported since they had placed orders for the textbooks. However, since the textbooks were not actually received and available to the students, the SARCs reporting of sufficient textbooks would not appear to be accurate.

This is a repeat finding from June 30, 2006 (S-06-16).

Questioned Costs

Not applicable.

Recommendation

We recommend that the District ensure any insufficiencies noted in the textbooks or other instructional materials are accurately reflected on the *School Accountability Report Card* to ensure parents are adequately informed and that they comply with applicable Williams legislation. We also recommend that the District enhance the SARC to include the specific measurement dates for its various components (i.e., sufficiency of textbooks, facility repairs, etc.) to ensure transparently of reporting.

LOS ANGELES UNIFIED SCHOOL DISTRICT

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Year ended June 30, 2007

Views of Responsible Officials and Planned Corrective Actions

The SARC is published once a year with data provided from multiple sources. Most of the data in the SARC is for the prior school year, e.g., for SARC's published in 2007-08, the data references the 2006-07 school year. There are four areas where we publish information for the current school year, as required by Williams legislation:

1. Availability of sufficient textbooks
2. Condition of facilities
3. Teacher vacancies
4. Teacher misassignments

In past years, the SARC was published in early February. Data on the areas required by Williams legislation are gathered as close to publication data as possible. Information on availability of sufficient textbooks or other instructional materials was provided by the Textbook Services office in mid- to late-November. The audit findings stated that the SARC did not reflect the reporting insufficiencies as noted in the October Board resolution. The data for the SARC was gathered after the Board resolution and any insufficiencies described in the Board resolution may have been resolved by the time the data file was received.

To ensure accurate reporting on the SARC, the District will place a footnote on the SARC data tables that use current year information, noting the date that the data was received for publication. Providing information on the date the files were received should clarify the issues related to the timeliness of the data.

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INDEPENDENT AUDITORS' MANAGEMENT LETTER



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

December 5, 2008

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

Members of the Board:

We have audited the basic financial statements of the Los Angeles Unified School District (the District) as of and for the year ended June 30, 2007, and have issued our report thereon dated December 5, 2008. In planning and performing our audit of the basic financial statements of the District, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the item FS-07-02 to be a significant deficiency in internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe item FS-07-01 constitutes a material weakness.

Although not considered to be significant deficiencies or material weaknesses, we also noted certain items during our audit, which we would like to bring to your attention. These comments are summarized in the following report to management on pages 350 to 357.

We did not audit the District's response to the findings and comments identified in our audit, and accordingly, we express no opinion on it.

This communication is intended solely for the information and use of the Board of Education, District management, the State Controller's office, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

(1) ML-07-01 – Lack of Policies and Procedures

Observation

We noted that the District has not documented basic policies and procedures for some applications. Specifically, we noted:

- No formal policies and procedures are in place for adding, modifying, and deleting user access to Payroll Pay System (PPS).
- No formal policy and procedure is in place for additions, modifications, and removals of user's access from the Systems, Application, and Products (SAP) application.
- No formal or informal policies and procedures in place over program changes to the attendance, class-size, and enrollment system.
- There are no formal or informal policies and procedures over the obtaining evidence of approval, testing, and migration of program changes to the Secondary Student Information System (SSIS) and Elementary Student Information System (ESIS) applications.

Impact

The lack of formal procedures surrounding these areas allows for inconsistent practices, and increases the risk of unauthorized and/or inappropriate access or changes to sensitive functions in the District's financial systems.

Recommendation

We recommend that management implement formal policies and procedures surrounding adding, modifying, and deleting user access to PPS and SAP.

We also recommend that formal change management policies be documented and implemented with regards to changes made to the Attendance Class Enrollment Systems (ACES), SSIS, and ESIS applications.

Management Response

As has been noted in previous audits, PPS is a batch-only application. There are no screens and no users input directly to PPS. The legacy payroll system, PPS, did produce reports for user perusal and interface files for other applications. Time data used by PPS was entered into Payroll Time Reporting System (PTRS) for which there are procedures for "adding, modifying, and deleting user access." Reports produced by PPS are sent to Control-D for viewing and there are procedures for adding users to Control-D. Management disagrees with the recommendation as it applies to PPS since no user has direct access to PPS data and the fact that the application is now obsolete.

Information technology department (ITD) has engaged a third-party firm to develop policies and procedures for proper segregation of duties within SAP. As part of this effort, ITD will develop policies and procedures to implement industry best practices for managing SAP users.

As of May 2008, both ESIS and SSIS have put in place policies and procedures for approval, testing, and migration of program changes.

(2) ML-07-02 – Password Parameters

Observation

During our review of the password parameters, we observed the following weaknesses:

- SAP password security settings (back-end) do not reconcile with the password security settings as defined by the REF-1551 document.
- Upon creation of new Meral Computing Services (MCS) user account, the account logins and passwords are kept on an encrypted 'LAUSD MCS User' Excel spreadsheet located on the ITD System Administrators' computers.
- Account lockout is not defined for the Windows network.

Impact

Weak logical access controls increase the risk of unauthorized users obtaining access to applications and data, and modifying or disclosing them inappropriately. Specific implications of the security weaknesses noted include:

- No expiration of user passwords. This makes it easier for other internal users to guess another employee's password, as users are only encouraged, but not forced, to change passwords.
- No lockout after failed attempts. Should an unauthorized user be attempting to guess an authorized user's password, they can make unlimited guesses. Lack of lockout also means the unauthorized user may utilize password guessing software, which can quickly make multiple (i.e., thousands) of guesses.

Recommendation

Logical access controls should be established commensurate with leading practices. If the password controls cannot be configured according to leading practices, due to system limitations, the password limitations should be documented. Additionally, compensating controls should be identified to help lessen the risk of inadequate password controls.

Management Response

ITD management agrees with these findings. The Business Tools for Schools (BTS) group will implement SAP account and password criteria to match the District's password policy.

Reference Guide 1551 has been updated to require password changes every 180 days. The District's Active Directory System will lockout an account after five failed attempts.

(3) ML-07-03 – Periodic Review of Users' Access and Segregation of Duties

Observation

- The District does not have a process in place for performing a segregation of duties review with regard to the legacy application or SAP.
- We noted that a user access review is not performed for the Windows network or the SAP application.

- The District did not perform a second Resource Access Control Facility (RACF) audit review prior to the District's fiscal year-end (control frequency is semiannual).
- Twelve employees who were terminated prior to the December 4, 2006 review of RACF access performed by Mr. Luce still had access to the legacy applications as of June 11, 2007.

Impact

Without periodic review of user access rights or segregation of duties, a user's privileges may not be commensurate with his/her job responsibility and users may have access within the financial applications to execute fraud.

Recommendation

We recommend that management perform at least a semiannual review of user access profile and segregation of duties to ensure that users are provided with only the access required by their job functions. The review should also consider potential segregation of duties violations that may arise as a result of assigning users to multiple security groups/profiles.

Management Response

As stated previously, the District has engaged a third-party firm to audit segregation of duties within SAP and recommend software to enforce industry best practices.

ITD management agrees that its systems must be audited on a regular basis. ITD will strive to complete at least one or more audits annually for SAP and Active Directory and at least two yearly audits of RACF.

(4) ML-07-04 – Program Change Approvals and Documentation

Observation

During our walk-through of the change management process, we identified the following instances where requests for changes were not approved by the appropriate manager:

- One PTRS change was missing the migration approvals.
- Five of ten Integrated Financial System (IFS) changes were missing test and migration approvals.
- Five of ten Human Resources System (HRS) changes were missing test and migration approvals.
- Seven of ten PPS changes were missing test and migration approvals.
- Five of five PTRS changes were missing test and migration approvals.
- Fifty-six of sixty transports were missing completed SAP Transport Request forms.

Impact

Failure to document and approve change requests could result in the development and implementation of unauthorized changes. Additionally, inconsistent documentation of program changes increases the risk that changes may not be fully assessed for technical feasibility.

Additionally, the lack of documentation of approval dates makes it difficult to determine if the change was appropriately approved prior to its implementation.

Recommendation

We recommend that management implement measures to help ensure that all program changes be documented and approved by an appropriate level of management and that this approval be evidenced in writing, prior to migration of the change into production.

Management Response

ITD – Business Enterprise System (BES) policy and procedures require that all program changes destined for production be approved in writing by the ITD Application Manager and the ITD BES Director. Approval of the migration includes approval of the test as well. Once signed/approved, those forms are sent to the Standards Manager and the System Software and Security Administration areas for actual migration to production. They are also responsible for the storage and retention of such forms. While ITD-BES has retained some or most approval forms in the past strictly for historic and audit purposes, we will strive to keep a copy of the migration forms for future reference. Of course, that will apply only to IFS since PTRS, HRS, and PPS are now obsolete.

Management agrees with the recommendation but believes that it is already in place and only an improvement in the filing and retrieval of paper documents is needed. ITD has engaged a third-party firm to develop and implement procedures and processes for SAP transport management.

(5) ML-07-05 – Management Approval (Computer Operations)

Observation

During our walk-through of the computer operations process, we identified the following instances where appropriate management approvals were not obtained:

- Management was unable to provide evidence of authorization for five selected newly scheduled Overland, Pacific & Culter, Inc. (OPC) jobs.
- Seven of thirty selected ‘Scheduling Definition Request’ forms for the Tivoli Workload Scheduler (TWS) application did not have the approval from ITD application management to schedule new system jobs.
- Two batch jobs were modified during the period under review. The modifications were limited to e-mail addresses; however, no documentation was available.

Impact

Failure to document and approve job scheduling requests and changes to schedule batch jobs could result in the development and implementation of unauthorized changes and scheduled batch jobs. Additionally, inconsistent documentation of job scheduling changes or additions increases the risk that changes or additions may not be fully assessed for technical feasibility.

Recommendation

We recommend that management implement measures to help ensure that all scheduled jobs are appropriately approved by management and that documentation is maintained to evidence the

approval. We also recommend that changes to batch jobs go through a formal change management procedure and are documented to ensure that changes are appropriate.

Management Response

ITD management believes the procedures already in place provide adequate controls on job scheduling. In addition, ITD has put in place a change management process to handle such changes.

(6) ML-07-06 – Management Approval (User Access)

Observation

During our walk-through of the access to programs and data process, we identified the following instances where appropriate management approvals were not obtained:

- For one contractor, the department head or supervisor did not sign the ‘LAUSD e-mail Application for District Contractors’ document form and no approval for the contractor’s access had been obtained.
- Twenty-five of thirty selected terminated employees did not have a corresponding Request for User ID Authorization’ form termination request.
- Four of fifteen new hire ‘MCS System Request’ forms selected did not contain appropriate approval requirements
- For two new hires, a corresponding Peregrine ticket had not been created and completed for their access.

Impact

Failure to document and approve access to critical financial applications may result in the granting of inappropriate access to unauthorized individuals.

Recommendation

We recommend that management enforce current policies and procedures regarding requesting access for the District’s contractors. We also recommend that management enforce current policies and procedures regarding requesting the addition and termination of employee’s access to critical financial applications. We also recommend that formal policies and procedures be documented with regard to adding, modifying, and terminating employee’s access to the SAP financial application.

