



LOS ANGELES UNIFIED SCHOOL DISTRICT LOS ANGELES, CALIFORNIA



COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

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

**COMPREHENSIVE
ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2008**

MR. RAMON C. CORTINES
SUPERINTENDENT OF SCHOOLS

MS. MEGAN K. REILLY
CHIEF FINANCIAL OFFICER

MR. TIMOTHY S. ROSNICK
CONTROLLER



**PREPARED BY
ACCOUNTING AND DISBURSEMENTS DIVISION**

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

LOS ANGELES UNIFIED SCHOOL DISTRICT

Comprehensive Annual Financial Report

Year Ended June 30, 2008

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INTRODUCTORY SECTION

LOS ANGELES UNIFIED SCHOOL DISTRICT

Accounting and Disbursements Division

RAMON C. CORTINES
Superintendent of Schools

MEGAN K. REILLY
Chief Financial Officer



TIMOTHY S. ROSNICK
Controller

V. LUIS BUENDIA
Deputy Controller

TERESA SANTAMARIA
Deputy Controller

August 15, 2009

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

Dear Board Members:

The Comprehensive Annual Financial Report of the Los Angeles Unified School District (District), for the fiscal year ended June 30, 2008, is hereby submitted. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the District. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the District. All disclosures necessary to enable the reader to gain an understanding of the District's financial activities have been included. The report also includes a "State and Federal Compliance Information" section, which is designed to meet the reporting requirements of the Office of the California State Controller, the U.S. General Accounting Office, the U.S. Office of Management and Budget, and the Single Audit Act Amendments of 1996.

This report is presented in five sections:

I. Introductory

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

II. Financial

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

III. Supplementary

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

IV. Statistical

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

V. State and Federal Compliance Information

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

Profile of the Los Angeles Unified School District

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

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

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

Economic Condition and Outlook

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

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

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

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

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

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

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

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

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

Superintendent's Strategic Plan: Improvement of Teaching and Learning

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

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

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

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

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

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

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

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

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

Local Bonds:

a) Proposition BB Bonds

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

\$231.225 million was refunded from 2006 General Obligation Refunding Bonds Series B. In January 2007, part of Series F in the amount of \$129.510 million was refunded from 2007 General Obligation Refunding Bonds Series A-1 and A-2. In February 2007, part of Series E in the amount of \$25.790 million was refunded from 2007 General Obligation Refunding Bonds Series B.

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

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

b) General Obligation Bonds – Proposition 39

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

On the November 5, 2002 ballot, Measure K was approved and authorized the District to issue up to \$3.35 billion of General Obligation Bonds (Bonds). These funds would be used to: build new

neighborhood schools, repair aging and deteriorating classrooms, improve early childhood programs, upgrade safety and technology, expand public charter schools, develop joint use projects in collaboration with city, state, federal, and private agencies, and provide for library books at new schools and improve library technology. The District issued the first series of these bonds, designated as “Los Angeles School District General Obligation Bonds, Election of 2002, Series A (2003)” in February 2003 at a par value of \$2.1 billion. Part of Series “A” were refunded as follows: \$131.94 million in February 2006 from 2006 General Obligation Refunding Bonds Series A, \$330.15 million in November 2006 from 2006 General Obligation Refunding Bonds Series B, \$1,120.8 million in January 2007 from 2007 General Obligation Refunding Bonds Series A-1 and A-2. The District issued Series “B” for \$500.0 million on February 22, 2007, Series “C” for \$150.0 million on August 16, 2007 and Series “D” for \$250 million on February 19, 2009. The proceeds of the Bonds would be applied to fund the costs of various components of the Measure K Projects. With the issuance of Series “D”, the District has \$ 350 million remaining under the Measure K authorization.

Measure R or the Safe and Healthy Neighborhood Schools Improvement Act of 2004 was passed on March 2, 2004. The District was authorized to issue and sell up to \$3.87 billion in General Obligation Bonds to provide financing for specific school facilities projects subject to all of the accountability safeguards such as annual performance audits. All Bond expenditures are subject to review and oversight of the Citizens’ Bond Oversight Committee.

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

The first \$212.8 million of Measure R Bonds include premium amounts of \$12.8 million and principal amounts of: Series “A” of \$72.63 million issued on September 15, 2004, Series “B” of \$60.475 million issued on September 15, 2004, Series “C” of \$50.0 million issued on September 15, 2004, Series “D” of \$16.895 million issued on September 22, 2004, Series “E” of \$400.0 million issued on August 10, 2005, Series “F” of \$500.0 million issued on February 16, 2006, Series “G” of \$400.0 million issued on August 17, 2006, Series “H” of \$550.0 million issued on August 16, 2007 and Series “I” of \$550 million issued on February 19, 2009. A portion of the proceeds was applied to finance new construction, acquisition, rehabilitation, and upgrading of school facilities and acquisition of equipment. With the issuance of Series “I”, the District has \$ 1.270 billion remaining under the Measure R authorization.

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

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

The first \$394.4 million of Measure Y bonds were issued on February 22, 2006 and include: Series "A" for \$56.8 million, Series "B" for \$80.2 million, Series "C" for \$210.0 million, and Series "D" for \$47.4 million. All of the proceeds except for Series "C" were used to advance refund and defease \$56.3 million of the 2002 Series B COPs, \$78.9 million of the 2003 Series A COPs and \$42.0 million of the 2004 Series A and B COPs. The Series "C" proceeds were used to fund school buses and other capital projects. Subsequently, the District issued Series "E" for \$ 300.0 million on August 16, 2007 and Series "F" for \$150 million on February 19, 2009 to finance various components of Measure Y projects. With this issuance, the District has \$ 3.140 billion remaining under the Measure Y authorization.

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

Financial Information

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

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

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

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

Cash Management

Cash temporarily idle during the year and not needed immediately for operations is invested. Substantially all of the District's cash is deposited in the Los Angeles County treasury. The District is limited by EC §41015 and Government Code Section 53601 to investing in: U.S., state, or local government securities or U.S. government guaranteed securities; banker's acceptances or negotiable certificates of deposits issued by a nationally or state-chartered bank or savings and loan association; and commercial paper of "prime

quality.” These guidelines are followed by the County Treasurer’s Office in making pool and specific investments for the District. At June 30, 2008, the District’s cash in the county pool was \$4,039.3 million.

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

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

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

Risk Management

The District maintains various insurance programs, the majority of which are partially or entirely self-insured, while the smaller and/or specialized types of coverage are placed with commercial insurance carriers including excess property coverage (\$1 billion above a \$500,000 self-insurance retention for 2007-2008) for loss due to fire.

The District is self-insured for its Workers’ Compensation Program and partially self-insured for the Liability Insurance (excess coverage of \$45 million above a \$3 million self-insurance retention for 2007-2008) and Health and Welfare Insurance Programs. Separate Funds are used to account for amounts set aside to pay claims incurred and related expenditures under the respective insurance programs.

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

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

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

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

Independent Audit

EC §41020 provides that each school district shall arrange for an audit by certified public accountants of its books and accounts, including the District’s income by source of funds and expenditures by object and program. The District’s contract auditor for 2007-2008 is Simpson & Simpson, CPAs. The independent

auditor's report on the basic financial statements is presented in the Financial Section of this report on page 1.

Office of the Inspector General

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

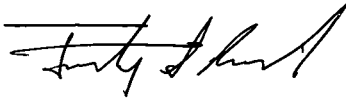
Acknowledgments

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


Respectfully submitted,

Ramon C. Cortines
Superintendent of Schools

Prepared by:



Timothy S. Rosnick
Controller



Megan K. Reilly
Chief Financial Officer

BOARD OF EDUCATION

Mónica García
PRESIDENT

Marguerite Poindexter LaMotte

Yolie Flores Aguilar

Tamar Galatzan

Julie Korenstein
(Term ended June 30, 2009)

Steve Zimmer
(Term started July 1, 2009)

Nury Martinez
(Term started July 1, 2009)

Marlene Canter
(Term ended June 30, 2009)

Richard Vladovic

PRINCIPAL SCHOOL DISTRICT OFFICIALS

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

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

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

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

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

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

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

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

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

LOCAL DISTRICT (LD) SUPERINTENDENTS

Jean Brown – LD 1

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

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

Carmen N. Schroeder
(Retired June 30, 2009)

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

Martin Galindo – LD 6

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

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

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

Carol Truscott
(Retired June 30, 2009)

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

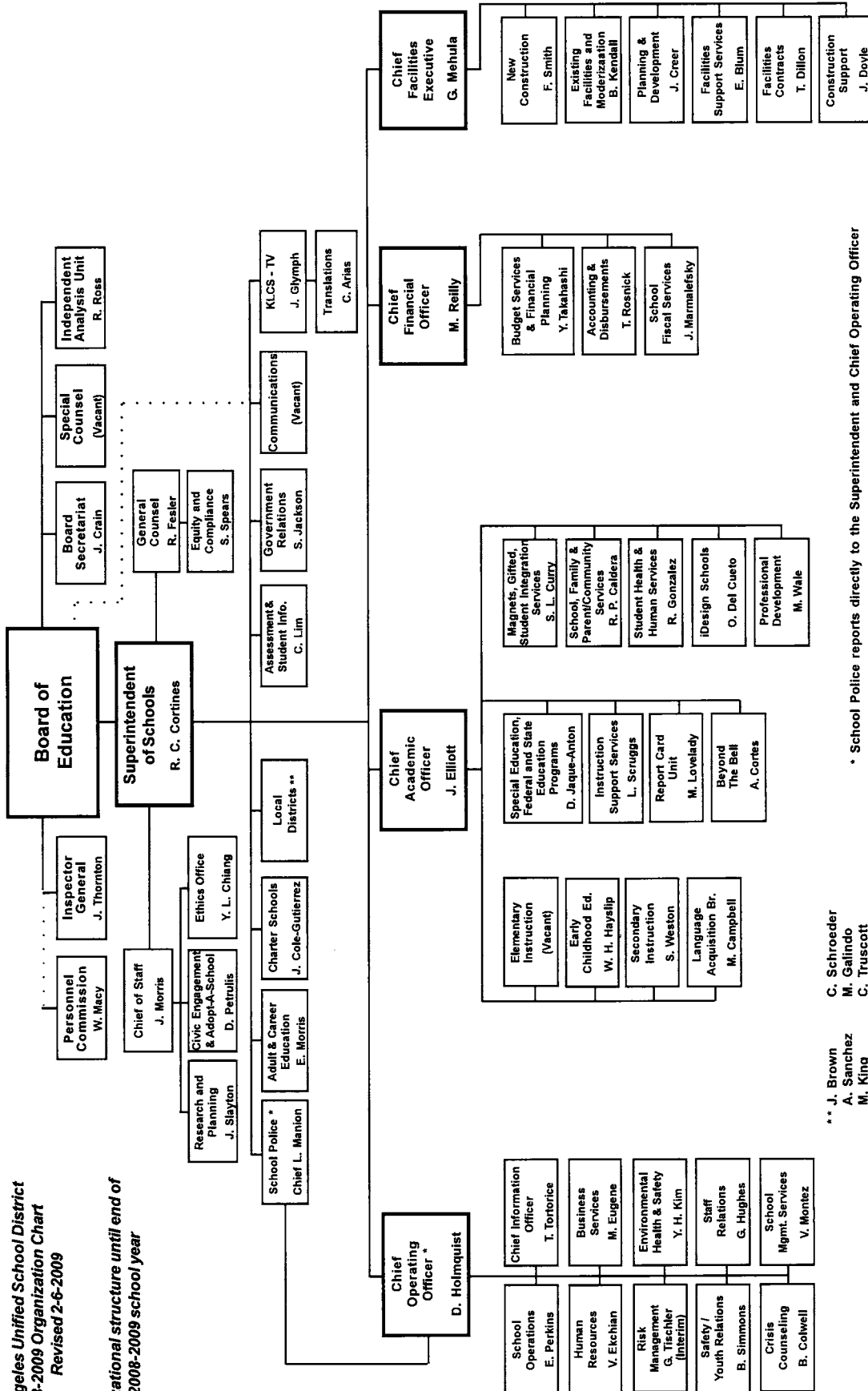
Linda Del Cueto – LD 8

Richard Alonzo
(Retired June 30, 2009)

Los Angeles Unified School District Organization of Central Support System

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

Organizational structure until end of
2008-2009 school year



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

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

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



FINANCIAL SECTION



SIMPSON & SIMPSON
CERTIFIED PUBLIC ACCOUNTANTS

FOUNDING PARTNERS
BRANARD C. SIMPSON, CPA
CARL P. SIMPSON, CPA

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Independent Auditor's Report

The Honorable Board of Education
Los Angeles Unified School District

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Los Angeles Unified School District** (the District) as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Los Angeles Unified School District as of June 30, 2008, and the respective changes in financial position, and where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with U.S. generally accepted accounting principles.

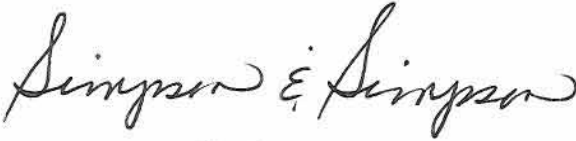
As described in Note 1 to the financial statements, the Los Angeles Unified School District adopted the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for the year ended June 30, 2008.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 15, 2009, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Management's discussion and analysis on pages 3 through 14 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, the supplementary information section, the statistical section, and the state and federal compliance information section are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations and is not a required part of the basic financial statements. The supplementary information listed in the supplementary section (pages 65 to 122) and the information on pages 184 to 190 in the state and federal compliance information section have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The information in the introductory section, the supplemental information section (pages 123 to 143), the statistical section and pages 191 to 193 in the state and federal compliance information section have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

A handwritten signature in cursive script that reads 'Simpson & Simpson'.

Los Angeles, California
August 15, 2009

LOS ANGELES UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis

June 30, 2008

As management of the Los Angeles Unified School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i-ix of this report.

Financial Highlights

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

Overview of the Basic Financial Statements

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

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

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

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

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

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

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local

LOS ANGELES UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis

June 30, 2008

governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

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

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

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

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

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

It is the District's practice to record estimated claim liabilities at the present value of the claims, in conformity with the accrual basis of accounting, for all its internal service funds.

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

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

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

Notes to basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27-63 of this report.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis

June 30, 2008

Combining and individual fund schedules and statements. The combining schedules and statements showing the individual District bond accounts and nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund schedules and statements can be found on pages 65-109 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets over time may serve as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$5.1 billion at the close of the most recent year.

By far the largest portion of the District's net assets (72.7%) reflects its investments in capital assets (e.g., land, buildings, and equipment), less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investments in its capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

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

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

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

LOS ANGELES UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis

June 30, 2008

Summary Statement of Net Assets (In Thousands)

As of June 30, 2008 and 2007:

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

LOS ANGELES UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis

June 30, 2008

Summary Statement of Changes in Net Assets (In Thousands)

As of June 30, 2008 and 2007:

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

LOS ANGELES UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis

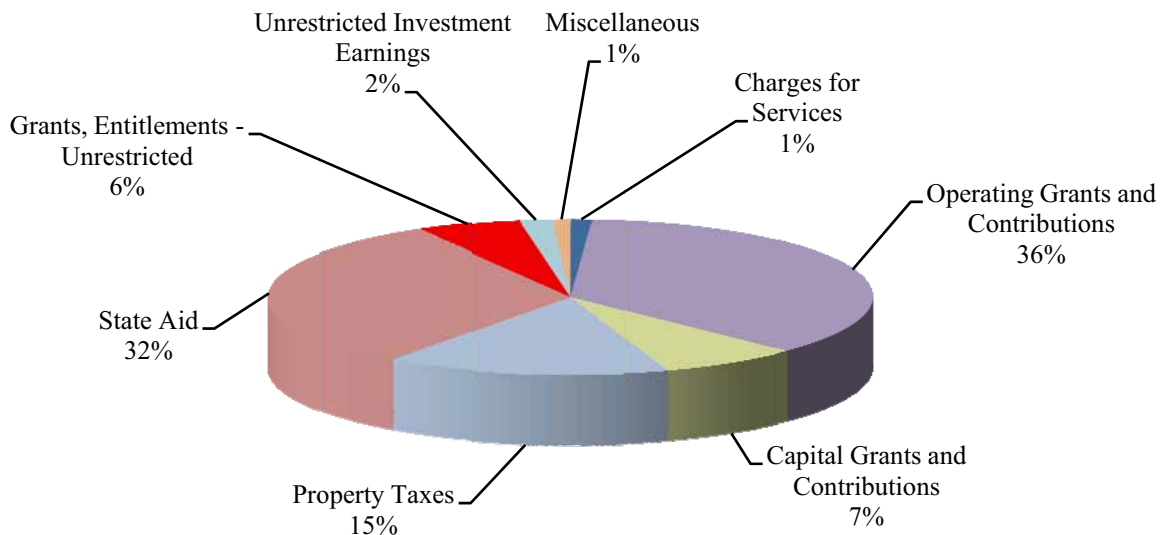
June 30, 2008

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

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

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

**Revenues by Source
Year ended June 30, 2008**

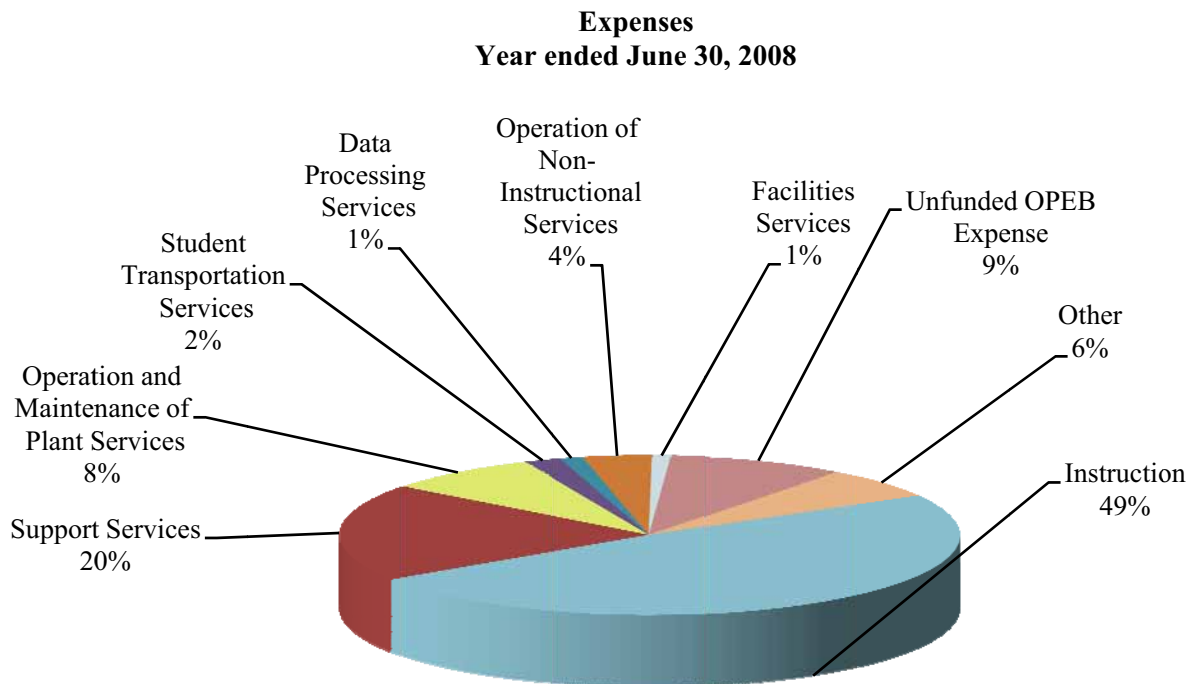


LOS ANGELES UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis

June 30, 2008

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



Financial Analysis of the Government's Funds

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

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

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

The General Fund is the primary operating fund of the District. At the end of the 2008 fiscal year, the unreserved fund balance of the General Fund was \$253.7 million, while the total fund balance reached \$657.2 million. As a measure of the General Fund's liquidity, it may be useful to compare both the unreserved fund balance and the total fund balance to the total fund expenditures. The unreserved fund balance represents 3.7% of the total General Fund expenditures, while the total fund balance represents 9.5% of that same amount.

The fund balance of the District's General Fund decreased by \$38.0 million during the current fiscal year, the combined result of lower revenue and higher expenditures. Revenues are lower from revenue limit and federal

LOS ANGELES UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis

June 30, 2008

revenues, while expenditures are higher in salaries, books and supplies, and services and other operating expenditures.

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

	Other Governmental Funds					Total
	District Bonds	Special Revenue	Debt Service	Other Capital Projects	County School Facilities Bond	
Fund balance, June 30, 2008:						
Reserved for:						
Revolving cash and imprest funds	\$ 3,800	\$ 150	\$ —	\$ —	\$ —	\$ 150
Inventories	—	7,241	—	—	—	7,241
Unreserved	957,677	236,369	497,093	382,514	532,895	1,648,871
Total	961,477	243,760	497,093	382,514	532,895	1,656,262
Fund balance, July 1, 2007	953,038	253,000	383,275	369,299	435,541	1,441,115
Increase (decrease) in fund balance	\$ 8,439	\$ (9,240)	\$ 113,818	\$ 13,215	\$ 97,354	\$ 215,147

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

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

At the end of the year, the District's proprietary funds have unrestricted net assets of \$137.9 million. The net increase of \$42.7 million in the current year can be attributed to ongoing cost containment efforts in the Workers' Compensation Self-Insurance Fund.

General Fund Budgetary Highlights

Differences between the original 2007-2008 General Fund budget (the 2007-2008 Final Budget adopted by the Board of Education in August of 2007) and the final amended budget resulted in a net decrease of \$137.2 million to the overall 2007-2008 General Fund ending balance. This net decrease resulted primarily from increased expenditure appropriations, mainly in services and other operating expenditures, made possible by additional balances from the fiscal closeout of the prior year. Other variances represent budget transfers made for expenditures occurring in objects other than where they were budgeted. The District closely reviews its revenue and expenditure data to ensure that a sufficient ending balance is maintained. This review occurs throughout the fiscal year, utilizing the State-mandated first and second interim financial reports, and at year end utilizing the actual revenue and expenditure data for the prior fiscal year.

The \$197.6 million variance in revenues and other financing sources between final budget and actual occurred primarily because multi-year categorical program revenues were budgeted in their entirety but earned only to the extent that expenditures occurred.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis

June 30, 2008

The \$344.9 million variance in expenditures and other financing uses between final budget and actual occurred primarily because of under expenditure in almost all objects of expenditure in both unrestricted and restricted programs, but mainly in books and supplies (\$123.1 million) and services and other operating expenditures (\$86.8 million). This resulted in part from late receipt of State funds and in part because expenditures in categorical (specially funded) programs were less than the budget. A significant portion of the categorical variances resulted from the factor described in the revenue variance – the full budgeting of expenditures in the first year of a multiyear grant.

Capital Assets and Debt Administration

Capital assets. The District's investment in capital assets for its governmental activities as of June 30, 2008 amounts to \$10.5 billion (net of accumulated depreciation), a 15.8% increase from the prior year. The investment in capital assets includes sites, improvement of sites, buildings and improvements, equipment and construction in progress.

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

- Continuing construction of additional school buildings as well as school modernization projects throughout the District. Construction in progress as of the close of the fiscal year was \$2.5 billion.
- Various building additions and modernizations were completed at a cost of \$1.0 billion.
- A total of 4 new schools were completed in 2008 of which three opened in the 2008-2009 and one will be opening its doors during the 2009-2010 school year to new students.

Capital Assets (net of accumulated depreciation)

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

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

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

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

LOS ANGELES UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis

June 30, 2008

Outstanding Obligations

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

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

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

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

The District's current underlying ratings on its general obligation bonds are "Aa3", "AA-" and "A+" from Moody's Investors Service (Moody's), Standard and Poor's Ratings Group (S&P) and Fitch Ratings (Fitch), respectively. The District's current underlying ratings on its nonabatable leases (COPs) are "A1", "A+" and "A" from Moody's, S&P and Fitch, respectively; for abatable leases (COPs), the underlying ratings are "A2", "A+" and "A" from Moody's, S&P and Fitch, respectively. The District purchased municipal bond insurance and/or reserve surety bond policies at the time of issuance for some of its COPs and bonds. Moody's, S&P and Fitch assigned insured ratings of "Aaa", "AAA" and "AAA", respectively, on said COPs and bonds at the time of issuance. Subsequent to February 1, 2008, the rating agencies downgraded the ratings of certain bond insurers, including all of those who had issued bond insurance policies and/or surety bonds on District issues. See Subsequent Events on page 13 for more information.

State statutes limit the amount of general obligation bond debt a unified school district may issue to 2.5% of its total taxable property. The debt limitation for the District as of June 30, 2008 is \$10.9 billion, which is in excess of the District's outstanding general obligation bond debt.

Additional information on the District's long-term obligations can be found in Notes 9, 10, and 11 on pages 50-57 of this report.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis

June 30, 2008

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

State of California and Los Angeles Unified School District Fiscal Outlook

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

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

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

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

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

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

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

LOS ANGELES UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis

June 30, 2008

Given the current national economic recession and high level of dependency of public education on State revenues, particularly relatively volatile revenue sources such as personal and corporate income tax, sales and use tax, and property tax, the District must continue to review the State's finances closely. As always, the District continues its efforts to build a budget that is both fiscally and structurally balanced.

Bond Insurer Rating Changes

In November 2007, the rating agencies announced they would review the financial strength of municipal bond insurers in light of their exposure to potential losses on insured mortgage backed securities and collateralized debt obligations. Their ongoing analysis resulted in successive credit rating downgrades of nearly all bond insurers beginning in February 2008 and continuing through March 2009.

Bond insurers that had provided bond insurance and reserve surety policies on District Certificates of Participation and bonds were included among the downgraded insurers. This caused the ratings on the District's insured debt to fall to the higher of the bond insurer's new rating or the District's underlying rating.

In addition, three variable-rate COPs issues that were insured by downgraded insurers experienced higher-than-market interest rates during the period of the rating downgrades. The District refinanced two of the COPs in August 2008 to eliminate exposure to the bond insurer. The District set aside funds in an escrow to fully repay the third COPs issue by May 10, 2009.

Debt Issuances

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

- On August 16, 2007, the District issued \$150 million of Measure K, Series C General Obligation Bonds, \$550 million of Measure R, Series H General Obligation Bonds, and \$300 million of Measure Y, Series E General Obligation Bonds. The Bonds mature on July 1, 2032 and had an arbitrage yield of 4.41%.
- On November 15, 2007, the District issued \$99,660,000 of Certificates of Participation 2007 Series A to fund various Information-Technology projects. The COP mature on October 1, 2017 and had an arbitrage yield of 3.78%.
- On December 11, 2007, the District issued \$600 million of Tax and Revenue Anticipation Notes. The District made required deposits of \$210 million on February 28, 2008, \$210 million on March 28, 2008, and \$205.1 million on April 30, 2008 in anticipation of repayment of the TRANs on December 29, 2008. One series of the TRANs carried a coupon of 4.00% and a second series carried a coupon of 3.75%. The two series had a combined arbitrage yield of 3.14848%

Requests for Information

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

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

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

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Statement of Activities
Year Ended June 30, 2008
(in thousands)

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

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

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

See accompanying notes to basic financial statements.

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

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

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
June 30, 2008
(in thousands)

Total Fund Balances – Governmental Funds	\$ 3,274,975
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$13,582,022 and the accumulated depreciation is \$3,064,058.	10,517,964
Property taxes receivable will be collected this year, but are not available soon enough to pay the current period's expenditures and therefore are deferred in the funds.	67,899
An internal service fund is used by the District's management to charge the costs of health and welfare, workers' compensation and liability self-insurance premiums and claims to the individual funds. The assets and liabilities of the internal service fund are included within governmental activities.	137,929
Long-term liabilities, including bonds payable and OPEB, are not due and payable in the current period and therefore are not reported as liabilities in the funds.	(8,951,717)
Other assets – deferred charges not reflected in fund financials	<u>37,349</u>
Total Net Assets – Governmental Activities	<u>\$ 5,084,399</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, 2008
(in thousands)

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

Total Net Changes in Fund Balances – Governmental Funds	\$ 185,587
Amounts reported for governmental activities in the statement of activities are different because:	
Amounts incurred in connection with activities related to capital projects are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital related expenditures (\$1,656,397) and gain on exchange of capital assets (\$5,717) exceed depreciation (\$241,971) in the period.	1,420,143
Some of the capital assets acquired this year were financed with capital leases. The amount financed is reported in the governmental funds as a source of financing. On the other hand, the proceeds are not revenues in the statement of activities, but rather constitute long-term liabilities in the statement of net assets	(1,253)
Proceeds of new debt and repayment of debt principal are reported as other financing sources and uses in the governmental funds, but constitute additions and reductions to liabilities in the statement of net assets.	(940,183)
Premiums, discounts, refunding charges and issuance costs are reported as other financing sources and uses in the governmental funds, but presented as liabilities or deferred charges, net of amortization in the statement of net assets.	7,679
Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered "available" revenues for this year.	21,209
In the statement of activities, compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for this items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, the amounts earned exceeded vacation leave used.	(19,853)
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental fund because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of financial resources. In the statement of activities, however, interest expense is recognized as interest accrues, regardless of when it is due.	(3,306)
Rebatable arbitrage is recognized in the government wide statements as soon as the underlying event has occurred but not until due and payable in the governmental funds.	(44)
OPEB expenditures are recorded in the governmental funds to the extent of amounts actually funded. In the statement of activities, however, the expense is recorded for the full amount of the accrual-basis annual OPEB cost.	(832,665)
An internal service fund is used by the District's management to charge the costs of health and welfare, workers' compensation and liability self-insurance premiums and claims to the individual funds. The net revenue of the internal service fund is reported with governmental activities.	42,676
Changes in Net Assets of Governmental Activities	\$ <u>(120,010)</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, 2008
(in thousands)

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

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Statement of Net Assets
Proprietary Funds
Governmental Activities – Internal Service Funds
June 30, 2008
(in thousands)

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

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
Governmental Activities – Internal Service Funds
Year Ended June 30, 2008
(in thousands)

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

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

See accompanying notes to basic financial statements.

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

	Pension Trust Funds	Agency Fund
Assets:		
Cash in county treasury, in banks, and on hand	\$ 19,667	\$ 20,506
Investments, at fair value: Money market funds	466	—
Accrued interest and dividends receivable	181	—
Total Assets	<u>20,314</u>	<u>20,506</u>
Liabilities:		
Vouchers and accounts payable	10	—
Other payables	18,448	20,506
Due to other funds	2	—
Total Liabilities	<u>18,460</u>	<u>20,506</u>
Total Net Assets – Held in Trust	<u>\$ 1,854</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, 2008
(in thousands)

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

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2008

(1) Summary of Significant Accounting Policies

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

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

(a) Reporting Entity

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

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

Blended Component Units

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

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2008

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

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

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

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

(c) *Measurement Focus and Basis of Accounting*

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

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

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

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2008

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

(d) Financial Statement Presentation

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

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

(e) Fund Accounting

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

Major Governmental Funds

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

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

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

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2008

Other Governmental Funds

The District has the following nonmajor governmental funds:

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

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

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

Proprietary Funds

The District has the following Proprietary Funds:

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

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

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

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2008

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

Fiduciary Funds

The District has the following Fiduciary Funds:

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

Annuity Reserve Fund – The Annuity Reserve Fund accounts for all financial resources used to provide additional retirement benefits to employees who were members of the District Retirement System on June 30, 1972. On November 18, 2003, participant members voted to dissolve the fund and distribute its net assets to the members. The fund's remaining equity as of June 30, 2008 is reserved to pay shares of unlocated participants and for other contingencies.

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

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

(f) Budgetary Control and Encumbrances

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

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

During the year, several supplementary appropriations were necessary. The original and final revised budgets are presented in the financial statements. Budgets for all governmental fund types are adopted on a basis consistent with generally accepted accounting principles. Budgets are adopted for the General, Special Revenue, Debt Service, Capital Projects, Internal Service, and Pension Trust Funds.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2008

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

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

(g) *Cash and Investments*

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

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

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

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

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

(i) *Inventories*

Inventories consist of expendable materials and supplies held for consumption, which are valued at cost, using the average-cost method. Except for food and cafeteria supplies, which are expended

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2008

when received, inventories are recorded as expenditures when shipped to schools and offices. Balances of inventory accounts are offset by corresponding reservations of fund balance, which indicate that these amounts are not available for appropriation and expenditure.

(j) Capital Assets

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

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

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

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

(k) Contracts Payable

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

(l) Compensated Absences

All vacation leaves are accrued in the government-wide statements when they are incurred. A liability is reported in the governmental funds only for vested or accumulated vacation leave of employees who have separated from the District as of June 30 and whose vacation benefits are

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2008

payable within 60 days from the end of the fiscal year. The District, as a practice, does not accrue a liability for unused sick leave since accumulated sick leave is not a vested benefit. Employees who retire after January 1, 1999 who are members of the Public Employees' Retirement System (PERS) may use accumulated sick leave to increase their service years in the calculation of retirement benefits.

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

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

(m) Long-term Obligations

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

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

(n) Revenue Limit Sources/Property Taxes

The revenue limit is the basic financial support for District activities. The District's revenue limit is received from a combination of local property taxes and state apportionments. For the fiscal year 2007-2008, the District received local property taxes amounting to \$806.4 million and State aid amounting to \$2,817.7 million.

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

Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The county apportions secured property tax revenue in accordance with the alternate method of

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2008

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

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

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

(o) *Implementation of New Accounting Pronouncement*

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

(p) *Estimates*

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

(2) Tax and Revenue Anticipation Notes

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

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2008

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

TRANs – Short-Term Notes Payable (in thousands)

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

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

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

The accompanying governmental fund balance sheet includes reconciliation between *total fund balances – governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.” The details of the \$8,119,052 difference are as follows (in thousands):

Bonds payable	\$ (7,500,552)
Certificates of participation (COPs)	(501,875)
Capital lease obligations	(3,768)
State school building aid fund payable	(286)
Children center facilities revolving loan	(792)
California energy commission loan	(865)
Liability for compensated absences	(85,563)
Other Post Employment Benefits (OPEB)	(832,665)
Arbitrage payable	(12,010)
Legal settlements	(12,823)
Other	<u>(518)</u>

Net adjustment to reduce *total fund balances –
governmental funds* to arrive at *net assets –
governmental activities*

\$ (8,951,717)

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2008

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

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *total net changes in fund balances – governmental funds* and *change in net assets of governmental activities* as reported in the accompanying government-wide statement of activities. One element of that reconciliation explains that “Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.” The details of this \$1,420,143 difference are as follows (in thousands):

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

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

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

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2008

(4) Budgetary Appropriation Amendments

During the fiscal year, modifications were necessary to increase appropriations for expenditures and other financing uses for the General Fund by \$123.6 million. The additional expenditure appropriations were funded by higher than anticipated other financing sources in the General Fund beginning fund balance.

(5) Cash and Investments (in thousands)

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

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

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

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

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

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

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

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2008

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, 2008

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

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

Interest-rate risk is the risk involved with fluctuations of interest rates that may adversely affect the fair value of the investments. The County's investment guidelines target the weighted average maturity of its portfolio to less than 18 months. As of June 30, 2008, 61% of district funds in the County PSI Fund does not exceed one year. In addition, variable-rate notes that comprised 5.61% of the County PSI Fund and other investments portfolio are tied to periodic coupon resets eliminating interest-rate risk by repricing back to par value at each rest date.

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

Concentration of credit risk means the risk of loss attributed to the magnitude of an investment in a single issuer. For District funds in the County pool, the County's investment policy states that no more than 5% of total market value of the pooled funds may be invested in securities of any one issuer, except for obligations of the United States government, and its agencies and instrumentalities. In addition, no more than 10% may be invested in one money market mutual fund. As of June 30, 2008, the County did not exceed these limitations.

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

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2008

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

(6) Receivables/Payables

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

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

Payables by Fund at June 30, 2008 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	\$ 347,731	\$ 103,218	\$ 65,342	\$ 18,607	\$ 534,898
Contracts	3,785	87,839	38,080	—	129,704
Accrued payroll	400,510	—	73	—	400,583
Other	102,283	1,149	20,422	2,564	126,418
Total payables	<u>\$ 854,309</u>	<u>\$ 192,206</u>	<u>\$ 123,917</u>	<u>\$ 21,171</u>	<u>\$ 1,191,603</u>

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2008

(7) Capital Assets

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

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

LOS ANGELES UNIFIED SCHOOL DISTRICT

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

Governmental activities:

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

(8) Retirement and Other Postemployment Benefit Plans

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

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

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

Active plan members are required to contribute 7% (miscellaneous) or 9% (safety) of their monthly salary and the District is required to contribute based on an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rates for fiscal year 2007-2008 were 9.306% for miscellaneous and 30.387% for safety members. The District paid the employee's contribution of 9% for most of the safety members, and certain percentages for employees covered under other

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Notes to Basic Financial Statements

Year Ended June 30, 2008

collective bargaining units. The contribution requirements of the plan members are established by state statute. The following table shows employer and employee contributions for all members for the fiscal years ended June 30, 2008, 2007, and 2006.

Schedule of Employer Contributions:

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

The District's contributions for all members for the fiscal years ended June 30, 2008, 2007, and 2006 were in accordance with the required contribution rates calculated by the CalPERS actuary for each year.

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

The District contributes to the STRS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan and a tax-deferred supplemental program established and administered by the State Teachers' Retirement Law (Section 22000 et seq.) of the California Education Code. The Teachers' Retirement Fund (TRF) is a defined benefit pension plan under the STRS. At June 30, 2008, there were approximately 1,700 contributing employers (school districts, community college districts, county offices of education and regional occupational programs). The State of California is a nonemployer contributor to the TRF.

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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 2007-2008 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. Contributions to STRS for fiscal years ended June 30, 2008, 2007, and 2006 are as follows:

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

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

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

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

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

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Notes to Basic Financial Statements

Year Ended June 30, 2008

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

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

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

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

(d) *Postemployment Benefits – Health and Welfare for Retirees*

Plan Description

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

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

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2008

- d. Those hired from June 1, 1992 through February 28, 2007 must have at least 80 years combined total of consecutive qualifying service and age.
- e. Those hired from March 1, 2007 through March 31, 2009 must have at least 80 years combined total of consecutive qualifying service and age. In addition, the employee must have 15 consecutive years of qualifying service immediately prior to retirement.
- f. Those hired on or after April 1, 2009 must have at least 85 years combined total of consecutive qualifying service and age. In addition, the employee must have a minimum of 25 consecutive year of qualifying service immediately prior to retirement.

In order to maintain coverage, the retirees must continue to receive a STRS/CalPERS retirement allowance and must enroll in those parts of Medicare for which they are eligible. As of July 1, 2008, approximately 35,000 retirees now meet these eligibility requirements. The plan does not issue a separate financial report.

Funding Policy

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

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

Annual OPEB Cost and Net OPEB Obligation

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

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2008

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

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

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

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

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

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

Funded Status and Funding Progress

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

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

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2008

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

Actuarial Methods and Assumptions

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

In the June 30, 2007 actuarial valuation, the actuarial method used in estimating the liability is the entry age normal, level dollar cost method which is based on the assumption that the Actuarial Present Value (APV) of employees' expected postretirement benefits accrue on a level basis over their expected working careers, from hire until the date of full eligibility for postretirement medical benefits. The significant assumptions used in the computation include a 5% discount rate and a healthcare cost trend of 9% for HMOs and 11% for PPOs in 2008, ultimately declining to 5% in 2016 and 2014 respectively and remaining at that level thereafter. A healthcare cost trend rate of 5% is assumed for dental and vision. The UAAL is being amortized as a level dollar closed of projected payroll over a 30-year period. The remaining amortization period at June 30, 2008 was twenty-nine years.

(e) *Annuity Reserve Fund*

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

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

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

On November 18, 2003, members voted to dissolve the fund and distribute its net assets to the members. The fund's remaining equity of \$489,509 at June 30, 2008 is reserved to pay shares of unlocated participants and other contingencies.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2008

(9) Risk Management

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

Excess insurance has been purchased for fire loss damages, which currently provides \$1 billion coverage above a \$500,000 self-insurance retention and for general liability, which currently provides \$45 million coverage above a \$3 million self-insurance retention. No settlements exceeded insurance coverage in the last four fiscal years ended June 30, 2008.

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

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

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

LOS ANGELES UNIFIED SCHOOL DISTRICT

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As of June 30, 2008, the amount of the total claims liabilities recorded for medical liability and workers' compensation was \$548.7 million. During the fiscal year, the District recorded workers' compensation claims liability at reduced levels as a result of legislative changes and a reduction in open and litigated claims. The actuary used a 3% discount rate for the worker's compensation calculation. Changes in the reported liabilities since July 1, 2006 are summarized as follows:

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

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2008

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

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

On December 9, 1997, the District issued variable rate COPs 1997 Series A in the amount of \$91,400,000. Interest is payable monthly and has ranged from 0.69% to 5.85% over the life of the COPs. The interest rate on June 30, 2008 was 1.10%. Principal payments are due annually through 2017. The proceeds are to fund the construction of the Vista Hermosa (formerly known as the Belmont Learning Complex).

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

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

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

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

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

On December 19, 2002, the District issued COPs 2002 Series C (Beaudry II) in the amount of \$9,490,000. Interest is payable semiannually ranging from 2.00% to 5.00%. Principal payments are due annually through 2031. The proceeds are to fund tenant improvements and Heating, Ventilation and Air Conditioning (HVAC) upgrades for the 12th floor and painting and lighting upgrades of the garage of the Administration Building. This issue was partially refunded by COPs 2004 Series A in July 2004.

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Year Ended June 30, 2008

On June 26, 2003, the District issued COPs 2003 Series B (Pico Rivera Warehouse) in the amount of \$31,620,000. Interest is payable semiannually ranging from 2.00% to 5.00%. Principal payments are due annually through 2028. The proceeds are used to purchase and equip a turn-key warehouse in the City of Pico Rivera. This issue was partially refunded by COPs 2004 Series A in July 2004.

On July 28, 2004, the District issued COPs 2004 Series A (Refinancing and Refunding Project I) in the amount of \$50,700,000. Interest is payable semiannually ranging from 3.00% to 5.00%. Principal payments are due annually through 2014. Proceeds are to refinance certain prior debt service payments and to refund portions of the District COPs. This advance refunding was undertaken to reduce General Fund debt service payments in fiscal years 2004-2005 and 2005-2006 by \$45.0 million with an increase to total debt service payments of \$17.8 million over the next ten years. This issue was partially refunded by Measure Y Series D Bonds in February 2006.

On July 28, 2004, the District issued COPs 2004 Series B (Refinancing and Refunding Project I – Federally Taxable) in the amount of \$6,925,000. Interest is payable semiannually at 4.25%. The principal payment is payable in full due in 2008. Proceeds are to refund portions of the 2000 Series A (Qualified Zone Academy Bonds) and the 2001 Series C (Beaudry I) COPs. This advance refunding was undertaken to reduce General Fund debt service payments in fiscal years 2004-2005 and 2005-2006 by \$6.5 million with an increase to total debt service payments of \$1.1 million over the next four years. This issue was partially refunded by Measure Y Series D Bonds in February 2006.

On May 24, 2005, the District issued variable rate COPs 2005 Series A (Administration Building Project) in the amount of \$86,525,000. Interest is paid monthly at a weekly rate payable on the first business day of each month commencing on June 1, 2005 through October 1, 2024. Through June 30, 2008, the interest rate has ranged from 1.95% to 10.00% over the life of the COPs. The interest rate on June 30, 2008 was 10.00%. The 2005 A Certificates were used to refund the 2001C COPs in the amount of \$84.5 million, which resulted in a net present value savings of approximately \$9.4 million based on an assumed variable rate of 3.05% (15-year average of Bond Member Association (BMA)), semiannual interest payments, and 30/360 semiannual compounding.

On May 24, 2005, the District issued variable rate COPs 2005 Series B (Beaudry III) in the amount of \$21,340,000. Interest is paid monthly at a weekly rate payable on the first business day of each month commencing on June 1, 2005 through October 1, 2031. Through June 30, 2008, the interest rate has ranged from 2.00% to 5.00%. The interest rate on June 30, 2008 was 5.00%. The 2005 B Certificates were to finance certain property improvements of the District and to fund capitalized interest and fees.

On May 24, 2005, the District issued variable rate COPs 2005 Series C in the amount of \$44,225,000. The 2005 C Certificates were initially delivered in a term mode at a rate of 4.00% for a period from the date of delivery through October 1, 2006, payable on April 1 and October 1 commencing October 1, 2005. The Certificate converted to a weekly mode on October 2, 2006. While in a weekly mode, interest is payable on the first business day of each month, maturing on October 1, 2025. Through June 30, 2008, the variable interest rate has ranged from 1.16% to 4.00% over the life of the COPs. The interest rate on June 30, 2008 was 1.27%. The proceeds from the issuance were used to refund the outstanding Refunded 1996 COPs (1996A COPs – ELA/King Drew Refunding) in the amount of \$41.95 million as variable bonds. This advance refunding resulted in a net present value savings of \$2.9 million based on an assumed variable rate of 3.05% (15-year average of BMA).

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On December 13, 2005, the District issued COPs 2005 (2004-2005 Qualified Zone Academy Bonds) in the amount of \$10,000,000. The zero interest tax credit bonds are used for modernizing nine schools to accommodate existing or planned academy programs that address student career pathway/higher education interests. Scheduled payments to a sinking fund are to be made annually through maturity in 2020.

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

Other Leasing Arrangements

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

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

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

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

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

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Year Ended June 30, 2008

(11) Long-Term Obligations

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

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

* Net of unamortized premiums and discounts.

** Including unamortized premium.

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

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

The General Obligation Bonds balance of \$7,436.5 million, which includes unamortized bond premiums (net of unamortized charges) of \$111.5 million, consists of:

(a) six issuances of Proposition BB bonds:

1. Series "A" bonds, sold in July 1997 at \$356.0 million par value, of which \$18.5 million and \$133.2 million were refunded in December 2004 and July 2005, respectively;
2. Series "B" bonds, sold in August 1998 at \$350.0 million par value, of which \$90.9 million and \$150.5 million were refunded in April 2002 and July 2005, respectively;

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3. Series "C" bonds, sold in August 1999 at \$300.0 million par value, of which \$70.8 million, \$14.2 million and \$124.3 million were refunded in April 2002, December 2004 and July 2005, respectively;
 4. Series "D" bonds, sold in August 2000 at \$386.7 million par value, of which \$101.0 million, \$107.2 million and \$76.6 million were refunded in April 2002, December 2004 and July 2005, respectively;
 5. Series "E" bonds, sold in April 2002 at \$500.0 million par value, of which \$75.8 million, \$231.2 million, and \$25.8 million were refunded in December 2004, November 2006 and February 2007, respectively; and
 6. Series "F" bonds, sold in March 2003 at \$507.3 million par value of which \$129.5 million was refunded in January 2007.
- (b) three issuances of Measure K bonds:
1. Series "A" bonds, sold in February 2003 at \$2.1 billion par value, of which \$131.9 million, \$330.1 million, and \$1.12 billion were refunded in February 2006, October 2006, and January 2007, respectively;
 2. Series "B" bonds sold in February 2007 at \$500.0 million par value; and
 3. Series "C" bonds sold in August 2007 at \$150.0 million par value.
- (c) eight issuances of Measure R bonds:
1. Series "A" bonds at \$72.6 million par value, Series "B" bonds at \$60.5 million par value, Series "C" bonds at \$50.0 million par value and Series "D" bonds at \$16.9 million par value, all sold in September 2004 and all of which, except for Series C, were used to partially and fully refund certain certificates of participation;
 2. Series "E" bonds, sold in August 2005 at \$400.0 million par value;
 3. Series "F" bonds, sold in February 2006 at \$500.0 million par value; Series "G" bonds sold in August 2006 at \$400.0 million par value; and
 4. Series "H" bonds sold in August 2007 at \$550.0 million par value.
- (d) five issuances of Measure Y bonds:
1. four issuances of Measure Y bonds sold in February 2006: Series "A" bonds at \$56.8 million par value, Series "B" bonds at \$80.2 million par value, Series "C" bonds at \$210.0 million par value and Series "D" bonds at \$47.4 million par value, all of which, except for Series C and \$5.7 million of Series D, were used to partially or fully refund certain certificates of participation;
 2. In August 2007, Measure Y bonds, Series "E" was sold for \$300.0 million; and

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(e) general obligation refunding bonds:

1. 2004 Series "A-1" and "A-2" sold in December 2004 at \$219.1 million par value;
2. 2005 Series "A-1" and "A-2" sold in July 2005 at \$467.7 million par value, 2006 Series "A" sold in February 2006 at \$132.3 million par value;
3. 2006 Series "B" sold in October 2006 at \$574.9 million par value;
4. 2007 Series "A" sold in January 2007 at \$1.289 billion par value; and
5. 2007 Series "B" sold in February 2007 at \$24.8 million par value, all of which were used to partially refund certain general obligation bonds as stated above.

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

The State School Building Aid Fund payable balance of \$0.3 million at June 30, 2008 represents loans under the State Education Code Section 16310 for the replacement or rehabilitation of pre-1933 buildings. These loans are repaid with interest at varying rates, as specified by the State Allocation Board at the time of approval of each project application, from annual tax collections received by the Tax Override Fund. Principal and interest are to be paid in 20 equal annual amounts, not to exceed the amount that would be produced by a property tax levy of 4.375 cents per \$100 of assessed value. It is anticipated that these loans will be paid off during the 2008-2009 fiscal year.

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

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

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

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

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Year Ended June 30, 2008

(12) Interfund Transactions

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

Interfund receivables/payables are eliminated on the government-wide statement of net assets but are reported on the fund financial statements. The following is a summary of interfund receivables and payables at June 30, 2008 (in thousands):

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

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

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(b) *Interfund Transfers*

Interfund transfers are eliminated on the government-wide statement of activities but are reported on the fund financial statements. These consist of transfers from funds receiving revenue to funds through which resources are to be expended. Transfers between funds for the year ended June 30, 2008 were as follows (in thousands):

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

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Year Ended June 30, 2008

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

<u>From</u>	<u>To</u>	<u>Purpose</u>	
Building – Measure R	Building – Bond Proceeds	Reimbursement of capital expenditures	15,368
Building – Measure R	County School Facilities	Reimbursement of capital expenditures	666
Building – Measure R	CSF – Prop 47	Reimbursement of capital expenditures	94
Building – Measure R	CSF – Prop 55	Reimbursement of capital expenditures	1,767
Building – Measure R	Building – Measure K	Reimbursement of capital expenditures	22,560
Building – Measure R	Building – Measure Y	Reimbursement of capital expenditures	8,901
Building – Measure R	Special Reserve	Reimbursement of capital expenditures	1,151
Building – Measure R	SSBldg Lease/Purchase	Reimbursement of capital expenditures	2,970
Building – Measure R	Capital Facilities	Reimbursement of capital expenditures	33
Building – Measure Y	General	Reimbursement of deferred maintenance match	30,000
Building – Measure Y	Capital Services	Debt service	1,904
Building – Measure Y	Building – Measure K	Reimbursement of capital expenditures	364
Building – Measure Y	Special Reserve	Reimbursement of capital expenditures	61
Building – Measure K	County School Facilities	Reimbursement of capital expenditures	658
Building – Measure K	CSF – Prop 55	Reimbursement of capital expenditures	1,562
Building – Measure K	Special Reserve	Reimbursement of capital expenditures	7,819
Building – Measure K	Building – Measure R	Reimbursement of capital expenditures	9,956
Building – Measure K	Building – Measure Y	Reimbursement of capital expenditures	8
Building – Measure K	Building – Bond Proceeds	Reimbursement of capital expenditures	839
Building – Measure K	SSBldg Lease/Purchase	Reimbursement of capital expenditures	1
Building – Measure K	Capital Facilities	Reimbursement of capital expenditures	71
Building – Bond Proceeds	Building – Measure R	Reimbursement of capital expenditures	3,795
Building – Bond Proceeds	Building – Measure K	Reimbursement of capital expenditures	943
Building – Bond Proceeds	County School Facilities	Reimbursement of capital expenditures	13
Building – Bond Proceeds	CSF – Prop 47	Reimbursement of capital expenditures	1,252
Building – Bond Proceeds	CSF – Prop 55	Reimbursement of capital expenditures	3,287
Building – Bond Proceeds	SSBldg Lease/Purchase	Reimbursement of capital expenditures	3,307
Sub-total			512,061
Adult Education	General	Transfer of support costs	5,226
Child Development	General	Transfer of support costs	719
Total			<u>\$ 518,006</u>

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Notes to Basic Financial Statements

Year Ended June 30, 2008

(13) Fund Equity

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

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

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

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

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

(14) Contingencies

(a) General

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

(b) Grants

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

(c) Construction Contracts

The District has entered into various contracts for the construction of facilities throughout the campuses. During fiscal year 2007-2008 the District entered into approximately 360 contracts with a combined value of \$2.0 billion. The durations of the contracts range from four weeks to three years.

(15) Subsequent Events

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

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

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

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

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Basic Financial Statements

Year Ended June 30, 2008

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

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



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, 2008
(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	\$ 141,718	\$ 189,678	\$ 432,728	\$ 323,607	\$ 1,087,731
Cash held by trustee	—	300	—	—	300
Investments	—	—	—	—	—
Accounts receivable – net	6,141	1,726	—	—	7,867
Accrued interest and dividends receivable	1,369	2,614	5,268	3,261	12,512
Due from other funds	10,329	40,225	16,550	13,141	80,245
Total Assets	\$ 159,557	\$ 234,543	\$ 454,546	\$ 340,009	\$ 1,188,655
Liabilities and Fund Balances:					
Vouchers and accounts payable	\$ 1,561	\$ 30,579	\$ 56,194	\$ 14,884	\$ 103,218
Contracts payable	2,725	23,278	45,363	16,473	87,839
Accrued payroll	—	—	—	—	—
Other payables	1,149	—	—	—	1,149
Due to other funds	8,307	6,559	17,452	2,654	34,972
Total Liabilities	13,742	60,416	119,009	34,011	227,178
Fund Balances:					
Reserved for:					
Revolving and imprest funds	3,000	—	300	500	3,800
Total Reserved Fund Balances	3,000	—	300	500	3,800
Unreserved:					
Designated for:					
Subsequent year expenditures	142,815	174,127	335,237	305,498	957,677
Total Designated	142,815	174,127	335,237	305,498	957,677
Total Unreserved Fund Balances	142,815	174,127	335,237	305,498	957,677
Total Fund Balances	145,815	174,127	335,537	305,998	961,477
Total Liabilities and Fund Balances	\$ 159,557	\$ 234,543	\$ 454,546	\$ 340,009	\$ 1,188,655

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
District Bonds Fund
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2008
(in thousands)

	Building Account – Bond Proceeds	Building Account – Measure K	Building Account – Measure R	Building Account – Measure Y	Total
Revenues:					
Other local revenues	\$ 6,562	\$ 16,656	\$ 32,787	\$ 16,898	\$ 72,903
Total Revenues	<u>6,562</u>	<u>16,656</u>	<u>32,787</u>	<u>16,898</u>	<u>72,903</u>
Expenditures:					
Current:					
Classified salaries	626	11,806	22,028	3,688	38,148
Employee benefits	216	6,148	8,315	1,365	16,044
Books and supplies	66	1,487	1,705	1,120	4,378
Services and other operating expenditures	1,394	7,280	19,165	4,380	32,219
Capital outlay	<u>44,077</u>	<u>394,322</u>	<u>538,397</u>	<u>84,670</u>	<u>1,061,466</u>
Total Expenditures	<u>46,379</u>	<u>421,043</u>	<u>589,610</u>	<u>95,223</u>	<u>1,152,255</u>
Deficiency of revenues under expenditures	<u>(39,817)</u>	<u>(404,387)</u>	<u>(556,823)</u>	<u>(78,325)</u>	<u>(1,079,352)</u>
Other Financing Sources (Uses):					
Transfers in	58,605	102,892	36,735	8,909	207,141
Transfers out	(12,597)	(20,914)	(53,510)	(32,329)	(119,350)
Issuance of bonds	<u>—</u>	<u>150,000</u>	<u>550,000</u>	<u>300,000</u>	<u>1,000,000</u>
Total Other Financing Sources (Uses)	<u>46,008</u>	<u>231,978</u>	<u>533,225</u>	<u>276,580</u>	<u>1,087,791</u>
Net Changes in Fund Balances	<u>6,191</u>	<u>(172,409)</u>	<u>(23,598)</u>	<u>198,255</u>	<u>8,439</u>
Fund Balances, July 1, 2007	<u>139,624</u>	<u>346,536</u>	<u>359,135</u>	<u>107,743</u>	<u>953,038</u>
Fund Balances, June 30, 2008	<u>\$ 145,815</u>	<u>\$ 174,127</u>	<u>\$ 335,537</u>	<u>\$ 305,998</u>	<u>\$ 961,477</u>

See accompanying independent auditor's 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, 2008
(in thousands)

	Building Account – Bond Proceeds			Variance with Final Budget – Favorable (Unfavorable)
	Budget		Actual	
	Original	Final		
Revenues:				
Other local revenues	\$ 4,040	\$ 4,040	\$ 6,562	\$ 2,522
Total Revenues	4,040	4,040	6,562	2,522
Expenditures:				
Current:				
Classified salaries	681	659	626	33
Employee benefits	292	282	216	66
Books and supplies	—	70	66	4
Services and other operating expenditures	65	110,089	1,394	108,695
Capital outlay	93,554	45,743	44,077	1,666
Total Expenditures	94,592	156,843	46,379	110,464
Deficiency of Revenues Under Expenditures	(90,552)	(152,803)	(39,817)	112,986
Other Financing Sources (Uses):				
Transfers in	—	58,605	58,605	—
Transfers out	—	(12,597)	(12,597)	—
Issuance of bonds	—	—	—	—
Premium on bonds issued	—	—	—	—
Total Other Financing Sources (Uses)	—	46,008	46,008	—
Net Changes in Fund Balances	\$ (90,552)	\$ (106,795)	6,191	\$ 112,986
Fund Balances, July 1, 2007			139,624	
Fund Balances, June 30, 2008			\$ 145,815	

See accompanying independent auditor's 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		
\$ 7,000	\$ 7,000	\$ 16,656	\$ 9,656	\$ 10,600	\$ 10,600	\$ 32,787	\$ 22,187
7,000	7,000	16,656	9,656	10,600	10,600	32,787	22,187
24,058	23,357	11,806	11,551	22,388	23,399	22,028	1,371
9,129	13,863	6,148	7,715	9,417	13,695	8,315	5,380
—	8,296	1,487	6,809	—	1,750	1,705	45
—	7,333	7,280	53	1	19,183	19,165	18
896,278	944,826	394,322	550,504	1,151,674	869,393	538,397	330,996
929,465	997,675	421,043	576,632	1,183,480	927,420	589,610	337,810
(922,465)	(990,675)	(404,387)	586,288	(1,172,880)	(916,820)	(556,823)	359,997
—	93,868	102,892	9,024	—	36,732	36,735	3
—	(20,914)	(20,914)	—	—	(53,510)	(53,510)	—
915,733	736,611	150,000	(586,611)	2,553,400	2,281,442	550,000	(1,731,442)
—	—	—	—	—	—	—	—
915,733	809,565	231,978	(577,587)	2,553,400	2,264,664	533,225	(1,731,439)
\$ (6,732)	\$ (181,110)	(172,409)	\$ 8,701	\$ 1,380,520	\$ 1,347,844	(23,598)	\$ (1,371,442)
		346,536				359,135	
		\$ 174,127				\$ 335,537	

(Continued)

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, 2008
(in thousands)

Building Account – Measure Y			
	Budget		Variance with Final Budget – Favorable (Unfavorable)
	Original	Final	
Revenues:			
Other local revenues	\$ 10,776	\$ 10,776	\$ 16,898
Total Revenues	10,776	10,776	16,898
Expenditures:			
Current:			
Classified salaries	6,046	7,141	3,688
Employee benefits	2,078	5,028	1,365
Books and supplies	1,539	23,618	1,120
Services and other operating expenditures	1,427	4,384	4,380
Capital outlay	462,648	435,796	84,670
Total Expenditures	473,738	475,967	95,223
Deficiency of Revenues Under Expenditures	(462,962)	(465,191)	(78,325)
Other Financing Sources (Uses):			
Transfers in	—	8,909	8,909
Transfers out	(31,904)	(32,329)	(32,329)
Issuance of bonds	1,387,438	1,387,438	300,000
Premium on bonds issued	—	—	—
Total Other Financing Sources (Uses)	1,355,534	1,364,018	276,580
Net Changes in Fund Balances	\$ 892,572	\$ 898,827	198,255
Fund Balances, July 1, 2007			107,743
Fund Balances, June 30, 2008			\$ 305,998

See accompanying independent auditors' report.

Total			
Budget		Actual	Variance with Final Budget – Favorable (Unfavorable)
Original	Final		
\$ 32,416	\$ 32,416	\$ 72,903	\$ 40,487
32,416	32,416	72,903	40,487
53,173	54,556	38,148	16,408
20,916	32,868	16,044	16,824
1,539	33,734	4,378	29,356
1,493	140,989	32,219	108,770
2,604,154	2,295,758	1,061,466	1,234,292
2,681,275	2,557,905	1,152,255	1,405,650
(2,648,859)	(2,525,489)	(1,079,352)	1,446,137
—	198,114	207,141	9,027
(31,904)	(119,350)	(119,350)	—
4,856,571	4,405,491	1,000,000	(3,405,491)
—	—	—	—
4,824,667	4,484,255	1,087,791	(3,396,464)
\$ 2,175,808	\$ 1,958,766	8,439	\$ (1,950,327)
		953,038	
		\$ 961,477	



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, 2008
(in thousands)

	Special		
	Adult Education	Cafeteria	Child Development
Assets:			
Cash in county treasury, in banks, and on hand	\$ 56,778	\$ 9,034	\$ 8,411
Cash held by trustee	—	—	—
Investments	—	—	—
Taxes receivable	—	—	—
Accounts receivable – net	23,154	62,547	13,024
Accrued interest receivable	842	274	—
Due from other funds	3,440	7,994	2,110
Inventories	118	7,050	73
Total Assets	<u>\$ 84,332</u>	<u>\$ 86,899</u>	<u>\$ 23,618</u>
Liabilities and Fund Balances:			
Vouchers and accounts payable	\$ 1,670	\$ 8,315	\$ 1,764
Contracts payable	1	—	—
Accrued payroll	26	39	8
Other payables	130	1,877	866
Due to other funds	21,640	41,373	12,015
Deferred revenue	10,705	—	317
Total Liabilities	<u>34,172</u>	<u>51,604</u>	<u>14,970</u>
Fund Balances:			
Reserved for:			
Revolving and imprest funds	126	—	24
Inventories	118	7,050	73
Total Reserved Fund Balances	<u>244</u>	<u>7,050</u>	<u>97</u>
Unreserved:			
Designated for:			
Subsequent year expenditures	24,148	—	4,222
Total Designated	<u>24,148</u>	<u>—</u>	<u>4,222</u>
Undesignated	<u>25,768</u>	<u>28,245</u>	<u>4,329</u>
Total Unreserved Fund Balances	<u>49,916</u>	<u>28,245</u>	<u>8,551</u>
Total Fund Balances	<u>50,160</u>	<u>35,295</u>	<u>8,648</u>
Total Liabilities and Fund Balances	<u>\$ 84,332</u>	<u>\$ 86,899</u>	<u>\$ 23,618</u>

See accompanying independent auditor's report.

Revenue		Debt Service			
		Bond Interest and Redemption	Tax Override	Capital Services	
Deferred Maintenance	Total				Total
\$ 156,958	\$ 231,181	\$ 447,880	\$ 91	\$ 10,522	\$ 458,493
—	—	—	—	4,177	4,177
—	—	—	—	30,886	30,886
—	—	67,899	—	—	67,899
—	98,725	—	—	2,860	2,860
1,599	2,715	—	—	94	94
3	13,547	—	1	1,107	1,108
—	7,241	—	—	—	—
<u>\$ 158,560</u>	<u>\$ 353,409</u>	<u>\$ 515,779</u>	<u>\$ 92</u>	<u>\$ 49,646</u>	<u>\$ 565,517</u>
\$ 6,527	\$ 18,276	\$ —	\$ —	\$ 29	\$ 29
—	1	—	—	—	—
—	73	—	—	—	—
—	2,873	—	—	496	496
2,376	77,404	—	—	—	—
—	11,022	67,899	—	—	67,899
<u>8,903</u>	<u>109,649</u>	<u>67,899</u>	<u>—</u>	<u>525</u>	<u>68,424</u>
—	150	—	—	—	—
—	7,241	—	—	—	—
<u>—</u>	<u>7,391</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<u>149,657</u>	<u>178,027</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<u>149,657</u>	<u>178,027</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<u>—</u>	<u>58,342</u>	<u>447,880</u>	<u>92</u>	<u>49,121</u>	<u>497,093</u>
<u>149,657</u>	<u>236,369</u>	<u>447,880</u>	<u>92</u>	<u>49,121</u>	<u>497,093</u>
<u>149,657</u>	<u>243,760</u>	<u>447,880</u>	<u>92</u>	<u>49,121</u>	<u>497,093</u>
<u>\$ 158,560</u>	<u>\$ 353,409</u>	<u>\$ 515,779</u>	<u>\$ 92</u>	<u>\$ 49,646</u>	<u>\$ 565,517</u>

(Continued)

LOS ANGELES UNIFIED SCHOOL DISTRICT
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2008
(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	\$ 2,427	\$ 16,182	\$ 112,687	\$ 147
Cash held by trustee	—	—	73,642	—
Investments	—	—	10,017	—
Taxes receivable	—	—	—	—
Accounts receivable – net	—	26	—	1,931
Accrued interest receivable	24	157	1,165	—
Due from other funds	54	147	40,657	61
Inventories	—	—	—	—
Total Assets	<u>\$ 2,505</u>	<u>\$ 16,512</u>	<u>\$ 238,168</u>	<u>\$ 2,139</u>
Liabilities and Fund Balances:				
Vouchers and accounts payable	\$ —	\$ 293	\$ 2,848	\$ 104
Contracts payable	—	242	1,836	—
Accrued payroll	—	—	—	—
Other payables	171	11,419	2,297	1,916
Due to other funds	5	27	38,763	119
Deferred revenue	—	—	—	—
Total Liabilities	<u>176</u>	<u>11,981</u>	<u>45,744</u>	<u>2,139</u>
Fund Balances:				
Reserved for:				
Revolving and imprest funds	—	—	—	—
Inventories	—	—	—	—
Total Reserved Fund Balances	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Unreserved:				
Designated for:				
Subsequent year expenditures	2,329	4,531	192,424	—
Total Designated	<u>2,329</u>	<u>4,531</u>	<u>192,424</u>	<u>—</u>
Undesignated	—	—	—	—
Total Unreserved Fund Balances	<u>2,329</u>	<u>4,531</u>	<u>192,424</u>	<u>—</u>
Total Fund Balances	<u>2,329</u>	<u>4,531</u>	<u>192,424</u>	<u>—</u>
Total Liabilities and Fund Balances	<u>\$ 2,505</u>	<u>\$ 16,512</u>	<u>\$ 238,168</u>	<u>\$ 2,139</u>

See accompanying independent auditor's 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	
\$ 3,668	\$ 21,226	\$ 163,213	\$ 45,119	\$ 95,934	\$ 452,875	\$ 17,908	\$ 611,836
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	4,732	—	—	—	—	—
2	193	1,428	438	1,525	3,676	162	5,801
79	4,089	322	1,264	1,059	6,681	—	9,004
—	—	—	—	—	—	—	—
<u>\$ 3,749</u>	<u>\$ 25,508</u>	<u>\$ 169,695</u>	<u>\$ 46,821</u>	<u>\$ 98,518</u>	<u>\$ 463,232</u>	<u>\$ 18,070</u>	<u>\$ 626,641</u>
\$ 1	\$ 22	\$ 3,187	\$ 316	\$ 13,253	\$ 24,360	\$ 2,653	\$ 40,582
—	—	1,202	760	12,248	19,863	1,928	34,799
—	—	—	—	—	—	—	—
—	—	1,242	8	—	—	—	8
216	7,332	1,031	472	2,271	8,978	6,636	18,357
1,489	—	—	—	—	—	—	—
<u>1,706</u>	<u>7,354</u>	<u>6,662</u>	<u>1,556</u>	<u>27,772</u>	<u>53,201</u>	<u>11,217</u>	<u>93,746</u>
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	18,154	163,033	45,265	70,746	410,031	6,853	532,895
—	18,154	163,033	45,265	70,746	410,031	6,853	532,895
2,043	—	—	—	—	—	—	—
<u>2,043</u>	<u>18,154</u>	<u>163,033</u>	<u>45,265</u>	<u>70,746</u>	<u>410,031</u>	<u>6,853</u>	<u>532,895</u>
<u>2,043</u>	<u>18,154</u>	<u>163,033</u>	<u>45,265</u>	<u>70,746</u>	<u>410,031</u>	<u>6,853</u>	<u>532,895</u>
<u>\$ 3,749</u>	<u>\$ 25,508</u>	<u>\$ 169,695</u>	<u>\$ 46,821</u>	<u>\$ 98,518</u>	<u>\$ 463,232</u>	<u>\$ 18,070</u>	<u>\$ 626,641</u>

(Continued)

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

	Total	Total Nonmajor Governmental Funds
Assets:		
Cash in county treasury, in banks, and on hand	\$ 931,386	\$ 1,621,060
Cash held by trustee	73,642	77,819
Investments	10,017	40,903
Taxes receivable	—	67,899
Accounts receivable – net	6,689	108,274
Accrued interest receivable	8,770	11,579
Due from other funds	54,413	69,068
Inventories	—	7,241
Total Assets	<u>\$ 1,084,917</u>	<u>\$ 2,003,843</u>
Liabilities and Fund Balances:		
Vouchers and accounts payable	\$ 47,037	\$ 65,342
Contracts payable	38,079	38,080
Accrued payroll	—	73
Other payables	17,053	20,422
Due to other funds	65,850	143,254
Deferred revenue	1,489	80,410
Total Liabilities	<u>169,508</u>	<u>347,581</u>
Fund Balances:		
Reserved for:		
Revolving and imprest funds	—	150
Inventories	—	7,241
Total Reserved Fund Balances	<u>—</u>	<u>7,391</u>
Unreserved:		
Designated for:		
Subsequent year expenditures	913,366	1,091,393
Total Designated	913,366	1,091,393
Undesignated	2,043	557,478
Total Unreserved Fund Balances	<u>915,409</u>	<u>1,648,871</u>
Total Fund Balances	<u>915,409</u>	<u>1,656,262</u>
Total Liabilities and Fund Balances	<u>\$ 1,084,917</u>	<u>\$ 2,003,843</u>

See accompanying independent auditor's report.



LOS ANGELES UNIFIED SCHOOL DISTRICT
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2008
(in thousands)

	Special		
	Adult Education	Cafeteria	Child Development
Revenues:			
Federal revenues	\$ 17,505	\$ 227,363	\$ 15,210
Other state revenues	205,035	19,919	98,596
Other local revenues	5,076	17,488	9,992
Total Revenues	<u>227,616</u>	<u>264,770</u>	<u>123,798</u>
Expenditures:			
Current:			
Certificated salaries	111,181	—	43,442
Classified salaries	24,344	104,691	41,120
Employee benefits	47,189	49,819	29,454
Books and supplies	6,779	121,229	4,699
Services and other operating expenditures	5,778	12,137	6,743
Capital outlay	424	3,782	37
Debt service – principal	—	—	—
Debt service – bond and COPs interest	—	—	—
Debt service – refunding bond issuance cost	—	—	—
Total Expenditures	<u>195,695</u>	<u>291,658</u>	<u>125,495</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>31,921</u>	<u>(26,888)</u>	<u>(1,697)</u>
Other Financing Sources (Uses):			
Transfers in	—	8,214	—
Transfers – support costs	(5,226)	—	(719)
Transfers out	(10,600)	—	—
Premium on bonds issued	—	—	—
Issuance of COPs	—	—	—
Land and building sale/lease	—	—	—
Total Other Financing Sources (Uses)	<u>(15,826)</u>	<u>8,214</u>	<u>(719)</u>
Net Changes in Fund Balances	<u>16,095</u>	<u>(18,674)</u>	<u>(2,416)</u>
Fund Balances, July 1, 2007	<u>34,065</u>	<u>53,969</u>	<u>11,064</u>
Fund Balances, June 30, 2008	<u>\$ 50,160</u>	<u>\$ 35,295</u>	<u>\$ 8,648</u>

See accompanying independent auditor's report.

Revenue		Debt Service			
Deferred Maintenance	Total	Bond Interest and Redemption	Tax Override	Capital Services	Total
\$ —	\$ 260,078	\$ —	\$ —	\$ —	\$ —
28,878	352,428	3,937	15	—	3,952
7,086	39,642	544,881	189	1,684	546,754
35,964	652,148	548,818	204	1,684	550,706
—	154,623	—	—	—	—
5,978	176,133	—	—	—	—
3,057	129,519	—	—	—	—
2,195	134,902	—	—	—	—
55,484	80,142	—	—	—	—
4,543	8,786	—	—	—	—
—	—	179,835	290	17,450	197,575
—	—	317,481	29	16,480	333,990
—	—	6,020	—	—	6,020
71,257	684,105	503,336	319	33,930	537,585
(35,293)	(31,957)	45,482	(115)	(32,246)	13,121
31,048	39,262	—	—	58,439	58,439
—	(5,945)	—	—	—	—
—	(10,600)	—	—	—	—
—	—	42,258	—	—	42,258
—	—	—	—	—	—
—	—	—	—	—	—
31,048	22,717	42,258	—	58,439	100,697
(4,245)	(9,240)	87,740	(115)	26,193	113,818
153,902	253,000	360,140	207	22,928	383,275
\$ 149,657	\$ 243,760	\$ 447,880	\$ 92	\$ 49,121	\$ 497,093

(Continued)

LOS ANGELES UNIFIED SCHOOL DISTRICT
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Continued)
Year Ended June 30, 2008
(in thousands)

	Capital			
	Building	State School Building Lease – Purchase	Special Reserve	Special Reserve – FEMA – Earthquake
Revenues:				
Federal revenues	\$ —	\$ —	\$ —	\$ —
Other state revenues	—	3	14,220	2,333
Other local revenues	269	373	36,926	—
Total Revenues	269	376	51,146	2,333
Expenditures:				
Current:				
Certificated salaries	—	—	—	—
Classified salaries	—	43	286	6
Employee benefits	—	14	120	2
Books and supplies	—	3	122	2
Services and other operating expenditures	8	2	318	2,070
Capital outlay	40	617	33,201	871
Debt service – principal	—	—	—	—
Debt service – bond and COPs interest	—	—	—	—
Debt service – refunding bond issuance cost	—	—	—	—
Total Expenditures	48	679	34,047	2,951
Excess (Deficiency) of Revenues Over (Under) Expenditures	221	(303)	17,099	(618)
Other Financing Sources (Uses):				
Transfers in	—	21,712	23,166	618
Transfers – support costs	—	—	—	—
Transfers out	—	(20,944)	(159,401)	—
Premium on bonds issued	—	—	—	—
Issuance of COPs	—	—	105,374	—
Land and building sale/lease	—	—	14,110	—
Total Other Financing Sources (Uses)	—	768	(16,751)	618
Net Changes in Fund Balances	221	465	348	—
Fund Balances, July 1, 2007	2,108	4,066	192,076	—
Fund Balances, June 30, 2008	\$ 2,329	\$ 4,531	\$ 192,424	\$ —

See accompanying independent auditor's 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	
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
—	—	—	—	218,646	393,073	18,476	630,195
—	6,669	73,058	2,312	5,216	17,418	664	25,610
—	6,669	73,058	2,312	223,862	410,491	19,140	655,805
—	—	—	—	—	—	—	—
—	88	412	48	32	203	41	324
—	31	194	17	8	70	15	110
—	—	58	54	33	73	3	163
—	116	637	35	16	17	1	69
—	30	31,514	10,775	137,763	299,752	22,601	470,891
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	265	32,815	10,929	137,852	300,115	22,661	471,557
—	6,404	40,243	(8,617)	86,010	110,376	(3,521)	184,248
—	—	2,085	4,058	1,346	9,027	—	14,431
—	—	—	—	—	—	—	—
—	(4,293)	(32,258)	(130)	(17,687)	(77,879)	(5,629)	(101,325)
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	(4,293)	(30,173)	3,928	(16,341)	(68,852)	(5,629)	(86,894)
—	2,111	10,070	(4,689)	69,669	41,524	(9,150)	97,354
2,043	16,043	152,963	49,954	1,077	368,507	16,003	435,541
\$ 2,043	\$ 18,154	\$ 163,033	\$ 45,265	\$ 70,746	\$ 410,031	\$ 6,853	\$ 532,895

(Continued)

LOS ANGELES UNIFIED SCHOOL DISTRICT
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Continued)
Year Ended June 30, 2008
(in thousands)

	Total	Total Nonmajor Governmental Funds
Revenues:		
Federal revenues	\$ —	\$ 260,078
Other state revenues	646,751	1,003,131
Other local revenues	142,905	729,301
Total Revenues	<u>789,656</u>	<u>1,992,510</u>
Expenditures:		
Current:		
Certificated salaries	—	154,623
Classified salaries	1,159	177,292
Employee benefits	471	129,990
Books and supplies	348	135,250
Services and other operating expenditures	3,220	83,362
Capital outlay	537,164	545,950
Debt service – principal	—	197,575
Debt service – bond and COPs interest	—	333,990
Debt service – refunding bond issuance cost	—	6,020
Total Expenditures	<u>542,362</u>	<u>1,764,052</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>247,294</u>	<u>228,458</u>
Other Financing Sources (Uses):		
Transfers in	62,012	159,713
Transfers – support costs	—	(5,945)
Transfers out	(318,221)	(328,821)
Premium on bonds issued	—	42,258
Issuance of COPs	105,374	105,374
Land and building sale/lease	14,110	14,110
Total Other Financing Sources (Uses)	<u>(136,725)</u>	<u>(13,311)</u>
Net Changes in Fund Balances	110,569	215,147
Fund Balances, July 1, 2007	<u>804,840</u>	<u>1,441,115</u>
Fund Balances, June 30, 2008	<u>\$ 915,409</u>	<u>\$ 1,656,262</u>

See accompanying independent auditor's 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, 2008
(in thousands)

	Adult Education			Variance with Final Budget – Favorable (Unfavorable)
	Budget		Actual	
	Original	Final		
Revenues:				
Revenue limit sources	\$ 181,415	\$ 181,415	\$ —	\$ (181,415)
Federal revenues	25,961	18,220	17,505	(715)
Other state revenues	29,431	20,063	205,035	184,972
Other local revenues	2,559	2,203	5,076	2,873
Total Revenues	239,366	221,901	227,616	5,715
Expenditures:				
Current:				
Certificated salaries	136,816	112,220	111,181	1,039
Classified salaries	29,253	26,717	24,344	2,373
Employee benefits	49,543	48,703	47,189	1,514
Books and supplies	19,632	19,661	6,779	12,882
Services and other operating expenditures	5,057	5,887	5,778	109
Capital outlay	203	3,834	424	3,410
Total Expenditures	240,504	217,022	195,695	21,327
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,138)	4,879	31,921	27,042
Other Financing Sources (Uses):				
Transfers in	—	—	—	—
Transfers – support costs	(4,310)	(5,240)	(5,226)	14
Transfers out	—	(10,600)	(10,600)	—
Total Other Financing Sources (Uses)	(4,310)	(15,840)	(15,826)	14
Net Changes in Fund Balances	\$ (5,448)	\$ (10,961)	16,095	\$ 27,056
Fund Balances, July 1, 2007			34,065	
Fund Balances, June 30, 2008			\$ 50,160	

See accompanying independent auditor's report.

Cafeteria				Child Development			
Budget		Actual	Variance with Final Budget – Favorable (Unfavorable)	Budget		Actual	Variance with Final Budget – Favorable (Unfavorable)
Original	Final			Original	Final		
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
231,367	231,367	227,363	(4,004)	16,151	15,210	15,210	—
16,796	16,796	19,919	3,123	117,712	102,041	98,596	(3,445)
22,636	22,636	17,488	(5,148)	14,929	11,936	9,992	(1,944)
<u>270,799</u>	<u>270,799</u>	<u>264,770</u>	<u>(6,029)</u>	<u>148,792</u>	<u>129,187</u>	<u>123,798</u>	<u>(5,389)</u>
—	—	—	—	44,105	43,736	43,442	294
116,340	117,033	104,691	12,342	41,761	42,495	41,120	1,375
75,867	71,822	49,819	22,003	29,242	30,916	29,454	1,462
125,296	136,409	121,229	15,180	25,384	12,226	4,699	7,527
9,702	14,017	12,137	1,880	8,096	7,395	6,743	652
7,334	7,813	3,782	4,031	2,907	1,116	37	1,079
<u>334,539</u>	<u>347,094</u>	<u>291,658</u>	<u>55,436</u>	<u>151,495</u>	<u>137,884</u>	<u>125,495</u>	<u>12,389</u>
<u>(63,740)</u>	<u>(76,295)</u>	<u>(26,888)</u>	<u>49,407</u>	<u>(2,703)</u>	<u>(8,697)</u>	<u>(1,697)</u>	<u>7,000</u>
30,381	30,381	8,214	(22,167)	10,086	10,085	—	(10,085)
—	—	—	—	(1,288)	(938)	(719)	219
—	—	—	—	—	—	—	—
<u>30,381</u>	<u>30,381</u>	<u>8,214</u>	<u>(22,167)</u>	<u>8,798</u>	<u>9,147</u>	<u>(719)</u>	<u>(9,866)</u>
\$ <u>(33,359)</u>	\$ <u>(45,914)</u>	(18,674)	\$ <u>27,240</u>	\$ <u>6,095</u>	\$ <u>450</u>	(2,416)	\$ <u>(2,866)</u>
		<u>53,969</u>				<u>11,064</u>	
		\$ <u>35,295</u>				\$ <u>8,648</u>	

(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, 2008
(in thousands)

	Deferred Maintenance			Variance with Final Budget – Favorable (Unfavorable)
	Budget		Actual	
	Original	Final		
Revenues:				
Revenue limit sources	\$ —	\$ —	\$ —	\$ —
Federal revenues	—	—	—	—
Other state revenues	30,209	30,210	28,878	(1,332)
Other local revenues	3,000	3,000	7,086	4,086
Total Revenues	33,209	33,210	35,964	2,754
Expenditures:				
Current:				
Certificated salaries	—	—	—	—
Classified salaries	4,167	6,008	5,978	30
Employee benefits	1,775	3,137	3,057	80
Books and supplies	11,559	2,550	2,195	355
Services and other operating expenditures	32,694	55,537	55,484	53
Capital outlay	—	4,628	4,543	85
Total Expenditures	50,195	71,860	71,257	603
Excess (Deficiency) of Revenues Over (Under) Expenditures	(16,986)	(38,650)	(35,293)	3,357
Other Financing Sources (Uses):				
Transfers in	30,909	31,048	31,048	—
Transfers – support costs	—	—	—	—
Transfers out	—	—	—	—
Total Other Financing Sources (Uses)	30,909	31,048	31,048	—
Net Changes in Fund Balances	\$ 13,923	\$ (7,602)	(4,245)	\$ 3,357
Fund Balances, July 1, 2007			153,902	
Fund Balances, June 30, 2008			\$ 149,657	

See accompanying independent auditor's report.