Management Response

ITD management agrees with the recommendation but believes the lack of a signature and appropriate approval of the “Request for User ID Authorization” form for the contractor is an isolated incident. ITD management will work with the District’s Human Resources branch to complete exit authorization requirements.

The established procedure for providing access to new hires does not involve the use of the Peregrine issue tracking system. New hires are established through SAP Human Resources and provided a District Single Sign-on and e-mail account through an automated interface from SAP to the District’s

Lightweight Directory Access Protocol (LDAP) directory. This interface is executed nightly with the goal to have the execution to occur four times during the work day.

(7) ML-07-07 – Inappropriate Access to the Data Center and Job Scheduling

Observation

During our walk-through and testing of the computer operations process, we identified the following instances where the District's employees had inappropriate access to the data center and to schedule jobs according to their job responsibilities:

- Twelve of thirty-nine users have inappropriate access to schedule mainframe jobs in the OPC application.
- Review of the access list indicated that 174 individuals had access to the data center.

Impact

Individuals with inappropriate access to the data center may have the ability to affect computer operations as well as obtain unauthorized access to critical financial applications. Users with inappropriate access to schedule mainframe jobs would have the ability to schedule inappropriate jobs that may affect system operation.

Recommendation

We recommend that management limit access to schedule jobs and access to the data center to individuals whose job responsibilities require access.

Management Response

ITD management agrees with this finding. ITD will work closely with Beaudry building management to control access to the data center and limit the number of people authorized to access it.

(8) ML-07-08 – Conversion and Data Validation

Observation

During our walk-through and testing of the computer operations process, we identified the following instances where the District's management did not document incidents or retain evidence of incident resolution:

- Fifteen out of fifteen dates selected for OPC batch jobs and fifteen out of fifteen dates selected for TWS batch jobs had errors that were missing from the OPSLOG.
- For four selected 'Determine Labor-Cost/Labor Cost Calculation Exceptions Reports,' the exceptions were not consistently identified by the reports.
- The EBAFR and "Budget by Fund Report" for ten of fifteen dates selected were not retained.
- In four out of fifteen selected dates, the portion of the 'Budget by Fund Report' that displays the balance for each fund was not retained.

- An inspection of the EBAFR identified a difference of \$5,786,548 between the Original Budget and Current Modified Budget. The BTS Report with regards to the difference was not on file and the Budget by Fund Report was not on file.

Impact

Incidents and corresponding resolutions that are not logged may never actually have been resolved. If incidents have not been resolved, this may impact system operability.

Recommendation

We recommend that management document incidents and retain evidence of incident resolution.

Management Response

ITD management agrees with this finding. ITD will put in place policies and procedures for documenting such incidents and their corresponding resolutions.

(9) ML-07-09 – Conversion and Data Validation

Observation

During our walk-through and testing of the program development process, we noted that the District could not provide the following evidence:

- We noted that the District could not provide evidence to support the assertion that data was reconciled and validated before conversion to the SAP application other than planning documents and final validation sign-offs of the BTS team and Deloitte consultants.
- We also noted that the District could not provide evidence to support the assertion that the steps outlined in the BTS Cutover Plan 1 and 2 occurred for the SAP application other than the planning documents and final validation sign-off of the BTS team and Deloitte consultants.

Impact

Failure to properly document program development for critical financial applications could result in the corruption of data from the legacy system to the new system as well as inappropriate and inadequate development of the new financial system.

Recommendation

We recommend that management adequately maintain documentation of new system development including the testing and reconciliation of data from the legacy system to the new financial system.

Management Response

ITD management agrees with this finding. This deficiency will be addressed in future projects. Supporting documents will be requested for all future reconciliation and conversion activities.

(10) ML-07-10 – Accounting for Bond Premiums, Discounts and Deferred Charges

Observation

We noted that the process for recording and amortizing bond premiums, discounts and deferred charges is inconsistent and poorly documented.

Impact

The balances for these accounts could be misstated.

Recommendation

We recommended that the District determine and implement controls to ensure that bond premiums, discounts, and deferred charges are handled consistently.

Management Response

The District partially agrees with the finding. The District will document the process for recording and amortizing bond premiums, discounts, and deferred charges. However, since 2004 – 2005 the District records and amortizes bond premiums, discounts, and deferred charges consistently.

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

LOS ANGELES UNIFIED SCHOOL DISTRICT

Status of Prior Year Findings and Recommendations

Year ended June 30, 2007

Findings Related to the Basic Financial Statements Reporting in Accordance with *Government Auditing Standards*

(1) Finding FS-06-01 – Lack of System Integration

Finding FS-05-01 – Lack of System Integration

Finding FS-04-01 – Lack of System Integration

Recommendation

We are aware management is addressing this issue with the implementation of SAP in the current year. Management should work closely with the implementation team to monitor the process and ensure the appropriate controls integration is incorporation into the effort.

Current Status

No longer warrants further action. As noted in management response to the current year finding, the Payroll Pay System (PPS), Payroll Time Reporting System (PTRS), and Human Resource System (HRS) applications were replaced by the District's Enterprise Resource Planning (ERP) system as of January 1, 2007. This has led to a nearly complete elimination of the need for manual intervention in the payroll process.

(2) Finding FS-06-02 – Periodic Review of Users' Access

Recommendation

We recommend that management perform at least a semiannual review of user access profile to ensure that users are provided with only the access required by their job functions. The review should also consider potential segregation of duties violation that may arise as a result of assigning users to multiple security groups/profiles.

Current Status

The changes described in management prior year response have been implemented, with the exception that the Enterprise Resource Planning (ERP) training environment is updated from the production environment.

(3) Finding FS-06-03 – System User Account Management

Recommendation

We recommend that the District take measures to help ensure that appropriate segregation of duties are in place and that users are only granted access based on their job responsibilities after appropriate approvals are obtained. Additionally, management should also monitor controls over the process for revoking terminated employee's access in a timely manner.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Status of Prior Year Findings and Recommendations

Year ended June 30, 2007

Current Status

The changes described in management response have been implemented. Revocation of accounts for employees separated/terminated from the District is accomplished by a daily process that updates the Single Sign On system using employee status information from the human resource component of the Enterprise Resource Planning (ERP).

(4) Finding FS-06-04 – Program Change Approvals and Documentation

Recommendation

We recommend that management implement measures to help ensure that all program changes are documented and approved by an appropriate level of management and that this approval is evidenced in writing, prior to migration of the change into production.

Current Status

No longer warrants further action. As noted above, the Payroll Pay System (PPS), Payroll Time Reporting System (PTRS), and HRS applications are no longer used by the District. Because IFS is still used by the District, information technology department (ITD) has put in place and documented change procedures for updating IFS. The procedures detail steps that must be taken by developers, application and system administrators, and managers to request, implement, and approve changes to IFS.

(5) Finding FS-06-05 – System Interface Controls

Finding FS-05-03 – HRS/Payroll System Interface Controls

Finding FS-04-03 – HRS/Payroll System Interface Controls

Recommendation

We recommend that the District consider replacing their payroll systems and processes with an integrated payroll/human resources/benefits system. The District's approach should include the following steps:

- Conduct a benchmarking study to discover "best practices" among similarly structured organizations. The District should first analyze the reasons underlying the complexities of the current payroll business processes (e.g., union agreements, multitrack school years) and perform baseline business process reengineering, where necessary;
- Evaluate various payroll system options, including internal system implementation (client/server or mainframe), application service provider arrangement, and partial or full outsourcing arrangements for each of the payroll applications and select a solution;
- Perform formal needs analysis/functional requirements for the proposed solution;
- Develop a migration plan that would include project development, project management, and change management programs;
- Reengineer business processes to support the selected solution using employee self-service models to automate workflow and minimize human interaction as well as process inefficiencies; and
- Implement the solution.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Status of Prior Year Findings and Recommendations

Year ended June 30, 2007

Current Status

No longer warrants further action. As noted in management response, the Payroll Pay System (PPS), Payroll Time Reporting System (PTRS), and Human Resource System (HRS) applications were replaced by the District's Enterprise Resource Planning (ERP) system as of January 1, 2007, mitigating the impacts described in this finding.

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Findings and Questioned Costs Relating to Federal Awards

(6) Finding F-06-01 – Allowable Costs – Payroll Certifications and Documentation for Specially Funded Employee Positions

Finding F-05-01 – Allowable Costs – Payroll Certifications and Documentation for Specially Funded Employee Positions

Program Identification:

Child Nutrition Cluster Programs: *U.S. Department of Agriculture (USDA)*, School Breakfast Program (CFDA 10.553), National School Lunch Program (CFDA 10.555), and Summer Food Service Program for Children (CFDA 10.559), Passed through the California Department of Education (CDE), Agreement No. 19-64733-0000000-01

State Administrative Matching Grants for Food Stamp Program: *U.S. Department of Agriculture (USDA)*, CFDA 10.561, Passed through the California Department of Health Services (DHS) as California Nutrition Network, Agreement No. 04-35450

Title I Grants to Local Educational Agencies: *U.S. Department of Education*, Elementary and Secondary Act Title I, Part A; Passed through the California Department of Education (CDE) as Title I, Part A of the No Child Left Behind Act of 2001 (CFDA 84.010), PCA 14329

Special Education Cluster: *U.S. Department of Education*, Special Education – Grants to States (84.027) and Special Education – Preschool Grants (84.173), Passed through the California Department of Education (CDE) as Local Assistance Entitlements (PCA 13379), Preschool Local Entitlements (PCA 13682), and Federal Preschool Grant (PCA 13430)

Vocational Education – Basic Grants to States: *U.S. Department of Education*, Passed through the California Department of Education (CDE), Carl D. Perkins Vocational and Technical Education Act of 1998 (CFDA 84.048), PCA 13924 and 13923

Safe and Drug-Free Schools and Communities: *U.S. Department of Education*, Passed through the California Department of Education (CDE), Title VI, Part A, Safe and Drug-Free Schools & Communities (CFDA 84.186)

Fund for the Improvement of Education: *U.S. Department of Education*, Elementary and Secondary Act Title V, Part D; Project Title: Smaller Learning Communities (CFDA 84.215), Award No's. V215L032230 and V215L052108

LOS ANGELES UNIFIED SCHOOL DISTRICT

Status of Prior Year Findings and Recommendations

Year ended June 30, 2007

Twenty-First Century Community Learning Centers: *U.S. Department of Education*, Passed through the California Department of Education (CDE): Project Title Beyond the Bell (CFDA 84.287), Grant ID# 19-2003-CCLC-204

State Grants for Innovative Programs: *U.S. Department of Education (DOE)*, Passed through the California Department of Education (CDE), Title V, Part A, Innovative Education Program Strategies (CFDA 84.298)

Education Technology State Grants: *U.S. Department of Education (DOE)*, Elementary and Secondary Act Title II, Part D; Passed through the California Department of Education (CDE) as Enhancing Education through Technology (CFDA 84.318)

Reading First State Grants: *U.S. Department of Education (DOE)*, Elementary and Secondary Act Title I, Part B; Passed through the California Department of Education (CDE) as Reading First (CFDA 84.357), PCA 14328

English Language Acquisition Grants: *U.S. Department of Education (DOE)*, Elementary and Secondary Act Title III, Part A; Passed through the California Department of Education (CDE) as Limited English Proficient Student Program (CFDA 84.365), PCA 14346

Improving Teacher Quality State Grants: *U.S. Department of Education (DOE)*, Elementary and Secondary Act Title II, Part A; Passed through the California Department of Education (CDE) as Teacher and Principal Training and Recruiting (CFDA 84.367), PCA 14341

Child Care Cluster: *U.S. Department of Health and Human Services (HHS)*, Child Care and Development Block Grant (CFDA 93.575), Child Care Mandatory and Matching Funds of the Child Care and Development Fund (CFDA 93.596), Passed through the California Department of Education (CDE), General Child Care and Development Programs, Contract No. CCTR-5163, Project No. 19-6473-00-5

Recommendation

We recommend that the District enhance controls, provide additional training and update its policy bulletin to provide more specific guidance and instructions to help ensure compliance with OMB Circular A-87.