Total			
Budget		Actual	Variance with Final Budget – Favorable (Unfavorable)
Original	Final		
\$ 181,415	\$ 181,415	\$ —	\$ (181,415)
273,479	264,797	260,078	(4,719)
194,148	169,110	352,428	183,318
43,124	39,775	39,642	(133)
<u>692,166</u>	<u>655,097</u>	<u>652,148</u>	<u>(2,949)</u>
180,921	155,956	154,623	1,333
191,521	192,253	176,133	16,120
156,427	154,578	129,519	25,059
181,871	170,846	134,902	35,944
55,549	82,836	80,142	2,694
10,444	17,391	8,786	8,605
<u>776,733</u>	<u>773,860</u>	<u>684,105</u>	<u>89,755</u>
<u>(84,567)</u>	<u>(118,763)</u>	<u>(31,957)</u>	<u>86,806</u>
71,376	71,514	39,262	(32,252)
(5,598)	(6,178)	(5,945)	233
—	(10,600)	(10,600)	—
<u>65,778</u>	<u>54,736</u>	<u>22,717</u>	<u>(32,019)</u>
\$ <u><u>(18,789)</u></u>	\$ <u><u>(64,027)</u></u>	(9,240)	\$ <u><u>54,787</u></u>
		<u>253,000</u>	
		\$ <u><u>243,760</u></u>	

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, 2008
(in thousands)

	Bond Interest and Redemption			Variance with Final Budget – Favorable (Unfavorable)
	Budget			
	Original	Final	Actual	
Revenues:				
Other state revenues	\$ —	\$ —	\$ 3,937	\$ 3,937
Other local revenues	542,188	542,188	544,881	2,693
Total Revenues	542,188	542,188	548,818	6,630
Expenditures:				
Debt service – principal	542,188	224,688	179,835	44,853
Debt service – bond and COPs interest	—	317,500	317,481	19
Debt service – refunding bond issuance cost	—	—	6,020	(6,020)
Total Expenditures	542,188	542,188	503,336	38,852
Excess (Deficiency) of Revenues Over (Under) Expenditures	—	—	45,482	45,482
Other Financing Sources (Uses):				
Transfers in	—	—	—	—
Premium on bonds issued	—	—	42,258	42,258
Total Other Financing Sources (Uses)	—	—	42,258	42,258
Net Changes in Fund Balances	\$ —	\$ —	87,740	\$ 87,740
Fund Balances, July 1, 2007			360,140	
Fund Balances, June 30, 2008			\$ 447,880	

See accompanying independent auditor's 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		
\$ —	\$ —	\$ 15	\$ 15	\$ —	\$ —	\$ —	\$ —
143	143	189	46	846	845	1,684	839
143	143	204	61	846	845	1,684	839
143	290	290	—	19,987	29,937	17,450	12,487
—	29	29	—	19,726	30,263	16,480	13,783
—	—	—	—	—	—	—	—
143	319	319	—	39,713	60,200	33,930	26,270
—	(176)	(115)	61	(38,867)	(59,355)	(32,246)	27,109
—	—	—	—	38,819	59,307	58,439	(868)
—	—	—	—	—	—	—	—
—	—	—	—	38,819	59,307	58,439	(868)
\$ —	\$ (176)	(115)	\$ 61	\$ (48)	\$ (48)	26,193	\$ 26,241
		207				22,928	
		\$ 92				\$ 49,121	

(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, 2008
(in thousands)

	Total			Variance with Final Budget – Favorable (Unfavorable)
	Budget		Actual	
	Original	Final		
Revenues:				
Other state revenues	\$ —	\$ —	\$ 3,952	\$ 3,952
Other local revenues	543,177	543,176	546,754	3,578
Total Revenues	543,177	543,176	550,706	7,530
Expenditures:				
Debt service – principal	562,318	254,915	197,575	57,340
Debt service – bond and COPs interest	19,726	347,792	333,990	13,802
Debt service – refunding bond issuance cost	—	—	6,020	(6,020)
Total Expenditures	582,044	602,707	537,585	65,122
Excess (Deficiency) of Revenues Over (Under) Expenditures	(38,867)	(59,531)	13,121	72,652
Other Financing Sources (Uses):				
Transfers in	38,819	59,307	58,439	(868)
Premium on bonds issued	—	—	42,258	42,258
Total Other Financing Sources (Uses)	38,819	59,307	100,697	41,390
Net Changes in Fund Balances	\$ (48)	\$ (224)	113,818	\$ 114,042
Fund Balances, July 1, 2007			383,275	
Fund Balances, June 30, 2008			\$ 497,093	

See accompanying independent auditor's 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, 2008
(in thousands)

	Building			Variance with Final Budget – Favorable (Unfavorable)
	Budget		Actual	
	Original	Final		
Revenues:				
Federal revenues	\$ —	\$ —	\$ —	\$ —
Other state revenues	—	—	—	—
Other local revenues	90	90	269	179
Total Revenues	90	90	269	179
Expenditures:				
Current:				
Classified salaries	—	—	—	—
Employee benefits	—	—	—	—
Books and supplies	—	—	—	—
Services and other operating expenditures	22	35	8	27
Capital outlay	1,132	1,163	40	1,123
Total Expenditures	1,154	1,198	48	1,150
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,064)	(1,108)	221	1,329
Other Financing Sources (Uses):				
Transfers in	—	—	—	—
Transfers out	—	—	—	—
Land & building sale/lease	—	—	—	—
Issuance of COPs	—	—	—	—
Total Other Financing Sources (Uses)	—	—	—	—
Net Changes in Fund Balances	\$ (1,064)	\$ (1,108)	221	\$ 1,329
Fund Balances, July 1, 2007			2,108	
Fund Balances, June 30, 2008			\$ 2,329	

See accompanying independent auditor's report.

State School Building – Lease Purchase				Special Reserve			
Budget		Actual	Variance with Final Budget – Favorable (Unfavorable)	Budget		Actual	Variance with Final Budget – Favorable (Unfavorable)
Original	Final			Original	Final		
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
—	—	3	3	30,500	30,500	14,220	(16,280)
250	250	373	123	17,635	17,634	36,926	19,292
250	250	376	126	48,135	48,134	51,146	3,012
—	45	43	2	2,762	2,618	286	2,332
—	15	14	1	1,258	1,204	120	1,084
—	5	3	2	299	299	122	177
—	2	2	—	215	400	318	82
7,039	10,779	617	10,162	103,517	175,508	33,201	142,307
7,039	10,846	679	10,167	108,051	180,029	34,047	145,982
(6,789)	(10,596)	(303)	10,293	(59,916)	(131,895)	17,099	148,994
6,853	28,474	21,712	(6,762)	—	22,948	23,166	218
—	(20,944)	(20,944)	—	(82,465)	(159,401)	(159,401)	—
—	—	—	—	24,352	24,352	14,110	(10,242)
—	—	—	—	103,950	119,720	105,374	(14,346)
6,853	7,530	768	(6,762)	45,837	7,619	(16,751)	(24,370)
\$ 64	\$ (3,066)	465	\$ 3,531	\$ (14,079)	\$ (124,276)	348	\$ 124,624
		4,066				192,076	
		\$ 4,531				\$ 192,424	

(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, 2008
(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	2,587	2,587	2,333	(254)
Other local revenues	—	—	—	—
Total Revenues	8,921	8,921	2,333	(6,588)
Expenditures:				
Current:				
Classified salaries	—	7	6	1
Employee benefits	—	3	2	1
Books and supplies	10	10	2	8
Services and other operating expenditures	5,791	3,999	2,070	1,929
Capital outlay	102	1,520	871	649
Total Expenditures	5,903	5,539	2,951	2,588
Excess (Deficiency) of Revenues Over (Under) Expenditures	3,018	3,382	(618)	(4,000)
Other Financing Sources (Uses):				
Transfers in	—	618	618	—
Transfers out	—	—	—	—
Land & building sale/lease	—	—	—	—
Issuance of COPs	—	—	—	—
Total Other Financing Sources (Uses)	—	618	618	—
Net Changes in Fund Balances	\$ 3,018	\$ 4,000	—	\$ (4,000)
Fund Balances, July 1, 2007			—	
Fund Balances, June 30, 2008			\$ —	

See accompanying independent auditor's 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		
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
—	—	—	—	—	—	—	—
—	—	—	—	4,220	4,220	6,669	2,449
—	—	—	—	4,220	4,220	6,669	2,449
—	—	—	—	—	—	—	—
—	—	—	—	85	95	88	7
—	—	—	—	37	36	31	5
—	—	—	—	—	—	—	—
—	—	—	—	99	792	116	676
2,846	2,043	—	2,043	2,327	47	30	17
2,846	2,043	—	2,043	2,548	970	265	705
(2,846)	(2,043)	—	2,043	1,672	3,250	6,404	3,154
—	—	—	—	—	—	—	—
—	—	—	—	—	(4,293)	(4,293)	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	(4,293)	(4,293)	—
\$ (2,846)	\$ (2,043)	—	\$ 2,043	\$ 1,672	\$ (1,043)	2,111	\$ 3,154
		2,043				16,043	
		\$ 2,043				\$ 18,154	

(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, 2008
 (In thousands)

	Capital Facilities Account			Variance with Final Budget – Favorable (Unfavorable)
	Budget		Actual	
	Original	Final		
Revenues:				
Federal revenues	\$ —	\$ —	\$ —	\$ —
Other state revenues	—	—	—	—
Other local revenues	88,200	88,200	73,058	(15,142)
Total Revenues	88,200	88,200	73,058	(15,142)
Expenditures:				
Current:				
Classified salaries	347	413	412	1
Employee benefits	142	196	194	2
Books and supplies	27	60	58	2
Services and other operating expenditures	57,685	67,630	637	66,993
Capital outlay	95,228	88,435	31,514	56,921
Total Expenditures	153,429	156,734	32,815	123,919
Excess (Deficiency) of Revenues Over (Under) Expenditures	(65,229)	(68,534)	40,243	108,777
Other Financing Sources (Uses):				
Transfers in	—	2,085	2,085	—
Transfers out	(29,872)	(32,258)	(32,258)	—
Land & building sale/lease	—	—	—	—
Issuance of COPs	—	—	—	—
Total Other Financing Sources (Uses)	(29,872)	(30,173)	(30,173)	—
Net Changes in Fund Balances	\$ (95,101)	\$ (98,707)	10,070	\$ 108,777
Fund Balances, July 1, 2007			152,963	
Fund Balances, June 30, 2008			\$ 163,033	

See accompanying independent auditor's 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		
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
—	—	—	—	700,000	700,000	218,646	(481,354)
1,900	1,900	2,312	412	8,640	8,640	5,216	(3,424)
1,900	1,900	2,312	412	708,640	708,640	223,862	(484,778)
—	50	48	2	—	34	32	2
—	19	17	2	—	10	8	2
—	55	54	1	—	35	33	2
—	36	35	1	—	17	16	1
28,947	55,622	10,775	44,847	260,436	243,280	137,763	105,517
28,947	55,782	10,929	44,853	260,436	243,376	137,852	105,524
(27,047)	(53,882)	(8,617)	45,265	448,204	465,264	86,010	(379,254)
—	4,058	4,058	—	—	1,346	1,346	—
—	(130)	(130)	—	—	(17,687)	(17,687)	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	3,928	3,928	—	—	(16,341)	(16,341)	—
\$ (27,047)	\$ (49,954)	(4,689)	\$ 45,265	\$ 448,204	\$ 448,923	69,669	\$ (379,254)
		49,954				1,077	
		\$ 45,265				\$ 70,746	

(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, 2008
 (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	810,000	810,000	393,073	(416,927)
Other local revenues	9,930	9,930	17,418	7,488
Total Revenues	819,930	819,930	410,491	(409,439)
Expenditures:				
Current:				
Classified salaries	—	205	203	2
Employee benefits	—	71	70	1
Books and supplies	—	75	73	2
Services and other operating expenditures	—	18	17	1
Capital outlay	667,905	457,608	299,752	157,856
Total Expenditures	667,905	457,977	300,115	157,862
Excess (Deficiency) of Revenues Over (Under) Expenditures	152,025	361,953	110,376	(251,577)
Other Financing Sources (Uses):				
Transfers in	—	9,027	9,027	—
Transfers out	—	(77,879)	(77,879)	—
Land & building sale/lease	—	—	—	—
Issuance of COPs	—	—	—	—
Total Other Financing Sources (Uses)	—	(68,852)	(68,852)	—
Net Changes in Fund Balances	\$ 152,025	\$ 293,101	41,524	\$ (251,577)
Fund Balances, July 1, 2007			368,507	
Fund Balances, June 30, 2008			\$ 410,031	

See accompanying independent auditor's 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		
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
700,000	700,000	18,476	(681,524)	2,210,000	2,210,000	630,195	(1,579,805)
3,160	3,160	664	(2,496)	23,630	23,630	25,610	1,980
703,160	703,160	19,140	(684,020)	2,233,630	2,233,630	655,805	(1,577,825)
—	42	41	1	—	331	324	7
—	17	15	2	—	117	110	7
—	4	3	1	—	169	163	6
—	2	1	1	—	73	69	4
358,000	368,309	22,601	345,708	1,315,288	1,124,819	470,891	653,928
358,000	368,374	22,661	345,713	1,315,288	1,125,509	471,557	653,952
345,160	334,786	(3,521)	(338,307)	918,342	1,108,121	184,248	(923,873)
—	—	—	—	—	14,431	14,431	—
—	(5,629)	(5,629)	—	—	(101,325)	(101,325)	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	(5,629)	(5,629)	—	—	(86,894)	(86,894)	—
\$ 345,160	\$ 329,157	(9,150)	\$ (338,307)	\$ 918,342	\$ 1,021,227	97,354	\$ (923,873)
		16,003				435,541	
		\$ 6,853				\$ 532,895	

(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, 2008
(In thousands)

	Total			Variance with Final Budget – Favorable (Unfavorable)
	Budget		Actual	
	Original	Final		
Revenues:				
Federal revenues	\$ 6,334	\$ 6,334	\$ —	\$ (6,334)
Other state revenues	2,243,087	2,243,087	646,751	(1,596,336)
Other local revenues	134,025	134,024	142,905	8,881
Total Revenues	2,383,446	2,383,445	789,656	(1,593,789)
Expenditures:				
Current:				
Classified salaries	3,194	3,509	1,159	2,350
Employee benefits	1,437	1,571	471	1,100
Books and supplies	336	543	348	195
Services and other operating expenditures	63,812	72,931	3,220	69,711
Capital outlay	1,527,479	1,404,314	537,164	867,150
Total Expenditures	1,596,258	1,482,868	542,362	940,506
Excess (Deficiency) of Revenues Over (Under) Expenditures	787,188	900,577	247,294	(653,283)
Other Financing Sources (Uses):				
Transfers in	6,853	68,556	62,012	(6,544)
Transfers out	(112,337)	(318,221)	(318,221)	—
Land & building sale/lease	24,352	24,352	14,110	(10,242)
Issuance of COPs	103,950	119,720	105,374	(14,346)
Total Other Financing Sources (Uses)	22,818	(105,593)	(136,725)	(31,132)
Net Changes in Fund Balances	\$ 810,006	\$ 794,984	110,569	\$ (684,415)
Fund Balances, July 1, 2007			804,840	
Fund Balances, June 30, 2008			\$ 915,409	

See accompanying independent auditor's 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, 2008
(in thousands)

	Health and Welfare Benefits	Workers' Compensation	Liability	Total
Assets:				
Cash in county treasury, in banks, and on hand	\$ 90,243	\$ 433,169	\$ 14,333	\$ 537,745
Investments	—	159,347	—	159,347
Accounts receivable – net	52	132	—	184
Accrued interest and dividends receivable	188	5,904	62	6,154
Prepaid expense	11,838	—	4,263	16,101
Due from other funds	5,050	5,533	9,842	20,425
Total Assets	<u>\$ 107,371</u>	<u>\$ 604,085</u>	<u>\$ 28,500</u>	<u>\$ 739,956</u>
Liabilities:				
Current:				
Vouchers and accounts payable	\$ 15,080	\$ 3,105	\$ 422	\$ 18,607
Accrued payroll	—	—	—	—
Other payables	240	2,021	303	2,564
Due to other funds	14,966	16,926	262	32,154
Estimated liability for self-insurance claims	46,390	93,916	22,750	163,056
Noncurrent:				
Estimated liability for self-insurance claims	—	385,646	—	385,646
Total Liabilities	76,676	501,614	23,737	602,027
Total Net Assets	30,695	102,471	4,763	137,929
Total Liabilities and Net Assets	<u>\$ 107,371</u>	<u>\$ 604,085</u>	<u>\$ 28,500</u>	<u>\$ 739,956</u>

See accompanying independent auditor's report.

Los Angeles Unified School District
Internal Service Funds
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Year Ended June 30, 2008
(in thousands)

	Health and Welfare Benefits	Workers' Compensation	Liability	Total
Operating Revenues:				
In-district premiums	\$ 831,648	\$ 85,938	\$ 25,648	\$ 943,234
Operating Expenses:				
Salaries	1,883	4,033	1,718	7,634
Employee benefits	907	1,884	670	3,461
Supplies	429	65	52	546
Premiums and claims expenses	843,669	50,648	22,882	917,199
Claims administration	—	13,733	1,118	14,851
Other contracted services	528	565	—	1,093
Total Operating Expenses	847,416	70,928	26,440	944,784
Operating Income (Loss)	(15,768)	15,010	(792)	(1,550)
Nonoperating Revenues (Expenses):				
Investment income	4,099	27,138	404	31,641
Other local income	481	—	—	481
Transfers in	12,114	—	—	12,114
Miscellaneous expense	—	(10)	—	(10)
Total Nonoperating Revenues	16,694	27,128	404	44,226
Changes in Net Assets (Deficit)	926	42,138	(388)	42,676
Total Net Assets, July 1, 2007	29,769	60,333	5,151	95,253
Total Net Assets, June 30, 2008	\$ 30,695	\$ 102,471	\$ 4,763	\$ 137,929

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Internal Service Funds
Combining Statement of Cash Flows
Year Ended June 30, 2008
(in thousands)

	Health and Welfare Benefits	Workers' Compensation	Liability	Total
Cash Flows from Operating Activities:				
Cash payments to employees for services	\$ (2,979)	\$ (6,079)	\$ (2,500)	\$ (11,558)
Cash payments for goods and services	(821,801)	(90,420)	(22,112)	(934,333)
Receipts from assessment to other funds	803,438	98,454	27,537	929,429
Other operating revenue	—	—	—	—
Net Cash Provided (Used) by Operating Activities	<u>(21,342)</u>	<u>1,955</u>	<u>2,925</u>	<u>(16,462)</u>
Cash Flows from Investing Activities:				
Earnings on investments	5,548	29,457	598	35,603
Purchase of investments	—	163,253	—	163,253
Transfers in	12,114	—	—	12,114
Other local	481	—	—	481
Net Cash Provided by Investing Activities	<u>18,143</u>	<u>192,710</u>	<u>598</u>	<u>211,451</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(3,199)</u>	<u>194,665</u>	<u>3,523</u>	<u>194,989</u>
Cash and cash equivalents, July 1	<u>93,442</u>	<u>238,504</u>	<u>10,810</u>	<u>342,756</u>
Cash and cash equivalents, June 30	<u>\$ 90,243</u>	<u>\$ 433,169</u>	<u>\$ 14,333</u>	<u>\$ 537,745</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ (15,768)	\$ 15,010	\$ (792)	\$ (1,550)
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	1,545	(75)	—	1,470
(Increase) decrease in prepaid expense	(892)	—	388	(504)
Decrease in due from other funds	8,760	2,896	5,196	16,852
Increase (decrease) in vouchers and accounts payable	6,577	509	(2,810)	4,276
(Decrease) in accrued payroll	(188)	(150)	(111)	(449)
Increase in other payables	2	2,021	303	2,326
Increase (decrease) in due to other funds	(28,205)	11,497	(3,306)	(20,014)
Increase (decrease) in estimated liability for self-insurance claims – current	6,827	(15,814)	4,057	(4,930)
(Decrease) in estimated liability for self-insurance claims – noncurrent	—	(13,939)	—	(13,939)
Total Adjustments	<u>(5,574)</u>	<u>(13,055)</u>	<u>3,717</u>	<u>(14,912)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (21,342)</u>	<u>\$ 1,955</u>	<u>\$ 2,925</u>	<u>\$ (16,462)</u>

See accompanying independent auditor's 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, 2008 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, 2008
(in thousands)

	Annuity Reserve	Attendance Incentive Reserve	Total
Assets:			
Cash in county treasury, in banks, and on hand	\$ 33	\$ 19,634	\$ 19,667
Investments, at fair value: Money market funds	466	—	466
Accrued interest and dividends receivable	—	181	181
Total Assets	<u>\$ 499</u>	<u>\$ 19,815</u>	<u>\$ 20,314</u>
Liabilities:			
Vouchers and accounts payable	\$ 10	\$ —	\$ 10
Other payables	—	18,448	18,448
Due to other funds	—	2	2
Total Liabilities	<u>10</u>	<u>18,450</u>	<u>18,460</u>
Total Net Assets – unrestricted	<u>489</u>	<u>1,365</u>	<u>1,854</u>
Total Liabilities and Net Assets	<u><u>\$ 499</u></u>	<u><u>\$ 19,815</u></u>	<u><u>\$ 20,314</u></u>

See accompanying independent auditor's 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, 2008
(in thousands)

	Annuity Reserve	Attendance Incentive Reserve	Total
Additions:			
Investment income	\$ 17	\$ 699	\$ 716
Total Additions	<u>17</u>	<u>699</u>	<u>716</u>
Deductions:			
Distributions to participants	—	79	79
Other contracted services	—	18	18
Total Deductions	<u>—</u>	<u>97</u>	<u>97</u>
Changes in Net Assets	17	602	619
Total Net Assets, July 1, 2007	<u>472</u>	<u>763</u>	<u>1,235</u>
Total Net Assets, June 30, 2008	<u>\$ 489</u>	<u>\$ 1,365</u>	<u>\$ 1,854</u>

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Fiduciary Funds – Agency Funds
Combining Statement of Changes in Assets and Liabilities
June 30, 2008
(in thousands)

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2008</u>
Assets:				
Cash in county treasury, in banks, and on hand	\$ 21,128	71,764	\$ 72,386	\$ 20,506
Total Assets	<u>\$ 21,128</u>	<u>71,764</u>	<u>\$ 72,386</u>	<u>\$ 20,506</u>
Liabilities:				
Other payables	\$ 21,128	71,764	\$ 72,386	\$ 20,506
Total Liabilities	<u>\$ 21,128</u>	<u>71,764</u>	<u>\$ 72,386</u>	<u>\$ 20,506</u>

See accompanying independent auditor's 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, 2008 and 2007
(in thousands)

	<u>2007-2008</u>	<u>2006-2007</u>
Governmental Funds Capital Assets:		
Sites	\$ 2,700,727	\$ 2,373,208
Improvement of sites	468,039	430,979
Building and improvements	6,722,084	5,803,185
Equipment	1,143,953	1,145,089
Construction in progress	2,547,219	2,180,218
Total Governmental Funds Capital Assets	<u>\$ 13,582,022</u>	<u>\$ 11,932,679</u>
Investments in Governmental Funds Capital Assets by Source:		
From revenues of:		
General Fund	\$ 1,277,686	\$ 1,266,551
Special Revenue Funds:		
Adult Education Fund	41,488	41,065
Cafeteria Fund	30,233	26,451
Child Development Fund	17,347	17,310
Deferred Maintenance Fund	17,065	12,522
Capital Projects Funds:		
Building Fund	35,641	35,601
Building Fund – Bond Proceeds	1,647,881	1,647,650
Building Fund – Measure K	2,540,728	2,216,922
Building Fund – Measure R	1,488,313	933,700
Building Fund – Measure Y	136,538	47,488
State School Building Lease – Purchase Fund	1,026,354	1,026,826
Special Reserve Fund	1,274,244	1,215,819
Special Reserve Fund – FEMA – Earthquake	21,047	20,794
Special Reserve Fund – FEMA – Hazard Mitigation	8,129	8,129
Special Reserve Fund – CRA	807	777
Capital Facilities Fund	351,997	310,755
County School Facilities Fund	792,806	785,916
County School Facilities – Prop 47 Fund	413,537	259,681
County School Facilities – Prop 55 Fund	691,824	324,286
County School Facilities – Prop 1D Fund	28,111	80
Contributions from outside source - MTA	5,890	—
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>\$ 13,582,022</u>	<u>\$ 11,932,679</u>

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

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Capital Assets Used in the Operation of Governmental Funds
Schedule of Changes in Capital Assets by Source
Year Ended June 30, 2008
(in thousands)

	<u>Sites</u>	<u>Improvement of Sites</u>
Balances, July 1, 2007	\$ 2,373,208	\$ 430,979
Additions:		
Capital outlay from:		
General Fund	37	905
Adult Education Fund	—	55
Cafeteria Fund	—	—
Child Development Fund	—	8
Deferred Maintenance Fund	—	—
Building Fund	—	—
Building Fund – Bond Proceeds	(15,744)	—
Building Fund – Measure K	75,092	—
Building Fund – Measure R	151,748	—
Building Fund – Measure Y	(5,292)	—
State School Building Lease – Purchase Fund	(7,739)	—
Special Reserve Fund	(5,065)	1
Special Reserve Fund – FEMA – Earthquake	—	—
Special Reserve Fund – CRA	—	—
Capital Facilities Fund	11,042	—
County School Facilities Fund	118	—
County School Facilities – Prop 47 Fund	5,656	—
County School Facilities – Prop 55 Fund	117,666	—
County School Facilities – Prop 1D Fund	—	—
Completed Projects	—	36,091
Sub-totals	<u>327,519</u>	<u>37,060</u>
Contributions from outside source - MTA	—	—
	<u>327,519</u>	<u>37,060</u>
Deductions:		
Buildings damaged by fire	—	—
Vehicle disposal	—	—
Return to salvage	—	—
Total Deductions	<u>—</u>	<u>—</u>
Net Increase (Decrease)	<u>327,519</u>	<u>37,060</u>
Balances, June 30, 2008	<u><u>\$ 2,700,727</u></u>	<u><u>\$ 468,039</u></u>

See accompanying independent auditor's report.

Building and Improvements	Equipment	Construction in Progress	Total
\$ 5,803,185	\$ 1,145,089	\$ 2,180,218	\$ 11,932,679
7,474	7,515	20,971	36,902
270	87	11	423
—	3,782	—	3,782
29	—	—	37
5	—	4,538	4,543
40	—	—	40
—	—	15,976	232
(25)	—	248,739	323,806
18	—	402,847	554,613
—	—	94,341	89,049
—	—	7,267	(472)
4,437	2,122	56,930	58,425
—	—	253	253
—	—	30	30
7	—	30,193	41,242
—	—	6,772	6,890
—	—	148,200	153,856
—	—	249,872	367,538
—	—	28,031	28,031
907,192	10,577	(953,860)	—
919,447	24,083	361,111	1,669,220
—	—	5,890	5,890
919,447	24,083	367,001	1,675,110
548	—	—	548
—	4,665	—	4,665
—	20,554	—	20,554
548	25,219	—	25,767
918,899	(1,136)	367,001	1,649,343
\$ 6,722,084	\$ 1,143,953	\$ 2,547,219	\$ 13,582,022

LOS ANGELES UNIFIED SCHOOL DISTRICT
Long-Term Obligations
Schedule of Changes in Long-Term Obligations
Year Ended June 30, 2008
(in thousands)

	General Obligation Bonds	Certificates of Participation	Capital Obligations	State School Building Aid Fund Payable	Children Centers Facilities Revolving Loan
Balances, June 30, 2007	\$ 6,645,329	\$ 413,425	\$ 5,261	\$ 591	\$ 792
Additions:					
Debt issuance	1,000,000	99,660	1,253	—	—
Premium on debt issue	42,258	5,714	—	—	—
Bond refund charges amortization	7,959	—	—	—	—
Discount amortization	41	—	—	—	—
Interest accrual	—	3,593	—	14	—
Vacation earned	—	—	—	—	—
Self-insurance claims	—	—	—	—	—
Annual required contribution	—	—	—	—	—
Arbitrage accrual	—	—	—	—	—
Legal settlements	—	—	—	—	—
Total Additions	<u>1,050,258</u>	<u>108,967</u>	<u>1,253</u>	<u>14</u>	<u>—</u>
Deductions:					
Principal repayments	179,835	17,450	2,746	290	—
Premium amortization	15,200	479	—	—	—
Payment of interest accrued	—	2,588	—	29	—
Vacation used	—	—	—	—	—
Self-insurance claims paid	—	—	—	—	—
OPEB contributions	—	—	—	—	—
Arbitrage adjustment	—	—	—	—	—
Arbitrage payment	—	—	—	—	—
Total Deductions	<u>195,035</u>	<u>20,517</u>	<u>2,746</u>	<u>319</u>	<u>—</u>
Balances, June 30, 2008	<u>\$ 7,500,552</u>	<u>\$ 501,875</u>	<u>\$ 3,768</u>	<u>\$ 286</u>	<u>\$ 792</u>

See accompanying independent auditor's report.

CA Energy Commission Loan	Liability for Compensated Absences	Self-Insurance Claims	Other Postemployment Benefits (OPEB)	Arbitrage Payable	Legal Settlements	Total
\$ 1,058	\$ 68,765	\$ 567,571	\$ —	\$ 11,966	\$ —	\$ 7,714,758
—	—	—	—	—	—	1,100,913
—	—	—	—	—	—	47,972
—	—	—	—	—	—	7,959
—	—	—	—	—	—	41
1	—	—	—	—	—	3,608
—	105,629	—	—	—	—	105,629
—	—	410,052	—	—	—	410,052
—	—	—	1,088,523	—	—	1,088,523
—	—	—	—	623	—	623
—	—	—	—	—	12,823	12,823
<u>1</u>	<u>105,629</u>	<u>410,052</u>	<u>1,088,523</u>	<u>623</u>	<u>12,823</u>	<u>2,778,143</u>
194	—	—	—	—	—	200,515
—	—	—	—	—	—	15,679
—	—	—	—	—	—	2,617
—	85,657	—	—	—	—	85,657
—	—	428,921	—	—	—	428,921
—	—	—	255,858	—	—	255,858
—	—	—	—	203	—	203
—	—	—	—	318	—	318
<u>194</u>	<u>85,657</u>	<u>428,921</u>	<u>255,858</u>	<u>521</u>	<u>—</u>	<u>989,768</u>
<u>\$ 865</u>	<u>\$ 88,737</u>	<u>\$ 548,702</u>	<u>\$ 832,665</u>	<u>\$ 12,068</u>	<u>\$ 12,823</u>	<u>\$ 9,503,133</u>

LOS ANGELES UNIFIED SCHOOL DISTRICT
Long-Term Obligations
Schedule of State School Building Aid Fund Payable
Year Ended June 30, 2008
(in thousands)

Year	Interest Rate	Balance July 1, 2007	Additions	Deductions		Balance June 30, 2008
			Interest Charges	Principal in Progress	Interest Payments	
1986-1987	4.50%	\$ 2	\$ —	\$ 2	\$ —	\$ —
	4.90	3	—	3	—	—
	5.30	21	—	20	1	—
	5.50	2	—	2	—	—
	5.60	3	—	3	—	—
1987-1988	4.50	21	—	9	1	11
	4.80	41	1	19	2	21
	5.30	416	11	194	21	212
	5.50	26	1	12	1	14
	5.60	56	1	26	3	28
Total		\$ <u>591</u>	\$ <u>14</u>	\$ <u>290</u>	\$ <u>29</u>	\$ <u>286</u>

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Long-Term Obligations
Schedule of Certificates of Participation
Year Ended June 30, 2008
(in thousands)

<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance Original Issue</u>	<u>Outstanding July 1, 2007</u>	<u>Issued This Year</u>	<u>Redeemed Current Year</u>	<u>Unamortized Premium</u>	<u>Accrued Interest</u>	<u>Outstanding June 30, 2008</u>
1997 Certificates of Participation (Vista Hermosa):									
12/09/97	Variable	12/01/07	\$ 4,400	\$ 4,544	\$ —	\$ 4,544	\$ —	\$ —	\$ —
12/09/97	Variable	12/01/08	4,600	4,600	—	—	—	54	4,654
12/09/97	Variable	12/01/09	4,700	4,700	—	—	—	—	4,700
12/09/97	Variable	12/01/10	4,900	4,900	—	—	—	—	4,900
12/09/97	Variable	12/01/11	5,100	5,100	—	—	—	—	5,100
12/09/97	Variable	12/01/12	5,300	5,300	—	—	—	—	5,300
12/09/97	Variable	12/01/13	5,500	5,500	—	—	—	—	5,500
12/09/97	Variable	12/01/14	5,800	5,800	—	—	—	—	5,800
12/09/97	Variable	12/01/15	6,000	6,000	—	—	—	—	6,000
12/09/97	Variable	12/01/16	6,200	6,200	—	—	—	—	6,200
12/09/97	Variable	12/01/17	6,500	6,500	—	—	—	—	6,500
1997 Certificates of Participation			\$ 59,000	\$ 59,144	\$ —	\$ 4,544	\$ —	\$ 54	\$ 54,654
1998 Refunding Certificates of Participation (Multiple Properties Project):									
06/10/98	5.250%	11/01/07	\$ 3,935	\$ 4,198	\$ —	\$ 4,198	\$ —	\$ —	\$ —
06/10/98	5.250	11/01/08	4,140	4,140	—	—	—	229	4,369
06/10/98	4.650	11/01/09	4,355	4,355	—	—	—	—	4,355
06/10/98	4.750	11/01/10	4,560	4,560	—	—	—	—	4,560
06/10/98	4.850	11/01/11	4,775	4,775	—	—	—	—	4,775
06/10/98	5.000	11/01/12	5,010	5,010	—	—	—	—	5,010
06/10/98	5.000	11/01/13	5,260	5,260	—	—	—	—	5,260
1998 Refunding Certificates of Participation			\$ 32,035	\$ 32,298	\$ —	\$ 4,198	\$ —	\$ 229	\$ 28,329
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):									
10/04/00	4.125%	10/01/07	\$ 1,550	\$ 1,631	\$ —	\$ 1,631	\$ —	\$ —	\$ —
10/04/00	5.500	10/01/07	2,340	2,340	—	2,340	—	—	—
10/04/00	4.200	10/01/08	1,020	1,020	—	—	—	33	1,053
10/04/00	4.200	10/01/09	1,060	1,060	—	—	—	—	1,060
10/04/00	4.250	10/01/10	1,105	1,105	—	—	—	—	1,105
2000B Certificates of Participation			\$ 7,075	\$ 7,156	\$ —	\$ 3,971	\$ —	\$ 33	\$ 3,218

LOS ANGELES UNIFIED SCHOOL DISTRICT
Long-Term Obligations
Schedule of Certificates of Participation (Continued)
Year Ended June 30, 2008
(in thousands)

<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance Original Issue</u>	<u>Outstanding July 1, 2007</u>	<u>Issued This Year</u>	<u>Redeemed Current Year</u>	<u>Unamortized Premium</u>	<u>Accrued Interest</u>	<u>Outstanding June 30, 2008</u>
2001B Certificates of Participation (Beaudry):									
11/06/01	5.000%	10/01/24	\$ 6,810	\$ 7,667	\$ —	\$ 857	\$ —	\$ 856	\$ 7,666
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	\$ 69,747	\$ —	\$ 857	\$ —	\$ 856	\$ 69,746
2002A Certificates of Participation (Bravo Refunding):									
03/06/02	5.000%	06/01/08	\$ 3,570	\$ 3,585	\$ —	\$ 3,585	\$ —	\$ —	\$ —
2002A Certificates of Participation			\$ 3,570	\$ 3,585	\$ —	\$ 3,585	\$ —	\$ —	\$ —
2002C Certificates of Participation (Beaudry II):									
12/19/02	3.000%	10/01/07	\$ 205	\$ 305	\$ —	\$ 305	\$ —	\$ —	\$ —
12/19/02	3.000	10/01/08	210	210	—	—	—	98	308
12/19/02	3.300	10/01/09	220	220	—	—	—	—	220
12/19/02	3.750	10/01/10	225	225	—	—	—	—	225
12/19/02	4.000	10/01/11	235	235	—	—	—	—	235
12/19/02	4.000	10/01/12	245	245	—	—	—	—	245
12/19/02	4.000	10/01/13	255	255	—	—	—	—	255
12/19/02	4.125	10/01/14	265	265	—	—	—	—	265
12/19/02	4.250	10/01/15	275	275	—	—	—	—	275
12/19/02	4.380	10/01/16	285	285	—	—	—	—	285
12/19/02	4.500	10/01/17	300	300	—	—	—	—	300
12/19/02	4.500	10/01/18	310	310	—	—	—	—	310
12/19/02	4.750	10/01/19	325	325	—	—	—	—	325
12/19/02	4.750	10/01/20	340	340	—	—	—	—	340
12/19/02	4.750	10/01/21	360	360	—	—	—	—	360
12/19/02	4.750	10/01/22	375	375	—	—	—	—	375
12/19/02	4.750	10/01/23	395	395	—	—	—	—	395
12/19/02	5.000	10/01/24	410	410	—	—	—	—	410
12/19/02	5.000	10/01/25	430	430	—	—	—	—	430
12/19/02	5.000	10/01/26	455	455	—	—	—	—	455
12/19/02	5.000	10/01/27	475	475	—	—	—	—	475
12/19/02	5.000	10/01/28	500	500	—	—	—	—	500
12/19/02	5.000	10/01/29	525	525	—	—	—	—	525
12/19/02	5.000	10/01/30	550	550	—	—	—	—	550
12/19/02	5.000	10/01/31	580	580	—	—	—	—	580
2002C Certificates of Participation			\$ 8,750	\$ 8,850	\$ —	\$ 305	\$ —	\$ 98	\$ 8,643

LOS ANGELES UNIFIED SCHOOL DISTRICT
Long-Term Obligations
Schedule of Certificates of Participation (Continued)
Year Ended June 30, 2008
(in thousands)

<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance Original Issue</u>	<u>Outstanding July 1, 2007</u>	<u>Issued This Year</u>	<u>Redeemed Current Year</u>	<u>Unamortized Premium</u>	<u>Accrued Interest</u>	<u>Outstanding June 30, 2008</u>
2003B Certificates of Participation (Pico Rivera Warehouse):									
06/26/03	2.000%	08/01/07	\$ 885	\$ 1,417	\$ —	\$ 1,417	\$ —	\$ —	\$ —
06/26/03	2.000	08/01/08	905	905	—	—	—	526	1,431
06/26/03	2.250	08/01/09	920	920	—	—	—	—	920
06/26/03	3.000	08/01/10	940	940	—	—	—	—	940
06/26/03	3.000	08/01/11	970	970	—	—	—	—	970
06/26/03	3.000	08/01/12	1,000	1,000	—	—	—	—	1,000
06/26/03	3.125	08/01/13	1,030	1,030	—	—	—	—	1,030
06/26/03	3.250	08/01/14	1,060	1,060	—	—	—	—	1,060
06/26/03	5.000	08/01/15	1,095	1,095	—	—	—	—	1,095
06/26/03	5.000	08/01/16	1,150	1,150	—	—	—	—	1,150
06/26/03	5.000	08/01/17	1,210	1,210	—	—	—	—	1,210
06/26/03	5.000	08/01/18	1,270	1,270	—	—	—	—	1,270
06/26/03	5.000	08/01/19	1,335	1,335	—	—	—	—	1,335
06/26/03	5.000	08/01/20	1,400	1,400	—	—	—	—	1,400
06/26/03	5.000	08/01/21	1,470	1,470	—	—	—	—	1,470
06/26/03	5.000	08/01/22	1,540	1,540	—	—	—	—	1,540
06/26/03	5.000	08/01/23	1,620	1,620	—	—	—	—	1,620
06/26/03	5.000	08/01/24	1,700	1,700	—	—	—	—	1,700
06/26/03	5.000	08/01/25	1,785	1,785	—	—	—	—	1,785
06/26/03	5.000	08/01/26	1,875	1,875	—	—	—	—	1,875
06/26/03	5.000	08/01/27	1,970	1,970	—	—	—	—	1,970
06/26/03	5.000	08/01/28	2,065	2,065	—	—	—	—	2,065
2003B Certificates of Participation			\$ 29,195	\$ 29,727	\$ —	\$ 1,417	\$ —	\$ 526	\$ 28,836
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, 2008
(in thousands)

<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance Original Issue</u>	<u>Outstanding July 1, 2007</u>	<u>Issued This Year</u>	<u>Redeemed Current Year</u>	<u>Unamortized Premium</u>	<u>Accrued Interest</u>	<u>Outstanding June 30, 2008</u>
2005A Certificates of Participation (Beaudry I-2001C Refunding):									
05/24/05	Variable	10/01/08	\$ 4,200	\$ 4,457	\$ —	\$ 257	\$ —	\$ 381	\$ 4,581
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	\$ 86,782	\$ —	\$ 257	\$ —	\$ 381	\$ 86,906
2005B Certificates of Participation (Beaudry III):									
05/24/05	Variable	10/01/07	\$ 565	\$ 628	\$ —	\$ 628	\$ —	\$ —	\$ —
05/24/05	Variable	10/01/08	585	585	—	—	—	62	647
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	\$ 21,403	\$ —	\$ 628	\$ —	\$ 62	\$ 20,837

LOS ANGELES UNIFIED SCHOOL DISTRICT
Long-Term Obligations
Schedule of Certificates of Participation (Continued)
Year Ended June 30, 2008
(in thousands)

<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance Original Issue</u>	<u>Outstanding July 1, 2007</u>	<u>Issued This Year</u>	<u>Redeemed Current Year</u>	<u>Unamortized Premium</u>	<u>Accrued Interest</u>	<u>Outstanding June 30, 2008</u>
2005C Certificates of Participation (ELA/King Drew-1996A Refunding):									
05/24/05	Variable	10/01/13	\$ 2,785	\$ 2,917	\$ —	\$ 132	\$ —	\$ 45	\$ 2,830
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	\$ 44,357	\$ —	\$ 132	\$ —	\$ 45	\$ 44,270
2005 Certificates of Participation (2004-05 Qualified Zone Academy Bonds Project):									
12/13/05	—%	12/13/20	\$ 10,000	\$ 10,000	\$ —	\$ —	\$ —	\$ —	\$ 10,000
2005 Certificates of Participation			\$ 10,000	\$ 10,000	\$ —	\$ —	\$ —	\$ —	\$ 10,000
2007A Certificates of Participation (Information Technology Projects):									
11/15/07	4.000%	10/01/08	\$ 8,640	\$ —	\$ 8,640	\$ —	\$ 766	\$ 1,165	\$ 10,571
11/15/07	4.000	10/01/09	8,415	—	8,415	—	771	—	9,186
11/15/07	4.000	10/01/10	6,775	—	6,775	—	761	—	7,536
11/15/07	5.000	10/01/10	1,975	—	1,975	—	—	—	1,975
11/15/07	4.000	10/01/11	5,995	—	5,995	—	736	—	6,731
11/15/07	5.000	10/01/11	3,125	—	3,125	—	—	—	3,125
11/15/07	5.000	10/01/12	9,515	—	9,515	—	658	—	10,173
11/15/07	5.000	10/01/13	9,995	—	9,995	—	556	—	10,551
11/15/07	5.000	10/01/14	10,495	—	10,495	—	444	—	10,939
11/15/07	5.000	10/01/15	11,015	—	11,015	—	320	—	11,335
11/15/07	5.000	10/01/16	11,570	—	11,570	—	185	—	11,755
11/15/07	5.000	10/01/17	12,145	—	12,145	—	38	—	12,183
2007A Certificates of Participation			\$ 99,660	\$ —	\$ 99,660	\$ —	\$ 5,235	\$ 1,165	\$ 106,060
Grand Total			\$ 510,497	\$ 413,425	\$ 99,660	\$ 20,038	\$ 5,235	\$ 3,593	\$ 501,875

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Schedule of Funding Progress for Postemployment Healthcare Benefits
Year Ended June 30, 2008
(in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (Entry Age Normal) (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
6/30/2007	\$ —	\$ 10,563,623	\$ 10,563,623	0%	\$ 4,609,494	229 %

Note: The District elected for prospective implementation of GASB Statement No. 45 which became effective in Fiscal Year 2007-2008. Accordingly, comparative data for prior years is not available. Three-year trend information will be presented in future years.

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT

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, 2008

Base Revenue Limit per A.D.A.					
Base revenue limit per A.D.A. (PY)				\$	5,544.56
Inflation increase					<u>252.00</u>
Total Base Revenue Limit per A.D.A.				\$	<u>5,796.56</u>
Revenue Limit ADA					<u>613,225.64</u>
Total State Revenue Limit					
Base revenue limit	\$	5,796.56	x	613,225.64	A.D.A \$ 3,554,599,216
Meals for needy	\$	0.1987	x	91,664,072	Meals Served 18,213,651
Beginning teachers salary incentive funding					12,203,519
Unemployment insurance revenue					1,122,515
County office funds transfer	\$	5,796.56	x	110.62	A.D.A (641,215)
PERS reduction (including adjustment for safety members)					<u>(25,192,278)</u>
Total K-12 Revenue Limit					3,560,305,408
Property taxes and other local revenues					(806,413,480)
Charter schools in-lieu of taxes					58,388,571
Charter schools general purpose block grant offset					<u>(2,569,880)</u>
State Aid Portion of Revenue Limit - Current Year					2,809,710,619
Fiscally affiliated charter schools general purpose block grant					29,130,730
PERS reduction transfer					25,192,278
Prior year adjustments					<u>3,782,898</u>
Total State Aid K-12 Revenue Limit					2,867,816,525
Principal apportionments-other state revenues					
Core academic program (Supplemental instruction, grades K-12)					
Current year (\$4.08 deficated at .961915850)	\$	3.92462	x	1,220,838	Hours 4,791,321
Prior year adjustments					(2,679,265)
California high school exit exam (Supplemental instruction, grades 7-12)					
Current year	\$	4.08	x	11,572,682	Hours 47,216,543
Prior year adjustments					6,911,503
Retained and recommended for retention (Supplemental instruction, grades 2-9)					
Current year (\$4.08 deficated at .855877699)	\$	3.49198	x	5,738,750	Hours 20,039,606
Prior year adjustments					(5,237,486)
Apprenticeship Funding					
Current year					4,212,329
Prior year adjustments					776,146
Community day school additional funding					3,838,182
Gifted and talented education (GATE)					
Current year					5,824,127
Prior year adjustments					(2,550)
Regional occupational center/program (ROC/P)					
Current year					61,738,708
Prior year adjustments					3,554,432
ROC/P handicapped					
Current year					2,275,594
Prior year adjustments					(9,643)
Special education					
Current year (net of charter schools)					397,376,544
Prior year adjustments					<u>603,183</u>
Total Principal Apportionment from State School Funds				\$	<u>3,419,045,799</u>

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
General Fund
Schedule of Appropriations, Expenditures and Other Uses, and Unexpended Balances
by District Defined Program
Year Ended June 30, 2008
(in thousands)

	<u>Appropriations</u>	<u>Expenditures and Other Uses</u>	<u>Unexpended Balances</u>
Regular program:			
General Program – Schools	\$ 3,464,365	\$ 3,139,726	\$ 324,639
General Program – Support Services	471,037	391,001	80,036
General Program – Hourly Intervention/ Remediation	76,904	77,272	(368)
General Program – Interfund Transfers	43,762	20,727	23,035
General Program – Options Programs	85,681	79,745	5,936
Special Education – Schools	1,284,100	1,311,866	(27,766)
Special Education – Support Services	74,411	66,906	7,505
Special Education – Extended Session	26,181	28,325	(2,144)
Student Integration – Schools	537,511	497,138	40,373
Student Integration – Support Services	49,632	35,978	13,654
ROC/Skill Centers – Schools	84,240	80,829	3,411
ROC/Skill Centers – Support Services	9,073	6,354	2,719
Routine Repair & Gen Maintenance – Schools	216,017	189,162	26,855
Routine Repair & Gen Maintenance – Support Services	20,798	23,313	(2,515)
Community Services	19,713	21,683	(1,970)
Reserves and Resources Allocations	72,405	126	72,279
Total Regular Program	<u>6,535,830</u>	<u>5,970,151</u>	<u>565,679</u>
Specially Funded Programs	<u>1,305,341</u>	<u>1,016,190</u>	<u>289,151</u>
Total General Fund	<u>\$ 7,841,171</u>	<u>\$ 6,986,341</u>	<u>\$ 854,830</u>

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
General Fund
Expenditures and Other Uses by Goal and Function
Year Ended June 30, 2008
(in thousands)

INSTRUCTION	\$ <u>5,641,032</u>
SUPPORT SERVICES	
Supervision of instruction	59,273
Library, media, technology and other instructional resources	5,811
School administration	264,534
Pupil support services	76,128
Pupil transportation	6,340
Data processing services	106,065
Plant maintenance and operations	453,623
Facilities rents and leases	17,409
Central administration	<u>180,833</u>
	<u>1,170,016</u>
OTHER GOALS	
Community services	24,762
Child care and development services	1,198
Food services	<u>819</u>
	<u>26,779</u>
FACILITIES ACQUISITION AND CONSTRUCTION	59,378
OTHER OUTGO	
Debt service	3,474
All other outgo	<u>85,662</u>
	<u>89,136</u>
TOTAL EXPENDITURES AND OTHER USES	\$ <u><u>6,986,341</u></u>

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
General Fund
Schedule of Current Expense of Education
Year Ended June 30, 2008
(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	\$ 3,314,591	\$ 7,270	\$ 3,307,321	\$ 5,059.60
Classified salaries	1,054,240	34,669	1,019,571	1,559.76
Employee benefits (excluding PERS reduction)	1,298,770	226,952	1,071,818	1,639.69
Books, supplies, and equipment replacement	435,651	8,910	426,741	652.84
Services & operating expense and direct support	758,929	13,002	745,927	1,141.13
Total	\$ 6,862,181	\$ 290,803	\$ 6,571,378	\$ 10,053.02

* Excluded amounts relate to:

Community Services	\$ 24,309
Facilities Acquisition & Construction	27,277
Food Services	734
Fringe Benefits to Retirees	218,438
Nonagency	20,045
Total	\$ 290,803

** Annual A.D.A. (Average Daily Attendance) used is 653,672.41. Amounts rounded to nearest cent.

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

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
General Fund
Schedule of Special Purpose Revenues, Expenditures, and Restricted Balances
Year Ended June 30, 2008
(in thousands)

	Balances July 1, 2007	Adjustments	Revenues	Expenditures	Balances June 30, 2008
Continuation Education	\$ —	\$ 11,720	\$ 17,487	\$ 29,207	\$ —
Community Day Schools	—	6,169	9,126	15,295	—
Special Education: IDEA Basic Local Assistance Entitlement	—	(496)	119,034	118,538	—
Special Education: IDEA Basic Local Assistance Entitlement Private School ISP	—	496	—	496	—
Medi-Cal Billing Options	2,437	—	10,038	8,895	3,580
COPS MORE Program	35	—	—	—	35
School Mental Health-Medi-Cal Rehabilitation	—	—	7,386	2,800	4,586
Cal-Safe Supportive Services	108	—	140	248	—
Class Size Reduction – Facilities	—	1	—	1	—
School Facilities Needs Assessment Program	402	88	(490)	—	—
Certificated Staff Performance Incentive Bonus	173	—	—	—	173
English Language Acquisition Program, Teacher Training & Student Assistance	16,849	—	11,494	10,394	17,949
Calif. Public School Library Act of 1998	84	—	—	4	80
Lottery Instructional Material	1,345	—	13,374	14,719	—
ROC/P Apportionment	12,300	—	82,711	85,154	9,857
Pupils with Disabilities Attending ROC/P	4	308	2,266	2,578	—
School Safety & Violence Prevention	1,833	—	9,806	10,162	1,477
Special Education	1,667	636,024	572,461	1,204,445	5,707
Arts and Music Block Grant	8,509	—	11,076	6,867	12,718
Art, Music and PE Supplies and Equipment	54,559	—	—	9,215	45,344
CAHSEE Intensive Instruction and Services	5,757	—	8,347	2,926	11,178
CAHSEE Individual Intervention Materials	672	—	—	—	672
Supplemental School Counseling Grades 7-12	8,776	—	21,337	24,021	6,092
Gifted & Talented Education	—	—	5,822	5,768	54
Instructional Materials Block Grant	2,500	—	46,861	35,168	14,193
Instructional Materials English Learner	30	—	5,116	—	5,146
Instructional Materials API Deciles 1 & 2	1,798	—	119	12	1,905
Transportation Home to School	549	(5,161)	45,092	40,480	—
Transportation: Special Education (Severely Disabled/Orthopedically Impaired)	—	9,836	50,077	59,913	—
California Peer Assistance & Review Program	5,779	—	3,261	2,202	6,838
Staff Development Reading & Math	1,627	141	1,910	3,678	—
Reader Services for Blind Teachers	—	—	71	71	—
Principals' Training	1,506	—	—	348	1,158
Tenth Grade Counseling	318	—	—	82	236
Pupil Retention Block Grant	3,948	—	5,299	3,400	5,847
Professional Development Block Grant	—	117	29,179	29,296	—
Targeted Instructional Improvement Block Grant	11,350	—	575,731	533,115	53,966
School & Library Improvement Block Grant	18,553	(8,216)	54,773	51,859	13,251
Discretionary Block Grant - School Site	33,621	—	(1,204)	22,013	10,404
Discretionary Block Grant - School District	—	425	(425)	—	—
Quality Education Investment Act	—	—	102,151	52,175	49,976
California Energy Commission Loan Expenditures	397	—	—	—	397
Routine Repair & General Maintenance	20,330	(24)	—	—	20,306
Ongoing & Major Maintenance Account	—	212,475	—	212,475	—
Certificates of Participation:					
(Acquisition Accounts) – Proceeds	2,040	1,229	949	2,271	1,947
Specialty Funded Programs	102,302	—	997,838	1,016,190	83,950
Totals	\$ 322,158	\$ 865,132	\$ 2,818,213	\$ 3,616,481	\$ 389,022

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Adult Education Fund
Schedule of Revenues and Other Sources, Expenditures, and Other Uses
by Function, and Changes in Fund Balance
Year Ended June 30, 2008
(in thousands)

Revenues and Other Sources:	
Federal revenues	\$ 17,505
Other state revenues	205,035
Other local revenues	<u>5,076</u>
Total Revenues and Other Sources	<u>227,616</u>
 SUPPORT SERVICES	
Instruction	132,957
Supervision of instruction	19,758
School administration	20,069
Guidance & counseling services	6,814
Other pupil services	252
General administration cost transfers	5,226
Plant maintenance and operations	13,916
Facilities acquisition & construction	450
Facilities rents and leases	1,479
Interfund transfers	<u>10,600</u>
Total Expenditures and Other Uses	<u>211,521</u>
Excess of Revenues and Other Sources Over Expenditures and Other Uses	16,095
Fund Balance, July 1, 2007	34,065
Fund Balance, June 30, 2008	\$ <u><u>50,160</u></u>

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Child Development Fund
Schedule of Revenues and Other Sources, Expenditures, and Other Uses
by Function, and Changes in Fund Balance
Year Ended June 30, 2008
(in thousands)

Revenues and Other Sources:	
Federal revenues	\$ 15,210
Other state revenues	98,596
Other local revenues	<u>9,992</u>
Total Revenues and Other Sources	<u>123,798</u>
 SUPPORT SERVICES	
Instruction	87,328
Supervision of instruction	14,368
School administration	13,820
Guidance & counseling services	63
Health services	1,070
Community services	35
Other general administration	719
Plant maintenance and operations	8,014
Facilities acquisition & construction	88
Facilities rents and leases	<u>709</u>
Total Expenditures and Other Uses	<u>126,214</u>
Excess of Revenues and Other Sources Over Expenditures and Other Uses	(2,416)
 Fund Balance, July 1, 2007	11,064
Fund Balance, June 30, 2008	\$ <u><u>8,648</u></u>

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
All Funds
Schedule of Fund Equity
Year Ended June 30, 2008
(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	\$ 2,816	\$ 126	\$ —	\$ 24	\$ —	\$ —
Inventories	11,679	118	7,050	73	—	—
Debt service	—	—	—	—	—	—
Prepays	—	—	—	—	—	—
General reserve	1	—	—	—	—	—
Participants' equity	—	—	—	—	—	—
Other restricted balances (detail on page 127)	389,022	—	—	—	—	—
Total Reserved Fund Equity	<u>403,518</u>	<u>244</u>	<u>7,050</u>	<u>97</u>	<u>—</u>	<u>—</u>
Unreserved:						
Designated for:						
Subsequent year expenditures	100,494	24,148	—	4,222	149,657	—
Economic uncertainties	72,382	—	—	—	—	—
Total Designated	<u>172,876</u>	<u>24,148</u>	<u>—</u>	<u>4,222</u>	<u>149,657</u>	<u>—</u>
Undesignated fund equity	<u>80,842</u>	<u>25,768</u>	<u>28,245</u>	<u>4,329</u>	<u>—</u>	<u>447,880</u>
Total Unreserved Fund Equity	<u>253,718</u>	<u>49,916</u>	<u>28,245</u>	<u>8,551</u>	<u>149,657</u>	<u>447,880</u>
Total Fund Equity	<u>\$ 657,236</u>	<u>\$ 50,160</u>	<u>\$ 35,295</u>	<u>\$ 8,648</u>	<u>\$ 149,657</u>	<u>\$ 447,880</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	\$ 500	\$ —
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	3,000	—	300	500	—
—	—	2,329	142,815	174,127	335,237	305,498	4,531
—	—	—	—	—	—	—	—
—	—	2,329	142,815	174,127	335,237	305,498	4,531
92	49,121	—	—	—	—	—	—
92	49,121	2,329	142,815	174,127	335,237	305,498	4,531
\$ 92	\$ 49,121	\$ 2,329	\$ 145,815	\$ 174,127	\$ 335,537	\$ 305,998	\$ 4,531

(Continued)

LOS ANGELES UNIFIED SCHOOL DISTRICT
All Funds
Schedule of Fund Equity (Continued)
Year Ended June 30, 2008
(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 127)	—	—	—	—	—	—
Total Reserved Fund Equity	—	—	—	—	—	—
Unreserved:						
Designated for:						
Subsequent year expenditures	192,424	—	18,154	163,033	45,265	70,746
Economic uncertainties	—	—	—	—	—	—
Total Designated	192,424	—	18,154	163,033	45,265	70,746
Undesignated fund equity	—	2,043	—	—	—	—
Total Unreserved Fund Equity	192,424	2,043	18,154	163,033	45,265	70,746
Total Fund Equity	\$ 192,424	\$ 2,043	\$ 18,154	\$ 163,033	\$ 45,265	\$ 70,746

See accompanying independent auditor's report.

County School Facilities Fund – Prop 55	County School Facilities Fund – Prop 1D	Health and Welfare Benefits Fund	Workers’ Compensation Self – Insurance Fund	Liability Self – Insurance Fund	Annuity Reserve Fund	Attendance Incentive Reserve
\$ —	\$ —	\$ —	\$ 2,000	\$ 500	\$ —	\$ —
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	11,838	—	4,263	—	—
—	—	—	—	—	—	—
—	—	—	—	—	489	1,365
—	—	—	—	—	—	—
—	—	11,838	2,000	4,763	489	1,365
410,031	6,853	18,857	100,471	—	—	—
—	—	—	—	—	—	—
410,031	6,853	18,857	100,471	—	—	—
—	—	—	—	—	—	—
410,031	6,853	18,857	100,471	—	—	—
<u>\$ 410,031</u>	<u>\$ 6,853</u>	<u>\$ 30,695</u>	<u>\$ 102,471</u>	<u>\$ 4,763</u>	<u>\$ 489</u>	<u>\$ 1,365</u>

LOS ANGELES UNIFIED SCHOOL DISTRICT
All Funds
Schedule of Revenues and Other Financing Sources
Year Ended June 30, 2008
(in thousands)

	SACS Object Code	General Fund	Adult Education	Cafeteria	Special Revenue Child Development
Revenue limit sources:					
Principal Apportionment:					
State Aid – current year	8011	\$ 2,809,710	\$ —	\$ —	\$ —
Charter School Gen Purpose Entitlement – State Aid	8015	29,131	—	—	—
State Aid – prior years	8019	3,783	—	—	—
Revenue Limit Transfers:					
PERS Reduction Transfer	8092	25,192	—	—	—
Transfer to Charter In Lieu Property Taxes	8096	(50,096)	—	—	—
Principal Apportionment Net of Transfers		<u>2,817,720</u>	<u>—</u>	<u>—</u>	<u>—</u>
Tax Relief Subventions:					
Homeowners' Exemptions	8021	7,389	—	—	—
Other Subventions/In-lieu of Taxes	8029	8,613	—	—	—
County & District Taxes:					
Secured Roll Taxes	8041	710,062	—	—	—
Unsecured Roll Taxes	8042	31,311	—	—	—
Prior Years' Taxes	8043	53,620	—	—	—
Supplemental Taxes	8044	33,543	—	—	—
Education Revenue Augmentation Fund (ERAF)	8045	(42,753)	—	—	—
Community Redevelopment Funds	8047	3,036	—	—	—
Penalties/Int. – Delinquent Revenue Limit Taxes	8048	1,592	—	—	—
Miscellaneous Funds (EC 41604):					
Royalties and Bonuses	8081	1	—	—	—
Local Revenue Limit Sources		<u>806,414</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total Revenue Limit Sources		<u>3,624,134</u>	<u>—</u>	<u>—</u>	<u>—</u>
Federal Revenues:					
Special Education Entitlement per UDC	8181	119,033	—	—	—
Discretionary Grants	8182	18,213	—	—	—
Child Nutrition Program	8220	—	—	214,581	—
Forest Reserve Funds	8260	28	—	—	—
Flood Control Funds	8270	3	—	—	—
FEMA	8281	1	—	—	—
NCLB/IASA	8290	534,391	—	—	—
Vocational Program Post Secondary & Adult	8290	9,535	2,683	—	—
Safe and Drug Free Schools	8290	6,231	—	—	—
JTPA – Excess Authority	8290	1,082	66	—	—
Adult Ed ESL	8290	—	12,088	—	—
Federal Child Care, Center-based	8290	—	—	—	15,151
Donated Commodities	8290	—	—	12,782	—
Other Federal Revenues	8290	67,870	2,668	—	59
Total Federal Revenues		<u>\$ 756,387</u>	<u>\$ 17,505</u>	<u>\$ 227,363</u>	<u>\$ 15,210</u>

<u>Funds</u>								
<u>Deferred</u>								
<u>Maintenance</u>	<u>Total</u>	<u>Debt</u>	<u>Capital</u>	<u>District</u>	<u>Internal</u>	<u>Non</u>		
		<u>Service</u>	<u>Projects</u>	<u>Bond</u>	<u>Service</u>	<u>Expendable</u>	<u>Total</u>	
		<u>Funds</u>	<u>Funds</u>	<u>Funds</u>	<u>Funds</u>	<u>Trust</u>		
						<u>Funds</u>		
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 2,809,710	
—	—	—	—	—	—	—	29,131	
—	—	—	—	—	—	—	3,783	
—	—	—	—	—	—	—	25,192	
—	—	—	—	—	—	—	(50,096)	
—	—	—	—	—	—	—	2,817,720	
—	—	—	—	—	—	—	7,389	
—	—	—	—	—	—	—	8,613	
—	—	—	—	—	—	—	710,062	
—	—	—	—	—	—	—	31,311	
—	—	—	—	—	—	—	53,620	
—	—	—	—	—	—	—	33,543	
—	—	—	—	—	—	—	(42,753)	
—	—	—	—	—	—	—	3,036	
—	—	—	—	—	—	—	1,592	
—	—	—	—	—	—	—	1	
—	—	—	—	—	—	—	806,414	
—	—	—	—	—	—	—	3,624,134	
—	—	—	—	—	—	—	119,033	
—	—	—	—	—	—	—	18,213	
—	214,581	—	—	—	—	—	214,581	
—	—	—	—	—	—	—	28	
—	—	—	—	—	—	—	3	
—	—	—	—	—	—	—	1	
—	—	—	—	—	—	—	534,391	
—	2,683	—	—	—	—	—	12,218	
—	—	—	—	—	—	—	6,231	
—	66	—	—	—	—	—	1,148	
—	12,088	—	—	—	—	—	12,088	
—	15,151	—	—	—	—	—	15,151	
—	12,782	—	—	—	—	—	12,782	
—	2,727	—	—	—	—	—	70,597	
\$ —	\$ 260,078	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 1,016,465	

LOS ANGELES UNIFIED SCHOOL DISTRICT
All Funds
Schedule of Revenues and Other Financing Sources
Year Ended June 30, 2008
(in thousands)

	SACS Object Code	General Fund	Adult Education	Cafeteria	Special Revenue Child Development
Other State Revenues:					
Other State Apportionments:					
Supplemental Instruction Programs					
Current year	8311	\$ 72,048	\$ —	\$ —	\$ —
Prior years	8319	(1,005)	—	—	—
Community Day Schools					
Current year	8311	3,838	—	—	—
Prior years	8319	567	—	—	—
ROC/P Entitlement:					
Current year	8311	68,227	—	—	—
Prior years	8319	4,321	—	—	—
Spec. Ed. Master Plan:					
Current year	8311	397,377	—	—	—
Prior years	8319	603	—	—	—
Adult Education Apportionment					
Current year	8311	—	193,303	—	—
Prior years	8319	—	2,353	—	—
Gifted and Talented Pupils:	8311	5,824	—	—	—
Home-to-School Transportation	8311	45,092	—	—	—
School Improvement Program	8311	3,097	—	—	—
Economic Impact Aid	8311	176,143	—	—	—
Special Ed Transportation	8311	50,077	—	—	—
All Other State Apportionments - Prior Year	8319	(3)	—	—	—
Year Round School Incentive	8425	89,202	—	—	—
Class Size Reduction Grades K-3	8434	199,684	—	—	—
Class Size Reduction Grades 9-12	8435	16,392	—	—	—
Charter School Categorical Block Grant	8480	3,471	—	—	—
Child Nutrition Program	8520	—	—	19,919	—
Children Centers Apportionment	8530	—	—	—	85,089
Deferred Maintenance Allowance	8540	—	—	—	—
School Facilities Apportionment	8545	—	—	—	—
State Lottery Revenue	8560	98,046	—	—	—
Tax Relief Subventions – Restricted Levies:					
Homeowners' Exemptions	8571	—	—	—	—
Other subv./In lieu of Taxes	8572	—	—	—	—
Art and Music Block Grant	8590	11,076	—	—	—
Supplemental School Counseling Gr 7-12	8590	21,337	—	—	—
Instructional Material Block Grant (IMA)	8590	51,051	—	—	—
Staff Development	8590	1,981	—	—	—
Educational Technology Assistance Grants	8590	137	—	—	—
Drug/Alcohol/Tobacco Funds	8590	2,128	—	—	—
Healthy Start	8590	78	—	—	—
Pupil Retention Block Grant	8590	5,299	—	—	—
School Community Violence Prevention Grant	8590	438	—	—	—
Teacher Credentialing Block Grant	8590	14,584	—	—	—
Professional Development Block Grant	8590	29,179	—	—	—
Targeted Instructional Improvement Block Grant	8590	575,731	—	—	—
School & Library Improvement Block Grant	8590	54,773	—	—	—
Quality Education Investment Act	8590	102,151	—	—	—
State Preschool	8590	—	—	—	11,985
Community-Based English Tutoring	8590	—	7,337	—	—
All Other State Revenues	8590	201,534	2,042	—	1,522
Total Other State Revenues		\$ 2,304,478	\$ 205,035	\$ 19,919	\$ 98,596

<u>Funds</u>		<u>Debt Service Funds</u>	<u>Capital Projects Funds</u>	<u>District Bond Funds</u>	<u>Internal Service Funds</u>	<u>Non Expendable Trust Funds</u>	<u>Total</u>								
<u>Deferred Maintenance</u>	<u>Total</u>														
\$	—	\$	—	\$	—	\$	—	\$	72,048						
	—		—		—		—		(1,005)						
	—		—		—		—		3,838						
	—		—		—		—		567						
	—		—		—		—	\$	68,227						
	—		—		—		—		4,321						
	—		—		—		—		397,377						
	—		—		—		—		603						
	193,303		—		—		—		193,303						
	2,353		—		—		—		2,353						
	—		—		—		—		5,824						
	—		—		—		—		45,092						
	—		—		—		—		3,097						
	—		—		—		—		176,143						
	—		—		—		—		50,077						
	—		—		—		—		(3)						
	—		—		—		—		89,202						
	—		—		—		—		199,684						
	—		—		—		—		16,392						
	—		—		—		—		3,471						
	19,919		—		—		—		19,919						
	85,089		—		—		—		85,089						
28,878	28,878		—		—		—		28,878						
	—		630,198		—		—		630,198						
	—		—		—		—		98,046						
	—	3,938	—		—		—		3,938						
	—	14	—		—		—		14						
	—	—	—		—		—		11,076						
	—	—	—		—		—		21,337						
	—	—	—		—		—		51,051						
	—	—	—		—		—		1,981						
	—	—	—		—		—		137						
	—	—	—		—		—		2,128						
	—	—	—		—		—		78						
	—	—	—		—		—		5,299						
	—	—	—		—		—		438						
	—	—	—		—		—		14,584						
	—	—	—		—		—		29,179						
	—	—	—		—		—		575,731						
	—	—	—		—		—		54,773						
	—	—	—		—		—		102,151						
	11,985	—	—		—		—		11,985						
	7,337	—	—		—		—		7,337						
	3,564	—	16,553		—		—		221,651						
\$	28,878	\$	352,428	\$	3,952	\$	646,751	\$	—	\$	—	\$	—	\$	3,307,609

LOS ANGELES UNIFIED SCHOOL DISTRICT
All Funds
Schedule of Revenues and Other Financing Sources
Year Ended June 30, 2008
(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	222	—	—	—
Food Service Sales	8634	—	—	16,251	—
Leases and Rentals	8650	4,659	—	—	—
Interest on Deposit	8660	62,714	3,780	1,231	—
Net Increase (Decrease) on the Fair Value of Investments	8662	—	—	—	—
Fees and Contracts:					
Adult Education Fees	8671	—	602	—	—
Nonresident Students	8672	126	—	—	—
Child Development Parent Fees	8673	—	—	—	2,443
In-District Premiums/Contributions	8674	—	—	—	—
Interagency Services Bet Lease	8677	10	—	—	—
Mitigation/Developer Fees	8681	—	—	—	—
All Other Fees and Contracts	8689	9,272	—	—	—
All Other Local Revenues	8699	45,864	694	6	7,549
Other Local Tuition	8710	798	—	—	—
Total Other Local Revenues		<u>123,665</u>	<u>5,076</u>	<u>17,488</u>	<u>9,992</u>
Subtotal – Revenues		<u>6,808,664</u>	<u>227,616</u>	<u>264,770</u>	<u>123,798</u>
Other Financing Sources:					
Interfund Transfers In:					
From Special Reserve Fund	8912	92,493	—	—	—
From General, Special Reserve, & Building Funds	8915	—	—	—	—
From General – In Cafeteria Fund	8916	—	—	8,214	—
Other Authorized Interfund Transfers In	8919	40,600	—	—	—
Subtotal, Interfund Transfers In		<u>133,093</u>	<u>—</u>	<u>8,214</u>	<u>—</u>
Other Sources:					
Issuance of bonds	8951	—	—	—	—
Premium on Bonds Issued	8979	—	—	—	—
Proceeds from Sale/Lease Purchase of Land & Bldgs.	8953	—	—	—	—
Proceeds from Certificate of Participation	8971	—	—	—	—
Proceeds from Capital Leases	8972	1,253	—	—	—
All Other Financing Sources	8979	5,332	—	—	—
Subtotal, Other Sources		<u>6,585</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total Other Financing Sources		<u>139,678</u>	<u>—</u>	<u>8,214</u>	<u>—</u>
Total Revenues and Other Financing Sources		<u>\$ 6,948,342</u>	<u>\$ 227,616</u>	<u>\$ 272,984</u>	<u>\$ 123,798</u>

See accompanying independent auditor's report.

Funds		Debt Service Funds	Capital Projects Funds	District Bond Funds	Internal Service Funds	Non Expendable Trust Funds	Total
Deferred Maintenance	Total						
\$ —	\$ —	\$ 462,798	\$ —	\$ —	\$ —	\$ —	\$ 462,798
—	—	20,673	—	—	—	—	20,673
—	—	23,196	—	—	—	—	23,196
—	—	26,099	—	—	—	—	26,099
—	—	—	5,773	—	—	—	5,773
—	—	3,017	—	—	—	—	3,017
—	—	—	—	—	—	—	222
—	16,251	—	—	—	—	—	16,251
—	—	—	530	—	—	—	5,189
7,086	12,097	10,847	43,529	72,534	31,641	716	234,078
—	—	114	—	—	—	—	114
—	602	—	—	—	—	—	602
—	—	—	—	—	—	—	126
—	2,443	—	—	—	—	—	2,443
—	—	—	—	—	943,234	—	943,234
—	—	—	—	—	—	—	10
—	—	—	65,426	—	—	—	65,426
—	—	—	—	—	41	—	9,313
—	8,249	10	27,647	369	440	—	82,579
—	—	—	—	—	—	—	798
7,086	39,642	546,754	142,905	72,903	975,356	716	1,901,941
35,964	652,148	550,706	789,656	72,903	975,356	716	9,850,149
—	—	—	—	—	—	—	92,493
31,048	31,048	—	—	—	—	—	31,048
—	8,214	—	—	—	—	—	8,214
—	—	58,439	62,012	207,141	12,114	—	380,306
31,048	39,262	58,439	62,012	207,141	12,114	—	512,061
—	—	—	—	1,000,000	—	—	1,000,000
—	—	42,258	—	—	—	—	42,258
—	—	—	14,110	—	—	—	14,110
—	—	—	105,374	—	—	—	105,374
—	—	—	—	—	—	—	1,253
—	—	—	—	—	—	—	5,332
—	—	42,258	119,484	1,000,000	—	—	1,168,327
31,048	39,262	100,697	181,496	1,207,141	12,114	—	1,680,388
\$ 67,012	\$ 691,410	\$ 651,403	\$ 971,152	\$ 1,280,044	\$ 987,470	\$ 716	\$ 11,530,537

LOS ANGELES UNIFIED SCHOOL DISTRICT
Charter Schools
Year Ended June 30, 2008

		CDS Code	Approval/ Renewal* Date	Fiscally Dependent	Fiscally Independent	Included in the District Audit
1	Canyon Elementary	19 64733 6016323	06/27/00 *	x		Yes
2	Community Magnet Charter Elementary School	19 64733 6094726	08/28/07	x		Yes
3	Dr. T. Alexander Jr. Science Center School	19 64733 0102491	10/28/03	x		Yes
4	High Tech High School	19 64733 0100677	04/27/04	x		Yes
5	Kenter Canyon Elementary	19 64733 6017701	03/27/01 *	x		Yes
6	Marquez Elementary	19 64733 6018063	01/09/01 *	x		Yes
7	Open Magnet Charter School	19 64733 6097927	06/17/03 *	x		Yes
8	Palisades Elementary	19 64733 6018634	06/27/00 *	x		Yes
9	Revere Middle School	19 64733 6058267	06/27/00 *	x		Yes
10	Topanga Elementary	19 64733 6019525	06/27/00 *	x		Yes
11	Westwood Elementary	19 64733 6019939	06/17/03 *	x		Yes
12	Academia Avance	19 64733 0109926	05/24/05		x	No
13	Academia Semillas del Pueblo	19 64733 6119929	12/11/01		x	No
14	Accelerated Charter	19 64733 6112536	07/13/04 *		x	No
15	Accelerated Elementary	19 64733 0100743	03/25/03		x	No
16	Animo Film & Theater Arts	19 64733 0111609	03/07/06		x	No
17	Animo Jackie Robinson	19 64733 0111583	03/07/06		x	No
18	Animo Justice Charter High School	19 64733 0111591	03/07/06		x	No
19	Animo Pat Brown	19 64733 0106849	04/13/04		x	No
20	Animo Ralph Bunche Charter High School	19 64733 0111575	03/07/06		x	No
21	Animo South Los Angeles Senior High	19 64733 0102434	10/28/03		x	No
22	Animo Venice Charter High School	19 64733 0106831	04/13/04		x	No
23	Animo Watts #1	19 64733 0111617	03/07/06		x	No
24	Animo Watts #2 (Fluornoy Elementary School)	19 64733 0111625	03/07/06		x	No
25	Aspire Los Angeles Elementary (Antonio Maria Lugo Academy)	19 64733 0109660	06/17/03		x	No
26	Bert Corona Charter School	19 64733 0106872	05/11/04		x	No
27	Bright Star Secondary Academy	19 64733 0112508	06/13/06		x	No
28	California Academy for Liberal Studies Middle School	19 64733 6118194	06/27/00		x	No
29	California Academy for Liberal Studies Early College High School	19 64733 0109553	01/25/05		x	No
30	Camino Nuevo Charter Academy	19 64733 6117667	06/05/01		x	No
31	Camino Nuevo Charter High School	19 64733 0106435	03/23/04		x	No
32	Celerity Dyad Charter School	19 64733 0115766	08/28/07		x	No
33	Celerity Nascent Charter School	19 64733 0108910	04/12/05		x	No
34	Celerity Troika Charter School	19 64733 0115782	08/28/07		x	No
35	Centennial College Prep. Academy	19 64733 0112128	06/17/03		x	No
36	Center For Advanced Learning	19 64733 0115139	06/12/07		x	No
37	Central City Value High School	19 64733 0100800	02/25/03		x	No
38	Charter High School of Arts Multimedia/ Performing Arts High School (CHAMPS)	19 64733 0108878	02/22/05		x	No
39	Chime Charter Middle School	19 64733 0101634	05/13/03		x	No
40	Chime Charter School	19 64733 6119531	07/24/01		x	No
41	College Ready Academy High School #4	19 64733 0111500	03/07/06		x	No
42	College Ready Academy High School #5	19 64733 0111492	03/07/06		x	No
43	College Ready Academy High School #6	19 64733 0111641	03/07/06		x	No
44	College Ready Academy High School #7	19 64733 0114942	05/22/07		x	No
45	Community Charter Early College High School	19 64733 0109876	04/26/05		x	No
46	Community Charter Middle School	19 64733 6116750	07/13/04 *		x	No
47	Community Harvest Charter	19 64733 1996636	05/14/02		x	No

(Continued)

LOS ANGELES UNIFIED SCHOOL DISTRICT
Charter Schools (Continued)
Year Ended June 30, 2008

		CDS Code	Approval/ Renewal* Date	Fiscally Dependent	Fiscally Independent	Included in the District Audit
48	Cornerstone Prep Charter School	19 64733 0100297	12/10/02		x	No
49	Crenshaw Arts-Technology High School	19 64733 0101659	05/13/03		x	No
50	Crescendo Charter Academy	19 64733 0112219	05/09/06		x	No
51	Crescendo Charter Elementary School	19 64733 0109959	06/14/05		x	No
52	Crescendo Charter Prep. Central	19 64733 0115774	08/28/07		x	No
53	Crescendo Charter Prep. South	19 64733 0115790	08/28/07		x	No
54	Crescendo Charter Prep. West	19 64733 0015758	08/28/07		x	No
55	Crescendo Conservatory	19 64733 0112342	05/09/06		x	No
56	Culture & Language Academy of Success	19 64733 0100768	03/25/03		x	No
57	Design High School	19 64733 0115121	06/12/07		x	No
58	Discovery Charter Prep	19 64733 1996594	06/26/07		x	No
59	Downtown Value School	19 64733 6119903	12/11/01		x	No
60	Excel Academy	19 64733 0112201	03/21/06		x	No
61	Fenton Avenue School	19 64733 6017016	05/13/03	*	x	No
62	Frederick Douglass Academy High School	19 64733 0112557	06/27/06		x	No
63	Frederick Douglass Academy Middle School	19 64733 0112433	05/09/06		x	No
64	Full Circle Learning Center	19 64733 0115311	06/26/07		x	No
65	Gabriella Charter School	19 64733 0108886	03/08/05		x	No
66	Garr Academy of Mathematics and Entrepreneurial Studies (GAMES)	19 64733 0112334	06/13/06		x	No
67	Gertz-Ressler Academy High School	19 64733 0106864	04/27/04		x	No
68	Global Education Academy	19 64733 0114967	05/22/07		x	No
69	Granada Hills Charter High School	19 64733 1933746	04/27/04	*	x	No
70	Heritage College Ready Charter High School	19 64733 0108894	04/12/05		x	No
71	Huntington Park College-Ready Academy Charter School	19 64733 0108936	01/11/05		x	No
72	Ivy Academia	19 64733 0106351	02/10/04		x	No
73	Ivy Bound Math Science & Technology	19 64733 0115113	06/12/07		x	No
74	Jack H. Skirball Middle School	19 64733 0111518	03/07/06		x	No
75	James Jordan Charter Middle School	19 64733 0109884	05/10/05		x	No
76	Jardin de la Infancia	19 64733 0106880	05/25/04		x	No
77	KIPP Academy of Opportunity	19 64733 0101444	02/11/03		x	No
78	KIPP LA College Prep	19 64733 0100867	02/11/03		x	No
79	LA Academy of Art & Enterprise	19 64733 0110304	08/24/04		x	No
80	LA Educational Achievement Partnership Senior High (LEAP)	19 64733 0101691	06/10/03		x	No
81	LA International Charter	19 64733 0109942	06/14/05		x	No
82	LA Leadership Academy	19 64733 1996610	03/12/02		x	No
83	Lakeview Charter Academy	19 64733 0102442	10/28/03		x	No
84	Larchmont Charter School	19 64733 0108928	02/08/05		x	No
85	Lou Dantzler Prep. Charter Middle School	19 64733 0112227	05/09/06		x	No
86	Lou Dantzler Prep. Charter High School	19 64733 0112540	06/27/06		x	No
87	Los Feliz Charter Schools for the Arts	19 64733 0112235	06/13/06		x	No
88	Magnolia Science Academy	19 64733 6119945	11/13/01		x	No
89	Magnolia Science Academy 2	19 64733 0115212	05/08/07		x	No
90	Marc & Eva Stern Math & Science	19 64733 0111658	03/07/06		x	No
91	Milagro Charter Elementary	19 64733 0102426	10/23/03		x	No
92	Monsenor Oscar Romero	19 64733 0114959	05/22/07		x	No
93	Montague Street School	19 64733 6018204	06/11/02	*	x	No
94	Multicultural Learning Center	19 64733 6119044	04/17/01		x	No
95	N.E.W. Academy of Science & Arts	19 64733 0100289	12/10/02		x	No
96	N.E.W. Canoga Park Elementary School	19 64733 0102483	05/27/03		x	No

(Continued)

LOS ANGELES UNIFIED SCHOOL DISTRICT
Charter Schools (Continued)
Year Ended June 30, 2008

		CDS Code	Approval/ Renewal* Date	Fiscally Dependent	Fiscally Independent	Included in the District Audit
97	New Designs	19 64733 0102541	10/28/03		x	No
98	New Heights	19 64733 0111211	02/21/06		x	No
99	New Village Charter School	19 64733 0111484	03/28/06		x	No
100	North Valley Charter Academy	19 64733 0100776	03/25/03		x	No
101	Ocean School Charter	19 64733 0102335	05/13/03		x	No
102	Opportunities Unlimited	19 64733 0109918	05/24/05		x	No
103	Oscar De La Hoya Animo Senior High	19 64733 0101675	05/13/03		x	No
104	Our Community School	19 64733 0109934	05/24/05		x	No
105	Pacifica Community Charter School	19 64733 6119895	06/26/07		x	No
106	Pacoima Elementary	19 64733 6018642	05/13/03		x	No
107	Palisades Senior High	19 64733 1995836	06/27/00 *		x	No
108	Para Los Ninos Charter	19 64733 6120489	05/14/02		x	No
109	Port of Los Angeles Senior High	19 64733 0107755	02/25/03		x	No
110	Puente Charter	19 64733 6120471	05/14/02		x	No
111	Renaissance Arts Academy	19 64733 0101683	05/13/03		x	No
112	Richard Merkin Middle Academy	19 64733 0108902	03/08/05		x	No
113	Santa Monica Community Charter School	19 64733 6019079	12/11/01		x	No
114	Stella Middle Charter Academy	19 64733 0100669	03/11/03		x	No
115	Synergy Charter Academy	19 64733 0106427	03/23/04		x	No
116	Thurgood Marshall Charter Middle School	19 64733 0125261	07/10/07		x	No
117	Thurgood Marshall Charter High School	19 64733 0115279	07/10/07		x	No
118	Triumph Academy	19 64733 0112193	03/21/06		x	No
119	Vaughn Next Century Learning Center	19 64733 6019715	05/13/03 *		x	No
120	View Park Prep Accelerated Charter High School	19 64733 0101196	03/11/03		x	No
121	View Park Prep Accelerated Charter School	19 64733 6117048	07/13/04 *		x	No
122	View Park Prep Accelerated Middle School Charter	19 64733 6121081	08/13/02		x	No
123	Wallis Annenberg High School	19 64733 0100750	03/25/03		x	No
124	Watts Learning Center Charter School	19 64733 6114912	01/14/03 *		x	No
125	Wisdom Academy for Young	19 64733 0112730	07/11/06		x	No

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Supplementary Information

Year Ended June 30, 2008

(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 Seven 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>	<u>2007-2008</u>
Governmental Activities:							
Invested in capital assets, net of related debt	\$ 1,815,366	\$ 2,601,459	\$ 2,682,203	\$ 2,704,302	\$ 2,866,293	\$ 3,267,458	\$ 3,694,054
Restricted	1,804,397	895,935	1,034,896	701,779	1,089,165	1,540,422	1,893,302
Unrestricted	<u>317,112</u>	<u>303,991</u>	<u>73,611</u>	<u>310,003</u>	<u>222,743</u>	<u>396,529</u>	<u>(502,957)</u>
Total Governmental Activities							
Net Assets	<u>\$ 3,936,875</u>	<u>\$ 3,801,385</u>	<u>\$ 3,790,710</u>	<u>\$ 3,716,084</u>	<u>\$ 4,178,201</u>	<u>\$ 5,204,409</u>	<u>\$ 5,084,399</u>

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

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Changes in Net Assets
Last Seven 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>	<u>2007-2008</u>
Expenses:							
Governmental Activities:							
Instruction	\$ 3,576,824	\$ 3,673,900	\$ 3,762,124	\$ 3,996,454	\$ 4,032,673	\$ 4,142,927	\$ 4,416,790
Support services – students	283,613	303,961	292,578	311,449	298,911	310,786	366,514
Support services – instructional staff	561,321	725,684	725,187	647,207	650,551	589,566	731,016
Support services – general administration	54,854	50,147	48,074	46,195	46,913	56,323	51,873
Support services – school administration	407,163	408,278	418,022	444,656	466,862	477,168	502,506
Support services – business	308,375	178,623	156,713	138,800	106,523	123,791	136,540
Operation and maintenance of plant services	596,729	598,680	631,941	588,588	599,899	638,201	727,090
Student transportation services	160,391	165,658	177,416	161,845	161,395	168,121	173,167
Data processing services	214,216	229,931	251,850	230,434	115,311	114,630	108,451
Operation of noninstructional services	281,764	270,570	254,493	273,236	282,992	288,736	324,348
Facilities acquisition and construction services	106,590	191,848	243,099	160,224	135,827	104,746	89,029
Other uses	6,505	460	661	778	799	418	882
Interest expense	115,280	92,250	233,585	256,372	285,051	342,058	350,420
Interagency disbursements	—	—	32,996	28,927	33,678	39,371	—
Depreciation – unallocated	70,078	53,054	101,156	105,026	130,561	180,328	217,052
Unfunded OPEB Expense - unallocated	—	—	—	—	—	—	832,665
Total Governmental Activities	<u>6,743,703</u>	<u>6,943,044</u>	<u>7,329,895</u>	<u>7,390,191</u>	<u>7,347,946</u>	<u>7,577,170</u>	<u>9,028,343</u>
Program Revenues:							
Charges for services							
Instruction	2,318	2,413	2,603	2,611	2,968	3,357	5,482
Support services – instructional staff	249	386	350	449	290	184	251
Support services – school administration	65	61	—	—	—	—	—
Support services – business	408	651	323	2,754	5,769	10,592	8,337
Operation and maintenance of plant services	2,961	4,306	12,051	4,336	4,154	4,496	5,206
Operation of noninstructional services	36,144	32,921	25,106	21,251	21,024	18,886	16,979
Facilities acquisition and construction services	37,175	43,217	69,723	77,480	85,122	95,222	65,426
Total Charges for Services	<u>79,320</u>	<u>83,955</u>	<u>110,156</u>	<u>108,881</u>	<u>119,327</u>	<u>132,737</u>	<u>101,681</u>
Operating grants and contributions							
Instruction	1,172,207	1,131,218	1,128,068	1,393,191	1,473,164	1,707,841	1,662,599
Support services – students	125,070	160,893	149,282	160,625	178,438	205,621	223,250
Support services – instructional staff	342,755	561,732	578,661	507,369	526,379	472,633	532,258
Support services – general administration	2,783	1,526	26	32	23	1	87
Support services – school administration	93,865	95,732	105,859	102,449	143,761	145,581	139,550
Support services – business	90,761	105,572	114,992	115,938	99,041	85,947	72,513
Operation and maintenance of plant services	93,567	71,839	77,355	117,736	131,411	150,877	151,932
Student transportation services	136,590	150,701	163,879	158,174	170,604	163,325	170,100
Data processing services	873	2,607	2,832	5,973	7,404	10,135	7,326
Operation of noninstructional services	190,044	199,193	205,688	227,186	236,391	236,113	249,817
Facilities acquisition and construction services	519	11,714	30,753	6,619	5,220	893	14,609
Other uses	15,414	240	249	273	—	—	—
Interest expense	—	—	—	—	—	—	559
Total Operating Grants and Contributions	<u>2,264,448</u>	<u>2,492,967</u>	<u>2,557,644</u>	<u>2,795,565</u>	<u>2,971,836</u>	<u>3,178,967</u>	<u>3,224,600</u>
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	11,216
Facilities acquisition and construction services	58,302	187,777	593,818	88,246	366,473	298,645	653,191
Total Capital Grants and Contributions	<u>106,358</u>	<u>252,539</u>	<u>620,454</u>	<u>93,700</u>	<u>374,192</u>	<u>436,408</u>	<u>664,407</u>
Total Program Revenues	<u>2,450,126</u>	<u>2,829,461</u>	<u>3,288,254</u>	<u>2,998,146</u>	<u>3,465,355</u>	<u>3,748,112</u>	<u>3,990,688</u>
Net Expenses	<u>(4,293,577)</u>	<u>(4,113,583)</u>	<u>(4,041,641)</u>	<u>(4,392,045)</u>	<u>(3,882,591)</u>	<u>(3,829,058)</u>	<u>(5,037,655)</u>
General Revenues:							
Taxes:							
Property taxes, levied for general purposes	1,038,777	1,098,628	1,199,891	850,516	644,637	811,282	806,413
Property taxes, levied for debt service	138,144	112,310	236,121	308,537	331,097	444,951	539,735
Property taxes, levied for community redevelopment	—	—	3,756	3,394	1,713	4,479	5,775
State aid – formula grants	2,189,402	2,196,960	2,094,751	2,582,322	2,781,133	2,901,720	2,817,720
Grants, entitlements and contributions not restricted to specific programs	502,878	514,667	415,325	489,060	441,396	531,067	505,638
Unrestricted investment earnings	74,023	28,378	60,898	70,589	138,346	149,311	156,817
Miscellaneous	8,336	96,542	8,519	13,001	6,386	12,456	85,547
Special item – gain on sales of capital assets	—	—	11,705	—	—	—	—
Total General Revenues	<u>3,951,560</u>	<u>4,047,485</u>	<u>4,030,966</u>	<u>4,317,419</u>	<u>4,344,708</u>	<u>4,855,266</u>	<u>4,917,645</u>
Change in Net Assets	<u>\$ (342,017)</u>	<u>\$ (66,098)</u>	<u>\$ (10,675)</u>	<u>\$ (74,626)</u>	<u>\$ 462,117</u>	<u>\$ 1,026,208</u>	<u>\$ (120,010)</u>

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

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Governmental Activities Tax Revenues by Source
Last Seven 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>	<u>2007-2008</u>
Property Taxes, Levied for:							
General purposes	\$ 1,038,777	\$ 1,098,628	\$ 1,199,891	\$ 850,516	\$ 644,637	\$ 811,282	\$ 806,413
Debt service	138,144	112,310	236,121	308,537	331,097	444,951	539,735
Community redevelopment	—	—	3,756	3,394	1,713	4,479	5,775
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>	<u>\$ 1,351,923</u>

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

See accompanying independent auditor's report.