Current Status

Partially implemented. District has issued BUL-2643.3 "Time reporting documentation for federal and state categorical program" on March 27, 2007 updating BUL-888, BUL-889, and BUL-2643.2. The bulletin requires all personnel who are compensated from more than one funding resource to document actual time supporting the cost distribution to each program. All program personnel who are compensated from a single federal categorical program, single restricted program, or working solely on a single cost objective or single indirect cost activity are required to complete semiannual certifications. The bulletin likewise revises the certification forms that need to be completed in order to minimize errors in reporting.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Status of Prior Year Findings and Recommendations

Year ended June 30, 2007

(7) Finding F-06-02 – Allowable Costs – Approval of Nonpayroll Expenditures

Program Identification:

Vocational Education – Basic Grants to States: *U.S. Department of Education (DOE)*, Passed through the California Department of Education (CDE), Carl D. Perkins Vocational and Technical Education Act of 1998 (CFDA 84.048), PCA 13924 and 13923

Reading First State Grants: *U.S. Department of Education (DOE)*, Elementary and Secondary Act Title I, Part B; Passed through the California Department of Education (CDE) as Reading First (CFDA 84.357), PCA 14328

English Language Acquisition Grants: *U.S. Department of Education (DOE)*, Elementary and Secondary Act Title III, Part A; Passed through the California Department of Education (CDE) as Limited English Proficient Student Program (CFDA 84.365), PCA 14346

Improving Teacher Quality State Grants: *U.S. Department of Education (DOE)*, Elementary and Secondary Act Title II, Part A; Passed through the California Department of Education (CDE) as Teacher and Principal Training and Recruiting (CFDA 84.367), PCA 14341

Child Care Cluster: *U.S. Department of Health and Human Services (HHS)*, Child Care and Development Block Grant (CFDA 93.575), Child Care Mandatory and Matching Funds of the Child Care and Development Fund (CFDA 93.596), Passed through the California Department of Education (CDE), General Child Care and Development Programs, Contract No. CCTR-5163, Project No. 19-6473-00-5

Recommendation

We recommend that the District strengthen controls by providing additional training to program personnel responsible for the coding and classification of program expenditures to ensure that they are reasonable, necessary, and consistent with District policy and OMB Circular A-87.

Current Status

Partially implemented. District has provided continuous training to all school site administrators, program personnel and staff and issued bulletins on proper coding and classification of program expenditures.

(8) Finding F-06-03 – Allowable Costs – Unsupported Nonpayroll Expenditures

Finding F-05-02 – Allowable Costs – Missing Documentation to Support Program Expenditures

Program Identification:

Fund for the Improvement of Education: *U.S. Department of Education (DOE)*, Elementary and Secondary Act Title V, Part D; Project Title: Smaller Learning Communities (CFDA 84.215), Award No.'s V215L032230 and V215L052108 and Project Title: Teaching American History, Award No. U215X030096

LOS ANGELES UNIFIED SCHOOL DISTRICT

Status of Prior Year Findings and Recommendations

Year ended June 30, 2007

Child Nutrition School Programs: *U.S. Department of Agriculture (USDA)*, Passed through the California Department of Education (CDE), School Breakfast Program (CFDA 10.553), National School Lunch Program (CFDA 10.555), Donated Commodities (CFDA 10.555), Summer Food Service Program for Children (CFDA 10.559), Agreement #19-64733-0000000-01

Recommendation

We recommend that the District strengthen controls by providing additional training to program personnel responsible for the coding and classification of program expenditures to ensure that they are reasonable, necessary, and consistent with District policy and OMB Circular A-87.

Current Status

Partially implemented. Additional controls in the review process have been instituted to ensure only allowable expenditures are approved. An audit guide has been developed that outlines applicable regulations, codes for each major categorical program, and compliance issues. Training has been provided to highlight the approval process and appropriateness of expenditures.

(9) Finding F-06-04 – Allowable Costs – Entertainment Costs

Program Identification:

Twenty-First Century Community Learning Centers: *U.S. Department of Education (DOE)*, Elementary and Secondary Act Title IV, Part B; Passed through the California Department of Education (CDE) as 21st Century Community Learning Centers Grant (CFDA 84.287), PCA 14349

Recommendation

We recommend that the District improve training to program personnel responsible for the coding and classification of program expenditures to ensure that they are reasonable, necessary, and consistent with District policy and OMB Circular A-87.

Current Status

Implemented. Additional controls in the review process have been instituted to ensure only allowable expenditures are approved. An audit guide has been developed that outlines applicable regulations, codes for each major categorical program and compliance issues. Training has been provided to highlight the approval process and appropriateness of expenditures.

(10) Finding F-06-05 – Allowable Costs – Classification of Indirect Program Expenditure as Direct

Finding F-05-05 – Allowable Costs – Classification of Indirect Program Expenditure as Direct

Program Identification:

Safe and Drug-Free Schools and Communities: *U.S. Department of Education (DOE)*, Passed through the California Department of Education (CDE), Title VI, Part A, Safe and Drug-Free Schools & Communities (CFDA 84.186)

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Status of Prior Year Findings and Recommendations

Year ended June 30, 2007

Twenty-First Century Community Learning Centers: *U.S. Department of Education (DOE)*, Elementary and Secondary Act Title IV, Part B; Passed through the California Department of Education (CDE) as 21st Century Community Learning Centers Grant (CFDA 84.287), PCA 14349

State Grants for Innovative Programs: *U.S. Department of Education (DOE)*, Passed through the California Department of Education (CDE), Title V, Part A, Innovative Education Program Strategies (CFDA 84.298)

NCLB Title I, Part A: *U.S. Department of Education (DOE)*, Passed through the California Department of Education (CDE), Title I grants to Local Educational Agencies (Title I, Part A of ESEA) (CFDA 84.010)

Recommendation

We recommend that the District provide additional training to program personnel responsible for the coding and classification of program expenditures to ensure that they have adequate knowledge of OMB Circular A-87.

Current Status

Partially implemented. Training/workshops have been undertaken for program people and staff to discuss the appropriate charging methodologies. Review process has been tightened to ensure that only allowable expenditures are approved and included in the consolidated application that is submitted on January 31 of each year.

(11) Finding F-06-06 – Allowable Costs – Controls over Calculation of Indirect Costs Charged to Program

Program Identification:

Special Education Cluster: *U.S. Department of Education (DOE)*, Special Education – Grants to States (84.027) and Special Education – Preschool Grants (84.173), Passed through the California Department of Education (CDE) as Local Assistance Entitlements (PCA 13379), Preschool Local Entitlements (PCA 13682), and Federal Preschool Grant (PCA 13430)

State Grants for Innovative Programs: *U.S. Department of Education (DOE)*, Passed through the California Department of Education (CDE), Title V, Part A, Innovative Education Program Strategies (CFDA 84.298)

Recommendation

We recommend that the District strengthen controls to ensure that indirect cost rates are accurate and updated to ensure their correct allocation to the federally funded program.

Current Status

Implemented. Final reports submitted incorporated the correct indirect cost rate. This final report is included as part of the current year audit.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Status of Prior Year Findings and Recommendations

Year ended June 30, 2007

(12) Finding F-06-07 – Cash Management – Interest Income from Advances not Returned to Federal Government

Finding F-05-10 – Cash Management – Interest Income from Advances not Returned to Federal Government

Finding F-04-01 – Cash Management – Interest Income from Advances not Returned to Federal Government

Finding F-02-04 – Compliance with Federal Cash Management Requirements

Finding F-01-04 – Interest Earned on Federal Program

Program Identification:

Public Assistance Grants: *Department of Homeland Security (DHS)*, (CFDA 83.544), Passed through the California Governor's Office of Emergency Services (OES), FEMA 1008-DR, P.A. 037-91146, OES 93708.4

WIA - Adult Basic Education: *U.S. Department of Education (ED)*, Passed through the California Department of Education (CDE) Adult Education – State Grant Program (CFDA 84.002), Grant ID#29-R419-06AF

Title I Grants to Local Educational Agencies: *U.S. Department of Education (ED)*, Elementary and Secondary Act Title I, Part A; Passed through the California Department of Education (CDE) as Title I, Part A of the No Child Left Behind Act of 2001 (CFDA 84.010), PCA 14329

Vocational Education – Basic Grants to States: *U.S. Department of Education (ED)*, Passed through the California Department of Education (CDE), Carl D. Perkins Vocational and Technical Education Act of 1998 (CFDA 84.048), PCA 13924 and 13923

Safe and Drug-Free Schools and Communities: *U.S. Department of Education (ED)*, Passed through the California Department of Education (CDE), Title VI, Part A, Safe and Drug-Free Schools & Communities (CFDA 84.186)

Twenty-First Century Community Learning Centers: *U.S. Department of Education (ED)*, Elementary and Secondary Act Title IV, Part B; Passed through the California Department of Education (CDE) as 21st Century Community Learning Centers Grant (CFDA 84.287), PCA 14349

State Grants for Innovative Programs: *U.S. Department of Education (ED)*, Passed through the California Department of Education (CDE), Title V, Part A, Innovative Education Program Strategies (CFDA 84.298)

Education Technology State Grants: *U.S. Department of Education (ED)*, Elementary and Secondary Act Title II, Part D; Passed through the California Department of Education (CDE) as Enhancing Education through Technology (CFDA 84.318)

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English Language Acquisition Grants: *U.S. Department of Education (ED)*, Elementary and Secondary Act Title III, Part A; Passed through the California Department of Education (CDE) as Limited English Proficient Student Program (CFDA 84.365), PCA 14346

Improving Teacher Quality State Grants: *U.S. Department of Education (ED)*, Elementary and Secondary Act Title II, Part A; Passed through the California Department of Education (CDE) as Teacher and Principal Training and Recruiting (CFDA 84.367), PCA 14341

Recommendation

We recommend that the District comply with federal cash management requirements or obtain positive confirmation of a waiver of the requirements from its various federal funding agencies. We further recommend the District review its current policy for the calculation of interest due to the federal government to eliminate the recording of interest due from the federal government and the subsequent netting with amounts earned on federal advances.

Current Status

Partially implemented. District has since issued procedure bulletin ADD-007 to comply with OMB A-133 on cash management. Beginning in the fiscal year 2008, District has ceased the procedure of netting interest.

(13) Finding F-06-08 – Cash Management – Timing of Payments to Subrecipients

Program Identification:

Twenty-First Century Community Learning Centers: *U.S. Department of Education (DOE)*, Elementary and Secondary Act Title IV, Part B; Passed through the California Department of Education (CDE) as 21st Century Community Learning Centers Grant (CFDA 84.287), PCA 14349

Recommendation

We recommend that District strengthen its processes to ensure that payments to its subrecipients are made in a timely manner.

Current Status

Implemented. District has since issued Bulletin 4110.0 to ensure subrecipient awards are properly identified and monitored by using new object codes of expenditures for subrecipients. This bulletin reinforces the process that payments to its subrecipients are accurate and timely.

(14) Finding F-06-09 – Equipment – Equipment Management Policies

Finding F-05-14 – Equipment – Equipment Management Policies

Finding F-05-15 – Equipment – Program Equipment Disposals

Program Identification:

Child Nutrition Cluster Programs: *U.S. Department of Agriculture (USDA)*, School Breakfast Program (CFDA 10.553), National School Lunch Program (CFDA 10.555), Summer Food Service Program for

LOS ANGELES UNIFIED SCHOOL DISTRICT

Status of Prior Year Findings and Recommendations

Year ended June 30, 2007

Children (CFDA 10.559), Passed through the California Department of Education (CDE), Agreement No. 19-64733-0000000-01

Child and Adult Care Food Program: *U.S. Department of Agriculture (USDA)*, CFDA 10.558, Passed through the California Department of Education (CDE), Child Nutrition Child Care Food Program, Agreement No. 19-2016-3A

State Administrative Matching Grants for Food Stamp Program: *U.S. Department of Agriculture (USDA)*, CFDA 10.561, Passed through the California Department of Health Services (DHS) as California Nutrition Network, Agreement No. 04-35450

Title I Grants to Local Educational Agencies: *U.S. Department of Education (ED)*, Elementary and Secondary Act Title I, Part A; Passed through the California Department of Education (CDE) as Title I, Part A of the No Child Left Behind Act of 2001 (CFDA 84.010), PCA 14329

Special Education Cluster: *U.S. Department of Education (ED)*, Special Education – Grants to States (84.027) and Special Education – Preschool Grants (84.173); Passed through the California Department of Education (CDE) as Local Assistance Entitlements (PCA 13379), Preschool Local Entitlements (PCA 13682), and Federal Preschool Grant (PCA 13430)

Vocational Education – Basic Grants to States: *U.S. Department of Education (ED)*, Passed through the California Department of Education (CDE), Carl D. Perkins Vocational and Technical Education Act of 1998 (CFDA 84.048), PCA 13924 and 13923

Safe and Drug-Free Schools and Communities: *Department of Education (ED)*, Passed through the California Department of Education (CDE), Title VI, Part A, Safe and Drug-Free Schools & Communities (CFDA 84.186)

Fund for the Improvement of Education: *U.S. Department of Education (ED)*, Elementary and Secondary Act Title V, Part D; Project Title: Smaller Learning Communities (CFDA 84.215), Award No's. V215L032230 and V215L052108, Project Title: Teaching American History, Award No. U215X030096

Twenty-First Century Community Learning Centers: *U.S. Department of Education (ED)*, Elementary and Secondary Act Title IV, Part B; Passed through the California Department of Education (CDE) as 21st Century Community Learning Centers Grant (CFDA 84.287), PCA 14349

State Grants for Innovative Programs: *Department of Education (ED)*, Passed through the California Department of Education (CDE), Title V, Part A, Innovative Education Program Strategies (CFDA 84.298)

Education Technology State Grants: *U.S. Department of Education (ED)*, Elementary and Secondary Act Title II, Part D; Passed through the California Department of Education (CDE) as Enhancing Education through Technology (CFDA 84.318)

Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP): *U.S. Department of Education (ED)*, Higher Education Act Title IV, Part A; (CFDA 84.334), Project Title: Project Higher

LOS ANGELES UNIFIED SCHOOL DISTRICT

Status of Prior Year Findings and Recommendations

Year ended June 30, 2007

Learning, Award No. P334A050178; Project Title: Gear-up, Award No. P334A000061; Project Title: Linking Academic Success with Student Outreach (LASSO), Award No. P334A050217

Reading First State Grants: *U.S. Department of Education (ED)*, Elementary and Secondary Act Title I, Part B; Passed through the California Department of Education (CDE) as Reading First (CFDA 84.357), PCA 14328

English Language Acquisition Grants: *U.S. Department of Education (ED)*, Elementary and Secondary Act Title III, Part A; Passed through the California Department of Education (CDE) as Limited English Proficient Student Program (CFDA 84.365), PCA 14346

Improving Teacher Quality State Grants: *U.S. Department of Education (ED)*, Elementary and Secondary Act Title II, Part A; Passed through the California Department of Education (CDE) as Teacher and Principal Training and Recruiting (CFDA 84.367), PCA 14341

Child Care Cluster: *U.S. Department of Health and Human Services (HHS)*, Child Care and Development Block Grant (CFDA 93.575), Child Care Mandatory and Matching Funds of the Child Care and Development Fund (CFDA 93.596), Passed through the California Department of Education (CDE), General Child Care and Development Programs, Contract No. CCTR-5163, Project No. 19-6473-00-5

Recommendation

We recommend that the District consider implementing a more automated system of accounting for equipment inventory with a software program, which should have the capabilities to capture all equipment over the federal equipment threshold of \$5,000. These detailed equipment records should be used both by the District to reconcile its equipment recorded in the general ledger for financial reporting purposes and at the schools to support the accuracy and completeness of the school classroom inventory equipment inventory counts.

We also recommend the District strengthen its internal control policies and procedures to prevent loss or misappropriation of assets by developing some sort of sampling of the existence of its equipment:

- selecting a sample of equipment acquired during the year and tracing it to the physical equipment at the school site and
- selecting a sample of equipment acquired in a previous year but still maintained in the permanent inventory records and tracing it to the physical equipment at the school site.

We further recommend the District review the current equipment inventory and disposal policies and procedures and consider implementing a more automated system of accounting for equipment inventory software program, which should have the capabilities to capture all equipment over the federal equipment threshold of \$5,000. It should also have the ability to generate reports to detail annual equipment acquisitions and dispositions by federal program and by school site location.

The District should also issue an update to its control of site equipment policy to include additional language regarding equipment dispositions with an estimated fair market value of \$5,000 or more and create a notification/approval form to be sent from the schools to specially funded programs group at the District office for review and discussion with grant program personnel for possible communication with

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the program awarding agency for proceeds received or authorization to transfer equipment to a nonfederally funded program, as applicable.

Current Status

Partially implemented. The District has issued Bulletin BUL-3508.1 concerning equipment purchased through categorical programs. The bulletin provides information and procedures that require updating and maintaining schools inventory forms and undertaking physical inventory every two years. The original copies of inventories are kept with the single plans in the Federal and State Education Programs Office.

(15) Finding F-06-10 – Eligibility – Annual Eligibility Determination

Finding F-05-12 – Eligibility – Errors in Annual Eligibility Determination

Finding F-04-05 – Eligibility – Noncompliant Student Applications Accepted for Free, Reduced, and Full-Price Students

Program Identification:

Child Nutrition Cluster Programs: *U.S. Department of Agriculture (USDA)*, School Breakfast Program (CFDA 10.553), National School Lunch Program (CFDA 10.555), Summer Food Service Program for Children (CFDA 10.559), Passed through the California Department of Education (CDE), Agreement No. 19-64733-0000000-01

Child and Adult Care Food Program: *U.S. Department of Agriculture (USDA)*, CFDA 10.558, Passed through the California Department of Education (CDE), Child Nutrition Child Care Food Program, Agreement No. 19-2016-3A

Recommendation

We recommend that the District strengthen controls over the annual eligibility determination process to ensure that student participation categories are being accurately counted and reported to the California Department of Education.

Current Status

Implemented. Scanning and automated verification of applications have been implemented.

(16) Finding F-06-11 – Eligibility – Certification of Eligible Targeted Assistance School Students

Program Identification:

Title I Grants to Local Educational Agencies: *U.S. Department of Education (DOE)*, Elementary and Secondary Act Title I, Part A; Passed through the California Department of Education (CDE) as Title I, Part A of the No Child Left Behind Act of 2001 (CFDA 84.010), PCA 14329

Recommendation

We recommend that the District enhance its current policies and procedures to include training for teachers on the certification process and enhance controls in place to help ensure all students are appropriately certified or adjusted from the program.

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Current Status

Implemented. Current policies and procedures have been updated to address recommendations from auditors, which include training of teachers on the certification process and enhancement of controls that students are appropriately certified.

(17) Finding F-06-12 – Eligibility – Certification of Eligible Children

Program Identification:

Child Care Cluster: *U.S. Department of Health and Human Services (HHS)*, Child Care and Development Block Grant (CFDA 93.575), Child Care Mandatory and Matching Funds of the Child Care and Development Fund (CFDA 93.596), Passed through the California Department of Education (CDE), General Child Care and Development Programs, Contract No. CCTR-5163, Project No. 19-6473-00-5

Recommendation

We recommend that the District enhance its current policies and procedures to include training for teachers on the certification process and enhance controls in place to help ensure all students are appropriately certified or adjusted from the program.

Current Status

Implemented. Workshops were conducted to address sign-in sheets and matching actual attendance to contract times. Training sessions have been held for certification process to review form, documents, rules related to eligibility, and determination of family fees.

(18) Finding F-06-13 – Matching, Level of Effort, Earmarking, and Reporting – Matching Funds Reported

Finding F-05-16 – Matching, Level of Effort, Earmarking, and Reporting – No Support for District Matching Funds Reported

Program Identification:

State Administrative Matching Grants for Food Stamp Program: *U.S. Department of Agriculture (USDA)*, CFDA 10.561, Passed through the California Department of Health Services (DHS) as California Nutrition Network, Agreement No. 04-35450

Fund for the Improvement of Education: *U.S. Department of Education (ED)*, Elementary and Secondary Act Title V, Part D; Project Title: Smaller Learning Communities (CFDA 84.215), Award No. V215L032230

Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP): *U.S. Department of Education (ED)*, Higher Education Act Title IV, Part A; (CFDA 84.334), Project Title: Project Higher Learning, Award No. P334A050178; Project Title: Gear-up, Award No. P334A000061; Project Title: Project Linking Academic Success with Student Outreach (LASSO), Award No. P334A050217

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Recommendation

We recommend the District develop procedures to capture District matching cost share expenditures and to report those actual matched amounts on the grant performance reports to the awarding agency. The supporting documentation for these matching contributions should be retained for audit purposes.

Current Status

California Nutrition Network: On May 29 – 31, 2007, our program underwent a Program Compliance Review with our funding agency, the Network for a Healthy California (Network (formerly, California Nutrition Network)) and the U.S. Department of Agriculture (USDA). From that review, we worked with our funding agency to formulate a Program Improvement Plan (PIP). The PIP included:

1. Proper procedures would be implemented that would ensure proper documentation and accountability.
2. Proper supporting documentation for matching contribution would be retained and retrievable at our Network office.