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

	<u>1998-1999</u>	<u>1999-2000</u>	<u>2000-2001</u>
General Fund:			
Reserved	\$ 185,278	\$ 210,896	\$ 363,905
Unreserved	<u>469,483</u>	<u>395,614</u>	<u>368,420</u>
Total General Fund	<u>\$ 654,761</u>	<u>\$ 606,510</u>	<u>\$ 732,325</u>
District Bonds:			
Reserved	\$ —	\$ 22,571	\$ 25,763
Unreserved	<u>213,661</u>	<u>244,336</u>	<u>537,506</u>
Total District Bonds	<u>\$ 213,661</u>	<u>\$ 266,907</u>	<u>\$ 563,269</u>
All Other Governmental Funds:			
Reserved	\$ 77,392	\$ 97,318	\$ 135,598
Unreserved, reported in:			
Special revenue funds	145,668	141,783	113,294
Debt service funds	—	—	—
Capital projects funds	<u>138,942</u>	<u>543,984</u>	<u>747,617</u>
Total All Other Governmental Funds	<u>\$ 362,002</u>	<u>\$ 783,085</u>	<u>\$ 996,509</u>

See accompanying independent auditor's report.

<u>2001-2002</u>	<u>2002-2003</u>	<u>2003-2004</u>	<u>2004-2005</u>	<u>2005-2006</u>	<u>2006-2007</u>	<u>2007-2008</u>
\$ 202,674	\$ 236,766	\$ 171,216	\$ 96,540	\$ 144,673	\$ 333,103	\$ 403,518
<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>253,718</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>	\$ <u>657,236</u>
\$ 20,404	\$ 17,545	\$ —	\$ 7,328	\$ 3,300	\$ 3,300	\$ 3,800
<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>957,677</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>	\$ <u>961,477</u>
\$ 177,347	\$ 227,898	\$ 227,216	\$ 232,269	\$ 310,349	\$ 391,146	\$ 7,391
129,544	98,068	44,013	101,059	187,178	245,129	236,369
—	—	—	—	—	—	497,093
<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>915,409</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>	\$ <u>1,656,262</u>

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

	<u>1998-1999</u>	<u>1999-2000</u>	<u>2000-2001</u>
Revenues:			
Revenue limit sources	\$ 2,669,411	\$ 2,819,422	\$ 3,181,588
Federal revenues	504,998	592,508	601,388
Other state revenues	1,617,343	1,939,748	2,057,373
Other local revenues	218,269	286,464	366,511
Total Revenues	<u>5,010,021</u>	<u>5,638,142</u>	<u>6,206,860</u>
Expenditures:			
Current:			
Certificated salaries	2,401,413	2,523,725	2,872,065
Classified salaries	813,978	882,109	986,491
Employee benefits	716,837	766,455	920,801
Books and supplies	324,847	395,193	477,507
Services and other operating expenditures	489,278	590,074	634,840
Capital outlay	416,359	362,680	412,427
Debt service – principal	120,902	40,169	39,399
Debt service – bond, COPs, and capital leases interest	25,568	46,530	78,882
Debt service – refunding bond issuance cost	—	—	—
Debt service – TRANS interest	—	7,958	14,664
Other outgo	—	—	—
Total Expenditures	<u>5,309,182</u>	<u>5,614,893</u>	<u>6,437,076</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(299,161)</u>	<u>23,249</u>	<u>(230,216)</u>
Other Financing Sources (Uses):			
Transfers in	119,144	422,092	295,058
Transfers out	(119,144)	(422,092)	(295,058)
Issuance of bonds	350,000	300,000	386,655
Premium on bonds issued	—	—	—
Refunding bonds issued	—	—	—
Premium on refunding bonds issued	—	—	—
Issuance of COPs	—	34,606	205,261
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	18,814	68,014	153,739
Special item - proceeds from Sullivan Canyon sale	—	—	—
Insurance proceeds - fire damage	—	—	—
Capital leases	—	—	—
Land and building sale/lease	—	—	—
Children center facilities revolving fund	—	—	—
Other financing sources	—	—	—
Other financing uses	—	—	—
Total Other Financing Sources	<u>368,814</u>	<u>402,620</u>	<u>745,655</u>
Net Change in Fund Balances	<u>\$ 69,653</u>	<u>\$ 425,869</u>	<u>\$ 515,439</u>
Debt Service as A Percentage of Noncapital Expenditures	3.0%	1.8%	2.2%

See accompanying independent auditor's report.

	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008
\$	3,407,354	\$ 3,483,050	\$ 3,436,839	\$ 3,575,257	\$ 3,724,599	\$ 3,892,689	\$ 3,624,134
	691,622	824,684	984,482	1,071,628	1,150,060	1,023,992	1,016,465
	1,936,512	2,137,919	2,434,073	2,109,674	2,419,412	2,853,979	3,307,609
	349,889	419,927	451,220	549,264	637,941	835,529	925,869
	<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>	<u>8,874,077</u>
	2,969,537	3,066,319	3,055,482	3,110,756	3,187,441	3,362,475	3,469,214
	1,050,980	1,066,527	1,065,409	1,069,595	1,098,558	1,180,482	1,269,680
	1,061,783	1,214,906	1,312,887	1,349,301	1,418,575	1,440,468	1,464,061
	496,524	495,117	468,036	499,411	567,167	507,486	574,902
	657,540	766,443	822,234	647,151	691,388	785,742	880,455
	760,784	704,931	1,003,568	1,398,243	1,532,862	1,494,934	1,644,450
	105,321	93,608	114,150	110,501	94,843	153,258	200,514
	91,526	105,687	225,574	232,333	241,131	285,315	334,525
	—	—	—	1,337	2,732	9,665	6,020
	20,231	2,487	6,472	—	—	—	—
	—	(50)	40,529	33,748	41,695	46,865	882
	<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>9,844,703</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>	<u>(970,626)</u>
	360,338	264,190	172,148	598,061	381,658	362,932	499,947
	(360,338)	(263,998)	(171,934)	(598,061)	(381,658)	(366,926)	(512,061)
	500,000	2,607,345	—	200,000	1,115,712	900,000	1,000,000
	—	—	—	4,124	64,283	33,649	42,258
	—	—	—	219,125	778,673	1,889,000	—
	—	—	—	16,338	64,058	49,073	—
	222,391	272,303	—	219,790	10,000	—	105,374
	—	—	—	—	—	(1,324)	—
	—	—	—	(234,126)	(656,098)	(1,927,084)	—
	—	—	—	(333,958)	(178,618)	—	—
	—	—	—	1,318	63	—	—
	—	—	—	—	—	—	—
	—	—	11,918	—	—	—	—
	—	—	—	—	—	2,935	5,332
	5,975	3,888	7,630	1,999	1,318	2,394	1,253
	—	—	—	—	—	—	14,110
	441	518	—	—	—	—	—
	—	2,159	—	—	—	—	—
	—	(2,210)	—	—	—	—	—
	<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>1,156,213</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>	<u>\$ 185,587</u>
	3.4%	3.0%	4.9%	4.9%	4.6%	5.8%	6.6%

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.
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
2007-2008	3,469,214	1,269,680	1,464,061	574,902	880,455

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 auditor's report.

Capital Outlay	Debt Service	Other Outgo ⁽¹⁾	Operating Transfers Out	Total Expenditures and Other Uses
\$ 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
1,644,450	541,059	882	512,061	10,356,764

LOS ANGELES UNIFIED SCHOOL DISTRICT
Governmental Fund Types
Expenditures and Other Uses by Goal and Function
Last Six 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>	<u>2007-2008</u>
Instructional Goals:						
General education	\$ 3,673,054	\$ 3,741,979	\$ 3,935,655	\$ 4,145,863	\$ 4,270,273	\$ 4,462,660
Special education	1,166,539	1,214,874	1,195,855	1,252,592	1,333,134	1,395,418
Others	97,706	99,995	94,496	93,176	94,206	100,135
	<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>	<u>5,958,213</u>
Noninstructional Goals:						
Community services	25,371	24,258	26,423	27,165	30,269	24,762
Child care services	6,920	5,234	7,887	3,656	4,408	4,663
	<u>32,291</u>	<u>29,492</u>	<u>34,310</u>	<u>30,821</u>	<u>34,677</u>	<u>29,425</u>
Support Services	1,195,756	1,207,134	1,058,764	1,083,003	1,182,086	1,273,056
Facilities Acquisition	853,255	1,219,838	1,522,494	1,635,060	1,581,955	1,734,161
Food Services	220,978	212,280	222,640	241,888	253,798	286,769
Other Outgo:						
Debt service	201,782	346,196	344,171	517,324	2,386,554	541,059
All other outgo	264,457	214,487	1,210,136	1,093,039	425,341	534,081
	<u>466,239</u>	<u>560,683</u>	<u>1,554,307</u>	<u>1,610,363</u>	<u>2,811,895</u>	<u>1,075,140</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>	<u>\$ 10,356,764</u>

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

See accompanying independent auditor's 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
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
2007-2008	3,624,134	1,016,465	3,307,609	925,869	1,668,274	10,542,351

See accompanying independent auditor's report.

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

Fiscal Year			Secured*	Unsecured*	Total	Increase (Decrease) Over Preceding Year		Total A.D.A.**	Assessed Value per Unit of A.D.A.
						Amount	Rate		
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
2007-2008			419,052,509	21,861,881	440,914,390	38,305,553	9.51	700,073	630

* Source: 2007-2008 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 auditor's report.



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

Fiscal Year	Unified General	Unified Bonds	Total Schools Tax	State-Wide for All Agencies
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
2007-2008	0.000040	0.123302	0.123342	1.000000

Source: 2007-2008 Los Angeles County Auditor-Controller “Taxpayers’ Guide”

See accompanying independent auditor's report.

Total District Tax	Metropolitan Water District	Los Angeles County General	City of Los Angeles District No.1	County Flood Control District
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
1.123342	0.004500	—	0.038051	—

LOS ANGELES UNIFIED SCHOOL DISTRICT
Largest Local Secured Taxpayers
Year Ended June 30, 2008
(in thousands)
(Unaudited)

	Property Owner	Primary Land Use	2007-2008 Assessed Valuation	% of Total ⁽¹⁾
1	Douglas Emmett Realty Funds	Office Building	\$ 2,544,804	0.61%
2	Arden Realty LP	Office Building	1,658,297	0.40
3	Universal Studios LLC	Motion Picture Studio	1,370,736	0.33
4	Anheuser Busch Inc.	Industrial	959,064	0.23
5	Warner Bros. Entertainment Inc.	Motion Picture Studio	601,232	0.14
6	Maguire Partners 355 S. Grand LLC	Office Building	555,773	0.13
7	One Hundred Towers LLC	Office Building	554,616	0.13
8	Duesenberg Investment Co.	Office Building	550,447	0.13
9	CA Colorado Center LLC	Office Building	452,158	0.11
10	Trizec 333 LA LLC	Office Building	429,000	0.10
11	Topanga Plaza LP	Regional Mall	422,150	0.10
12	Paramount Pictures Corp.	Motion Picture Studio	415,281	0.10
13	Rreef America REIT II Corp. BBBB	Office Building	412,840	0.10
14	Twentieth Century Fox Film Corp.	Motion Picture Studio	370,349	0.09
15	Trizec 601 Figueroa LLC	Office Building	362,000	0.09
16	Walt Disney Productions Inc.	Motion Picture Studio	359,691	0.09
17	Century City Mall LLC	Regional Mall	330,471	0.08
18	AP Properties Ltd.	Office Building	317,385	0.08
19	1999 Stars LLC	Office Building	313,153	0.07
20	Sunstone Century Star LLC	Hotel	306,019	0.07
			<u>\$ 13,285,466</u>	<u>3.18%</u>

⁽¹⁾ 2007-2008 Assessed Valuation: \$418,972,149

Source: California Municipal Statistics, Inc.

See accompanying independent auditor's report.

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

Fiscal Year	Total Tax Levy	ERAF Funds ⁽²⁾	Current Tax Collections	Delinquent & Other Unpaid Tax Levies ⁽¹⁾	Current Delinquency Rate ⁽³⁾
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
2007-2008	1,345,503	(42,753)	1,241,733	76,816	6.19

⁽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 auditor's report.

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

Fiscal Year		K-12 Base Revenue Limit		Adult Base Revenue Limit
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
2007-2008		5,796.56		2,645.30 *

* Beginning with fiscal year 2007-08, the principal apportionment for Adult is no longer a revenue limit item. It was determined by the State to be more appropriately classified as other state apportionments.

See accompanying independent auditor's report.



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

	1998-1999		1999-2000	
	Amount	Percent	Amount	Percent
Revenues and other sources				
Revenue limit sources	\$ 2,669,411	48.54%	\$ 2,819,422	43.50%
Federal revenues	504,998	9.19	592,508	9.14
Other state revenues	1,617,343	29.42	1,958,982	30.22
Other local revenues	218,269	3.97	286,464	4.42
Operating transfers in	119,144	2.17	422,092	6.51
Proceeds from issuance of bonds	350,000	6.37	300,000	4.63
Premium on bonds issued	—	—	—	—
Proceeds from refunding bonds issued	—	—	—	—
Premium on refunding bonds issued	—	—	—	—
State school facilities apportionments	18,814	0.34	68,014	1.05
Proceeds from Refunding Cert. of Participation ⁽¹⁾	—	—	—	—
Proceeds from Certif. of Participation/Long-term Capital Lease ⁽¹⁾	—	—	34,606	0.53
Proceeds from CA Energy Commission loan	—	—	—	—
Proceeds from Sullivan Canyon sale	—	—	—	—
Proceeds from Ramona HS	—	—	—	—
Insurance proceeds - fire damage	—	—	—	—
Children center facilities fund	—	—	—	—
Total Revenues and Other Sources	\$ 5,497,979	100.00%	\$ 6,482,088	100.00%
Expenditures and other uses				
Current:				
Certificated salaries	\$ 2,401,413	44.25%	\$ 2,523,725	41.80%
Classified salaries	813,977	14.99	882,109	14.61
Employee benefits ^{(2) (3)}	716,837	13.21	766,455	12.70
Books and supplies	324,847	5.98	395,193	6.55
Services and other operating expenditures ⁽²⁾	489,278	9.01	590,074	9.77
Capital outlay	416,359	7.67	362,680	6.01
Debt service	120,902	2.23	51,696	0.86
Other outgo ^{(2) (3)}	25,568	0.47	42,961	0.71
Operating transfers out ⁽⁴⁾	119,144	2.19	422,092	6.99
Discount on issuance of refunding bonds	—	—	—	—
Payment to refunded bonds escrow agent	—	—	—	—
Payment to refunded COPs escrow agent	—	—	—	—
Total Expenditures and Other Uses	\$ 5,428,325	100.00%	\$ 6,036,985	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 undertake administration building improvements. The 2005-2006 COPs proceeds were used to modernize nine schools to accommodate existing or planned academy programs that addressed student career pathway/higher education interests. The 2007-2008 COPs proceeds were used to finance certain acquisition, development and installation of information technology systems of the District.

See accompanying independent auditor's report.

2000-2001			2001-2002			2002-2003		
Amount	Percent		Amount	Percent		Amount	Percent	
\$ 3,181,588	43.90%		\$ 3,388,475	45.84%		\$ 3,456,958	34.77%	
601,388	8.30		686,278	9.28		814,681	8.20	
2,057,373	28.39		1,922,377	26.01		2,118,662	21.31	
366,511	5.06		325,743	4.41		401,287	4.04	
295,058	4.07		339,093	4.59		264,190	2.66	
386,655	5.33		500,000	6.77		2,607,345	26.23	
—	—		—	—		—	—	
—	—		—	—		—	—	
—	—		—	—		—	—	
153,739	2.12		—	—		—	—	
—	—		—	—		—	—	
205,261	2.83		228,366	3.09		276,191	2.78	
—	—		—	—		—	—	
—	—		—	—		—	—	
—	—		—	—		—	—	
—	—		441	0.01		518	0.01	
<u>\$ 7,247,573</u>	<u>100.00%</u>		<u>\$ 7,390,773</u>	<u>100.00%</u>		<u>\$ 9,939,832</u>	<u>100.00%</u>	
\$ 2,872,065	42.67%		\$ 2,949,992	39.20%		\$ 3,036,964	39.41%	
986,491	14.65		1,044,050	13.87		1,056,274	13.71	
849,113	12.61		1,056,848	14.04		1,207,073	15.66	
477,507	7.09		492,982	6.55		490,211	6.36	
634,680	9.43		650,543	8.64		757,868	9.83	
412,427	6.13		756,064	10.04		691,793	8.98	
132,945	1.97		217,078	2.88		201,782	2.62	
71,848	1.07		(387)	(0.01)		(145)	—	
295,058	4.38		360,338	4.79		263,998	3.43	
—	—		—	—		—	—	
—	—		—	—		—	—	
—	—		—	—		—	—	
<u>\$ 6,732,134</u>	<u>100.00%</u>		<u>\$ 7,527,508</u>	<u>100.00%</u>		<u>\$ 7,705,818</u>	<u>100.00%</u>	

⁽²⁾ "Other outgo" includes Tuition for Handicapped Pupils. From fiscal year 2003-2004 to fiscal year 2006-2007, Charter Schools In-lieu of Taxes was included in total expenditures under object 7280 as Other transfers out. Starting with fiscal year 2007-2008, this is presented as reduction of the revenues, like it was presented prior to 2003-2004.

⁽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)

	2003-2004		2004-2005	
	Amount	Percent	Amount	Percent
Revenues and other sources				
Revenue limit sources	\$ 3,436,839	45.83%	\$ 3,575,257	41.73%
Federal revenues	984,482	13.13	1,071,628	12.51
Other state revenues	2,434,073	32.46	2,109,674	24.63
Other local revenues	451,220	6.02	549,264	6.41
Operating transfers in	172,148	2.30	598,061	6.98
Proceeds from issuance of bonds	—	—	200,000	2.33
Premium on bonds issued	—	—	4,124	0.05
Proceeds from refunding bonds issued	—	—	219,125	2.56
Premium on refunding bonds issued	—	—	16,338	0.19
State school facilities apportionments	—	—	—	—
Proceeds from Refunding Cert. of Participation ⁽¹⁾	—	—	—	—
Proceeds from Certif. of Participation/Long-term Capital Lease ⁽¹⁾	7,630	0.10	221,789	2.59
Proceeds from CA Energy Commission loan	—	—	1,318	0.02
Proceeds from Sullivan Canyon sale	11,918	0.16	—	—
Insurance proceeds - fire damage	—	—	—	—
Children center facilities fund	—	—	—	—
Total Revenues and Other Sources	\$ 7,498,310	100.00%	\$ 8,566,578	100.00%
Expenditures and other uses				
Current:				
Certificated salaries	\$ 3,055,482	36.88%	\$ 3,110,756	32.34%
Classified salaries	1,065,409	12.86	1,069,595	11.12
Employee benefits ^{(2) (3)}	1,312,887	15.84	1,349,301	14.03
Books and supplies	468,036	5.65	499,411	5.19
Services and other operating expenditures ⁽²⁾	821,490	9.91	646,373	6.72
Capital outlay	1,003,568	12.11	1,398,243	14.54
Debt service	346,196	4.18	344,171	3.58
Other outgo ^{(2) (3)}	41,273	0.50	34,526	0.36
Operating transfers out ⁽⁴⁾	171,934	2.07	598,061	6.22
Discount on issuance of refunding bonds	—	—	—	—
Payment to refunded bonds escrow agent	—	—	234,126	2.43
Payment to refunded COPs escrow agent	—	—	333,958	3.47
Total Expenditures and Other Uses	\$ 8,286,275	100.00%	\$ 9,618,521	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. The 2007-2008 COPs proceeds were used to finance certain acquisition, development and installation of information technology systems of the District.

See accompanying independent auditors' report.

2005-2006			2006-2007			2007-2008		
Amount		Percent	Amount		Percent	Amount		Percent
\$	3,724,599	35.99%	\$	3,892,689	32.86%	\$	3,624,134	34.38%
	1,150,060	11.11		1,023,992	8.65		1,016,465	9.64
	2,419,412	23.38		2,853,979	24.10		3,307,609	31.38
	637,941	6.17		835,529	7.05		925,869	8.78
	381,658	3.69		362,932	3.06		499,947	4.74
	1,115,712	10.78		900,000	7.60		1,000,000	9.49
	64,283	0.62		33,649	0.28		42,258	0.40
	778,673	7.53		1,889,000	15.95		—	—
	64,058	0.62		49,073	0.41		—	—
	—	—		—	—		—	—
	—	—		—	—		—	—
	—	—		—	—		—	—
	11,318	0.11		2,394	0.02		106,627	1.01
	63	—		—	—		—	—
	—	—		—	—		—	—
	—	—		—	—		14,110	0.13
	—	—		2,935	0.02		5,332	0.05
	—	—		—	—		—	—
\$	<u>10,347,777</u>	<u>100.00%</u>	\$	<u>11,846,172</u>	<u>100.00%</u>	\$	<u>10,542,351</u>	<u>100.00%</u>
\$	3,187,441	31.58%	\$	3,362,475	29.07%	\$	3,469,214	33.50%
	1,098,558	10.88		1,180,482	10.21		1,269,680	12.26
	1,418,575	14.06		1,440,468	12.46		1,464,061	14.14
	567,167	5.62		507,486	4.39		574,902	5.55
	691,388	6.85		785,742	6.80		880,455	8.50
	1,532,862	15.19		1,494,934	12.93		1,644,450	15.88
	338,706	3.36		448,238	3.88		541,059	5.22
	41,695	0.41		46,865	0.41		882	0.01
	381,658	3.78		366,926	3.17		512,061	4.94
	—	—		1,324	0.01		—	—
	656,098	6.50		1,927,084	16.67		—	—
	178,618	1.77		—	—		—	—
\$	<u>10,092,766</u>	<u>100.00%</u>	\$	<u>11,562,024</u>	<u>100.00%</u>	\$	<u>10,356,764</u>	<u>100.00%</u>

⁽²⁾ "Other outgo" includes Tuition for Handicapped Pupils. From fiscal year 2003-2004 to fiscal year 2006-2007, Charter Schools In-lieu of Taxes was included in total expenditures under object 7280 as Other transfers out. Starting with fiscal year 2007-2008, this is presented as reduction of the revenues, like it was presented prior to 2003-2004.

⁽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".

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	1998-1999	1999-2000
General	Charter	\$ —	\$ —
General	Child Development	3,792	5,504
General	Special Reserve	49,072	354,958
General	Special Reserve – Community Redevelopment Agency	—	—
General	Special Reserve – FEMA - Earthquake	8,348	5,883
General	Special Reserve – FEMA – Hazard Mitigation	4,606	12,560
General	Health & Welfare	—	—
General	Deferred Maintenance	25,851	9,557
General	Adult Education	—	—
General	Capital Services	24,343	31,380
General	Building – Measure R	—	—
General	Cafeteria	—	—
Capital Services	Building – Measure Y	—	—
Special Reserve	Capital Services	1,456	(38)
Special Reserve	General	—	—
Special Reserve	Building – Measure K	—	—
Special Reserve	Building – Measure R	—	—
Special Reserve	County School Facilities – Prop 55	—	—
Special Reserve	State School Building Lease – Purchase	—	—
Special Reserve – CRA	General	—	—
Capital Facilities	Capital Services	436	—
Capital Facilities	State School Building Lease – Purchase	1,240	2,043
Capital Facilities	Special Reserve	—	—
Capital Facilities	Building – Measure R	—	—
Capital Facilities	Building – Measure K	—	—
State School Building Lease – Purchase	Capital Services	—	—
State School Building Lease – Purchase	Special Reserve	—	—
State School Building Lease – Purchase	Capital Facilities	—	—
State School Building Lease – Purchase	Building – Bond Proceeds	—	—
State School Building Lease – Purchase	Building – Measure K	—	—
County School Facilities	Capital Services	—	—
County School Facilities	Special Reserve	—	—
County School Facilities	Building – Measure R	—	—
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 47	Building – Measure R	—	—
County School Facilities – Prop 47	County School Facilities	—	—
County School Facilities – Prop 47	County School Facilities – Prop 55	—	—
County School Facilities – Prop 47	Special Reserve	—	—
County School Facilities – Prop 47	Capital Facilities	—	—
County School Facilities – Prop 55	Special Reserve	—	—
County School Facilities – Prop 55	Special Reserve – FEMA	—	—
County School Facilities – Prop 55	Building – Bond Proceeds	—	—
County School Facilities – Prop 55	Building – Measure K	—	—
County School Facilities – Prop 55	Building – Measure R	—	—
County School Facilities – Prop 55	County School Facilities	—	—
County School Facilities – Prop 55	Capital Facilities	—	—
County School Facilities – Prop 55	State School Building Lease – Purchase	—	—
County School Facilities – Prop 1D	Building – Bond Proceeds	—	—
County School Facilities – Prop 1D	Building – Measure R	—	—
County School Facilities – Prop 1D	Building – Measure K	—	—
County School Facilities – Prop 1D	County School Facilities – Prop 55	—	—

<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>	<u>2007-2008</u>
\$ —	\$ 20,240	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
7,569	8,947	8,475	8,412	8,065	8,764	7,133	—
186,927	170,845	168,805	12,970	110,540	27,403	109	—
—	1,662	1,419	3,757	—	—	—	—
7,539	26,555	9,167	3,806	—	2,225	—	—
15,860	9,109	9,613	25,681	2,225	—	—	—
—	—	—	—	—	—	3,994	12,114
22,335	24,191	2,134	8,140	23,300	30,000	30,188	31,048
—	—	—	—	—	—	4,199	—
31,562	76,132	37,655	51,430	198,026	4,169	9,758	12,514
—	—	—	—	59	—	—	—
—	—	—	—	—	11,140	288	8,214
—	—	—	—	—	1	—	—
834	—	(5,866)	20,633	28,800	—	1,265	23,484
—	—	—	—	17,155	57,312	28,900	88,200
—	—	—	—	—	—	61,228	47,288
—	—	—	—	—	—	2	—
—	—	—	—	—	—	—	169
—	—	—	—	—	—	—	260
—	—	—	—	—	—	—	4,293
14,351	18,034	17,928	23,260	24,045	21,606	22,215	20,537
8,081	1,303	6,070	5,714	7,613	—	2,601	90
—	—	—	—	—	—	—	219
—	—	—	—	—	—	—	3
—	—	—	—	—	—	—	11,409
—	—	—	—	—	2,629	—	—
—	—	—	—	—	—	—	259
—	—	—	—	—	—	—	90
—	—	—	—	—	—	—	11,944
—	—	—	—	—	—	—	8,651
—	—	—	—	—	3,046	—	—
—	—	—	—	—	—	3	—
—	—	—	—	—	—	—	24
—	—	—	—	—	—	1	106
—	—	—	—	—	—	1,006	7,375
—	—	—	—	—	—	15	2,471
—	—	—	—	—	—	—	4,089
—	—	—	—	—	—	—	734
—	—	—	—	—	—	—	1,170
—	—	—	—	—	—	—	47
—	—	—	—	—	—	—	1,801
—	—	—	—	—	—	42,457	13,610
—	—	—	—	—	—	—	618
—	—	—	—	—	—	—	21,358
—	—	—	—	—	—	68,910	8,055
—	—	—	—	—	—	2,387	17,077
—	—	—	—	—	—	—	1,987
—	—	—	—	—	—	—	90
—	—	—	—	—	—	—	15,084
—	—	—	—	—	—	—	1,721
—	—	—	—	—	—	—	1,791
—	—	—	—	—	—	—	1,045
—	—	—	—	—	—	—	1,072

(Continued)

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

From	To	1998-1999	1999-2000
Adult Education	Special Reserve	\$ —	\$ 245
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	County School Facilities – Prop 47	—	—
Building – Measure R	County School Facilities – Prop 55	—	—
Building – Measure R	Building – Measure K	—	—
Building – Measure R	Building – Measure Y	—	—
Building – Measure R	Special Reserve	—	—
Building – Measure R	State School Building Lease – Purchase	—	—
Building – Measure R	Capital Facilities	—	—
Building – Measure Y	General	—	—
Building – Measure Y	Capital Services	—	—
Building – Measure Y	Building – Measure K	—	—
Building – Measure Y	Special Reserve	—	—
Building – Measure K	County School Facilities	—	—
Building – Measure K	County School Facilities – Prop 55	—	—
Building – Measure K	Special Reserve	—	—
Building – Measure K	Building – Measure R	—	—
Building – Measure K	Building – Measure Y	—	—
Building – Measure K	Building – Bond Proceeds	—	—
Building – Measure K	State School Building Lease – Purchase	—	—
Building – Measure K	Capital Facilities	—	—
Building – Bond Proceeds	Building – Measure R	—	—
Building – Bond Proceeds	Building – Measure K	—	—
Building – Bond Proceeds	County School Facilities	—	—
Building – Bond Proceeds	County School Facilities – Prop 47	—	—
Building – Bond Proceeds	County School Facilities – Prop 55	—	—
Building – Bond Proceeds	Capital Services	—	—
Building – Bond Proceeds	State School Building Lease – Purchase	—	—
Capital Services	General	—	—
Capital Services	Special Reserve	—	—
		<u>\$ 119,144</u>	<u>\$ 422,092</u>

See accompanying independent auditor's 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>	<u>2007-2008</u>
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
—	—	2,421	2,583	—	—	—	10,600
—	—	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	15,368
—	—	—	—	—	—	1,475	666
—	—	—	—	—	—	—	94
—	—	—	—	—	—	—	1,767
—	—	—	—	—	—	1,563	22,560
—	—	—	—	—	—	—	8,901
—	—	—	—	—	—	—	1,151
—	—	—	—	—	—	—	2,970
—	—	—	—	—	—	—	33
—	—	—	—	—	30,000	30,000	30,000
—	—	—	—	—	178,618	1,904	1,904
—	—	—	—	—	—	8,864	364
—	—	—	—	—	—	—	61
—	—	—	—	—	—	6,105	658
—	—	—	—	—	—	—	1,562
—	—	—	—	—	—	27,907	7,819
—	—	—	—	—	—	173	9,956
—	—	—	—	—	—	—	8
—	—	—	—	—	—	146	839
—	—	—	—	—	—	—	1
—	—	—	—	—	—	—	71
—	—	—	—	—	—	9	3,795
—	—	—	—	—	—	—	943
—	—	—	—	—	—	—	13
—	—	—	—	—	—	—	1,252
—	—	—	—	—	—	—	3,287
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	3,307
—	—	—	—	7,370	—	—	—
—	—	—	—	17,155	—	—	—
<u>\$ 295,058</u>	<u>\$ 360,338</u>	<u>\$ 264,190</u>	<u>\$ 171,934</u>	<u>\$ 598,061</u>	<u>\$ 381,658</u>	<u>\$ 366,926</u>	<u>\$ 512,061</u>

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

Fiscal Year	Principal	Interest	Total Debt Service ⁽¹⁾	Total General Governmental Expenditures	Ratio of Debt service to Total General Governmental Expenditures
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	9,618,521	5.16
2005-2006	89,885	237,622	327,507	10,092,766	3.24
2006-2007	149,230	284,196	433,426	11,562,024	3.75
2007-2008	197,285	334,967	532,252	10,356,764	5.14

Notes:

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

See accompanying independent auditor's report.

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

Fiscal Year	Population Los Angeles Unified *	Total Assessed Value	Gross Debt ⁽¹⁾	Debt Service Monies Available	Net Debt ⁽¹⁾	Ratio of Net Debt to Assessed Value		Net Debt per Capita
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	302,401	** 5,931,262	1.6301		1,240
2006-2007	4,825,016	402,608,837	7,058,754	383,068	** 6,675,686	1.6581		1,384
2007-2008	4,839,918	440,914,390	8,002,427	497,001	7,505,426	1.7022		1,551

* Estimate

** Revised

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

Sources: 2007-2008 Los Angeles County Auditor-Controller "Taxpayers' Guide"
Los Angeles County Department of Regional Research Section

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Schedule of Direct and Overlapping Bonded Debt
Year Ended June 30, 2008
(Dollars in thousands)
(Unaudited)

Government	Percentage Applicable	Amount Applicable
Direct:		
Los Angeles Unified School District		
General Obligation Bonds	100.000%	\$ 7,500,552
Certificates of Participation	100.000	501,875
		<u>8,002,427</u>
Overlapping:		
Los Angeles County General Fund Obligations	45.795	470,744
Los Angeles County Pension Obligations	45.795	161,315
Los Angeles County Superintendent of Schools Certificates of Participation	45.795	8,179
Los Angeles County Flood Control District	46.522	46,154
Metropolitan Water District	22.724	74,356
Los Angeles Community College District	81.926	1,123,058
City of Los Angeles	99.919	1,301,980
City of Los Angeles General Fund and Judgment Obligations	99.919	1,718,317
Other City General Fund and Pension Obligations	various	174,214
Los Angeles County Sanitation Districts		
Nos. 1, 2, 3, 4, 5, 8, 9, 16 and 23 Authorities	various	54,748
Los Angeles County Regional Park & Open Space Assessment District	45.795	123,644
Los Angeles Metropolitan Transportation Agency Benefit Assessment Districts	100.000	43,535
City Community Facilities Districts	100.000	139,205
City of Los Angeles Assessment District #1	100.000	6,489
City of Los Angeles Landscaping and Special Tax Assessment District	99.919	109,561
Other City and Special District 1915 Act Bonds	100.000	27,160
Other Cities	various	46,754
Palos Verdes Library District	5.079	461
Total Overlapping		<u>5,629,874</u>
Total Gross Direct and Overlapping Bonded Debt		13,632,301 ⁽¹⁾
Less:		
Los Angeles Unified School District (amount set-aside in Building Fund to make payments on 2000 Series A Qualified Zone Academic Bonds)		22,202
Los Angeles Unified School District (economic defeasance of 2005 Qualified Zone Academic Bonds resulting from investment agreement)		10,000
City self-supporting bonds		<u>12,461</u>
Total Net Direct and Overlapping Bonded Debt		\$ <u>13,587,638</u>
State School Building Aid Repayable as of 6/30/08	\$ 285	

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

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

See accompanying independent auditor's report.

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

Fiscal Year	Debt Limit	Total Amount of Debt Applicable to Debt Limit	Legal Debt Margin	Total Amount of Debt Applicable to Debt Limit as a Percentage of Debt Limit
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
2007-2008	11,022,860	6,988,667	4,034,193	63.40

Computation of Legal Debt Margin for Fiscal Year Ended June 30, 2008

Assessed valuation (net taxable)	\$ 437,787,125
Plus exempt property	\$ 3,127,264
Total Assessed Valuation	\$ 440,914,389
Debt limit – 2.5% of Assessed Valuation per Education Code Section 15106 ⁽²⁾	11,022,860
Bonded Debt:	
General Obligation Bonds	7,436,547
Assets available for payment of principal:	
Bond Interest & Redemption Fund	(447,880)
Total Amount of Debt Applicable to Debt Limit	6,988,667
Legal Debt Margin (bonded debt) ⁽¹⁾	\$ 4,034,193

⁽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%).

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

See accompanying independent auditor's report.

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

Fiscal Year	Population City of Los Angeles	Population Los Angeles Unified*	Population County of Los Angeles	School Enrollment County of Los Angeles	School Enrollment Los Angeles Unified	Unemployment Rate County of Los Angeles
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	911	** 6.2
2004-2005	3,958	4,776	10,227	1,734	879	** 5.2
2005-2006	3,976	4,785	10,246	1,708	847	** 4.5
2006-2007	4,018	4,825	10,332	1,673	830	** 4.8
2007-2008	4,046	4,840	10,364	1,648	813	7.5

* Estimate

** Revised

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

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Principal Employers
Current Year and Nine Years Ago
(Unaudited)

2008				1999			
Employer	Employees	Rank	Percentage of Total County Employment ⁽¹⁾	Employer	Employees	Rank	Percentage of Total County Employment ⁽²⁾
Kaiser Permanente	32,784	1	0.70%	The Boeing Co.	22,478	1	0.52%
Northrop Grumman Corp.	20,500	2	0.44	Kaiser Permanente	20,000	2	0.46
Boeing Co.	16,510	3	0.35	Ralph's Grocery Co.	20,000	3	0.46
Kroger Co. ⁽³⁾	14,000	4	0.30	Tenet Healthcare Corp.	14,135	4	0.33
Vons	13,603	5	0.29	Walt Disney Co.	12,000	5	0.28
University of Southern California	12,604	6	0.27	Universal Studios	12,000	6	0.28
Target Corp.	12,441	7	0.26	Hughes Electronics Corp.	11,000	7	0.25
Bank of America Corp.	11,000	8	0.23	Pacific Bell	10,800	8	0.25
The Home Depot	10,000	9	0.21	Northrop Grummann Corp. ⁽³⁾	10,000	9	0.23
AT&T Inc. ⁽⁴⁾	9,770	10	0.21	ABM Industries Inc.	8,600	10	0.20
Total	<u>153,212</u>		<u>3.26%</u>	Total	<u>141,013</u>		<u>3.26%</u>

⁽¹⁾ Based on Los Angeles County Employment of 4,702,800

⁽²⁾ Based on Los Angeles County Employment of 4,326,400

⁽³⁾ Los Angeles Business Journal estimate

⁽⁴⁾ Formerly SBC Communications Inc.