On June 3 – 5, 2008, a follow up Desk Review was held with our funding agency. From that review, our funding agency found that we had properly implemented the PIP and that we were in compliance.

Fund for Improvement of Education: Partially implemented. The District has identified in-kind match for the program. For succeeding years, the in-kind match will be more appropriately documented in accordance with program requirements.

GEAR-UP. Partially implemented. District has identified qualifying in-kind match for the program. For succeeding years, the in-kind match will be more appropriately documented in accordance with program requirements.

(19) Finding F-06-14 – Matching, Level of Effort, and Earmarking – Administrative Cost

Finding F-05-17 – Matching, Level of Effort, and Earmarking – Administrative Cost over the Restricted 2% Limit

Program Identification:

Safe and Drug-Free Schools and Communities: *U.S. Department of Education (ED)*, Passed through the California Department of Education (CDE), Title VI, Part A, Safe and Drug-Free Schools & Communities (CFDA 84.186)

English Language Acquisition Grants: *U.S. Department of Education (ED)*, Elementary and Secondary Act Title III, Part A; Passed through the California Department of Education (CDE) as Limited English Proficient Student Program (CFDA 84.365), PCA 14346

Recommendation

We recommend that the District strengthen its process so that administrative costs are not charged in excess of the 2% limit.

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Current Status

District disagrees with finding. For both English Language Acquisition Grant and Safe & Drug-Free Schools and Communities program, the District, per state guidelines, can charge the LEA approved indirect cost rate, which is higher than 2%.

(20) Finding F-06-15 – Matching, Level of Effort, and Earmarking – Administrative Cost

Program Identification:

Twenty-First Century Community Learning Centers: U.S. Department of Education (DOE), Elementary and Secondary Act Title IV, Part B; Passed through the California Department of Education (CDE) as 21st Century Community Learning Centers Grant (CFDA 84.287), PCA 14349

Recommendation

We recommend that the District strengthen its process and controls over the calculation of the administrative costs charged to ensure that administrative costs are not charged over the allowable maximum.

Current Status

Partially implemented. Staff received training to ensure that administrative expenditures are included in the administrative earmarking calculations.

(21) Finding F-06-16 – Matching, Level of Effort, and Earmarking – Highly Qualified Professional Development Earmark

Program Identification:

Education Technology State Grants: U.S. Department of Education (DOE), Elementary and Secondary Act Title II, Part D; Passed through the California Department of Education (CDE) as Enhancing Education through Technology (CFDA 84.318)

Recommendation

We recommend that the District enhance its current policies and procedures to include documented controls in place and specific object codes to capture earmarked expenditures to help ensure compliance with earmarking requirements. We further recommend the District maintain documentation to support earmarking expenditures for a period of not less than three years as required by the award and reporting documentation.

Current Status

Partially implemented. We have enhanced current policies and procedures to include documented controls in place and specific object codes to capture earmarked expenditures to help ensure compliance with earmarking requirements.

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(22) Finding F-06-17 – Period of Availability – Program Code Controls

Program Identification:

Title I Grants to Local Educational Agencies: *U.S. Department of Education (ED)*, Elementary and Secondary Act Title I, Part A; Passed through the California Department of Education (CDE) as Title I, Part A of the No Child Left Behind Act of 2001 (CFDA 84.010), PCA 14329

Special Education Cluster: *U.S. Department of Education (ED)*, Special Education – Grants to States (84.027) and Special Education – Preschool Grants (84.173), Passed through the California Department of Education (CDE) as Local Assistance Entitlements (PCA 13379), Preschool Local Entitlements (PCA 13682), and Federal Preschool Grant (PCA 13430)

Vocational Education – Basic Grants to States: *U.S. Department of Education (ED)*, Passed through the California Department of Education (CDE), Carl D. Perkins Vocational and Technical Education Act of 1998 (CFDA 84.048), PCA 13924 and 13923

Safe and Drug-Free Schools and Communities: *U.S. Department of Education (ED)*, Passed through the California Department of Education (CDE), Title VI, Part A, Safe and Drug-Free Schools & Communities (CFDA 84.186)

Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP): *U.S. Department of Education (ED)*, Higher Education Act Title IV, Part A; (CFDA 84.334), Project Title: Gear-up, Award No. P334A000061

English Language Acquisition Grants: *U.S. Department of Education (ED)*, Elementary and Secondary Act Title III, Part A; Passed through the California Department of Education (CDE) as Limited English Proficient Student Program (CFDA 84.365), PCA 14346

Improving Teacher Quality State Grants: *U.S. Department of Education (ED)*, Elementary and Secondary Act Title II, Part A; Passed through the California Department of Education (CDE) as Teacher and Principal Training and Recruiting (CFDA 84.367), PCA 14341

Recommendation

We recommend that the District adopt its policy of using different program codes for each of its federally funded programs.

Current Status

Partially implemented. The District has developed customized spreadsheets to track expenditures and encumbrances by fiscal year. These spreadsheets allow the District to effectively manage and track the appropriate funding year. With the proposed enhancements to the enterprise resource planning, District will be able to track grants more efficiently and effectively.

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(23) Finding F-06-18 – Period of Availability – Expenses Not Claimed in Proper Period

Finding F-05-19 – Period of Availability – Expenses Not Claimed in Proper Period

Program Identification:

Special Education Cluster: *U.S. Department of Education (ED)*, Special Education – Grants to States (84.027) and Special Education – Preschool Grants (84.173), Passed through the California Department of Education (CDE) as Local Assistance Entitlements (PCA 13379), Preschool Local Entitlements (PCA 13682), and Federal Preschool Grant (PCA 13430)

Education Technology State Grants: *U.S. Department of Education (ED)*, Elementary and Secondary Act Title II, Part D; Passed through the California Department of Education (CDE) as Enhancing Education through Technology (CFDA 84.318)

Reading First State Grants: *U.S. Department of Education (ED)*, Elementary and Secondary Act Title I, Part B; Passed through the California Department of Education (CDE) as Reading First (CFDA 84.357), PCA 14328

Safe and Drug-Free Schools and Communities: *U.S. Department of Education (ED)*, Passed through the Department of Education (CDE), Title VI, Part A, Safe and Drug-Free Schools & Communities (CFDA 84.186)

Vocational Education – Basic Grants to States: *U.S. Department of Education (ED)*, Passed through the California Department of Education (CDE), Carl D. Perkins Vocational and Technical Education Act of 1998 (CFDA 84.048), PCA 13924 and 13923

State Grants for Innovative Programs: *U.S. Department of Education (DOE)*, Passed through the California Department of Education (CDE), Title V, Part A, Innovative Education Program Strategies (CFDA 84.298)

Recommendation

We recommend that the District strengthen its controls to ensure that all incurred expenses are obligated and charged in the proper period of availability.

Current Status

Partially implemented. A requirement was submitted to the Information Technology Department/Business Tools for Schools (ITD/BTS) to enhance the accounting adjustment capability of Systems, Application and Products (SAP) to handle postings to be reflected in the proper fiscal years.

(24) Finding F-06-19 – Period of Availability – Liquidation of Obligations

Program Identification:

Special Education Cluster: *U.S. Department of Education (ED)*, Special Education – Grants to States (84.027) and Special Education – Preschool Grants (84.173), Passed through the California Department of Education (CDE) as Local Assistance Entitlements (PCA 13379), Preschool Local Entitlements (PCA 13682), and Federal Preschool Grant (PCA 13430)

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Vocational Education – Basic Grants to States: *U.S. Department of Education (ED)*, Passed through the California Department of Education (CDE), Carl D. Perkins Vocational and Technical Education Act of 1998 (CFDA 84.048), PCA 13924 and 13923

Twenty-First Century Community Learning Centers: *U.S. Department of Education (ED)*, Elementary and Secondary Act Title IV, Part B; Passed through the California Department of Education (CDE) as 21st Century Community Learning Centers Grant (CFDA 84.287), PCA 14349

Reading First State Grants: *U.S. Department of Education (ED)*, Elementary and Secondary Act Title I, Part B; Passed through the California Department of Education (CDE) as Reading First (CFDA 84.357), PCA 14328

Recommendation

We recommend that the District strengthen its controls to ensure that all incurred expenses are paid within the required timeframes.

Current Status

Partially implemented. Procedures are in place to monitor monthly expenditures to ensure they are paid within the required time frames as well as redesign mid-year reports to prevent expenditures/encumbrances being reflected in the wrong period. In addition, an enhancement was requested to handle reflecting postings to proper fiscal years.

(25) Finding F-06-20 – Procurement, Suspension and Debarment – Suspension or Debarment Certifications for Contracts between \$25,000 and \$100,000

Finding F-05-20 – Procurement, Suspension and Debarment – Suspension or Debarment Certifications for Contracts over \$25,000

Program Identification:

Child and Adult Care Food Program: *U.S. Department of Agriculture (USDA)*, CFDA 10.558, Passed through the California Department of Education (CDE), Child Nutrition Child Care Food Program, Agreement No. 19-2016-3A

Child Nutrition Cluster Programs: *U.S. Department of Agriculture (USDA)*, School Breakfast Program (CFDA 10.553), National School Lunch Program (CFDA 10.555), Special Milk Program for Children (CFDA 10.556), Summer Food Service Program for Children (CFDA 10.559), Passed through the California Department of Education (CDE), Agreement No. 19-64733-0000000-01

Public Assistance Grants: *Department of Homeland Security (DHS)*, CFDA 83.544, Passed through the California Governor's Office of Emergency Services (OES), FEMA 1008-DR, P.A. 037-91146, OES 93708.4

State Administrative Matching Grants for Food Stamp Program: *U.S. Department of Agriculture (USDA)*, CFDA 10.561, Passed through the California Department of Health Services (DHS) as California Nutrition Network, Agreement No. 04-35450

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Title I Grants to Local Educational Agencies: *U.S. Department of Education (ED)*, Elementary and Secondary Act Title I, Part A; Passed through the California Department of Education (CDE) as Title I, Part A of the No Child Left Behind Act of 2001 (CFDA 84.010), PCA 14329

Vocational Education – Basic Grants to States: *U.S. Department of Education (ED)*, Passed through the California Department of Education (CDE), Carl D. Perkins Vocational and Technical Education Act of 1998 (CFDA 84.048), PCA 13924 and 13923

Safe and Drug-Free Schools and Communities: *U.S. Department of Education (ED)*, Passed through the California Department of Education (CDE), Title VI, Part A, Safe and Drug-Free Schools & Communities (CFDA 84.186)

Fund for the Improvement of Education: *U.S. Department of Education (ED)*, Elementary and Secondary Act Title V, Part D; Project Title: Smaller Learning Communities (CFDA 84.215), Award No. V215L032230 and V215L052108, Project Title: Teaching American History, Award No. U215X030096

Twenty-First Century Community Learning Centers: *U.S. Department of Education (ED)*, Elementary and Secondary Act Title IV, Part B; Passed through the California Department of Education (CDE) as 21st Century Community Learning Centers Grant (CFDA 84.287), PCA 14349

State Grants for Innovative Programs: *Department of Education (ED)*, Passed through the California Department of Education (CDE), Title V, Part A, Innovative Education Program Strategies (CFDA 84.298)

Education Technology State Grants: *U.S. Department of Education (ED)*, Elementary and Secondary Act Title II, Part D; Passed through the California Department of Education (CDE) as Enhancing Education through Technology (CFDA 84.318)

Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP): *U.S. Department of Education (ED)*, Higher Education Act Title IV, Part A; (CFDA 84.334), Project Title: Project Higher Learning, Award No. P334A050178; Project Title: Gear-up, Award No. P334A000061; Project Title: Linking Academic Success with Student Outreach (LASSO), Award No. P334A050217

Reading First State Grants: *U.S. Department of Education (ED)*, Elementary and Secondary Act Title I, Part B; Passed through the California Department of Education (CDE) as Reading First (CFDA 84.357), PCA 14328

English Language Acquisition Grants: *U.S. Department of Education (DOE)*, Elementary and Secondary Act Title III, Part A; Passed through the California Department of Education (CDE) as Limited English Proficient Student Program (CFDA 84.365), PCA 14346

Improving Teacher Quality State Grants: *Department of Education (DOE)*, Elementary and Secondary Act Title II, Part A; Passed through the California Department of Education (CDE) as Teacher and Principal Training and Recruiting (CFDA 84.367), PCA 14341

Child Care Cluster: *U.S. Department of Health and Human Services (HHS)*, Child Care and Development Block Grant (CFDA 93.575), Child Care Mandatory and Matching Funds of the Child Care

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and Development Fund (CFDA 93.596), Passed through the California Department of Education (CDE), General Child Care and Development Programs, Contract No. CCTR-5163, Project No. 19-6473-00-5

Recommendation

We recommend that the District update its policies, procedures, and current templates for all contract types to reflect the change in the federal regulations that were effective November 2003.

Current Status

Partially implemented. The procurement services group has updated and distributed its procurement manual as of August 2008 with training conducted throughout FY 2008-2009. As of December 1, 2006, all contracts with a dollar value of \$25,000 and over have been updated with the revised debarment language to include subcontractor compliance.

(26) Finding F-06-21 – Procurement, Suspension, and Debarment – No Evidence of Required Quotations or Waivers for Competitive Bidding

Finding F-05-21 – Procurement, Suspension, and Debarment – No Evidence of Required Quotations or Waivers for Competitive Bidding

Program Identification:

State Administrative Matching Grants for Food Stamp Program: *U.S. Department of Agriculture (USDA)*, CFDA 10.561, Passed through the California Department of Health Services (DHS) as California Nutrition Network, Agreement No. 04-35450

Title I Grants to Local Educational Agencies: *U.S. Department of Education (ED)*, Elementary and Secondary Act Title I, Part A; Passed through the California Department of Education (CDE) as Title I, Part A of the No Child Left Behind Act of 2001 (CFDA 84.010), PCA 14329

Vocational Education – Basic Grants to States: *U.S. Department of Education (ED)*, Passed through the California Department of Education (CDE), Carl D. Perkins Vocational and Technical Education Act of 1998 (CFDA 84.048), PCA 13924 and 13923

Safe and Drug-Free Schools and Communities: *U.S. Department of Education (ED)*, Passed through the California Department of Education (CDE), Title VI, Part A, Safe and Drug-Free Schools & Communities (CFDA 84.186)

Fund for the Improvement of Education: *U.S. Department of Education (ED)*, Elementary and Secondary Act Title V, Part D; Project Title: Smaller Learning Communities (CFDA 84.215), Award No's. V215L032230 and V215L052108, Project Title: Teaching American History, Award No. U215X030096

Twenty-First Century Community Learning Centers: *U.S. Department of Education (ED)*, Elementary and Secondary Act Title IV, Part B; Passed through the California Department of Education (CDE) as 21st Century Community Learning Centers Grant (CFDA 84.287), PCA 14349

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State Grants for Innovative Programs: *Department of Education (ED)*, Passed through the California Department of Education (CDE), Title V, Part A, Innovative Education Program Strategies (CFDA 84.298)

Education Technology State Grants: *U.S. Department of Education (ED)*, Elementary and Secondary Act Title II, Part D; Passed through the California Department of Education (CDE) as Enhancing Education through Technology (CFDA 84.318)

Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP): *U.S. Department of Education (ED)*, Higher Education Act Title IV, Part A; CFDA 84.334, Project Title: Project Higher Learning, Award No. P334A050178; Project Title: Gear-up, Award No. P334A000061; Project Title: Linking Academic Success with Student Outreach (LASSO), Award No. P334A050217

Reading First State Grants: *U.S. Department of Education (ED)*, Elementary and Secondary Act Title I, Part B; Passed through the California Department of Education (CDE) as Reading First (CFDA 84.357), PCA 14328

English Language Acquisition Grants: *U.S. Department of Education (ED)*, Elementary and Secondary Act Title III, Part A; Passed through the California Department of Education (CDE) as Limited English Proficient Student Program (CFDA 84.365), PCA 14346

Improving Teacher Quality State Grants: *Department of Education (ED)*, Elementary and Secondary Act Title II, Part A; Passed through the California Department of Education (CDE) as Teacher and Principal Training and Recruiting (CFDA 84.367), PCA 14341

Recommendation

We recommend the District strengthen its controls over its procurement approval process to ensure that required District policies are being followed with proper documentation maintained in the procurement files.

Current Status

Partially implemented. Procurement services group issued a procurement manual in August 2008 that revises policies and procedures to strengthen internal controls.

(27) Finding F-06-22 – Procurement, Suspension, and Debarment –Required Contract Provisions

Program Affected

Public Assistance Grants: *Department of Homeland Security (DHS)*, CFDA 83.544, Passed through the California Governor's Office of Emergency Services (OES), FEMA 1008-DR, P.A. 037-91146 and OES 93708.4

Recommendation

We recommend that the District review the language in its subcontractor certifications to ensure that they are in full compliance with federal regulations.

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Current Status

Implemented. The Contract Administration Branch requires, as part of the vendor packet, the submission of debarment certification by vendors when bidding for contracts and the implementation of the procurement manual ensures that procurement process is in full compliance with federal regulations.

(28) Finding F-06-23 – Program Income – Controls over Cash Receipts Collected at School Sites

Finding F-05-23 – Program Income – Controls over Cash Receipts Collected at School Sites

Program Identification:

Child Nutrition Cluster Programs: *U.S. Department of Agriculture (USDA)*, School Breakfast Program (CFDA 10.553), National School Lunch Program (CFDA 10.555), Summer Food Service Program for Children (CFDA 10.559), Passed through the California Department of Education (CDE), Agreement No. 19-64733-0000000-01

Recommendation

We recommend that the District strengthen controls over the cash collection and reporting process at the school sites by requesting that a copy of the total from the register sales tape be included in the weekly claim information being sent to the District office. We further recommend that these sales tapes be retained or microfilmed for record retention purposes to comply with federal guidelines.

Current Status

Partially implemented. Food Services Branch (FSB) has tightened controls on cash collections by reconciling on a monthly basis. If discrepancies are identified, Area Food Service Supervisors are notified to follow up with the Cafeteria Managers. FSB has recently completed the selection of a contractor to support the implementation of a point of sale (POS) system at all the districts school cafeterias. The POS will significantly strengthen controls over cash collection and reporting process.

(29) Finding F-06-24 – Program Income – Calculation of Program Fees

Program Identification:

Child Care Cluster: *U.S. Department of Health and Human Services (HHS)*, Child Care and Development Block Grant (CFDA 93.575), Child Care Mandatory and Matching Funds of the Child Care and Development Fund (CFDA 93.596), Passed through the California Department of Education (CDE), General Child Care and Development Programs, Contract No. CCTR-5163, Project No. 19-6473-00-5

Recommendation

We recommend the District enhance its review process over the calculation of family fees to ensure that amounts are charged in accordance with the state schedule.

Current Status

Implemented. District has provided training on all forms/docs/rules related to eligibility, determination of family fees, and input of fees into system.

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(30) Finding F-06-25 – Reporting – Financial and Performance Reporting

Program Identification:

State Administrative Matching Grants for Food Stamp Program: *U.S. Department of Agriculture (USDA)*, CFDA 10.561, Passed through the California Department of Health Services (DHS) as California Nutrition Network, Agreement No. 04-35450

Vocational Education – Basic Grants to States: *U.S. Department of Education (ED)*, Passed through the California Department of Education (CDE), Carl D. Perkins Vocational and Technical Education Act of 1998 (CFDA 84.048), PCA 13924 and 13923

Fund for the Improvement of Education: *U.S. Department of Education (ED)*, Elementary and Secondary Act Title V, Part D; (CFDA 84.215), Project Title: Teaching American History, Award No. U215X030096

Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP): *U.S. Department of Education (ED)*, Higher Education Act Title IV, Part A; CFDA 84.334, Project Title: Project Higher Learning, Award No. P334A050178; Project Title: Gear-up, Award No. P334A000061; Project Title: Project LASSO (Linking Academic Success with Student Outreach), Award No. P334A050217

Recommendation

We recommend the District strengthen its current controls over reporting to ensure that reports are completed accurately.

Current Status

Partially implemented. Procedures have been revised for financial reports and supporting documents to be forwarded to the supervisor for review and approval. This ensures that charges reflected in the report are legitimate and supported with appropriate documentation.

(31) Finding F-06-26 – Reporting – Attendance Reports

Finding F-05-24 – Reporting – Incorrect and Unsupported Expenditure Attendance Reports

Program Identification:

Twenty-First Century Community Learning Centers: *U.S. Department of Education (DOE)*, Elementary and Secondary Act Title IV, Part B; Passed through the California Department of Education (CDE) as 21st Century Community Learning Centers Grant (CFDA 84.287), PCA 14349

Recommendation

We recommend the District strengthen its current controls over attendance reporting and claiming to ensure that reports are completed accurately and the District claims all of its entitled attendance days.

Current Status

Disagree. In September 2006, District revised attendance reports to the state for all four quarters of FY2006.

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(32) Finding F-06-27 – Reporting – Attendance Reporting

Program Identification:

Child Care Cluster: *U.S. Department of Health and Human Services (HHS)*, Child Care and Development Block Grant (CFDA 93.575), Child Care Mandatory and Matching Funds of the Child Care and Development Fund (CFDA 93.596), Passed through the California Department of Education (CDE), General Child Care and Development Programs, Contract No. CCTR-5163, Project No. 19-6473-00-5

Recommendation

We recommend the District strengthen its current controls over reporting to ensure that reports are completed accurately and supporting documentation maintained.

Current Status

Implemented. District has issued a bulletin to office managers and administrators regarding SIGN-IN/OUT sheets, reviewed procedures to promptly resolve discrepancies, and provided crosstraining to ensure continuity where there are absences.

(33) Finding F-06-28 – Subrecipient Monitoring – Monitoring Procedures Performed

Finding F-05-30 – Subrecipient Monitoring – Monitoring Procedures over Subrecipients

Program Identification:

Twenty-First Century Community Learning Centers: *U.S. Department of Education (ED)*, Elementary and Secondary Act Title IV, Part B; Passed through the California Department of Education (CDE) as 21st Century Community Learning Centers Grant (CFDA 84.287), PCA 14349

Recommendation

We recommend the District review its current policies and procedures to strengthen controls over subrecipient monitoring to ensure that all District subrecipients comply with federal audit regulations and that the District is informed of any subrecipient noncompliance issues so that it can make informed management decisions.