Sources: Los Angeles Business Journal
California Employment Development Department

See accompanying independent auditor's report.

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

	1998-1999	1999-2000	2000-2001	2001-2002
Elementary:				
Kindergarten	55,963	55,675	52,649	52,071
Grades 1-3	180,558	180,409	172,706	176,474
Grades 4-6	148,901	156,334	156,021	156,347
Grades 7-8	83,670	86,023	87,223	90,474
Special Education	20,927	22,680	22,327	23,130
County Special Education*	—	—	—	4
Opportunity Schools	63	60	92	97
Home or Hospital	201	210	203	203
Community Day Schools	77	148	159	141
County Community Schools**	—	—	7	12
Total Elementary	490,360	501,539	491,387	498,953
Secondary:				
Regular Classes	137,758	140,440	137,439	142,870
Special Education	8,780	8,700	9,634	10,219
County Special Education*	—	—	—	17
Compulsory Continuation Education	2,944	2,769	2,785	2,858
Opportunity Schools	875	820	875	912
Home or Hospital	93	99	94	90
Community Day Schools	264	297	255	238
County Community Schools**	—	—	244	149
Total Secondary	150,714	153,125	151,326	157,353
Block grant funded fiscally affiliated charters**	—	—	19,952	20,010
Total Block Grant Funded Fiscally Affiliated Charters	—	—	19,952	20,010
Adult program:				
ROC/P Mandated	17,892	18,813	18,865	19,846
Classes for Adults - Mandated	57,684	56,408	55,781	63,355
Concurrently Enrolled Adults	2,455	2,524	2,982	3,170
Full-time Independent Study***	—	—	—	1
Total Adult Program	78,031	77,745	77,628	86,372
Total Average Daily Attendance	719,105	732,409	740,293	762,688
Summer School Hours of Attendance				
Elementary	3,487,072	7,140,461	5,990,462	6,978,428
Secondary	4,792,230	4,988,748	4,305,605	5,237,002
Dependent Charter	—	—	378,575	408,580
Total Hours	8,279,302	12,129,209	10,674,642	12,624,010

* 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 auditor's report.

2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008
50,741	49,775	48,806	47,876	46,131	44,705
173,178	169,239	160,224	151,592	145,181	141,266
156,944	159,617	159,615	152,341	143,384	136,245
93,818	97,978	94,396	91,576	92,832	90,769
23,302	23,585	22,107	20,435	19,740	19,427
6	8	—	—	—	—
13	8	14	10	12	11
164	152	158	159	159	170
190	196	190	172	148	122
17	10	19	16	19	26
498,373	500,568	485,529	464,177	447,606	432,741
148,631	150,239	152,901	152,848	151,323	151,852
10,393	11,026	11,274	11,350	11,253	11,030
17	21	1	—	—	—
2,866	3,031	3,171	3,198	2,972	2,837
430	328	400	407	399	433
88	96	121	120	125	130
674	733	736	757	716	692
143	127	175	156	93	84
163,242	165,601	168,779	168,836	166,881	167,058
17,681	5,143	5,990	5,958	5,936	6,482
17,681	5,143	5,990	5,958	5,936	6,482
19,233	20,125	19,110	14,395	18,857	20,309
63,590	62,570	61,748	63,305	64,867	65,684
4,015	4,592	5,446	5,886	6,594	7,756
3	6	3	7	29	43
86,841	87,293	86,307	83,593	90,347	93,792
766,137	758,605	746,605	722,564	710,770	700,073
7,645,522	8,855,212	12,526,699	12,061,970	9,974,314	10,195,908
5,486,137	5,941,513	6,350,873	8,929,199	8,357,150	8,336,362
195,142	****	****	****	****	****
13,326,801	14,796,725	18,877,572	20,991,169	18,331,464	18,532,270

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

	<u>2002-2003</u>	<u>2003-2004</u>	<u>2004-2005</u>	<u>2005-2006</u>	<u>2006-2007</u>	<u>2007-2008</u>
Governmental Activities:						
Instruction	53,905	54,151	53,601	52,608	52,769	51,839
Support services – students	3,043	2,954	3,074	3,091	3,060	3,459
Support services – instructional staff	5,290	5,079	5,327	5,560	5,280	5,883
Support services – general administration	204	173	193	209	222	220
Support services – school administration	5,685	5,720	5,780	5,870	6,045	6,097
Support services – business	1,605	1,748	1,441	1,119	1,154	1,217
Operation and maintenance of plant services	7,195	7,591	7,398	7,537	7,835	7,830
Student transportation services	1,314	1,279	1,229	1,174	1,236	1,346
Data processing services	476	515	519	557	722	680
Operation of noninstructional services	3,935	3,449	3,389	3,232	3,394	3,685
Facilities acquisition and construction services	538	545	884	937	994	1,093
Total Governmental Activities	<u>83,190</u>	<u>83,204</u>	<u>82,835</u>	<u>81,894</u>	<u>82,711</u>	<u>83,349</u>

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

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Capital Assets by Function
Last Six 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>	<u>2007-2008</u>
Governmental Activities:						
Instruction	\$ 546,694	\$ 528,679	\$ 513,717	\$ 497,404	\$ 478,190	\$ 462,230
Support services – students	2,264	2,662	2,795	2,823	2,850	2,902
Support services – instructional staff	28,251	44,718	55,793	109,660	64,517	63,334
Support services – general administration	3,489	4,037	4,077	4,076	4,125	4,124
Support services – school administration	60,293	60,410	60,447	60,447	71,013	71,875
Support services – business	27,488	31,371	31,397	30,818	32,499	39,700
Operation and maintenance of plant services	129,770	140,029	165,668	177,094	139,831	198,985
Student transportation services	49,205	49,201	49,235	49,357	49,153	46,317
Data processing services	367,824	373,820	401,997	388,367	438,732	445,150
Operation of noninstructional services	9,475	9,712	9,750	9,977	11,806	15,574
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>10,651,910</u>	<u>12,231,831</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>\$ 11,944,626</u>	<u>\$ 13,582,022</u>

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

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Miscellaneous Statistical and Other Data
Year Ended June 30, 2008
(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.

<u>Name</u>	<u>Expiration of Term</u>
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

<u>Name</u>	<u>Title</u>
David L. Brewer III (11/13/06 - 12/31/08)	Superintendent of Schools
Ramon Cortines (effective 1/1/09)	Superintendent of Schools
James Morris	Chief of Staff
Jerry Thornton	Inspector General
Roberta Fesler	General Counsel
David Holmquist	Chief Operating Officer
Judy Elliot	Chief Academic Officer
Megan Reilly	Chief Financial Officer
Guy Mehula	Chief Facilities Executive

(See organization chart on page xi for additional Principal School District Officials.)

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

	<u>2007-2008</u>	<u>2006-2007</u>
Number of Schools: (As of October)		
Elementary Schools	436	437
Middle/Junior High Schools	75	74
Senior High Schools	64	61
Options Schools	59	59
Special Education Schools	17	17
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	27
Newcomer Schools	1	1
Multi-level Schools	11	10
Total Schools and Centers	989	985
Independent Charter Schools	114	93

	<u>2007-2008</u>	<u>2006-2007</u>
Enrollment by Level: (As of October)		
Elementary Schools	295,260	307,692
Middle/Junior High Schools	136,315	141,745
Senior High Schools	165,459	167,113
Magnet Schools/Centers	52,525	53,277
Special Education Schools	3,656	3,673
Total K-12 Enrollment	653,215	673,500
Community Adult Schools	105,668	108,096
Occupational Centers and Skills Centers	42,955	37,672
Total Adult/ROC Enrollment	148,623	145,768
Total Enrollment	801,838	819,268
Early Education Centers	11,013	11,052
Independent Charter Schools	41,073	34,961

See accompanying independent auditor's report.

(Continued)

LOS ANGELES UNIFIED SCHOOL DISTRICT
Miscellaneous Statistical and Other Data (Continued)
Year Ended June 30, 2008
(Unaudited)

		<u>2007-2008</u>	<u>2006-2007</u>
Student-Teacher Ratio			
& Cost Per Student:	Student Enrollment	812,851	830,320
	Teaching Staff ⁽³⁾	35,785	34,929
	Student-Teacher Ratio	22.71 : 1	23.77 : 1
	Total Primary Government Expense	\$ 9,040,290	\$ 7,577,170
	Cost Per Student	\$ 11,122	\$ 9,126
Percent of Free & Reduced			
Students in Lunch Program: ⁽⁴⁾	Elementary	85.48 %	86.97 %
	Secondary	90.23	89.70
	Total	86.94	87.77
Number of Teachers			
by Education Level: ⁽⁴⁾	Bachelor's Degree	1,862	2,239
	Bachelor's Degree + 14 semester units	894	1,173
	Bachelor's Degree + 28 semester units	2,988	3,280
	Bachelor's Degree + 42 semester units	3,657	3,901
	Bachelor's Degree + 56 semester units	3,490	3,420
	Bachelor's Degree + 70 semester units	3,327	3,124
	Bachelor's Degree + 84 semester units	3,310	2,850
	Bachelor's Degree + 98 semester units	10,108	7,147
	Bachelor's Degree + 98 semester units + 15-19 years of service	3,079	2,398
	Bachelor's Degree + 98 semester units + 20-24 years of service	1,548	1,351
	Bachelor's Degree + 98 semester units + 25-29 years of service	1,307	1,215
	Bachelor's Degree + 98 semester units + 30 or more years of service	994	825
	Master's Degree	12,869	9,816
	Doctorate	599	505
	Total	<u>50,032</u>	<u>43,244</u>
Average Teacher Pay			
by Education Level: ⁽⁴⁾	Bachelor's Degree	\$ 43,757	\$ 43,352
	Bachelor's Degree + 14 semester units	47,301	46,896
	Bachelor's Degree + 28 semester units	50,035	50,047
	Bachelor's Degree + 42 semester units	53,524	53,558
	Bachelor's Degree + 56 semester units	57,067	56,982
	Bachelor's Degree + 70 semester units	61,182	61,323
	Bachelor's Degree + 84 semester units	64,605	64,959
	Bachelor's Degree + 98 semester units	69,688	69,891
	Bachelor's Degree + 98 semester units + 15-19 years of service	75,024	75,024
	Bachelor's Degree + 98 semester units + 20-24 years of service	75,597	75,597
	Bachelor's Degree + 98 semester units + 25-29 years of service	77,598	77,598
	Bachelor's Degree + 98 semester units + 30 or more years of service	78,906	78,906
	Master's Degree ⁽¹⁾	+655	+655 ⁽²⁾
	Doctorate ⁽¹⁾	+1,309	+1,309 ⁽²⁾

⁽¹⁾ Amount in addition to Bachelor's Degree pay.

⁽²⁾ Revised.

⁽³⁾ Source: California Department of Education

⁽⁴⁾ Source: District's Statistical Records – as of June of Fiscal Year

Note: Data prior to Fiscal Year 2006-2007 were not required by Governmental Accounting, Auditing, and Financial Reporting.

See accompanying independent auditor's report.

**STATE AND FEDERAL
COMPLIANCE
INFORMATION
SECTION**

LOS ANGELES UNIFIED SCHOOL DISTRICT
Schedule of Average Daily Attendance/Hours of Attendance
Year Ended June 30, 2008

	Second Period Report	Annual Report
Elementary:		
General Education:		
Kindergarten	44,469	44,705
Grades 1-3	141,278	141,266
Grades 4-8	227,627	227,014
Opportunity Schools	8	11
Home or Hospital	157	170
Community Day Schools	101	122
County Community Schools	27	26
Special Education	18,999	19,427
Total Elementary	<u>432,666</u>	<u>432,741</u>
Secondary:		
General Education:		
Regular Classes	155,043	151,852
Continuation Education	2,814	2,837
Opportunity Schools	416	433
Home or Hospital	118	130
Community Day Schools	642	692
County Community Schools	99	84
Special Education	11,108	11,030
Total Secondary	<u>170,240</u>	<u>167,058</u>
Block Grant Funded Fiscally Affiliated Charter	6,504	6,482
Adult Program:		
Regional Occupational Centers & Programs	19,370	20,309
Classes for Adults – Mandated	62,326	65,684
Concurrently Enrolled Adults	7,033	7,756
Full-time Independent Study*	41	43
Total Adult Program	<u>88,770</u>	<u>93,792</u>
Total Average Daily Attendance	<u>698,180</u>	<u>700,073</u>
	Hours of Attendance	
Summer School:		
Elementary	7,808,823	10,195,908
Secondary	7,205,669	8,336,362
Total Hours	<u>15,014,492</u>	<u>18,532,270</u>

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

See accompanying independent auditor's report.

LOS ANGELES UNIFIED SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2008

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	\$ 1,720,793	
Child Nutrition Network	10.561	07-65328	3,182,835	
Subtotal expenditures – Child Nutrition Network				\$ 4,903,628
Passed through California Department of Education:				
Child Nutrition School Programs Breakfast	10.553	19-64733	53,444,047	
Child Nutrition School Programs Lunch	10.555	19-64733	144,661,231	
Child Nutrition School Programs Snack	10.555	19-64733	6,763,150	
Donated Food Commodities	10.555	19-64733	12,781,834	
Child Nutrition Summer Food Services Program Operations	10.559	19-6473-3W	1,182,312	
Child Nutrition Summer Food Services Program Sponsor Administration	10.559	19-6473-3W	122,007	
Subtotal expenditures – Child Nutrition Cluster				218,954,581
Child Nutrition Child Care Food Program Claims	10.558	19-2016-3A & C	8,004,677	
Child Nutrition Child Care Food Program – Cash in Lieu of Commodities	10.558	19-2016-3A & C	403,871	
Subtotal expenditures – Child Care Food Program				8,408,548
Child Nutrition School Wellness	10.574	07-14863-6473-01		11,876
Forest Reserve	10.665	Not available		27,993
Subtotal Pass-Through Programs				232,306,626
Total U.S. Department of Agriculture				232,306,626
U.S. Department of Commerce:				
Passed through Corporation for Public Broadcast Public Broadcasting Programs	11.550	1714		992,930
Subtotal Pass-Through Programs				992,930
Total U.S. Department of Commerce				992,930
U.S. Department of Defense:				
Flood Control Projects	12.106	Not Available	3,060	
Reserve Officer Training Corps Vitalization Act	12.400	Not Available	2,238,833	
Subtotal Direct Programs				2,241,893
Total U.S. Department of Defense				2,241,893
U.S. Department of Housing & Urban Development:				
Passed through County of Los Angeles				
Community Development Block Grant	14.218	E96215-06	12,213	
Passed through City of Carson				
Carson Guidance	14.218	86-0162-0-1-451	9,955	
Subtotal expenditures – Comm. Develop. Block Grants				22,168
Passed through Children's Collective, Inc				
Children Collective Youth Program	14.227	C040107		161,500
Subtotal Pass-Through Programs				183,668
Total U.S. Department of of Housing and Urban Development				183,668
U.S. Department of Justice:				
Community Oriented Policing Services in Schools Award	16.710	2004SHWX0121		1,258,358
Watts Anti Gang	16.744	UL06011250/06AGIS		95,325
Subtotal Direct Program				1,353,683
Total U.S. Department of Justice				1,353,683
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	97,587	
Employment Development Department Trade Act				
Los Angeles Occupational Center	17.245	Contract # 200344	142,724	

LOS ANGELES UNIFIED SCHOOL DISTRICT

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2008

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
Employment Development Department Trade Act				
Harbor Occupational Center	17.245	Contract # 200348	\$ 35,291	
West Valley Occupational Center	17.245	990066	4,212	
A Friedman Occupational Center	17.245	200462	1,561	
Subtotal expenditures – Trade Adjustment Assistance				281,375
California Health Science Education Instruction	17.260	200431		58,980
US Department of labor Youth Build	17.274	YB16846-08-60-A6		109,778
Passed through County of Los Angeles:				
Department of Public Social Services – Greater Avenues for Independence Prog.	17.258	98G429	738	
Department of Public Social Services – Greater Avenues for Independence Prog.	17.258	200105	312,678	
Passed through Carson/Lomita/Torrance Private Industry Council:				
Workforce Investment Act – Youth	17.259	C2005-139	676,263	
Passed through Goodwill Industries of Southern California:				
Workforce Investment Act – Youth	17.259	NONE	18,263	
Passed through Para Los Ninos				
Workforce Investment Act – Youth	17.259	T3483-B	123,076	
Workforce Investment Act – Youth 15%	17.259	R659705-B	79,655	
Passed through University of California, Los Angeles:				
Workforce Investment Act – Youth	17.259	4952-SJB770	17,773	
Workforce Investment Act – Youth	17.259	4952-SJB771	33,284	
Subtotal expenditures – Workforce Investment Act Cluster				1,261,730
Subtotal Pass-Through Programs				1,711,863
Total U.S. Department of Labor				1,711,863
National Science Foundation :				
Urban Systemic Initiative	47.076	ESI-0085037	887,228	
Urban Systemic Initiative	47.076	SubcontX259722	118,532	
Wide Chge. Experimental Study	47.076	896G976	210,583	
Wide Chge. Experimental Study	47.076	X2604701/PA0554566	179,086	
Subtotal Direct Programs				1,395,429
Total National Science Foundation				1,395,429
U.S. Environmental Protection Agency:				
Environmental Protection Agency – Indoor Air Quality	66.034	XA-97970801-2		11,299
Total U.S. Environmental Protection Agency				11,299
U.S. Department of Education:				
Waters Dental assistance	84.116	159164979		2,505
Indian Education	84.060A	S060A060283		27,011
Indian Education	84.060A	S060A070283		194,322
Funds for Improvement of Ed. – Elementary and Secondary Schools	84.215	U215X070162	49,688	
Small Learning Communities	84.215	V215L032230	36,471	
Small Learning Communities	84.215	V215L042267	308,189	
Small Learning Communities	84.215	V215L052108	1,572,852	
Small Learning Communities	84.215	S215L060084	1,657,241	
Teaching American History Grants	84.215	U215X030096	198,816	
Subtotal expenditures – Fund for the Imp. of Education				3,823,257
Bilingual Ed – Comprehensive School Grants	84.293	T293B060105	141,128	
Bilingual Ed – Comprehensive School Grants	84.293	T293B030111	15,103	
Foreign Language Assistance	84.293	T293B030116	38,402	
Foreign Language Assistance	84.293	T293B070149	102,841	
Foreign Language Assistance	84.293	T293B040179	15	
Subtotal expenditures – Foreign Language Assistance				297,489
Gaining Early Awareness and Readiness for				
Undergraduate Programs (GEAR-UP)	84.334	P334A050178-07	5,146,897	
GEAR-UP	84.334	P334A050205-07	1,731,440	
GEAR-UP	84.334	P334S050001	10,739	
GEAR-UP	84.334	P334S050001	41,223	
GEAR-UP	84.334A	P334A060124	908,715	
Subtotal expenditures – GEAR-UP				7,839,014

LOS ANGELES UNIFIED SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2008

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
Los Angeles Early Deciders	84.336	P336C050011	\$	583,184
Subtotal Direct Programs				12,766,782
Passed through California Department of Education:				
Workforce Investment Act – Adult Basic Ed/ESL	84.002	PCA 14508	12,088,067	
Workforce Investment Act – Adult Secondary Ed	84.002	06 13978 64733	677,641	
Eng Lit & Civic Ed-Adult-FY04	84.002	06 14109 64733	1,706,188	
Supplemental education Opportunity	84.007	P007A078953	104,600	
Subtotal expenditures – Adult Education				14,576,496
Title I Program Improvement	84.010	14106	2,960	
Elementary and Secondary Education Act, Title I	84.010	14329	399,328,991	
Elementary and Secondary Education Act, Title I Delinquent	84.010	14357	1,515,851	
Elementary and Secondary Education Act, Title I Neglected	84.010	14329	1,362,538	
School Assist & Intervention Team	84.010	14417	283,305	
School Assist & Intervention Team	84.010	14579	2,457,069	
School Assist & Intervention Team	84.010A	14579	1,512,443	
Title I Program Improvement – District Intervention	84.010	14581	1,805	
Subtotal expenditures – Title I Grants				406,464,962
Migrant Ed – Regular & Summer	84.011	14326/03628		947,734
Special Ed:IDEA Basic Local Assistance Entitlement	84.027	07-13379-6473-01	118,537,425	
Special Ed:IDEA Local Assistance, Private School ISPs	84.027	07-13379-6473-01	496,371	
Special Education Handicapped SFP	84.027	07-13682-6473-01	11,446,130	
Subtotal expenditures – Special Education				130,479,926
IDEA Preschool	84.173	07-14688-6473-00	111,420	
Preschool Expansion Grant	84.173	0713430-6473-01	5,467,779	
Preschool Expansion Grant	84.173	0713431-6473-01	38,802	
Subtotal expenditures – Special Education Cluster				5,618,001
Regional Occupational Center College Work Study	84.033	P033A070312/P033A070401/P 033A070678/P033A078953		239,693
Carl D. Perkins – General Education	84.048	07-14894-64733-00	9,534,445	
Carl D. Perkins – Vocational and Technical Education	84.048	08-14893-74435-00 & 08- 14893-64733-00	2,682,988	
Subtotal expenditures – Career and Technical Education				12,217,433
Pell Grant	84.063	P063P075911		142,567
Infant & Toddler	84.181	07-23761-6473-01		1,149,030
Title IV – Safe and Drug Free Schools-National Programs	84.184	Q184E070053		60,857
Title IV – Safe and Drug Free Schools-State	84.186	Q186A070005		6,237,553
Homeless Education Project	84.196	07-14332-6473-.01		146,422
Public Charter School	84.282A	PCA14531		17,487
Twenty-first Century Learning Centers	84.287	14349	13,404,270	
Twenty-first Century Learning Centers	84.287	14535	3,904,051	
Subtotal expenditures – Twenty-First Century Community Learning Centers				17,308,321
Improving America's Schools Act – Title V Innovative Strategies	84.298	14354		1,727,780
No Child Left Behind (NCLB) Title II – Enhancing Education Through Technology-Competitive	84.318	14368	943,468	
No Child Left Behind Title II – Enhancing Education Through Technology – Formula	84.318	14334	7,530,938	
Subtotal expenditures – Education Technology Grants				8,474,406
GSU Development & Valid of a behavioral	84.324	13492-02		28,727
Advanced Placement	84.330	14831		467,540
AIM Project	84.351D	U351D050021		172,283
Transition Teaching Program	84.350	U350A070039		101,055
Reading First	84.357A	14328		17,839,639
Title III, Limited English Proficient Professional Dev	84.365	14346		28,381,273
No Child Left Behind Title II-B – Math	84.366	14512		614,745
No Child Left Behind Title II-A – Teacher Quality	84.367	S367A020005A		52,848,125
Passed through State of California - Military Department:				
Angel Gate Academy - Department of Military	Not Available	T0122		152,538
Passed through State Department of Rehabilitation:				
Workability II – Regional Occupational Center	84.126	26403 & 26706		514,927
Rehab-Transition Partnership Program	84.158	24724		1,017,213
Subtotal Pass-Through Programs				707,946,733
Total U.S. Department of Education				720,713,515

LOS ANGELES UNIFIED SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2008

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 Health & Human Services:				
Substance Abuse and Mental Health Service				
Vocational Nurse Education	93.178		\$ 2,026	
SAMHSA-Trauma School Adaption	93.243	U9SM57283A	515,160	
Subtotal expenditures – SAMHSA				517,186
School Health Program	93.938	U87/CCU922664 & IU87DP001201		727,719
Subtotal Direct Programs				1,244,905
Passed through County of Los Angeles:				
Refugee Act of 1980	93.576	24791		162,257
Department of Mental Health-Medi-cal Rehab.	93.778	19101-99		2,800,471
Passed through California Department of Education:				
Employment Training	93.569	200445		12,874
California Instructional Materials and Supplies	93.575	CIMS /193, CCAP/161 & CSCC7713	58,930	
Child Care Center	93.596	CCTR-7163	15,150,726	
Subtotal expenditures – Child Care Development Fund				15,209,656
Passed through California Department. of Health Services:				
Medi-Cal Billing Option	93.778	940830	8,894,452	
Passed through Los Angeles County Office of Education:				
Medi-Cal Administrative Activity	93.778	CS0501360	9,080,950	
Subtotal expenditures – Medicaid Cluster				17,975,402
Passed through Rand Corporation:				
Children Exposed to Violence	93.242	9920050094		23,839
Cmty Academic Partnership-Youth Obesity	93.307	9920060034		122,272
CalServe Regional	94.004	07-13161-6473-00		29,930
Fema Hazard Mitigation	97.039	PCA#10041		570
Subtotal Pass-Through Programs				36,337,271
Total U.S. Department of Health & Human Services				37,582,176
U.S. Department of Homeland Security:				
Passed through California Department of Education:				
Federal Emergency Management Agency (FEMA)-Public Assistance	83.544	PA037-91146		2,951,332
FEMA-Hazard Mitigation	83.548	PA037-91146		19
Subtotal Pass-Through Programs				2,951,351
Total U.S. Department of Homeland Security				2,951,351
Total Expenditures of Federal Awards			\$	1,001,444,433

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2008

(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) \$12,781,834 of donated food commodities received from the U.S. Department of Agriculture, passed-through the State of California, during the year ended June 30, 2008.

(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, 2008
(Unaudited)

Grade Level	1982-1983 Actual Minutes Offered	1986-1987 Minutes Requirements	2007-2008 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⁾	62,160	54,000	62,160 or 65,300	180	163	Yes
Grades 9 to 12	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 annual instructional minutes. Middle schools with grade configurations 6-8 not approved for common planning time have at least 65,300 annual instructional minutes.

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

LOS ANGELES UNIFIED SCHOOL DISTRICT
Schedule of Financial Trends and Analysis
Year Ended June 30, 2008
(Dollars in thousands)
(Unaudited)

	2008-2009 Budgeted	2007-2008 Actual	2006-2007 Actual	2005-2006 Actual	2004-2005 Actual
General Fund:					
Revenues	\$ 6,689,183	\$ 6,808,664	\$ 6,921,612	\$ 6,472,011	\$ 6,204,479
Other Financing Sources	102,826	139,678	66,229	93,438	251,345
Total Revenues and Other Financing Sources	6,792,009	6,948,342	6,987,841	6,565,449	6,455,824
Expenditures	6,827,546	6,928,396	6,677,691	6,404,053	6,094,131
Other Financing Uses	74,220	57,945	49,427	76,453	336,106
Total Expenditures and Other Financing Uses	6,901,766	6,986,341	6,727,118	6,480,506	6,430,237
Change in Fund Balance	(109,757)	(37,999)	260,723	84,943	25,587
Beginning Fund Balance*	574,310	695,235	434,512	349,569	323,982
Ending Fund Balance	\$ 464,553	\$ 657,236	\$ 695,235	\$ 434,512	\$ 349,569
Available Reserves**	\$ 180,668	\$ 153,224	\$ 155,129	\$ 148,748	\$ 133,403
Designated for Economic Uncertainties	\$ 72,382	\$ 72,382	\$ 71,538	\$ 67,638	\$ 33,269
Undesignated Fund Balance	\$ 108,286	\$ 80,842	\$ 83,591	\$ 81,110	\$ 100,134
Available Reserves as a Percentage of Total Expenditures and Other Financing Uses	2.62%	2.19%	2.31%	2.30%	2.07%
Total Long-Term Debt	\$ 10,066,588	\$ 9,439,128	\$ 7,650,753	\$ 7,053,182	\$ 5,935,608
Average Daily Attendance (ADA) at P-2 excluding regional occupational centers programs and adult programs	578,322	609,410	624,490	643,874	665,237

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 year 2004-2005, amount designated for economic uncertainties was 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.

Schedule to Reconcile the Annual Financial Budget Report (SACS)
with Audited Financial Statements
Year Ended June 30, 2008
(in thousands)
(Unaudited)

	<u>All Fund Types</u>
June 30, 2008 Unaudited Actual Financial Reports Fund Balances	\$ 3,370,178
Adjustment:	
Record expenditures re: accrual of progress payments on construction contracts	<u>44,580</u>
June 30, 2008 Audited Financial Statement Fund Balances	\$ <u><u>3,414,758</u></u>

See accompanying notes to state compliance information.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Notes to State Compliance Information

Year Ended June 30, 2008

(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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**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, 2008, which collectively comprise the District's basic financial statements, and have issued our report thereon dated August 15, 2009. 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 the *Government Auditing Standards*, issued by the Comptroller General of the United States, and the Education Audit Appeals Panel's *Standards and Procedures for Audits of California K-12 Local Educational Agencies*.

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-08-01, FS-08-02, FS-08-03, FS-08-04, FS-08-05 and FS-08-06 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 deficiencies FS-08-01 and FS-08-02 of the significant deficiencies described above are material weaknesses.

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 August 15, 2009.

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, 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.

A handwritten signature in black ink that reads 'Simpson & Simpson' in a cursive script.

August 15, 2009
Los Angeles, California



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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, 2008. 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	Title I Grants to Local Educational Agencies, CFDA 84.010;	F-08-01
	Special Education Cluster: Special Education Grants to States, CFDA 84.027;	F-08-03
	Special Education Pre-School Grants, CFDA 84.173;	
	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;	
	Gaining Early Awareness and Readiness for Undergraduate Programs, CFDA 84.334;	
	Reading First State Grants, CFDA 84.357;	
	English Language Acquisition Grants, CFDA 84.365;	
	Improving Teacher Quality State Grants, CFDA 84.367.	



Compliance requirement	Program Name and Catalog of Federal Domestic Assistance (CFDA) number	Finding number
Matching	Gaining Early Awareness and Readiness for Undergraduate Programs, CFDA 34.334.	F-08-08
Earmarking	Vocational Education Basic Grants to States, CFDA 84.048; Safe and Drug-Free Schools and Communities, CFDA 84.186; Twenty-First Century Community Learning Centers, CFDA 84.287; Gaining Early Awareness and Readiness for Undergraduate Programs, CFDA 84.334; Reading First State Grants, CFDA 84.357; English Language Acquisition Grants, CFDA 84.365.	F-08-07 F-08-09
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, CGDA 84.173; Vocational Education Basic Grants to States, CFDA 84.048; Safe and Drug-Free Schools and Communities, CFDA 84.186; State Grants for Innovative Programs, CFDA 84.298; Education Technology State Grants, CFDA 84.318; English Language Acquisition Grants, CFDA 84.365; Improving Teacher Quality State Grants, CFDA 84.367.	F-08-12 F-08-13
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; Special Education Cluster: Special Education Grants to States, CFDA 84.027; Special Education Pre-School Grants, CGDA 84.173; 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; Education Technology State Grants, CFDA 84.318; Gaining Early Awareness and Readiness for Undergraduate Programs, CFDA 84.334; English Language Acquisition Grants, CFDA 84.365.	F-08-14
Program Income	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 Care Development Fund Cluster: Child Care and Development Block Grant, CFDA 93.575; Child Mandatory and Matching Funds of the Child Care and Development Fund, CFDA 93.596.	F-08-16
Reporting	Vocational Education Basic Grants to States, CFDA 84.048.	F-08-18
Subrecipient Monitoring	Twenty-First Century Community Learning Centers, CFDA 84.287; Gaining Early Awareness and Readiness for Undergraduate Programs, CFDA 84.334.	F-08-21



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

In our opinion, except for the noncompliance described in the table, the District complied, in all material respects, with the requirements that are applicable to each of its major federal programs for the year ended June 30, 2008. 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-08-01, F-08-02, F-08-03, F-08-05, F-08-06, F-08-10, F-08-13, F-08-14, F-08-15, F-08-17, F-08-19, F-08-20, F-08-22, and F-08-23.

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-08-01, F-08-03, F-08-04, F-08-05, F-08-06, F-08-07, F-08-08, F-08-09, F-08-10, F-08-11, F-08-12, F-08-13, F-08-14, F-08-15, F-08-16, F-08-17, F-08-18, F-08-19, F-08-20, F-08-21, F-08-22, and F-08-23 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-08-01, F-08-03, F-08-05, F-08-07, F-08-08, F-08-09, F-08-12, F-08-13, F-08-14, F-08-15, F-08-16, F-08-17, F-08-18, F-08-19, F-08-20, F-08-21, F-08-22, and F-08-23 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, 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.

Simpson & Simpson

August 15, 2009
Los Angeles, California



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Auditor's 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, 2008, which collectively comprise the District's basic financial statements, and have issued our report thereon dated August 15, 2009.

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 the *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Education Audit Appeals Panel's *Standards and Procedures for Audits of California K-12 Local Educational Agencies* (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 as a basis for designing 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, Standards and Procedures for Audits of California K-12 Local Education Agencies	Procedures performed
Attendance Accounting:		
Attendance Reporting	8	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	Yes
Continuation Education	10	Yes
Adult Education	9	Yes
Regional Occupational Centers and Programs	6	Yes
Instructional Time for:		
School Districts	6	Yes
County Office of Education	3	Not applicable

	Number of Procedures in Education Audit Appeals Panel Audit Guide, Standards and Procedures for Audits of California K-12 Local Education Agencies	Procedures performed
Community Day Schools	9	Yes
Morgan-Hart Class Size Reduction Program	7	Yes
Instructional Materials:		
General Requirements	12	Yes
K-8 only	1	Yes
Grades 9-12 only	1	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not applicable
Gann Limit calculation	1	Yes
School Construction Funds:		
School District Bonds	3	Yes
State School Facilities Funds	1	Yes
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
Mathematics and Reading Professional Development	4	Yes
Class Size Reduction:		
General Requirements	7	Yes
Option One	3	Yes
Option Two	4	Not applicable
Districts or Charter School with only One School Serving K-3	4	Not Applicable



	Number of Procedures in Education Audit Appeals Panel Audit Guide, Standards and Procedures for Audits of California K-12 Local Education Agencies	Procedures performed
After School Education and Safety Program:		
After School Program	4	Yes
Before School Program	5	Yes
General Requirements	4	Yes
Contemporaneous Records of Attendance for Charter Schools	1	Yes
Mode of Instruction, for Charter Schools	1	Yes
Nonclassroom-Based Instruction/Independent Study, for Charter Schools	15	Not applicable
Determination of Funding for Nonclassroom- Based Instruction, for Charter Schools	3	Not Applicable
Annual Instructional Minutes – Classroom Based for Charter Schools	3	Yes

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, 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.

August 15, 2009
Los Angeles, California

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Schedule of Findings and Questioned Costs

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Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:

- Material weakness (es) identified? Yes
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes

Identification of major programs and type of 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

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CFDA #	Name of Federal Program	Opinion
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	Qualified
84.318	Department of Education – Education Technology State Grants	Qualified
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	Qualified
84.365	Department of Education – English Language Acquisition Grants	Qualified
84.367	Department of Education – Improving Teacher Quality State Grants	Qualified
•	Any audit findings disclosed which are required to be reported in accordance with Section 510(a) of Circular A-133:	Yes
•	Dollar threshold used to distinguish between type A and type B programs:	\$3,004,333
•	Auditee qualified as low risk auditee	No
State Awards		
	Type of auditor's report issued on compliance for state programs:	Unqualified

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Section II – Financial Statement Findings

FS-08-01 - Inadequate Documentation for Program Changes to the Production System – Material Weakness

Criteria

Formal change management procedures are designed to provide a standardized and controlled method for processing system change requests (including maintenance and patches) for critical application programs and infrastructure configuration changes.

Condition

During our review we noted the following concerning change management for the SAP Payroll and IFS accounting applications:

SAP Payroll System

Our test of program change controls for SAP Payroll programs revealed that 35 of the 40 sampled changes had no documented evidence of management change approval, user acceptance testing or transport approval. As a result, we were unable to confirm management approval and compliance with District policy for requesting, testing and approving the implementation of these SAP Payroll changes.

IFS Legacy Financial System

Of the 11 IFS changes sampled, 6 changes did not have documented management approval for production migration.

Subsequent to presenting this issue to ITD management, we were provided with management approval for nine of the program changes. We were also informed that an additional 14 of the change requests were not eventually implemented into production. As a result, 12 changes remained without documented management approval.

Cause and Effect

Without management approval and monitoring of program changes, the implementation of unauthorized changes may result in invalid and/or unauthorized data and programs introduced into the production accounting systems.

Recommendation

The requirement for documenting and approving application changes should be consistently followed to prevent unauthorized program changes. This includes documenting and retaining management approvals to confirm that program changes are aligned with management intentions and user requirements.

View of Responsible Officials and Planned Corrective Action

BTS has implemented a governance process to provide a consistent procedure that provides business owners oversight and approval of changes to the SAP system. These procedures and controls are documented and managed using Newmerix Automate Change and Automate Control to track and log change requests and transports to the SAP system. Software changes are performed on a monthly cycle

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with approval of all changes to the SAP system provided by a governance board. The governance board is made of key business stakeholders of the SAP system.

FS-08-02 - Lack of IFS Security Reporting - Material Weakness

Criteria

Security reporting is a key mechanism to facilitate the effective review of access to critical and sensitive accounting system transactions, for example, journal entry creation, vendor record update, accounts payable transactions, etc.

Condition

Security user access reports are not generated and reviewed periodically to certify access to IFS system accounting transactions.

Cause and Effect

The lack of sufficient security reporting could result in management's inability to effectively manage access to sensitive accounting transactions and ensure that the system adequately enforces segregation of duties.

Recommendation

IFS user access security reports should be developed to facilitate management review of user access to IFS transactions. These reports should be reviewed periodically by Accounting Department management to ensure access to sensitive accounting system transactions is appropriate and restricted based upon the user's job function.

View of Responsible Officials and Planned Corrective Action

ITD agrees with the recommendation. The existing bi-annual review of Resource Access Control Facility (RACF) accounts will be coupled with a review of an IFS profiles report to determine the appropriateness of access. This process will also be amended to include sign offs by the business owners on the appropriateness of access for end users.

FS-08-03 - Developers with Update Access to IFS Production Data - Significant Deficiency

Criteria

A general IT control principle and best practice are to restrict developers from having update access to the production environment, this is to ensure that only the Data Owner (e.g., accounting personnel) has the ability to change/update accounting information.

Condition

Our review of the access rights to mainframe datasets (containing production accounting data) used for uploading accounting data to IFS from SAP Payroll (IFS.SAPPRD.*.* and IFS.LEF10.*.*) revealed that there were more than 70 Information Technology Department (ITD) personnel with update or modify access to these datasets. As a result, these users have the ability to modify/change production accounting

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data contained in the datasets prior to their upload to the IFS system. These users are granted such access via the following RACF user groups:

- PRODBFS (40 users)
- BFSCNT3 (13 users)
- BFSCNT4 (22 users)
- BFSPGM3 (30 users)
- BFSPGM4 (15 users)

Cause and Effect

Inadequate restriction to modify/update access to production accounting data can result in unauthorized changes that adversely impact the integrity of accounting and financial reporting information.

Recommendation

Access to the IFS.SAPPRD.*.* and IFS.LEF10.*.* IFS datasets should be reviewed by both the Data Owner (Accounting Department management) and ITD management to identify and remove inappropriate access.

View of Responsible Officials and Planned Corrective Action

A review of the five RACF user groups identified 92 unique accounts, of which 65 accounts are in revoked status, meaning those accounts are locked and would need to be reactivated in order for the accounts to be used. Of the remaining 27 accounts, 4 are IFS developers ITD has identified as requiring the access and 5 are system or administrator accounts necessary for daily operation and maintenance of the system, making 9 accounts that should exist in these groups. The remaining 18 user accounts are being reviewed further by ITD and the business owner for appropriateness of access.

FS-08-04 - Lack of Logging and Security Monitoring Control Processes - Significant Deficiency

Criteria

The logging of user activity is a critical audit trail control. Within the SAP ERP system, audit logging can be enabled to track the use of sensitive payroll transactions and the activities of privileged users. Within the Windows network, event logs may be set to record user account related events (e.g., account logons, use of security administration privileges, etc.) by a success/failure criteria.

Condition

We noted the following relative to audit logging for SAP and the District's network environments:

SAP Payroll System

The SAP Payroll Security Audit log has not been enabled. As a result, there is no assurance of effective monitoring of the following events within SAP Payroll:

- unsuccessful user authentication attempts
- failed attempts to access sensitive data

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- activities of privileged user accounts for reasonableness review
- security violations

Network

The Windows server network audit logging is not enabled to log the use of network system privileges for successes and failures. Also, although the following logs are enabled, they are not reviewed on a regular basis:

- Audit account logon events
- Audit account management
- Audit system events
- Audit policy change
- Audit directory service accesses
- Audit object access
- Audit logon events

Cause and Effect

Unauthorized access to SAP Payroll programs and/or data may not be detected if unsuccessful user authentication attempts and other types of potential security violations are not consistently logged and reviewed periodically.

Recommendations

- SAP Payroll Security logging should be activated to enable the monitoring and review of security violations and privileged user access. Incidents should be investigated until final resolution and if necessary escalated to the District management.
- Windows logs which capture critical activities should be enabled and reviewed on a timely basis. If necessary, log filtering tools can be used to enable efficient monitoring and review of access.

View of Responsible Officials and Planned Corrective Action

- SAP security will be activated to log inappropriate access attempts to all SAP T-codes. These logs will be stored per LAUSD ITD standard of 90 days. Following ITD security policy, the logs will only be reviewed when required or requested. BTS does perform monthly reviews of user access and roles in SAP. However, going forward BTS will formally document these reviews and obtain formal signoff from business owners.
- The volume of Windows logs, and more generally system logs, generated daily make it unfeasible to manually review such logs on a daily, proactive basis. The lack of sufficient staffing resources limits review of logs to an ad-hoc, or per security incident, basis. ITD is investigating the use of automated tools for log filtering.

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FS-08-05 - Lack of User Access Review and Certification - Significant Deficiency

Criteria

Management's periodic review of user access to mission critical accounting systems and data is essential to ensuring inappropriate system access is removed in a timely and effective manner.

Condition

Our review of the RACF DSMON report has revealed that there are more than 3,000 users in revoked status that are not purged from the system.

We have also noted that there are seven (7) users with the RACF Special attribute (this attribute provides security administration capabilities) whose job function does not require security administration. These individuals include four (4) Operating System Specialists, one (1) Telecom Specialist, one (1) System Standard Manager and one (1) Office Technician.

Cause and Effect

The lack of regularly scheduled reviews of user accounts, access rights and system privileges/attributes performed by management (e.g., Accounting, Payroll, ITD, etc.) can adversely impact the confidentiality, integrity, and availability of the District's mission critical accounting systems and data.

Recommendations

- Management should review the SAP Payroll roles and assigned transactions to ensure system access is restricted to users solely based on what is required for their respective job functions. A tool can be used to help facilitate identifying and correcting potential segregation of duties conflict.
- Users defined to RACF should be reviewed with an objective to validate group assignments and revoke users should be purged following confirmation from business owners that their status warrants purging.
- RACF system attributes/privileges (e.g., Special attribute) should be restricted to personnel responsible for security administration. Also, such privileges should be reviewed by ITD management on a periodic basis to ensure access remains appropriate and properly restricted.