Current Status

Partially implemented. District is currently obtaining A-133 audits from applicable subrecipients as well as ensuring that the field office is checking once a month to ensure the school is operating the program in accordance with the requirements.

(34) Finding F-06-29 – Subrecipient Monitoring – Monitoring Procedures Performed

Program Identification:

Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP): *U.S. Department of Education (DOE)*, Higher Education Act Title IV, Part A; CFDA 84.215, Project Title: Project Higher Learning, Award No. P334A050178; Project Title: Gear-up, Award No. P334A000061; Project Title: Linking Academic Success with Student Outreach (LASSO), Award No. P334A050217

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Recommendation

We recommend the District revise its current contract template to include the required references for federal pass-through funds and also issue addendums to existing contracts to ensure that the subrecipients are properly notified of the various requirements of participating in federally funded programs. We also recommend that the District implement policies and procedures to identify subrecipients that will be subject to their own A-133 audit and the collection of those audits with follow-up on any findings related to the pass-through program.

Current Status

Partially implemented. The District has required that contracts include the federal award information as required by OMB Circular A-133 and EDGAR since the finding. The full implementation will be reflected in succeeding years.

(35) Finding F-06-30 – Special Tests and Provisions (Participation of Private School Children) – Private School Consultations

Program Identification:

Safe and Drug-Free Schools and Communities: *U.S. Department of Education (ED)*, Passed through the California Department of Education (CDE), Title VI, Part A, Safe and Drug-Free Schools & Communities (CFDA 84.186)

Twenty-First Century Community Learning Centers: *U.S. Department of Education (ED)*, Elementary and Secondary Act Title IV, Part B; Passed through the California Department of Education (CDE) as 21st Century Community Learning Centers Grant (CFDA 84.287), PCA 14349

State Grants for Innovative Programs: *U.S. Department of Education (ED)*, Passed through the California Department of Education (CDE), Title V, Part A, Innovative Education Program Strategies (CFDA 84.298)

Education Technology State Grants: *U.S. Department of Education (ED)*, Elementary and Secondary Act Title II, Part D; Passed through the California Department of Education (CDE) as Enhancing Education through Technology (CFDA 84.318)

Reading First State Grants: *U.S. Department of Education (ED)*, Elementary and Secondary Act Title I, Part B; Passed through the California Department of Education (CDE) as Reading First (CFDA 84.357), PCA 14328

English Language Acquisition Grants: *U.S. Department of Education (ED)*, Elementary and Secondary Act Title III, Part A; Passed through the California Department of Education (CDE) as Limited English Proficient Student Program (CFDA 84.365), PCA 14346

Improving Teacher Quality State Grants: *Department of Education (ED)*, Elementary and Secondary Act Title II, Part A; Passed through the California Department of Education (CDE) as Teacher and Principal Training and Recruiting (CFDA 84.367), PCA 14341

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Recommendation

We recommend that the District enhance controls to ensure that all private schools are properly notified of their right to participate in federally funded programs.

Current Status

Partially implemented. The District has implemented new consultation model managed by NCLB private schools support unit (PSSU) to ensure that access to federal funds is communicated to private schools. This model incorporates all the steps involved in communicating access to private schools. Moreover, PSSU maintains a web site where NPS can obtain all the information in how to avail federal funds.

(36) Finding F-06-31 – Special Tests and Provisions (Participation of Private School Children) – Participating Private School Expenditures or Equal District vs. Private School Pupil Expenditure Ratios

Finding F-05-32 – Special Tests and Provisions (Participation of Private School Children) – No Support for Participating Private School Expenditures or Equal District vs. Private School Pupil Expenditure Ratios

Program Identification:

Safe and Drug-Free Schools and Communities: *U.S. Department of Education (ED)*, Passed through the California Department of Education (CDE), Title VI, Part A, Safe and Drug-Free Schools & Communities (CFDA 84.186)

State Grants for Innovative Programs: *U.S. Department of Education (ED)*, Passed through the California Department of Education (CDE), Title V, Part A, Innovative Education Program Strategies (CFDA 84.298)

Education Technology State Grants: *U.S. Department of Education (ED)*, Elementary and Secondary Act Title II, Part D; Passed through the California Department of Education (CDE) as Enhancing Education through Technology (CFDA 84.318)

Reading First State Grants: *U.S. Department of Education (ED)*, Elementary and Secondary Act Title I, Part B; Passed through the California Department of Education (CDE) as Reading First (CFDA 84.357), PCA 14328

English Language Acquisition Grants: *U.S. Department of Education (ED)*, Elementary and Secondary Act Title III, Part A; Passed through the California Department of Education (CDE) as Limited English Proficient Student Program (CFDA 84.365), PCA 14346

Recommendation

We recommend that the District develop a process to reasonably estimate the District per pupil ratio at the time of the private schools' award assessment process and to compare the District's final per pupil ratio against the amounts awarded to the participating private schools.

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Current Status

Partially implemented. The District has provided initial notification to all participating private schools. The District will improve its process to ensure that final per pupil expenditure allocation is communicated more timely.

(37) Finding F-06-32 – Special Tests and Provisions (Verification of Free/Reduced Price Applications – Verification Process Controls

Finding F-05-33 – Special Tests and Provisions - Verification of Free/Reduced Price Applications – Errors in Verification of Student Applications

Finding F-04-08 – Special Tests and Provisions (Verification of Free/Reduced Price Applications – No Controls over Verification Process

Finding F-04-09 – Special Tests and Provisions (Verification of Free/Reduced Price Applications – Errors in Verification of Student Applications

Program Identification:

Child Nutrition Cluster Programs: *U.S. Department of Agriculture (USDA)*, School Breakfast Program (CFDA 10.553), National School Lunch Program (CFDA 10.555), Summer Food Service Program for Children (CFDA 10.559), Passed through the California Department of Education (CDE), Agreement #19-64733-0000000-01

Recommendation

We recommend the District strengthen controls over the verification reporting process to ensure that adjustments made as a result of the verification and accurately compiled and reported.

Current Status

Implemented. The meal application scanning system referenced in our initial response has been installed. Applications are reviewed for completeness and accuracy prior to acceptance.

(38) Finding F-06-33 – Special Tests and Provisions (Highly Qualified Teachers) – Qualifications

Program Identification:

Title I Grants to Local Educational Agencies: *U.S. Department of Education (DOE)*, Elementary and Secondary Act Title I, Part A; Passed through the California Department of Education (CDE) as Title I, Part A of the No Child Left Behind Act of 2001 (CFDA 84.010), PCA 14329

Recommendation

We recommend that the District ensure that all paraprofessionals meet the appropriate qualifications.

Current Status

Partially implemented. The District has launched aggressive recruitment campaign in the U.S. and other countries for qualified teachers. District provides support to bring into compliance Non-NCLB Compliant Teachers and meet the necessary qualifications within the first year of employment (e.g., subject matter

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test preparation and guidance in selecting intern programs). The District does require all teachers to be NCLB-compliant. The 2006-2007 audit did not find any instances of noncompliance.

(39) Finding F-06-34 – Special Tests and Provisions (Highly Qualified Paraprofessionals) – Qualifications

Program Identification:

Title I Grants to Local Educational Agencies: *U.S. Department of Education (DOE)*, Elementary and Secondary Act Title I, Part A; Passed through the California Department of Education (CDE) as Title I, Part A of the No Child Left Behind Act of 2001 (CFDA 84.010), PCA 14329

Recommendation

We recommend that the District ensure that all paraprofessionals meet the appropriate qualifications.

Current Status

Partially implemented. All paraprofessionals must meet appropriate qualifications. District continues implementation of its plans for full compliance of all paraprofessionals by encouraging completion of associate degree, offering educational equivalent options and reviewing benchmarks. The District does require that all paraprofessionals to be NCLB compliant. The 2006-2007 audit did not find any instances of noncompliance.

(40) Finding F-06-35 – Special Tests and Provisions (Annual Accountability Report) – Supporting Documentation

Program Identification:

Vocational Education – Basic Grants to States: *U.S. Department of Education (DOE)*, Passed through the California Department of Education (CDE), Carl D. Perkins Vocational and Technical Education Act of 1998 (CFDA 84.048), PCA 13924 and 13923

Recommendation

We recommend that the District strengthen current policies and procedures for record retention requirements to ensure that all supporting documentation used to compile required reporting is retained.

Current Status

Partially implemented. The District has a record retention policy that requires that all supporting documents used to compile required reporting are retained. The District will take the necessary steps to ensure stricter enforcement of the policy.

(41) Finding F-06-36 – Special Tests and Provisions (Parent Notification Letters) – Support for Notifications

Program Identification:

English Language Acquisition Grants: *U.S. Department of Education (ED)*, Elementary and Secondary Act Title III, Part A; Passed through the California Department of Education (CDE) as Limited English Proficient Student Program (CFDA 84.365), PCA 14346

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Recommendation

We recommend that the District ensure that all program participants receive their required notification.

Current Status

Partially implemented. Safeguards are in place to ensure that program personnel will send notification of the English Learning Development (ELD) yearly progress prior to, and throughout, each school year to all participating students. The District will ensure that these safeguards are adhered to in succeeding years.

(42) Finding F-06-37 – Special Tests and Provisions (Assessment of Need) – Support for Assessments

Program Identification:

Improving Teacher Quality State Grants: U.S. Department of Education (ED), Elementary and Secondary Act Title II, Part A; Passed through the California Department of Education (CDE) as Teacher and Principal Training and Recruiting (CFDA 84.367), PCA 14341

Recommendation

We recommend that the District strengthen current policies and procedures in place to ensure that the results of the needs assessment consultations are adequately documented and communicated to District program management who make the decisions as to how the program funding should best be expended.

Current Status

Partially implemented. District has established a periodic assessment process on which decisions are based regarding professional development and hiring. Assessments are administered every six to eight weeks at the end of each unit of instruction to obtain information on the professional development and staffing needs.

(43) Finding F-05-06 – Allowable Costs – Compliance with State of California Funding Terms and Conditions for Child Development Program

Program Identification:

Child Care Cluster: U.S. Department of Health and Human Services (HHS), Child Care and Development Block Grant (CFDA 93.575), Child Care Mandatory and Matching Funds of the Child Care and Development Fund (CFDA 93.596), Passed Through the California Department of Education (CDE), General Child Care and Development Programs, Contract No. CCTR-5163, Project No. 19-6473-00-5

Recommendation

We recommend that the District use daily sign-in/out sheets as the source documents for reimbursement purposes.

Current Status

Implemented. District has implemented the early education student information system (EESIS) which improved monitoring attendance.

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(44) Finding F-05-09 – Allowable Costs – FEMA OIG Audit Finding

Program Identification:

Public Assistance Grants: Department of Homeland Security (DHS), (CFDA 83.544), Passed through the California Governor's Office of Emergency Services (OES), FEMA 1008-DR, P.A. 037-91146, OES 93708.4

Recommendation

We recommend that the District continue to work with the FEMA general counsel to resolve this issue and repay any questioned costs as required.