View of Responsible Officials and Planned Corrective Action

- BTS does not have a tool to help perform reviews and certification of roles in SAP. BTS does however perform a manual monthly review of access and roles of users in SAP. This manual review will be documented and business units will be requested to provide signoff.
- The approximately 3,000 accounts in revoked status have been purged from the RACF system.
- ITD has reviewed the accounts identified as having the Special attribute and has verified that access for each account holder is appropriate.

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FS-08-06 - Time Management Segregation of Duties (SOD) Conflict - Significant Deficiency

Criteria

The separation of certain key functions ensures that sensitive transactions cannot be authorized and processed by the same individual. This is one of the primary principles regarding segregation of duties.

Condition

We have obtained and reviewed the access list for both Time Keeping (t-code CAT2) and Time Approval (customized t-code ZCATS_APPR_LITE) functions to ensure adequate segregation of duties and noted that there are 22 personnel with access to both functions. This presents a segregation of duties conflict as these individuals can create and approve payroll time. Upon discussing this matter with BTS management, BTS has eliminated the conflicting combination of access to approximately 5 personnel.

Cause and Effect

Unauthorized payroll transactions may be processed resulting in improper or fraudulent payroll disbursements.

Recommendation

We recommend that a review of the remaining personnel with conflicting SAP access be performed to ensure an adequate level of segregation of duties is maintained. The review should include verification of role and transaction assignments and management's acceptance of the associated risks. Any remaining instances of conflicting access should be addressed with countermeasures (e.g., review of audit logging activity) that sufficiently mitigate the risk associated with such access.

View of Responsible Officials and Planned Corrective Action

As noted, BTS has removed the access to all but 5 users, 3 in BTS and 2 in Employee Service Center. These 5 users require the conflicting access to perform their work duties and their access is appropriate. We have received written approval from the business owner authorizing their personnel to have these roles with SOD issues. SAP Security will monitor these 5 user accounts to mitigate risks associated with the conflicting access. Monitoring will be done by logging all activities of these users in SAP and a quarterly review of their activities will be performed to ensure compliance with security procedures.

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Section III – Federal Award Findings and Questioned Costs

Program Identification

Finding Reference Number:

F-08-01

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

State Administrative Matching Grants for Food Stamp Program, U.S. Department of Agriculture (USDA), Passed through the California Department of Health Services, CFDA No. 10.561, Grant Agreement 07-65325;

Title I Grants to Local Educational Agencies: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.010, Grant Agreement S010A070005 (07-14329-6473);

Special Education Cluster: Grants to States, Preschool Grants, U.S. Department of Education, Passed through the California Department of Education, CFDA No. 84.027, and 84.173, Grant Agreements 07-13430-6473-01 and 07-13682-64733-01;

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 07/08-14893-74435-00, 07/08-14893-64733-00 and 07-14894-64733-00;

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 Q186A070005;

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

Twenty-First Century Community Learning Centers, U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.287, Grant Agreements 07-14349-6473-3A and 07-14349-6473-4A;

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

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Grant Agreement S298A060005;

Education Technology State Grants, U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.318, Grant Agreements 07-14368-6437, 06-14368-6473-14368 and 2006/07-14334-6437;

Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP), U.S. Department of Education (ED), CFDA No. 84.334, Grant Agreements P334A050178-07 and P334A050205-07;

Reading First State Grants; U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.357, Grant Agreement 07-14328-6473-00;

English Language Acquisition Grants, U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.365, Grant Agreement T365A070005;

Improving Teacher Quality State Grants, U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.367, Grant Agreement S367A070005A.

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

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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.

Condition

As part of our compliance review over payroll expenditures, we selected a sample of payroll expenditures charged to the program to ascertain if they were allowable per program regulations, accurately charged to the program, and appropriately supported in accordance with the OMB Circular A-87.

State Administrative Matching Grants for Food Stamp Program: In our sample of 40 payroll expenditures, we noted that 7 of the 40 sampled employees did not have appropriate documentation in accordance with OMB Circular A-87 to support the payroll expenditures charged to the program as follows:

- 5 employees totaling \$1,530 were unable to provide either a multifunded timesheet or a semiannual certification to support the payroll expenditures charged to the program.
- 2 employees totaling \$2,954 provided signed semiannual certifications; however, these certifications were not prepared timely. They were signed and dated subsequent to our requests.

Total exceptions amounted to \$4,484 of the \$88,644 sampled from the \$2,225,296 of total payroll and benefit expenditures for the fiscal year ended June 30, 2008.

Title I Grants to LEA: In our sample of 40 payroll expenditures, we noted that 30 of the 40 sampled employees did not have appropriate documentation in accordance with OMB Circular A-87 to support the payroll expenditures charged to the program as follows:

- 7 employees totaling \$8,169 were unable to provide either a multifunded timesheet or a semiannual certification to support the payroll expenditures charged to the program.
- 11 employees totaling \$20,991 provided signed semiannual certifications; however, these certifications were not prepared timely. They were signed and dated subsequent to our requests.

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- 5 employees totaling \$8,591 provided semiannual certifications; however, according to the SAP payroll records, these employees were assigned to different programs and these programs did not appear to be under a single cost objective. Therefore, a multifunded timesheet was required to support and document the payroll expenditures charged to each federal program.
- 1 employee totaling \$3,030 was unable to provide documentation indicating how the funding source was determined for the hours charged to the program.
- 1 employee totaling \$783 was missing time reporting documentation to support the hours charged to the program.
- 1 employee totaling \$1,731 provided multifunded timesheet; however, the hours reported on the timesheet did not agree with the time recorded on the SAP payroll records.
- 4 employees totaling \$3,080 were unable to provide time reporting documentation to support the hours charged to the program.

Total exceptions amounted to \$46,375 of the \$161,650 sampled from the \$283,078,955 of total payroll and benefit expenditures for the fiscal year ended June 30, 2008.

Special Education Cluster: In our sample of 40 payroll expenditures, we noted that 15 of the 40 sampled employees did not have appropriate documentation in accordance with OMB Circular A-87 to support the payroll expenditures charged to the program as follows:

- 12 employees totaling \$28,233 provided signed semiannual certifications; however, they were not prepared timely. They were signed and dated subsequent to our requests.
- 2 employees totaling \$652 provided semiannual certifications; however, according to SAP, these employees were assigned to different programs and these programs did not appear to be under a single cost objective. Therefore, a multifunded timesheet should have been prepared to support and document the payroll expenditures charged to each federal program.
- 1 employee totaling \$216 was unable to provide us with time reporting documentation to support the hours charged to the program.

Total exceptions amounted to \$29,101 of the \$137,964 sampled from the \$14,349,322 of total payroll and benefit expenditures for the fiscal year ended June 30, 2008.

Vocational Education Basic Grants to States: In our sample of 40 payroll expenditures, we noted that 7 of the 40 sampled employees did not have appropriate documentation in accordance with OMB Circular A-87 to support the payroll expenditures charged to the program as follows:

- 3 employees totaling \$771 provided signed semiannual certifications; however, these certifications were not timely prepared. They were signed and dated subsequent to our requests.
- 1 employee totaling \$8,443 was unable to provide documentation indicating how the funding source was determined for the hours charged to the program.
- 1 employee totaling \$3,808 provided a semiannual certification; however, the certification did not identify the funding source.

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- 1 employee totaling \$4,295 provided a multifunded timesheet; however, the hours reported on the timesheet were 76 hours less than what was recorded on the SAP payroll records.
- 1 employee totaling \$625 was unable to provide us with time reporting documentation to support the hours charged to the program.

Total exceptions amounted to \$17,942 of the \$131,237 sampled from the \$5,141,181 of total payroll and benefit expenditures for the fiscal year ended June 30, 2008.

Safe and Drug-free Schools and Communities: In our sample of 40 payroll expenditures, we noted that 12 of the 40 sampled employees did not have appropriate documentation in accordance with OMB Circular A-87 to support the payroll expenditures charged to the program as follows:

- 3 employees totaling \$798 were unable to provide either a multifunded timesheet or a semiannual certification to support the payroll expenditures charged to the program.
- 6 employees totaling \$13,626 provided multifunded timesheets; however, the timesheets were not timely prepared. They were signed and dated subsequent to our request and after the certification period-end date. Additionally, the hours reported on the timesheets for 2 of the employees were more than the hours recorded on the SAP payroll records.
- 1 employee totaling \$4,904 provided a multifunded timesheet; however, the hours reported on the timesheet were 50.4 hours more than the hours recorded on the SAP payroll records.
- 2 employees totaling \$4,877 provided a semiannual certification; however, the program code on the certification was different from the funding code. In addition, the certification was dated 9 months late.

Total exceptions amounted to \$24,205 of the \$87,432 sampled from the \$2,965,693 of total payroll and benefit expenditures for the fiscal year ended June 30, 2008.

Fund for the Improvement of Education: In our sample of 40 payroll expenditures, we noted that 8 of the 40 sampled employees did not have appropriate documentation in accordance with OMB Circular A-87 to support the payroll expenditures charged to the program as follows:

- 1 employee totaling \$1,026 was unable to provide either a multifunded timesheet or a semiannual certification to support the payroll expenditures charged to the program.
- 3 employees totaling \$8,876 provided semiannual certifications; however, the certifications were not prepared timely. They were signed and dated subsequent to our requests.
- 2 employees totaling \$578 were unable to provide documentation indicating how the funding source was determined for the hours charged to the program.
- 2 employees totaling \$1,373 were unable to provide us with time reporting documentation to support the hours charged to the program.

Total exceptions amounted to \$11,853 of the \$91,258 sampled from the \$2,065,514 of total payroll and benefit expenditures for the fiscal year ended June 30, 2008.

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Twenty-First Century Community Learning Centers: In our sample of 40 payroll expenditures, we noted that 10 of the 40 sampled employees did not have appropriate documentation in accordance with OMB Circular A-87 to support the payroll expenditures charged to the program as follows:

- 1 employee totaling \$244 was unable to provide either a multifunded timesheet or a semiannual certification to support the payroll expenditures charged to the program.
- 7 employees totaling \$5,668 provided signed semiannual certifications; however, the certifications were not prepared timely. They were signed and dated subsequent to our requests.
- Overtime paid to 1 employee totaling \$237 was not supported by the District sign-in-and-out sheet.
- 1 employee totaling \$1,600 provided a multifunded timesheet; however, the hours reported on the timesheet were different than what were recorded on the SAP payroll records.
- 1 employee totaling \$676 provided a multifunded timesheet; however, the timesheet did not contain the program code that we selected for review.

Total exceptions amounted to \$8,425 of the \$40,213 sampled from the \$2,905,568 of total payroll and benefit expenditures for the fiscal year ended June 30, 2008.

State Grants for Innovative Programs: In our sample of 40 payroll expenditures, we noted that 1 of the 40 sampled employees did not have appropriate documentation in accordance with OMB Circular A-87 to support the payroll expenditures charged to the program as follows:

- 1 employee totaling \$602 provided a signed semiannual certification; however, the certification was not prepared timely. They were signed and dated subsequent to our requests.

Total exceptions amounted to \$602 of the \$53,031 sampled from the \$1,112,449 of total payroll and benefit expenditures for the fiscal year ended June 30, 2008.

Education Technology State Grants: In our sample of 40 payroll expenditures, we noted that 5 of the 40 sampled employees did not have appropriate documentation in accordance with OMB Circular A-87 to support the payroll expenditures charged to the program as follows:

- 1 employee totaling \$173 was unable to provide either a multifunded timesheet or a semiannual certification to support the payroll expenditures charged to the program.
- 1 employee totaling \$173 provided a signed multifunded timesheet; however, the timesheet was not timely prepared. It was signed and dated subsequent to our request.
- 1 employee totaling \$741 provided a semiannual certification; however, according to SAP, the employee was assigned to different programs and these programs did not appear to be under a single cost objective. Therefore, a multifunded timesheet should have been prepared to support the time allocation.
- 2 out of 21 hours of instructional training paid totaling \$76 were not supported by the timesheet provided.

Total exceptions amounted to \$1,163 of the \$177,043 sampled from the \$3,636,701 of total payroll and benefit expenditures for the fiscal year ended June 30, 2008.

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GEAR-UP: In our sample of 40 payroll expenditures, we noted that 5 of the 40 sampled employees did not have appropriate documentation in accordance with OMB Circular A-87 to support the payroll expenditures charged to the program as follows:

- 3 employees totaling \$11,759 provided semiannual certifications; however, the certifications were not prepared timely. They were signed and dated subsequent to our requests.
- 2 employees totaling \$1,445 were unable to provide us with time reporting documentation to support the hours charged to the program.

Total exceptions amounted to \$13,204 of the \$130,168 sampled from the \$2,771,916 of total payroll and benefit expenditures for the fiscal year ended June 30, 2008.

Reading First State Grants: In our sample of 40 payroll expenditures, we noted that 12 of the 40 sampled employees did not have appropriate documentation in accordance with OMB Circular A-87 to support the payroll expenditures charged to the program as follows:

- 2 employees totaling \$3,744 were unable to provide either a multifunded timesheet or a semiannual certification to support the payroll expenditures charged to the program.
- 7 employees totaling \$22,934 provided signed semiannual certifications; however, the certifications were not prepared timely. They were signed and dated subsequent to our requests.
- 2 employees totaling \$11,319 provided semiannual certifications; however, according to SAP, these employees were assigned to different programs and these programs did not appear to be under a single cost objective. Therefore, a multifunded timesheet should have been prepared to support the time allocation.
- 1 employee totaling \$851 was unable to provide us with time reporting documentation to support the hours charged to the program.

Total exceptions amounted to \$38,848 of the \$138,066 sampled from the \$13,103,960 of total payroll and benefit expenditures for the fiscal year ended June 30, 2008.

English Language Acquisition Grants: In our sample of 40 payroll expenditures, we noted that 22 of the 40 sampled employees did not have appropriate documentation in accordance with OMB Circular A-87 to support the payroll expenditures charged to the program as follows:

- 9 employees totaling \$2,879 were unable to provide either a multifunded timesheet or a semiannual certification to support the payroll expenditures charged to the program.
- 7 employees totaling \$3,610 provided signed semiannual certifications; however, the certifications were not prepared timely. They were signed and dated subsequent to our requests.
- 4 employees totaling \$4,268 provided semiannual certifications; however, according to SAP, these employees were assigned to different programs and these programs did not appear to be under a single cost objective. Therefore, a multifunded timesheet should have been prepared to support the time allocation.
- 1 employee totaling \$550 was missing time reporting documentation to support the hours charged to the program.

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- 1 employee totaling \$346 provided a multifunded timesheet; however, the timesheet did not contain the program code that we selected for review.

Total exceptions amounted to \$11,653 of the \$94,419 sampled from the \$20,797,048 of total payroll and benefit expenditures for the fiscal year ended June 30, 2008.

Improving Teacher Quality State Grants: In our sample of 25 payroll expenditures, we noted that 10 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 as follows:

- 6 employees totaling \$25,358 provided signed semiannual certifications; however, the certifications were not timely prepared. They were signed and dated subsequent to our requests.
- 4 employees totaling \$865 were unable to provide semiannual certifications to support the payroll expenditures charged to the program.

Total exceptions amounted to \$26,223 of the \$141,926 sampled from the \$46,347,843 of total payroll and benefit expenditures for the fiscal year ended June 30, 2008.

Cause and Effect

The District issued revised policy bulletin BUL-2643.3 in March 2007 regarding time sheet completion and required certifications. In March 2009, the District updated its procedures in monitoring compliance with federal time reporting requirements. The significant noncompliance appears to be a result of the lack of understanding of the federal compliance requirements by the District's employees.

Questioned Costs: \$234,078 (see summary below):

- **State Administrative Matching Grants for Food Stamp Program:** \$4,484 (\$1,530 unsupported, \$2,954 untimely)
- **Title I Grants to LEA:** \$46,375 (\$15,062 unsupported, \$20,991 untimely, \$10,322 incorrect documentation)
- **Special Education Cluster:** \$29,101 (\$216 unsupported, \$28,233 untimely, \$652 incorrect documentation)
- **Vocational Education Basic Grants to States:** \$17,942 (\$12,876 unsupported, \$771 untimely, \$4,295 incorrect documentation)
- **Safe and Drug-free Schools and Communities:** \$24,205 (\$5,675 unsupported, \$13,626 untimely, \$4,904 incorrect documentation)
- **Fund for the Improvement of Education:** \$11,853 (\$2,977 unsupported, \$8,876 untimely)
- **Twenty-First Century Community Learning Centers:** \$8,425 (\$1,157 unsupported, \$5,668 untimely, \$1,600 incorrect documentation)
- **State Grants for Innovative Programs:** \$602 (\$602 untimely)
- **Education Technology State Grants:** \$1,163 (\$249 unsupported, \$173 untimely, \$741 incorrect documentation)
- **GEAR-UP:** \$13,204 (\$1,445 unsupported, \$11,759 untimely)

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- **Reading First State Grants:** \$38,848 (\$4,595 unsupported, \$22,934 untimely, \$11,319 incorrect documentation)
- **English Language Acquisition Grants:** \$11,653 (\$3,775 unsupported, \$3,610 untimely, \$4,268 incorrect documentation)
- **Improving Teacher Quality State Grants:** \$26,223 (\$865 unsupported, \$25,358 untimely)

Recommendation

We recommend that the District continue to provide ongoing training to appropriate personnel on the updated procedures. We also recommend that the District meet with the School Administrative Assistants who oversee time reporting in schools, and inform them of the changes.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the finding. The District issued a revised policy bulletin BUL-2643.4 dated March 30, 2009 regarding required certifications. It is currently in the process of revising the same bulletin to incorporate additional changes. The major changes in the revision are as follows:

- Emphasizes that it pertains to all federal and state categorical funded personnel.
- Affirms the requirement to record and charge actual time worked for each program.
- Requires Multi-Funded Time Report (MFTR) only for employees with constant work hours on a daily basis.
- Introduces a blanket semi-annual certification to ease the documentation burden on sites.
- Adds a requirement that a teacher who attends a training paid for by federal or state categorical sources must complete a training certification form and be charged to the federal funding source.
- Provides detailed procedures on the time reporting process.
- Documentation of MFTR will be closely monitored.
- Designates a central repository of MFTR reports.

The District has provided and will continue to provide ongoing training to appropriate personnel on the new procedures. The District has met with School Administrative Assistant's (SAA), who oversee time reporting in schools, and informed them of the changes.

Program Identification

Finding Reference Number:	F-08-02
Catalog of Federal Domestic Assistance Number:	84.287
Federal Program Title:	Twenty-First Century Community Learning Center, U.S. Department of Education (ED)
Pass-Through Entity	California Department of Education

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Award Number: Grant Agreements 06-14349-6473-1A and 07-14349-6473-2A

Compliance Requirement: Allowable Costs

State Audit Guide Finding Code: 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.
- 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.

Allocable costs.

- a. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.
- b. Any cost allocable to a particular federal award or cost objective under the principles provided for in this circular may not be charged to other federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the federal awards, or for other reasons.

Condition

As part of our procedures over program expenditures, we selected a sample of adjustments for expenditures that were recorded and charged to the program to ascertain if they were appropriately supported in accordance with OMB cost circular documentation requirements. We noted that 2 of the 15 sampled adjusting journal vouchers recorded to expenditure accounts were not allowable in accordance with OMB Circular A-87 and program guidelines:

- 1 journal voucher for \$31,838 of expenditures was transferred from the program year 2006-07 expenditures to the program year 2007-08 due to overspending of the prior year's Grant Award (05-14349-6473-2A). The prior year's costs should not be included in the current year's program expenditure.
- 1 journal voucher for \$23,723 of expenditures was transferred from the program year 2006-07 expenditures to the program year 2007-08 due to overspending of the prior year's Grant Award (1/1/03-6/30/07). The prior year's costs should not be included in the current year's program expenditure.

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Total exceptions amounted to \$55,561 of \$5,283,182 sampled from the total non-payroll program expenditures of \$10,895,683 for the fiscal year ended June 30, 2008.

Cause and Effect

There appears to be a lack of internal policies and procedures to ensure that only costs resulting from obligations of the current funding period are charged to the program.

Questioned Costs

\$55,561

Recommendation

We recommend the District establish policies to strengthen controls to ensure that only costs resulting from obligations of the funding period can be charged to the program.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the finding. The 21st Century Community Learning Center (21st CCLC) grant is awarded by cohorts for a period of five years. Annual funding, allocated at the beginning of each fiscal year, is available for 18 months. Thus, yearly allocations of funds overlap each other for six months. The District assigns separate program codes to each allotment to account for their expenditures. During the period in question the District implemented a new payroll system and the ensuing difficulties encountered made it difficult to identify remaining balances accurately. As a result, payroll expenditures recorded after the end of the period of availability created overspending. The transfer of expenditures reduced the amount of funds available in the subsequent year. Many of the problems related to the new payroll system have been remedied and overspending has not reoccurred.

Program Identification

Finding Reference Number:

F-08-03

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

Title I Grants to Local Educational Agencies: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.010, Grant Agreement S010A070005 (07-14329-6473);

Vocational Education Basic Grants to States: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.048, Grant Agreement 07/08-14893-74435-00, 07/08-14893-64733-00 and 07-14894-64733-00;

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 Q186A070005;

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

State Grants for Innovative Programs, U.S. Department of Education (ED), Passed Through the California Department of Education, CFDA No. 84.298, Pass-Through Identification No. 1964733, Grant Agreement S298A06005;

Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP), U.S. Department of Education (ED), CFDA No. 84.334, Grant Agreements P334A050205-07 and P334A050205-07;

Improving Teacher Quality State Grants, U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.367, Grant Agreement S367A070005A;

English Language Acquisition Grants, U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.365, Grant Agreement T365A070005.

Compliance Requirement:

Allowable Costs

State Audit Guide Finding Code:

30000 and 50000

Criteria

Code of Federal Regulations – Title 34 – Education, Part 75 – Direct Grant Programs – Subpart F – What Are the Administrative Responsibilities of a Grantee? Section 75.702 Fiscal control and fund accounting procedures.

- A grantee shall use fiscal control and fund accounting procedures that ensure proper disbursement of and accounting for federal funds.

OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, Attachment A, General Principles for Determining Allowable Costs, Part C, Basic Guidelines:

- Factors affecting allowability of costs. To be allowable under federal awards, costs must meet the following general criteria:
 - a. Be necessary and reasonable for proper and efficient performance and administration of federal 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

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conditions of the federal award, or other governing regulations as to types or amounts of cost items.

- e. Be consistent with policies, regulations, and procedures that apply uniformly to both federal awards and other activities of the governmental unit.
 - f. Be accorded consistent treatment. A cost may not be assigned to a federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the federal award as an indirect cost.
 - g. Except as otherwise provided for in this circular, be determined in accordance with generally accepted accounting principles.
 - h. Not be included as a cost or used to meet cost sharing or matching requirements of any other federal award in either the current or a prior period, except as specifically provided by federal law or regulation.
 - i. Be the net of all applicable credits.
 - j. Be adequately documented.
- Allocable costs.
 - a. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.
 - b. Any cost allocable to a particular federal award or cost objective under the principles provided for in this circular may not be charged to other federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the federal awards, or for other reasons.

Condition

As part of our procedures over program expenditures, we selected a sample of year-end accruals charged to the programs to ascertain if they were appropriately supported and paid in accordance with the OMB circular documentation requirements. Based upon our understanding of the District's accounting policies and procedures, certain year-end accruals are recorded and charged to federally funded programs based on open purchase orders. When payment is made subsequent to the fiscal year, the District records the actual amount paid to the vendor. However, based on our sample review, in some situations where the subsequent payments were different from the accrued amounts, we noted that there were no appropriate procedures in place which allowed the District to review the variance and to adjust the over-accrued expenditures accordingly. As a result, the District was unable to provide us with any supporting documentation, other than a purchase order to support unpaid accrued expenditures for the following federal programs.

Title I Grants to LEA: In our sample of 18 accrued non-payroll expenditures totaling \$6,721,904 charged to the programs (program codes 2016, 1047, 1046), only \$1,424,548 was paid subsequent to the fiscal year. The total unpaid accrued balance of \$5,297,356 for the sample of 18 expenditures had not been paid as of July 2009.

The total expenditures for the fiscal year 2007-08 for the 3 programs tested amounted to \$88,276,166.

Vocational Education Basic Grants to States: In our sample of 9 accrued non-payroll expenditures of \$370,885 charged to the program (code 1536), only \$347,330 was paid subsequent to the fiscal year for

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the accruals; thus, the District over accrued \$23,555 on 9 individual purchase orders. The total unpaid accrued balance had not been paid as of July 2009.

The total expenditures for the fiscal year 2007-08 for the program tested amounted to \$5,667,493.

Safe and Drug-free Schools and Communities: In our sample of 2 accrued non-payroll expenditures of \$4,899 charged to the program (code 1252), only \$4,128 was paid subsequent to the fiscal year for the accruals; thus, the District over accrued \$771 on 2 individual purchase orders. The total unpaid accrued balance had not been paid as of July 2009.

The total expenditures for the fiscal year 2007-08 for the program tested amounted to \$2,862,584.

Fund for the Improvement of Education: In our sample of 4 accrued non-payroll expenditures of \$28,122 charged to the programs (codes 2748, 2455, 2722), only \$22,932 was paid subsequent to the fiscal year for the 3 accruals. The total unpaid accrued balance of \$5,190 had not been paid as of July 2009.

The total expenditures for the fiscal year 2007-08 for the 3 programs tested amounted to \$1,755,811.

State Grants for Innovative Programs: In our sample of 2 accrued non-payroll expenditures of \$125,125 charged to the program (code 1083), 1 accrual for \$106,000 was paid in full subsequent to the fiscal year; The total unpaid accrued balance in the amount of \$19,125 had not been paid as of July 2009.

The total expenditures for the fiscal year 2007-08 for the program tested amounted to \$323,235.

GEAR-UP: In our sample of 5 accrued non-payroll expenditures of \$223,543 charged to the program (codes 2487 & 2481), only \$135,808 was paid subsequent to the fiscal year for 4 accruals; thus, the District over accrued \$87,735 on 3 individual purchase orders. The total unpaid accrued balance had not been paid as of July 2009.

The total expenditures for the fiscal year 2007-08 for the 2 programs tested amounted to \$1,847,352.

Improving Teacher Quality State Grants: In our sample of 11 accrued non-payroll expenditures of \$2,179,076 charged to the program (code 1178), only \$1,906,267 was paid subsequent to the fiscal year for 10 accruals; thus, the District over accrued \$272,809 on 6 individual purchase orders. The total unpaid accrued balance had not been paid as of July 2009.

The total expenditures for the fiscal year 2007-08 for the program tested amounted to \$6,500,281.

English Language Acquisition Grants: In our sample of 5 accrued non-payroll expenditures of \$245,024 charged to the programs (codes 1176, 2066, 2067 & 2217), only \$180,935 was paid subsequent to the fiscal year for 3 accruals; thus, the District over accrued \$64,089 on 4 individual purchase orders. The total unpaid accrued balance had not been paid as of July 2009.

The total expenditures for the fiscal year 2007-08 for the 4 programs tested amounted to \$7,584,225.

Cause and Effect

The District's policy for review and reconciliation of the purchase order accruals paid in the subsequent period is to perform the review within two years after year end. Due to the time frame of its review, over accrued expenditures sampled at year-end could result in over-charging of expenditures to federally funded programs.

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Questioned Costs:

\$5,770,632

Title I Grants to LEA: \$5,297,356

Vocational Education Basic Grants to States: \$23,555

Safe and Drug-free Schools and Communities: \$771

Fund for the Improvement of Education: \$5,190

State Grants for Innovative Programs: \$19,125

GEAR-UP: \$87,735

Improving Teacher Quality State Grants: \$272,809

English Language Acquisition Grants: \$64,089

Recommendation

We recommend the District establish controls to ensure that appropriate procedures for accuracy of the year-end accruals be established to avoid over accrual. The District should consider revising its policies and procedures to reconcile the subsequent payments of accruals in a more timely manner to avoid over-charging expenditures to Federal programs.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the finding. The District will revise its procedures and policies regarding accruals. Notices will be sent out at the end of September to those schools and offices with unpaid accruals to inform them that the accruals will be liquidated or cancelled by December 31st.

Program Identification

Finding Reference Number:

F-08-04

Federal Program Title, Awarding Agency, Pass-Through Entity, CFDA Number, Award Number:

Vocational Education Basic Grants to States: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.048, Grant Agreements 07/08-14893-74435-00, 07-14894-64733-00 and 07/08-14893-64733-00;

State Grants for Innovative Programs, U.S. Department of Education (ED), Passed Through the California Department of Education, CFDA No. 84.298, Pass-Through Identification No. 1964733; Grant Agreement S298A06005;

Education Technology State Grants, U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.318, Grant Agreements 07-14368-6437, 06-14368-6473-14368

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and 2006/07-14334-6437.

Compliance Requirement:

Cash Management

State Audit Guide Finding Code:

30000

Criteria

Code of Federal Regulations, Title 34 – Education, Part 80 – Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments – Subpart C – Post – Award Requirements, Section 80.21, 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

Based on our understanding of the District's cash management system on the grants, we noted that the District prepared a schedule called *Review of Cash Management* to analyze the interest earned on advances (if any) from the grants. During the procedures performed over the *Review of Cash Management* worksheets, we noted the following exceptions:

Vocational Education Basic Grants to States (Grants 1352-1355): The District did not prepare the *Review of Cash Management* worksheet to analyze the cash balance and estimate interest allocations for this grant because it was a cost reimbursement grant. However, based on our review, we noted that the District received excess cash from CDE in March 2008; therefore, interest income of \$6,703 was not reported.

State Grants for Innovative Programs (Grant 1080): The District inadvertently over reported cash received for the prior year grant receivable on the *Review of Cash Management* worksheet. Consequently, an estimated interest income of \$118,309 was over paid to CDE. The cash balance was overstated because cash receipt for the prior year grant receivable was recorded as current year's grant revenues on the worksheet.

Education Technology State Grants (Grant 2499): The District inadvertently omitted a grant receipt of \$1.3 million on 1 out of 4 *Review of Cash Management* worksheets we sampled for review. Consequently, an estimated interest income of \$806 was not reported to CDE.

Cause and Effect

There does not appear to be sufficient monitoring controls over the manual Cash Management worksheet to ensure the accuracy of interest income calculations.

Questioned Costs

\$7,509 (less \$118,309 overpayment to CDE)

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Recommendation

We recommend that the District strengthen controls to ensure the accuracy of the interest income calculation. The District may also consider recouping the interest income of \$118,309 from CDE.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the finding. The District will provide closer monitoring of the *Review of Cash Management* schedule for accuracy.

Program Identification

Finding Reference Number:	F-08-05
Federal Catalog of Domestic Assistance Number:	84.010
Federal Program Title:	Title I Grants to Local Educational Agencies
Pass-Through Entity:	California Department of Education
Award Number:	Grant Agreement 07-13429-6473
Compliance Requirement:	Eligibility
State Audit Guide Finding Code:	30000 and 50000

Criteria

Education Code 1115 – Targeted Assistance Schools.

(a) In General - In all schools selected to receive funds under section 1113(c) that are ineligible for a schoolwide program under section 1114, or that choose not to operate such a schoolwide program, a local educational agency serving such school may use funds received under this part only for programs that provide services to eligible children under subsection (b) identified as having the greatest need for special assistance.

(b) Eligible Children: (1) Eligible Population -

A. In General - The eligible population for services under this section is –

- Children not older than age 21 who are entitled to a free public education through grade 12; and
- Children who are not yet at a grade level at which the local educational agency provides a free public education.

B. Eligible Children from Eligible Population - From the population described in subparagraph (A), eligible children are children identified by the school as failing, or most at risk of failing, to meet the State's challenging student academic achievement standards on the basis of multiple, educationally related, objective criteria established by the local educational agency and supplemented by the school, except that children from preschool through grade 2 shall be selected

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solely on the basis of such criteria as teacher judgment, interviews with parents, and developmentally appropriate measures.

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(2) Children Included -

- (A) In General - Children who are economically disadvantaged, children with disabilities, migrant children or limited English proficient children, are eligible for services under this part on the same basis as other children selected to receive services under this part.
- (B) Head Start, Even Start, or Early Reading First Children - A child who, at any time in the 2 years preceding the year for which the determination is made, participated in a Head Start, Even Start, or Early Reading First program, or in preschool services under this title, is eligible for services under this part.
- (C) Part C Children - A child who, at any time in the 2 years preceding the year for which the determination is made, received services under part C is eligible for services under this part.
- (D) Neglected or Delinquent Children - A child in a local institution for neglected or delinquent children and youth or attending a community day program for such children is eligible for services under this part.
- (E) Homeless Children - A child who is homeless and attending any school served by the local educational agency is eligible for services under this part.

Los Angeles Unified School District: Reference Guide 3777.0 states:

All supporting documentation must be kept at the school site for five (5) years

Schools utilizing code 8, other school-identified measures, must scan test results on a CD or submit hard copies of the assessment with attachment C to Specially Funded Programs.

Section IV of the Reference Guide – Selection of Academic Achievement Assessment Measures: Schools must use at least one District measure at specified grade levels and a second measure developed or adopted by the school. Norm-referenced tests may not be used at the kindergarten level and grades 1 and 2. District assessment measures have established grade-level performance criteria and if District scored, the results can be found in the Student Information System (SIS) and/or on test reports sent to schools. State academic content standards and the California curriculum frameworks should be used as guides to establish grade-level standards for local school-developed or school-adopted measures.

Section VI of the Reference Guide 3777.0 states:

- Documentation of the School's Title I Identification Process: Complete and submit Academic Achievement Assessment Measures Used to Identify Title I-Eligible Students. Each targeted assistance school must complete and submit to the local district categorical support staff the enclosed Attachment C, "Assessment Measures Used to Identify Title I-Eligible Students" on or before November 2, 2007.
- Complete (Attachment C) by using the codes provided at the bottom of the form to indicate the District and local school-developed/adopted assessment measures the school used to identify Title I-eligible students. Two measures must be used at each grade level for reading/language arts and

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mathematics. In the space provided, write the name of each local school-developed/adopted measure the school used in the identification process. CAT/6, BEST and Aprenda 3 may not be used at kindergarten level and in grades 1-2. BEST may not be used as the second measure in conjunction with CAT/6 and Aprenda 3. Elementary schools or Primary Centers may use more than one local school-developed or school adopted measure for 1st and 2nd grade identification of Title I-eligible students.

Condition

In our procedures performed to determine eligibility for Title I students enrolled in Targeted Assistance Schools (TAS), we sampled a total of 40 students from 25 out of 71 TAS and requested the “Assessment Measures Used to Identify Title I – Eligible Students” (Assessment Form) and supporting documentation for the assessment codes used. We noted exceptions for 12 students as follows:

1. According to the Assessment Form, the District identified 2 codes each for Reading/Language Arts and Mathematics as the academic achievement assessment measures for 3 students. However, according to the backup documentation provided for assessment code D, the students did not meet the assessment qualification. Moreover, the District was unable to provide any supporting documentation for the other assessment codes listed on the Assessment Form. Therefore, we could not determine the eligibility of the 3 students.
2. The District was unable to provide supporting documentation for the assessment codes listed on the Assessment Forms for 7 students.
3. The District did not select at least one assessment code from the “District Measure” for both Reading/Language Arts and Mathematics for 2 students. According to the District guidelines, at least 1 District Measure and 1 Local Developed/Adopted Measure for both Reading/Language Arts and Mathematics must be considered.

Cause and Effect

There does not appear to be effective controls in place to ensure accuracy in the administration of district policies for identifying eligible students—specifically, the requirements of academic assessment selection and retention of academic assessment documentation.

Questioned Costs

Not applicable.

Recommendation

We recommend the District strengthen controls to ensure that academic assessment data is properly selected and retained according to District policy to ascertain that only eligible students are selected for participation in targeted-assistance programs.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with this finding. Controls have been strengthened to ensure that academic assessment data is properly selected and retained according to district policy to ascertain that only eligible students are selected for participation in targeted-assistance programs.

Based upon the audit finding the following internal controls and action steps have been put in place for the

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2009-2010 academic year:

- Revised draft of 2009-2010 Reference Guide 4300.1 LAUSD *Guidelines and Procedures for Identifying Title I—Eligible Students to Targeted Assistance Schools* was shared with the California Department of Education CDE. Maria Reyes, Administrator at CDE Office of Title I Policy & Accountability reviewed reference guide and responded that reference guide needed no revisions and wanted to share document with her staff members for use in the field.
- Categorical coordinators that work with targeted-assistance schools in the local district will be retrained on the procedures for identifying Title I eligible students and the selection of academic achievement assessment measures.
- School-developed or adopted academic assessments are limited to:
 - Publisher's test that accompany the reading/language arts and mathematics programs/rubric scored performance-based tests/assignments (i.e. Periodic Assessments, OCR-6week assessments etc.)
 - Inventories and checklist
 - On-line report card marks based on District guidelines
- These school-developed academic assessments are already retained and stored in the school's computer system or in student's cum folder to ensure documentation is retained and accessible.

Program Identification

Finding Reference Number:

F-08-06

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

Child Nutrition Cluster: School Breakfast Program, National School Lunch Program, Summer Food Service Program for Children, U.S. Department of Agriculture (USDA), Passed through the California Department of Education, CFDA No. 10.553, 10.555, and 10.559, Grant Agreement 19-64733-0000000-01;

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

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 04-354450;

Title I Grants to Local Educational Agencies: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No.

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84.010, Grant Agreement S010A070005;

Special Education Cluster: Grants to States, Preschool Grants, U.S. Department of Education, Passed through the California Department of Education, CFDA No. 84.027, and 84.173, Grant Agreements 07-13430-6473-01 and 07-13682-64733-01;

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 07/08-14893-74435-00, 07/08-14893-64733-00 and 07-14894-64733-00;

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 Q186A070005;

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

Twenty-First Century Community Learning Centers, U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.287, Grant Agreements 07-14349-6473-3A and 07-14349-6473-4A;

State Grants for Innovative Programs, U.S. Department of Education (ED), Passed Through the California Department of Education, CFDA No. 84.298, Pass-Through Identification No. 1964733, Grant Agreement S298A060005;

Education Technology State Grants, U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.318, Grant Agreements 07-14368-6437, 06-14368-6473-14368 and 2006/07-14334-6437;

Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP), U.S. Department of Education (ED), CFDA No. 84.334, Grant Agreements P334A050178-07 and P334A050205-07;

Reading First State Grants; U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.357, Grant

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Agreement 07-14328-6473-00;

English Language Acquisition Grants, U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.365, Grant Agreement T365A070005;
Improving Teacher Quality State Grants, U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.367, Grant Agreement S367A070005A;

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-7163.

Compliance Requirement:

Equipment Management

State Audit Guide Finding Code:

20000, 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 80.32, 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.

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- 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 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, the District was unable to provide a listing of equipment disposed of during the fiscal year that was acquired under Federal grant programs. Therefore, we were unable to determine if any equipment disposals were subject to federal disposition compliance requirements.

Title I Grants to Local Educational Agencies: In our procedures performed over equipment management, we noted that 12 out of 37 purchases were not updated on school logs. In addition, we noted that the funding source was not updated for 3 transactions on 2 out of 30 school logs that we reviewed.

Twenty-First Century Community Learning Centers: The 21st Century department's equipment inventory log did not contain the funding source and acquisition cost. The Department does not have any evidence that a physical inventory was taken and that the results reconciled with property records in the last two years for the grant. Additionally, the department does not have formal policies and procedures to monitor and verify that the subrecipients' equipment purchase over \$5,000 was tagged and logged.

Safe and Drug-Free Schools and Communities: During the fiscal year 2007-08, the District purchased 4 vehicles for the school police department; however, the purchases were not updated on the District logs.

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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 listing. The software should also have the ability to generate reports to detail annual equipment acquisitions and dispositions by federal program and by school site location.

Views of Responsible Officials and Planned Corrective Actions

Title I Grants to Local Educational Agencies: Of the 14 audit exceptions, the District agrees with 10 and disagrees with 4 of the findings. Documentation of equipment inventories was provided to the auditors for Coliseum ES, Dorsey HS, Hillcrest Drive ES, and Arroyo Seco Museum Science. The remaining schools have updated their equipment inventories to reflect the expenditures identified in the audit.

The following corrective action plan has been implemented by Federal and State Education Programs Branch to resolve the audit findings at the central-office and local district levels:

- Federal and State Education Programs Branch has provided technical assistance regarding the mandates required in Bulletin Number BUL-3508.1 to the local district categorical coordinators at the monthly meeting on Friday, August 7, 2009.
- The local district categorical coordinators will be required to provide training on Bulletin Number BUL-3508.1 at the opening meeting for school-site categorical program advisors. Additionally, training will be provided to the categorically funded microcomputer support assistant and information systems support assistant personnel in the maintenance of equipment inventories/logs.

Twenty-First Century Community Learning Centers: The District agrees with the finding. The equipment inventories have been updated to reflect the funding source and acquisition cost. The District's Beyond The Bell Branch has issued a memo dated April 6, 2009 regarding equipment inventory requirements to all subrecipients. The procedures require up-to-date inventories be sent to the central office. Updated inventories have been received and are collected quarterly.

Safe and Drug-Free Schools and Communities: The District agrees with the finding. The vehicle purchases have been recorded in the School Police Department's equipment inventory system.

Program Identification

Finding Reference Number:

F-08-07

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

Vocational Education Basic Grants to States: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.048, Grant Agreements 07-14894-64733-00,

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Number and Year: 07/08-14893-74435-00 and 07/08-14893-64733-00;

Twenty-First Century Community Learning Centers, U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.287, Grant Agreements 07-14349-6473-3A and 07-14349-6473-4A;

Reading First State Grants, U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.357, Grant Agreements 07-14328-6473-00;

English Language Acquisition Grants, U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.365, Grant Agreement T365A070005.

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.

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.

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

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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

Vocational Education – Basic Grants to States: In our review of the documentation provided to support that the District did not exceed its 5 percent administrative earmarking limitation for the program, we noted the following errors or omissions in the documentation:

- The District reported and claimed total expenditures on the California Department of Education (CDE) 101-A report, which indicated that the only administration expenditures claimed for the fiscal year ended June 30, 2008 was the 3.02 percent allowable indirect costs with no other administrative costs reported. However, based on our review of payroll and non-payroll expenditures, we noted other District office expenditures that would be administrative in nature (i.e., salaries, benefits and other costs for office staff) incurred to administer the program that should also have been included in the total administrative expenditures. The administrative expenditures reported appeared to be understated and we were unable to ascertain the complete understated amount. Therefore, we were unable to verify if the program's total administrative expenditures were less than or equal to its 5 percent earmarking limitation.
- Total direct program expenditures (not including indirect costs) for the fiscal year were \$11,130,275 of which 5 percent would amount to \$556,514. The general ledger indicated \$340,801 was recorded for indirect costs; however, we were unable to ascertain if no more than \$215,713 was expended on additional District administrative costs during the fiscal year ending June 30, 2008.