Current Status

Implemented. The District received the FEMA Office of Inspector General audit report of FEMA's grant acceleration program in 2003 where transfer of Grant Acceleration Program (GAP) funds for improved projects were disallowed. In order to fund the FEMA ineligible expenditures, applications were submitted and approved under the state facility program for modernization grants. The expenditures were allowable under this program.

(45) Finding F-05-25 – Reporting – Missing Documentation & Errors in Monthly Claim Reports

Finding F-04-03 – Allowable Costs – Incorrect Meal Counts Claimed

Program Identification:

Child Nutrition Cluster Programs: U.S. Department of Agriculture (USDA), School Breakfast Program (CFDA 10.553), National School Lunch Program (CFDA 10.555), and Summer Food Service Program for Children (CFDA 10.559), Passed through the California Department of Education (CDE), Agreement No. 19-64733-0000000-01

Recommendation

We recommend that the District strengthen controls over the claims reporting process to ensure that accurate claims are being filed and any adjustments are incorporated on a revised claim form filed with the California Department of Education.

Current Status

Implemented. The Food Services Branch has recently completed the roll-out of an automated, web-based system for the transmission of weekly report information from the District's over 650 cafeteria sites. This system has significantly strengthened controls over the accuracy of weekly reports and meals claimed they represent.

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(46) Finding F-05-27 – Reporting – Schedule of Expenditures of Federal Awards

Program Identification:

FEMA – Hazard Mitigation: Department of Homeland Security (DHS), Passed Through the California Governor's Office of Emergency Services (CDE), Hazard Mitigation Grant (CFDA 83.548), FEMA DR-1008-CA, PA #037-91146

Recommendation

We recommend that the District continue to work with the FEMA general counsel to resolve this issue and repay any questioned costs as required.

Current Status

Partially implemented. The District is working with State of California Office of Emergency Services to determine amounts that are allowable compared to amounts that have been remitted.

(47) Finding F-05-28 – Reporting – Expense Claim not Supported by General Ledger

Program Identification:

FEMA – Hazard Mitigation: Department of Homeland Security (DHS), Passed Through the California Governor's Office of Emergency Services (CDE), Hazard Mitigation Grant (CFDA 83.548), FEMA DR-1008-CA, PA #037-91146

WIA – Adult Basic Education: Department of Education (DOE), Passed Through the California Department of Education (CDE), Adult Education – State Grant Program (CFDA 84.002)

CD Perkins – Vocational & Technical Education: Department of Education (DOE), Passed Through the California Department of Education (CDE), Vocational Education – Basic Grants to States (CFDA 84.048), PCA #13924

Recommendation

We recommend that the District strengthen its controls over its claims to funding agencies to ensure that claims for reimbursement are calculated correctly and all adjusting items properly supported.

Current Status

District disagrees. Overstated expenditures were legally obligated in 2003-2004 and grants allow that all funds must be expended and legally obligated by June 30, 2005.

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Findings and Questioned Costs Relating to State Awards

(48) S-06-01 Regular and Special Day Classes – Secondary Schools – Attendance Computations

Schools Affected

Bethune Middle School

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Gage Middle School

Garfield Senior High School

Kennedy Senior High School

North Hollywood Senior High School

Recommendation

We recommend that the schools strengthen the review process over the compilation of the Monthly Statistical Reports to ensure that the reports accurately reflect student attendance days.

Current Status

Partially implemented. The new attendance system (ISIS) implemented in all secondary schools in FY 2006-2007 mitigates any discrepancies in attendance by ensuring that updates to student attendance records will be automatically saved in the system's database and reflected in the monthly statistical and other District reports.

(49) S-06-02 Regular and Special Day Classes – Special Education Schools – Attendance Computations

Schools Affected

Marlton Special Education Center

Recommendation

We recommend that the school strengthen the review process over the compilation of the Monthly Statistical Reports and Annual Summary Reports to ensure that the reports accurately reflect student attendance days.

Current Status

Partially implemented. The new attendance system (ISIS) implemented in all secondary schools in FY 2006-2007 mitigates any discrepancies in attendance by ensuring that updates to student attendance records will be automatically saved in the system's database and reflected in the monthly statistical and other District reports.

(50) S-06-03 Kindergarten Continuance – Parental Approval Forms

School Affected

107th Street Elementary School

Recommendation

We recommend that the school and District implement controls to maintain evidence of approved Parental Agreements to Continue Forms for all students repeating kindergarten to support the inclusion of such pupils in the average daily attendance computation.

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Current Status

Implemented. District staff has worked with school administrators to provide in-service training that ensures all staff are aware of the requirements for kindergarten continuance forms and that controls are in place to ensure that files are maintained properly.

(51) S-06-04 Attendance Accounting – Independent Study – Attendance Computations

School Affected

City of Angels

Recommendation

We recommend that the school strengthen the review process over the compilation of the Monthly School Statistical Reports, to ensure that the reports accurately reflect the work assignments completed by the students. Further, we recommend the school implement controls to ensure teacher registers and student assignment sheets are consistent and accurate.

Current Status

Partially implemented. School administrators will be conducting random visits to the sites to ensure that teachers are following all procedures and maintaining all required documentation (e.g., samples of student work).

(52) S-06-05 Attendance Accounting – Independent Study – Independent Study Written Agreements

School Affected

City of Angels

Recommendation

We recommend that the school strengthen the review process over the student written agreements to ensure that they are completed in accordance with regulations.

Current Status

Partially implemented. The school has now centralized enrollment process and all agreements are reviewed centrally for completeness before a student is allowed to begin his/her independent study program.

(53) S-06-06 Attendance Accounting – Adult Education – Attendance Computations

Schools Affected

Belmont Community Adult School

Recommendation

We recommend that the school emphasize the need to take greater care in completing the scantrons that will be used to record attendance to ensure that they are properly filled in and readable.

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Current Status

Partially implemented. School has provided training to faculty and staff and has implemented new document procedures to improve accuracy and completeness of the attendance reported. School will monitor adherence to procedures to ensure accurate reports.

(54) S-06-07 Attendance Accounting – Adult Education – Concurrently Enrolled Students

Schools Affected

Belmont Community Adult School

Recommendation

We recommend that the school strengthen the review process over the Concurrently Enrolled Student Agreements to ensure the agreements are complete and that students are only enrolled in state-approved courses.

Current Status

Partially implemented. School has implemented new procedures to verify signatures and student information holder. School administrators will ensure that counseling intake process between high school and adult school staff is conducted properly. School administrators will continue to conduct follow-up of student holders.

(55) S-06-08 Attendance Accounting – Continuation Education – Attendance Computations

Schools Affected

Zane Grey Continuation High School

Recommendation

We recommend that the school maintain copies of all Monthly School Statistical Report submissions, including revisions, to ensure that attendance documentation can support attendance reported.

Current Status

Partially implemented. The attendance module of the Integrated Student Information System has been implemented for regular secondary schools. Implementation of all modules is expected on FY2009-2010.

(56) S-06-09 Attendance Accounting – Continuation Education – Work Experience

S-05-08 Attendance Accounting – Continuation Education – Work Experience

Schools Affected

Zane Grey Continuation High School

Central Continuation High School

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Recommendation

We recommend that the school monitor the students' attendance of the instructional periods of work experience instruction to ensure that they do not claim any hours of work experience for which the students do not attend the required instruction.

Current Status

Partially implemented. District staff will ensure that school incorporates the one hour of work experience into their work experience program curriculum.

(57) S-06-10 Attendance Reporting – Community Day School – Attendance Reporting Errors

Schools Affected

Johnson Community Day School

Recommendation

We recommend that the school review the current hourly attendance record-keeping procedures to ensure that the school records accurately reflect each hour of student attendance or absence.

Current Status

Partially implemented. The attendance module of the Integrated Student Information System has been implemented for regular secondary schools. Implementation of all modules is expected on FY2009-2010.

(58) S-06-11 Attendance Reporting – Teacher Credentialing

School Affected

Corona Elementary School

Miramonte Elementary School

Recommendation

We recommend that the school and District implement controls to maintain and ensure all teachers are properly assigned.

Current Status

Implemented. Human Resources continues to monitor substitute assignments and to advise school administrators that it is a violation of California Education Code to allow 30-day substitute permit teacher to teach in the same classroom for longer than 30 days. Whenever available NCLB compliant teachers are placed in long-term assignments.

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(59) S-06-12 Morgan-Hart Class Size Reduction Program – Eligible Classes

Schools Affected

Boyle Heights High School

Harris Newmark High School

John Wooden High School

Moneta High School

Simon Rodia High School

Evergreen High School

Recommendation

We recommend that the District ensure that the classes claimed for class size reduction meet the state required average class size.

Current Status

Partially implemented. The District submitted the revised 2005-2006 Morgan-Hart report of Enrollment in October 2008. To help ensure that classes claimed for Morgan-Hart meet the required average class size, the District office implemented a new procedure wherein the enrollments of a sample of classes are reconciled from the source documents (teacher sign-off sheets) to the enrollment summaries used in compiling the Morgan-Hart report. In addition, the District is working to ensure that the Morgan-Hart guidelines and report requirements are incorporated in the programming of the Secondary Student Information System (SSIS) system.

(60) S-06-13 Instructional Materials – Insufficiency of Textbooks and Instructional Materials

S-05-14 Instructional Materials – Insufficient Textbooks and Instructional Materials Not Corrected within Required Deadlines

Recommendation

We recommend that the District take steps to ensure compliance with Education Code Section 60119 for the school year ended June 30, 2007.

Current Status

Partially implemented. As a result of this finding related to instructional materials, the District sought and received a waiver of the finding from the Los Angeles County Office of Education. Staff believes that the resolution related to instructional materials for the 2006-2007 school year addresses the concerns raised in this audit finding.

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(61) S-06-14 Proposition 20 Lottery Funds – Qualifying Instructional Materials

Recommendation

We recommend that the District strengthen controls over the authorization of proposition 20 lottery expenditures to ensure they are made for qualifying expenditures.

Current Status

Implemented. Additional training will be provided to properly code expenditures to ensure these are qualifying expenditures and properly reflected in the appropriate expense object codes.

(62) S-06-15 California School Age Families Education (Cal-SAFE) – Attendance Computations

School Affected

Roosevelt High School

Jordan High School

Recommendation

We recommend that the school strengthen the review process over the compilation of the Monthly School of Statistical Reports to ensure that the report accurately reflects student attendance days.

Current Status

Implemented. District will work with school administrators to ensure that schools submit revised reports to reflect changes in student attendance records.

(63) S-06-16 School Accountability Report Card – Sufficiency of Textbooks and Adequate School Facilities

Recommendation

We recommend that the District enhance current controls and procedures related to the completion of the SARC reports to ensure full compliance for the year ended June 30, 2007.

Current Status

Partially implemented. The District passed the required resolution within the statutory timeframe for the fiscal year 2007-2008. This resolution included the required notice of insufficiency and the board took action to remedy the insufficiencies. For fiscal year 2008-2009, the board of education passed the required resolution within the statutory timeframe indicating that there were sufficient textbooks for children in the District.