Twenty-First Century Community Learning Centers:

The District does not report administrative expenditures in separate general ledger accounts from the direct program expenditures. Starting fiscal year 2007-08, the District began tracking the program direct/indirect and administrative costs separately on a spreadsheet for all the new grants awarded in fiscal year 2007-08. However, the District was unable to provide documentation for the prior years' carryover awards so that an assessment for the total administrative costs could be made on the current fiscal year expenditures ending June 30, 2008.

In our review of the spreadsheet provided to support that the District did not exceed its 15% administrative earmarking limitation for new grants awarded in the fiscal year, we noted the following:

- The spreadsheet did not include certain positions that would be administrative in nature. Based on our payroll review, we became aware that the salaries of the principal financial analyst, plant manager, office technician, and administrative aide were not included on the spreadsheet. These misclassified direct costs would understate the actual administrative costs.
- The spreadsheet was incorrectly prepared and categorized between "direct" and "administrative". Costs related to administrative may include both direct program and indirect charges for general administrative costs of the program. Any cost, direct or indirect, that supports management of the program is considered administrative in nature. According to the spreadsheet, certain positions (such

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as assistant contract administrator, principal administrative analyst, and micro-computer support assistant) indicated on the spreadsheet should have been 100% administrative in nature; however, the District only included the indirect portion of their salaries as part of the 15% earmarking limitation. According to the program principal accountant and program coordinator, the positions in question were assigned more than just the indirect functions. For instance, the assistant contract administrator was also responsible for contacting the student's parents; the micro-computer support assistant also provided computer support at the school/centers. As a result, their time should be allocated between indirect and administrative. However, the allocation and their off duty functions were not adequately supported.

For the fiscal year 2007-08, there were a total of 25 grants under this program aggregating federal program expenditures of \$17,308,323. We tested 7 grants with aggregate federal program expenditures of \$10,146,391. For these 7 programs, total direct program expenditures (not including indirect costs) for the fiscal year were \$9,693,069 of which 15 percent would amount to \$1,453,960. The general ledger indicated that \$156,278 was recorded for indirect costs; the District ascertained that of the total direct program expenditures of \$9,693,069, \$1,243,427 related to administrative expenditures; however, we were unable to ascertain if no more than \$54,255 was expended on additional District administration costs during the fiscal year ending June 30, 2008.

Reading First State Grants: In our review of the documentation provided to support that the program did not exceed its 3.5 percent administrative earmarking limitation for the program, we noted the following errors or omissions in the documentation:

- The District did not record administrative expenditures in separate general ledger accounts from the direct program expenditures. Based on our review of expenditure information, we noted that other program office expenditures that were administrative in nature (i.e., salaries, benefits and other costs for Reading First office personnel, including coordinators, secretaries, and the director) should have also been included in the total administrative expenditures. Since the District had already recorded approximately 100 percent 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, 2008.

Total direct program expenditures (not including indirect costs) for the fiscal year were \$17,316,676 of which 3.5 percent would amount to \$606,084. The general ledger indicated \$522,964 was recorded for indirect costs; however, we noted the amount that was expended on additional District administration costs was \$999,097 which exceeded the allowable administrative costs during the fiscal year ending June 30, 2008.

English Language Acquisition Grants: In our review of the documentation provided to support that the District did not exceed its 2 percent administrative earmarking limitation for the program, we noted the following errors or omissions in the documentation.

- The general ledger indicated the entire 2 percent allowable administration costs for its indirect costs was recorded.
- Based on the review of expenditure information, we noted that other program office expenditures that were administrative in nature (i.e., salaries, benefits and other costs for English Language Acquisition grants office personnel) should have been included in the total administrative expenditures. Since the

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District had already claimed approximately 100 percent 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, 2008.

Total direct program expenditures (not including indirect costs) for the fiscal year were \$27,824,777 of which 2 percent would amount to \$556,496. The general ledger indicated \$556,496 was recorded for indirect costs; however, we were unable to ascertain the amount that was expended on additional program administration and planning costs which would exceed the allowable administrative costs during the fiscal year ending June 30, 2008.

Cause and Effect

There does not appear to be appropriately designed policies and procedures in place to ensure the accurate accumulation of information and calculation of administrative expenditures to ensure that the District complies with its administrative earmarks.

Questioned Costs

Not determined.

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 per grant.

Views of Responsible Officials and Planned Corrective Actions

The District disagrees with the finding. The District believes it is correctly accounting for all costs and expenditures of the programs. The District will review opportunities to develop a distinct identifier to properly attribute allowable direct costs and allowable administrative costs.

Program Identification

Finding Reference Number:	F-08-08
Federal Catalog of Domestic Assistance Number:	84.334
Federal Program Title:	Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP), U.S. Department of Education (ED)
Pass-Through Entity:	California Department of Education
Award Number:	Grant Agreements P334A050178-07 and P334A050205-07
Compliance Requirement:	Matching
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 80.24, Matching or cost sharing:

- Records. Costs and third-party in-kind contributions counting toward satisfying a cost sharing or matching requirement must be verifiable from the records of grantees and subgrantee or cost-type contractors. These records must show how the value placed on third-party in-kind contributions was derived. To the extent feasible, volunteer services will be supported by the same methods that the organization uses to support the allocability of regular personnel costs.

U.S. Department of Education: Gaining Early Awareness and Readiness for Undergraduate Programs, Office of Postsecondary Education:

- Section 404C(b) of the Higher Education Act requires at least 50% of the total cost of a GEAR UP project to be paid with State, local, institutional, or private funds.
- Some GEAR UP grantees proposed in their applications matching contributions exceeding the statutory minimum. Under the GEAR UP regulations at 34 CFR 694.7(a)(2), a grantee is obligated to contribute the entire amount of match stated in its application, even if the amount exceeds the statutory requirement.
- Grantees are required by the GEAR UP regulations at 34 CFR 694.7(a)(2) to comply with the matching percentage stated in their applications for each individual year of the grant.

Condition

In our procedures performed over matching contributions, we selected two grants that reported matching expenditures totaling \$4,284,877 for the fiscal year and requested documentation to support the reported matched expenditures and we noted the following:

- The District did not meet the minimum required 50% match for both grants. Based on the total expenditures reported for Local Districts 4 and 8, the District was required to provide matching costs in the amount of \$2,892,484 and \$1,580,055, respectively. However, the District only reported matching of \$2,856,208 and \$1,428,670, respectively for local Districts 4 and 8; therefore, local Districts 4 and 8 were under matched by \$36,276 and \$151,385, respectively.
- The District was unable to provide documentation for one grant (local District 4) to support the reported personnel match of \$273,343 and non-personnel match of \$618,179. In 2 out of the 4 schools we sampled for local District 4, we noted that the amounts on the summary reports were more than the total Personnel Activity Reports by \$162,783 and \$110,560 for Marshall and Eagle Rock high schools, respectively. According to program personnel, the differences primarily resulted from the Buy Back Days and the off-track teacher salary for the summer school program. However, we were not provided with any supporting documentation to support the variances. Moreover, we also noted that the local District's non-personnel matching costs reported for the 4 schools were not adequately supported. For example, the majority of the non-personnel match was for facility rental space cost. The Local District did not have any supporting documentation to show us how the unit cost and space usage for the program were determined.

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- In our procedures to verify personnel matching, we were provided a spreadsheet for expenditures from local Districts 4 and 8. We selected a sample of 15 payroll expenditures from each local District totaling \$197,890 and requested documentation to support the amount and nature of the expenditure to ascertain the appropriateness of the reported match. We noted the local District's supporting worksheets contained budgeted estimates and not actual expenditures, and the Local District was unable to provide any documentation to support the sampled items. Therefore, we could not trace the expenditures to the general ledger accounts to verify that (a) the matching funds budgeted were actually expended; and (b) that they were not used as direct or other matching support for other federally funded programs.

The total exception for the under-match amounted to \$187,661 for both local Districts. The total exception for the District's matching for salary including benefits amounted to \$2,285,044 for both local Districts. The total exception from inadequate support for non-personnel matching costs for District 4 amounted to \$618,179. Total program matching for the fiscal year ended June 30, 2008 amounted to \$4,284,877.

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 does not appear to be sufficient controls in place to ensure that actual amounts are compiled and reported to the federal awarding agencies.

Questioned Costs

\$3,090,884

Under matching: \$187,661

Inadequate support for payroll and non-payroll matching: \$2,903,223

Recommendation

We recommend the District develop procedures to capture the District's matching expenditures and to report those actual amounts on the grant performance reports to the awarding agencies. We also recommend that supporting documentation for these matching contributions be retained for audit purposes.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the finding. A review of in-kind matching certifications found they had been filled out improperly or were incomplete. This resulted in matching amounts being under reported. The District has corrected that error on the in-kind certifications to bring the program back into compliance. GEAR-UP personnel have been trained in how to correctly fill in the certification form and how to document in-kind matching amounts.

Program Identification

Finding Reference Number:

F-08-09

Federal Program Title, Awarding
Agency, Pass-Through Entity,

Safe and Drug-Free Schools and Communities, U.S.
Department of Education (ED), Passed through the

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CFDA Number, Award Number: California Department of Education, CFDA No. 84.186, Grant Agreement Q186A070005;

Gaining Early Awareness and Readiness for Undergraduate Programs, U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.334, Grant Agreements P334A050205-07 and P334A050178-07

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.

Code of Federal Regulation – Title 34 – Education, Part 694 – Gaining Early Awareness and Readiness for Undergraduate Programs – Section 694.9 Notwithstanding 34 CFR 75.560–75.562 and 34 CFR 80.22, the maximum indirect cost rate that an agency of a State or local government receiving funds under GEAR UP may use to charge indirect costs to these funds is the lesser of:

- The rate established by the negotiated indirect cost agreement; or
- Eight percent of a modified total direct cost base.

Condition

Safe and Drug-Free Schools and Communities: During procedures performed over program earmarking requirements, we noted that the District had claimed more than the program administrative expenditures limit of 2 percent for the year.

- The District's policy for claiming administrative costs included both the program administrative costs plus the indirect cost rate of 3.02 percent. The total direct program expenditures (not including indirect costs) for the fiscal year ended June 30, 2008 were \$5,694,494 of which 2 percent would amount to \$113,890; however, the District had claimed \$171,974 of administrative expenditures to the program.
- Based upon our review of budget and expenditure information, we noted that other District office expenditures that were administrative in nature (i.e., salaries, benefits and other costs for secretary) should have been included in the total administrative expenditures. Since the District had already claimed approximately over 100 percent 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, 2008; however, since the District was unable to provide the actual

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additional administrative costs, we were unable to determine the additional amount which exceeded the administrative cap.

Gaining Early Awareness and Readiness: During our procedures performed over program earmarking requirements for two grants (Local District 4 and Local District 8), we noted that the District had reported in excess of the program indirect costs limit of 3.02 percent, and the following was the errors or omissions in indirect costs that the District reported:

- Based upon our review of expenditure information, we noted that other District office expenditures that were indirect costs in nature (i.e. salaries, benefits, and other costs for GEAR UP office personnel such as office technicians and information system assistant) should have been included in the total indirect costs. Since the District was unable to provide the actual additional indirect costs, and the supporting documentation for the reported indirect costs on the Annual Performance Reports for the two grants for fiscal year ended June 30, 2008, we are unable to determine the additional amount that exceeded the indirect costs cap.

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

Undetermined

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

Safe and Drug-Free Schools and Communities

The District disagrees with the finding. The 2% limitation on administrative does not include indirect costs. By definition, indirect costs are organization wide administrative costs that cover all programs and are difficult or cannot be identified as belonging to a specific program. Administrative costs, on the other hand, are specific to a program and are readily identifiable. The costs identified by the auditors are specific to the administration of the program.

GEAR UP

The District disagrees with the finding relative to the GEAR UP grant. The grant places a limit on the amount of indirect cost that is charged to the program. The limit is the lesser of 8% or the LEA approved rate. The expenditures for office technicians, program manager, etc. identified by the auditors are school site expenditures. OMB circulars require expenditures to be consistently treated. A cost may not be assigned as a direct cost under one program and assigned as an indirect cost in another program. School site expenditures have always been treated as direct program costs. The District believes it is in full compliance with this requirement.

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Program Identification

Finding Reference Number:	F-08-10
Federal Catalog of Domestic Assistance Number:	84.010
Federal Program Title:	Title I Grants to Local Educational Agencies: U.S. Department of Education (ED)
Pass-Through Entity:	California Department of Education
Award Number:	Grant Agreement S010A070005 (07-14329-6473)
Compliance Requirement:	Level of Effort – Supplement not Supplant
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 I – Improving the Academic Achievement of the Disadvantaged, Part A – Improving Basic Programs Operated by LEAs, Subpart 1 – 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.

Section 1115 of the United States Code – Title 20 – Targeted Assistance Schools states:

- In general: In all schools selected to receive funds under section 1113(c) that are ineligible for a schoolwide program under section 1114, or that choose not to operate such a schoolwide program, a local educational agency serving such school may use funds received under this part only for programs that provide services to eligible children under subsection (b) identified as having the greatest need for special assistance.
- Special Rules: Funds received under this part may not be used to provide services that are otherwise required by law to be made available to children described in paragraph (2) but may be used to coordinate or supplement such services.

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Condition

In our sample of 40 non-payroll expenditures that were charged to the Title I program, we noted that the District allocated 2 transactions totaling \$151,218 for computers and software purchases for a new Title I school called Liechty Middle school. In the fiscal year 2007-08, this school is eligible to be a Targeted Assistance School (“TAS”) under the Title I, part A. In operating a targeted assistance program at each TAS school, the District is required to (1) show that the federal funds used by the school are paying for additional services that would not otherwise be provided; (2) demonstrate that the federal funds are used only for specific target populations; and (3) separately track the federal program funds once they reach the school.

The District was unable to demonstrate that the purchase of the computers and software using the Title I funds at the TAS was used for only qualified low-income children who meet the Title I eligibility requirements. Therefore the cost of the computers and software is deemed supplanting, not supplementing, state and local funds.

Cause and Effect

Through discussion with District personnel, the condition was due to the fact that Liechty Middle school was a brand new school, which was ranked at 144th out of 732 with 93% of its students identified as Title I. Therefore, the District considered that it could be allowable cost.

Questioned Costs

\$151,218

Recommendation

The District should strengthen procedures and controls over expending Title I funds to Targeted Assistance Schools to ensure that expenditures are appropriately incurred to supplement, not supplant, the state/local funds at the schools.

Views of Responsible Officials and Planned Connective Actions

The District agrees with the finding. Liechty Middle School opened in the fall of 2007 as a Targeted Assistance School (TAS) as do all schools in their first year of Title I status. It ranked 144th out of 732 schools with 93.14% of its students identified as Title I. The school spent fiscal year 2007-08 developing their plan to become a School Wide Program (SWP) school. Their plan was approved and the school was re-designated a SWP school beginning fiscal year 2008-09. The District will strengthen controls for TAS program to ensure only eligible students receive services funded by Title I.

Program Identification

Finding Reference Number:

F-08-11

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 S010A070005 (07-14329-6473);

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Vocational Education Basic Grants to States: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.048, Grant Agreements 07/08-14893-64733-00, 07/08-14893-74435-00 and 07/08-14894-64733-00;

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 Q186A070005;

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

Twenty-First Century Community Learning Centers, U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.287, Grant Agreements 07-14349-6473-3A and 07-14349-6473-4A;

State Grants for Innovative Programs, U.S. Department of Education (ED), Passed Through the California Department of Education, CFDA No. 84.298, Pass-Through Identification No. 1964733, Grant Agreement S298A06005;

Education Technology State Grants, U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.318, Grant Agreements 07-14368-6437, 06-14368-6473-14368 and 2006/07-14334-6437;

Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP), U.S. Department of Education (ED), CFDA No. 84.334, Grant Agreements P334A050178-07 and P334A050205-07;

Reading First State Grants; U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.357, Grant Agreement 07-14328-6473-00;

English Language Acquisition Grants, U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.365, Grant Agreement T365A070005;

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Improving Teacher Quality State Grants, U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.367, Grant Agreement S367A070005A.

Compliance Requirement:

Level of Effort – Supplement not Supplant

State Audit Guide Finding Code:

30000

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 1 – 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 1 – 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 determine the District's compliance with the Supplement not Supplant provision of federal grants, we obtained the District's documentation to ascertain if any of the federal programs subject to this requirement had supplemented and not supplanted existing or required school expenditures.

The District provided us an analysis which calculated the per pupil expenditures by using the total amount of general funds that were expended at all of its school sites for the last two fiscal years divided by the total number of pupils in the District to support that it had not decreased its general fund support to its schools. The analysis compared the per pupil expenditure of general funds for its 1,085 schools from one year to the next. The result of the analysis showed that the District's general fund expenditures per pupil

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for fiscal year 2007-08 amounted to \$4,826, which was higher than the last 2 school years (2005-06 and 2006-07) in the amounts of \$4,319 and \$4,173, respectively; hence, the District presumed that the analysis demonstrated that Federal funds were not used to supplant its general fund resources in fiscal year 2007-08. The analysis also showed that the District had a total of 537 schools operating under the schoolwide program for the fiscal year 2007-08.

In evaluating the District's methodology used in determining compliance with the requirement, we randomly selected 40 out of 537 Title I schools operating schoolwide programs and compared their respective 2007-08 general fund expenditure per pupil with the previous year's. Our results demonstrated that 6 schools had a decrease in the general fund expenditures per pupil and 5 of the 6 schools also had an increase in Title I expenditures. The District did provide us with some additional documentation and explanation to demonstrate that the District did not supplant existing or required school expenditures for the 6 schools in our sample. However, the District did not have internal controls in place to monitor and evaluate each school receiving federal funds where the general funding decreased in the prior year, to demonstrate and rebut the presumption of supplanting versus supplementing.

Cause and Effect

The analysis provided by the District to show that the District was not supplanting general fund with federal funding covered all schools in the District. Where the analysis indicated a decrease in general funding and an increase in federal funding by individual school site, no additional analysis or explanations were provided to support its compliance with non-supplanting.

Questioned Costs

Not determined.

Recommendation

It is highly important that the District develop and maintain sufficient documentation that can be used to rebut the supplement, not supplant presumption, as stated above.

In the following instances, pursuant to guidance from the U.S. Office of Management and Budget (OMB) and the U.S. Department of Education (USED), it is presumed that supplanting has occurred if the District:

- Uses Federal funds (except Bilingual) to provide services that the District is required to make available under other Federal, State, or local laws;
- Uses Federal funds to provide services that the District provided with non-Federal funds in the prior year;
- Uses Title I, Part A or MEP funds to provide services for participating children that the District provides with non-Federal funds for nonparticipating children.

However, according to the OMB guidance, "These presumptions are rebuttable if the SEA or LEA can demonstrate that it would not have provided the services in question with non-Federal funds had the Federal funds not been available."

For schoolwide programs (approximately 90% of all of the District's Title I schools), the distinction between state/local funds and Federal funds – and hence the notion of supplantation – becomes unclear. In general, when services are delivered through schoolwide programs, Federal, State, and local funds are

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pooled, making it difficult to distinguish among funding streams in an audit because a schoolwide school does not have to:

- (1) Show that Federal funds used within the school are paying for additional services that would not otherwise be provided; or
- (2) Demonstrate that Federal funds are used only for specific target populations, or
- (3) Separately track Federal program funds once they reach the school.

Such a school, however, is required to use funds available under Title I and any other Federal programs to supplement the total amount of funds that would, in the absence of the Federal funds, be made available from non-Federal sources for that school, including funds needed to provide services that are required by law for children with disabilities and children with limited English proficiency.

Although there is no precise formula for determining what kinds of records will overcome a presumption of supplanting, or otherwise demonstrate that Federal funds were used in a supplemental manner, we recommend that the District develop additional analysis and procedures to determine for each of their schools where the presumption of supplanting and/or the reduction in general funding has occurred and Federal funding has increased, to demonstrate that they believe the school could not maintain services previously paid with State or local funds had Federal program funds not been available. We also recommend that the District implement policies and procedures to perform such analysis on a quarterly basis to closely monitor the District's compliance and documentation to support any exceptions noted from their review. The analysis should be reviewed and approved formally by the officials.

Views of Responsible Officials and Planned Connective Actions

The District disagrees with the finding. As stated in the conditions section, the District was able to document that supplanting was not taking place. In the case of those schools that had a decrease in general fund expenditures and an increase in Title 1 expenditures, the District provided additional documentation to verify that the schools were not supplanting.

In their recommendation, the auditors make the assumption that the District pools Federal, State and local funds at schoolwide program schools, making it difficult to show compliance with the supplement not supplant requirement. However, this is not the case. The District does not pool funds at any of its schools. Funds from all sources are given their own unique account number (program code) in order to accurately record how all funds are spent. Therefore, the current methodology of comparing general fund expenditures of various fiscal years can be easily done.

Program Identification

Finding Reference Number:

F-08-12

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 S010A070005 (07-14329-6473);

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Special Education Cluster: Grants to States, Preschool Grants, U.S. Department of Education, Passed through the California Department of Education, CFDA No. 84.027, and 84.173, Grant Agreements 07-13430-6473-01 and 07-13682-64733-01;

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

State Grants for Innovative Programs, U.S. Department of Education (ED), Passed Through the California Department of Education, CFDA No. 84.298, Pass-Through Identification No. 1964733, Grant Agreement S298A060005;

English Language Acquisition Grants, U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.365, Grant Agreements T365A070005 (03-14346-6473-00 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 S367A070005A.

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.
- 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.

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State of California Department of Education, Special Education Division, Authorized Expenditures and Accountability 2006 – 2008, 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 – 2008 must be expended or legally obligated by June 30, 2008. 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 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 2006-07 grant has a period of availability from July 1, 2006 to September 30, 2008 and the 2007-08 grant from July 1, 2007 to September 30, 2009. These grants have a maximum 15-month period of availability plus a 12-month period for *carryover*. Therefore, these grants have an overlapping period of 3 months from July through September in any given fiscal year.

Through our discussion with District’s personnel, the District is allowed to use a first-in-first-out (FIFO) methodology to report its expenditures incurred during the overlapping periods of the 3 months. In other words, the District’s expenditures incurred during the first 3 months (July through September) would be charged to the grants awarded in the prior fiscal year. Any unspent funds would be carried over to the next 12 months starting in October. Using the FIFO methodology, the District also assumes that the carryover would be exhausted first before the end of the fiscal year. Based on this analysis, the District would appear to be in compliance with the Period of Availability.

The FIFO methodology is conceptually sound and reasonable. However, according to the NCLB provision, no more than 15% of its Title I, Part A funds can be carried over beyond the initial 15-month period of availability. In calculating the 15% carryover at the end of the 15 month period, the District did not have a system in place to separate the costs incurred during the overlapping period and the costs charged against the current year with the carry over funds during the year (October – June). Therefore, we were unable to ascertain if the District’s carryover is less than 15%.

According to Part II of their 2007-08 Consolidated Application, the District had carried over \$78,603,548 from its fiscal year 2006-07 grant. Using the FIFO methodology, the District’s total program expenditures of \$290,206,290 (total expenditure for the fiscal year ended June 30, 2008 minus the total expenditures from July 1, 2007 to September 30, 2007 and the carryover amount from 2006-07) would have been expended from their fiscal year 2007-08 grant. To compute the 15% carryover provision on the Consolidated Application for the grant year 2007-08, the District should use the program expenditure of \$290,206,290 as a base and add any expenditure incurred from July 2008 to September 2008. However, since the District’s computation does not exclude any carryover and the expenditures reported for the first 3 months; and 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; as such, we were unable to determine if the carryover limitation of 15% is met for any fiscal year.

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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 2006-07 grant has a period of availability from July 1, 2006 to September 30, 2007 and the 2007-08 grant from July 1, 2007 to September 30, 2008. 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 award; 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.

Safe and Drug Free Schools and Communities: The District combined the expenditures for 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 2006-07 grant has a period of availability from July 1, 2006 to September 30, 2008 and the 2007-08 grant from July 1, 2007 to September 30, 2009. These grants have a maximum 15-month period of availability plus a 12-month period for *carryover*. Therefore, these grants have an overlapping period of 3 months from July through September in any given fiscal year.

Through our discussion with District's personnel, the District is allowed to use a first-in-first-out (FIFO) methodology to report its expenditures incurred during the overlapping periods of the 3 months. In other words, the District's expenditures incurred during the first 3 months (July through September) would be charged to the grants awarded in the prior fiscal year. Any unspent funds would be carried over to the next 12 months starting in October. Using the FIFO methodology, the District also assumes that the carryover would be exhausted first before the end of the fiscal year. Based on this analysis, the District would appear to be in compliance with the Period of Availability.

The FIFO methodology is conceptually sound and reasonable. However, according to the NCLB provision, no more than 25% of its Title I, Part A funds can be carried over beyond the initial 15-month period of availability. In calculating the 25% carryover at the end of the 15 month period, the District did not have a system in place to separate the costs incurred during the overlapping period and the costs charged against the current year with the carry over funds during the year (October – June). Therefore, we were unable to ascertain if the District's carryover is less than 25%.

According to Part II of their 2007-08 Consolidated Application, the District had carried over \$1,487,149 from their fiscal year 2006-07 grant. Using the District's first-in-first-out (FIFO) methodology \$4,381,153 would have been expended from their fiscal year 2007-08 grant. We were unable to assess the appropriateness of these allocations.

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 2006-07 grant has a period of availability from July 1, 2006 to September 30, 2008 and the 2007-08 grant from July 1, 2007 to September 30, 2009. These grants have overlapping periods of availability during the fiscal year due to NCLB carryover provisions. According to Part II of their 2007-08 Consolidated Application, the District had carried over \$1,719,070 from their fiscal year 2006-07 grant.

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Using the District's first-in-first-out (FIFO) methodology \$8,710 would have been expended from their fiscal year 2007-08 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 2006-07 grant has a period of availability from July 1, 2006 to September 30, 2008 and the 2007-08 grant from July 1, 2007 to September 30, 2009. These grants have overlapping periods of availability during the fiscal year due to NCLB carryover provisions. According to Part II of their 2007-08 Consolidated Application, the District had carried over \$13,418,509 from their fiscal year 2006-07 grant. Using the District's first-in-first-out (FIFO) methodology \$14,963,214 would have been expended from their fiscal year 2006-07 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 2006-07 grant has a period of availability from July 1, 2006 to September 30, 2008 and the 2007-08 grant from July 1, 2007 to September 30, 2009. These grants have overlapping periods of availability during the fiscal year due to NCLB carryover provisions. According Part II of their 2007-08 Consolidated Application, the District had carried over \$13,418,059 from their fiscal year 2006-07 grant. Using the District's first-in-first-out (FIFO) methodology \$39,430,066 would have been expended from their fiscal year 2006-07 grant. We were unable to assess the appropriateness of these allocations.

Cause and Effect

Through discussions with District's accounting personnel, we have 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 is no evidence that these are reviewed and approved in many instances.

Questioned Costs

Not determined.

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 in the general ledger for each grant 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.

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Views of Responsible Officials and Planned Corrective Actions

The District agrees with the finding. The District uses the First-In-First-Out (FIFO) methodology of identifying expenditures to ensure it complies with the period of availability and carry over limit requirements. This allows the District to use the same program code each year even though the funding periods overlap and monies are comingled. The District has discussed the reasoning and logic used with this method, and the auditors agree that it is a reasonable way to determine compliance with the period of availability and carry over requirements. All agreed a documented analysis needed to be on file for audit purposes. Therefore, the District will perform and have on file an annual documented analysis, using the FIFO method, to determine if the period of availability and expenditure requirements have been met.

Program Identification

Finding Reference Number:

F-08-13

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

Education Technology State Grants, U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.318, Grant Agreements 06-14368-6473, 07-14368-6437, and 2006/07-14334-6437;

English Language Acquisition Grants, U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.365, Grant Agreements T365A070005 (03-14346-6473-00 and 10084-6474-00);

Title I Grants to Local Educational Agencies: U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.010, Grant Agreement S010A070005 (07-14329-6473);

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 07/08-14893-74435-00, 07/08-14893-64733-00, and 07/08-14894-64733-00;

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 Q186A070005;

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, S298A060005.

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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.
- Liquidation of obligations: A grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation) to coincide with the submission of the annual Financial Status Report (SF-269). The federal agency may extend this deadline at the request of the grantee.

Condition

In our procedures of reviewing the District's compliance with the period of availability requirement, we selected samples of encumbrances from each grant that were recorded during the period of availability to verify that the underlying obligations occurred within the period of availability and the payment was made within the required liquidation period of 90 days after the end of the grant funding period. During our review and understanding of the District's internal controls over this compliance requirement, we noted that the District did not have policies and procedures to identify by grant the unliquidated obligations and to ensure that those obligations are liquidated within 90 days.

Education Technology State Grants: In our procedures of reviewing the District's grant expenditures for fiscal year 2007-08, we noted that the District charged a total of \$88,158 as expenditures in the current fiscal year. However, these expenditures were a part of grant #2453, which had a contract end date of August 31, 2006.

According to the final cost report for grant #2453, the total grant expenditures reported to CDE were \$5,839,800. Of the total reported expenditures, \$1,363,746 was reported as obligated funds which were required to be liquidated within 90 days of the contract period, or by November 30, 2006. Based on the supporting documentation of the \$88,158 paid and expensed in the fiscal year 2007-08, 2 transactions totaling \$82,094 were included in the prior year's obligation under grant #2453. Therefore, the \$82,094 of expenditures incurred under such award was paid more than 90 days after the end of the funding period.

Furthermore, we tested a sample of 5 encumbrances totaling \$1,214,118 and \$90,000 for grant #2499 and #2527 with contract periods ending June, 30, 2007, to verify that the obligations reported during the period of availability were properly liquidated within 90 days. As a result, 3 transactions totaling \$1,157,118 and 1 transaction totaling \$90,000, respectively, for grant #2499 and #2527 were paid after 90 days.

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Total exceptions amounted to \$1,335,276 of \$3,298,355 encumbrances reported for the sampled grants. The total from the \$4,622,197 total program expenditures for the fiscal year ended June 30, 2008.

English Language Acquisition: During our review of encumbrances totaling \$1,021,196 reported for the fiscal year ending June 30, 2008, we noted that 46 transactions totaling \$894,506 were encumbrances claimed to the prior year grants starting from 2004-05 through 2006-07. Of the total encumbrances in question, we selected 2 transactions totaling \$707,122 for further investigation. Based on the purchase orders recorded in IFS, these 2 encumbrances represented open purchase orders issued June 30, 2006 and November 27, 2004.

Total exceptions amounted to \$894,506 of \$3,158,184 sampled from the \$7,584,225 total program expenditures for the fiscal year ended June 30, 2008.

Title I Grants to Local Education Agencies: In our sample of 70 expenditures, we noted that 3 transactions totaling \$942,515 were paid for goods purchased or services rendered in fiscal year 2006-07. Since the District combined the expenditures for the 2 grants open during the fiscal year into one program, we were unable to determine if the carryover funds from the fiscal year 2006-07 grant were obligated within the twelve month carryover period and liquidated no later than 90 days after the end of the period of availability, or September 30, 2008.

Total exceptions amounted to \$942,515 of \$19,553,956 sampled from the \$101,250,696 total program expenditures for the fiscal year ended June 30, 2008.

Vocational Education Basic Grants to States:

During our review of the encumbrances totaling \$1,132,422 reported for the program #1356 grant ended in June 30, 2008, we noted that 30 transactions totaling \$77,961 were encumbrances claimed to the prior year's grants starting from 2003-04 through 2006-07. Of the total encumbrances in question, we selected 2 transactions totaling \$37,871 for further investigation. Based on the purchase orders recorded in IFS, these 2 encumbrances represented open purchase orders issued in June 30, 2006 and June 11, 2007.

Total exceptions amounted to \$77,961 of \$1,132,422 reported as encumbrances for the program #1356. The total nonpayroll program expenditures amounted to \$5,208,512 for the fiscal year ended June 30, 2008.

Safe and Drug-Free Schools and Communities: In our sample of 56 expenditures, we noted that 4 transactions totaling \$29,962 were paid for goods purchased or services rendered in fiscal year 2006-07. Since the District combined the expenditures for the 2 grants open during fiscal year 2007-08 into one program, we were unable to determine if the carryover funds from the fiscal year 2006-07 grant were obligated within the twelve month carryover period and liquidated no later than 90 days after the end of the period of availability, or September 30, 2008.

Total exceptions amounted to \$29,962 of \$1,570,281 sampled from the \$2,902,609 total program expenditures for the fiscal year ended June 30, 2008.

State Grants for Innovative Programs: In our sample of 32 expenditures, we noted that 24 transactions totaling \$146,231 were paid for goods purchased or services rendered in fiscal year 2006-07. Since the District combined the expenditures for the 2 grants open during fiscal 2007-08 year into one program, we were unable to determine if the carryover funds from the fiscal year 2006-07 grant were obligated within

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the twelve month carryover period and liquidated no later than 90 days after the end of the period of availability, or September 30, 2008.

Total exceptions amounted to \$146,231 of \$261,024 sampled from the \$608,195 total program expenditures for the fiscal year ended June 30, 2008.

Cause and Effect

Through discussions with District accounting personnel, we have noted that new project/program codes are not established for recurring 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 comingled for 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 to a 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 is no evidence that these are reviewed and approved in many instances.

Moreover, there appears to be a lack of internal control procedures to ensure that (1) all obligations are liquidated under the award not later than 90 days after the end of the funding periods and (2) unliquidated obligations are reconciled and adjusted so that the balance remaining in encumbrance is properly returned to the grantor.

Questioned Costs

\$3,426,451

Education Technology State Grants: \$1,335,276

English Language Acquisition: \$894,506

Title I Grants to Local Education Agencies: \$942,515

Vocational Education Basic Grants to States: \$77,961

Safe and Drug-Free Schools and Communities: \$29,962

State Grants for Innovative Programs: \$146,231

Recommendation

We recommend that 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 further recommend that the District strengthen controls over its monitoring of outstanding obligations to ensure that all obligations are liquidated under the award not later than 90 days after the end of the funding periods; and unliquidated obligations are reconciled and adjusted so that the balance remaining in encumbrance is properly returned to the grantor.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the finding. The District will revise its policies and procedures regarding liquidation of obligations. It will identify all unpaid obligations of the previous fiscal year and monitor the liquidation of those obligations to ensure compliance with the 90 days liquidation requirement.

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Program Identification

Finding Reference Number:

F-08-14

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 07-65328;

Title I Grants to Local Educational Agencies: U.S.
Department of Education (ED), Passed through the
California Department of Education, CFDA No.
84.010, Grant Agreement S010A070005;

Vocational Education Basic Grants to States: U.S.
Department of Education (ED), Passed through the
California Department of Education, CFDA No.
84.048, Grant Agreement 07-14894-64733-00;

Special Education Cluster: Grants to States, Preschool
Grants, U.S. Department of Education, Passed
through the California Department of Education,
CFDA Nos. 84.027, and 84.173, Grant Agreement
07-13682-6473-01;

Safe and Drug-Free Schools and Communities, U.S.
Department of Education (ED), Passed through the
California Department of Education, CFDA No.
84.186, Grant Agreement Q186A070005;

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

Twenty-First Century Community Learning Centers,
U.S. Department of Education (ED), Passed through
the California Department of Education, CFDA No.
84.287, Grant Agreements 06-14349-6473-2A, 07-
14349-6473-3A, 07-14349-6473-2A and 07-14349-
6473-4A;

State Grants for Innovative Programs, U.S.
Department of Education (ED), Passed Through the
California Department of Education, CFDA No.
84.298, Pass-Through Identification No. 1964733,
Grant Agreement S298A06005;

Education Technology State Grants, U.S. Department
of Education (ED), Passed through the California

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Department of Education, CFDA No. 84.318, Grant Agreements 05-14334-6473, 06-14368-6473 and 07-14368-6437;

Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP), U.S. Department of Education (ED), CFDA No. 84.334, Grant Agreements P334A050178-07 and P334A050205-07;

Reading First State Grants; U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.357, Grant Agreement 07-14328-6473-00;

English Language Acquisition Grants, U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.365, Grant Agreement T365A070005;

Improving Teacher Quality State Grants, U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.367, Grant Agreement S367A070005A.

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.
- 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.

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- 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 our sample of 40 expenditures, we noted the following 6 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, we noted that only 1 quotation was obtained and documented on the Procurement Documentation/Certification form for 3 samples totaling \$122,991.
- Of the expenditures from professional services under non-competitive situations, which required an approved waiver meeting the criteria for a noncompetitive proposal under District policy, we noted that the waivers did not have the proper approval for 2 samples totaling \$255,289.
- Of the expenditures reviewed, we were not provided with any procurement documentation (i.e. Procurement Documentation/Certification form, bids/quotes, RFP, evaluation summary, score sheets, contract, etc.) for 1 sample totaling \$1,678.

Total exceptions amounted to \$379,958 of the \$1,128,683 sampled from the \$2,678,332 of total procured expenditures for the fiscal year ended June 30, 2008.

Title I Grants to LEA: In our sample of 40 expenditures, we noted the following 10 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, we noted that neither the required 3 quotations nor a waiver were obtained for 2 samples totaling \$33,372.
- Of the expenditures from professional services under non-competitive situations, which require an approved waiver meeting the criteria for a noncompetitive proposal under District policy, we noted that the waiver did not have the proper approval for 1 sample totaling \$1,081,958.
- Of the procurements omitted due to "Urgent and Compelling Necessity", which require an approved After-the-Fact Memorandum and documented justification for the Urgent situation complied in accordance with the definition of Urgent and Compelling Necessity, we noted that the After-the Fact Memorandum was not properly approved and that the justification documented does not satisfy the definition for Urgent and Compelling Necessity for 1 sample totaling \$30,000.

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- Of the expenditures reviewed, we were not provided with any procurement documentation (i.e. Procurement Documentation/Certification form, bids/quotes, RFP, contract, etc.) for 6 samples totaling \$115,491.

Total exceptions amounted to \$1,260,821 of the \$14,463,273 sampled from the \$137,567,826 of total procured expenditures for the fiscal year ended June 30, 2008.

Vocational Education Basic Grants to States: In our sample of 40 expenditures, we noted the following 8 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, we noted the following:
 - Neither the 3 required quotations or a waiver was obtained and documented for 2 samples
 - Only 2 quotations were obtained and documented for 1 sample
 - Only 1 quotation was obtained and documented for 1 sample

Total of 4 samples totaling \$248,146.

- Of the expenditures reviewed, we were not provided with any procurement documentation (i.e. Procurement Documentation/Certification form, bids/quotes, RFP, evaluation summary, score sheets, contract, etc.) for 2 samples totaling \$46,385.
- Of the expenditures reviewed, we noted that a “cost/benefit” analysis was not conducted for the piggyback contracts used by the District for 2 samples totaling \$66,067.

Total exceptions amounted to \$360,598 of the \$1,613,864 sampled from the \$5,667,493 of total procured expenditures for the fiscal year ended June 30, 2008.

Special Education Cluster: In our sample of 40 expenditures, we noted the following 4 exceptions:

- Of the expenditures reviewed, we were not provided with any procurement documentation (i.e. Procurement Documentation/Certification form, bids/quotes, RFP, evaluation summary, score sheets, contract, etc) for 2 samples totaling \$4,500.
- Of the expenditures from professional services under non-competitive situations, which required an approved waiver meeting the criteria for a noncompetitive proposal under District policy, we noted that the 1 sample did not have the waiver on file totaling \$45,000.
- Of the expenditures reviewed, we noted that a “cost/benefit” analysis was not conducted for the piggyback contracts used by the District for 1 sample totaling \$1,599.

Total exceptions amounted to \$51,099 of the \$943,306 sampled from the \$5,326,270 of total procured expenditures for the fiscal year ended June 30, 2008.

Safe and Drug-free Schools and Communities: In our sample of 40 expenditures, we noted the following 9 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, we noted that only 1 quotation was obtained and documented for 2 samples totaling \$5,199.

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- Of the expenditures reviewed, we were not provided with any procurement documentation (i.e. Procurement Documentation/Certification form, bids/quotes, RFP, contract, etc.) for 7 samples totaling \$30,205.

Total exceptions amounted to \$35,404 of the \$404,527 sampled from the \$2,902,609 of total procured expenditures for the fiscal year ended June 30, 2008.

Fund for the Improvement of Education: In our sample of 40 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, we noted that only 2 quotations were documented for 1 sample totaling \$7,028.
- Of the procurements omitted due to “Urgent and Compelling Necessity”, which require an approved After-the-Fact Memorandum and documented justification for the Urgent situation complied in accordance with the definition of Urgent and Compelling Necessity, we noted that the After-the Fact Memorandums were not properly approved for 3 samples totaling \$89,500.
- Of the expenditures reviewed, we were not provided with any procurement documentation (i.e. Procurement Documentation/Certification form, bids/quotes, RFP, contract, etc.) for 2 samples totaling \$4,309.
- Of the expenditures reviewed, we noted that a “cost/benefit” analysis was not conducted for the piggyback contract used by the District for 1 sample totaling \$6,649.

Total exceptions amounted to \$107,486 of the \$487,559 sampled from the \$1,974,245 of total procured expenditures for the fiscal year ended June 30, 2008.

Twenty-First Century Community Learning Centers: In our sample of 40 expenditures, we noted the following 12 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, we noted that neither the 3 required quotations nor a waiver were obtained and documented for 1 sample totaling \$4,191.
- Of the expenditures reviewed, we were not provided with any procurement documentation (i.e. Procurement Documentation/Certification form, bids/quotes, RFP, evaluation summary, score sheets, contract, etc.) for 8 samples totaling \$1,053,611.
- Of the expenditures reviewed, we noted that a “cost/benefit” analysis was not conducted for the piggyback contracts used by the District for 3 samples totaling \$35,099.

Total exceptions amounted to \$1,092,901 of the \$2,718,375 sampled from the \$10,895,683 of total procured expenditures for the fiscal year ended June 30, 2008.

State Grants for Innovative Programs: In our sample of 40 expenditures, we noted the following 1 exception:

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- Of the expenditures from professional services under non-competitive situations, which require an approved waiver, we noted that the waiver did not have the proper approval for 1 sample totaling \$45,000.

Total exceptions amounted to \$45,000 of the \$284,125 sampled from the \$323,235 of total procured expenditures for the fiscal year ended June 30, 2008.

Education Technology State Grants: In our sample of 40 expenditures, we noted the following 8 exceptions:

- Of the expenditures reviewed, we were not provided with any procurement documentation (i.e. Procurement Documentation/Certification form, bids/quotes, RFP, evaluation summary, score sheets, contract, etc.) for 5 samples totaling \$213,271.
- Of the expenditures reviewed, we noted that a “cost/benefit” analysis was not conducted for the Piggyback contracts used by the District for 3 samples totaling \$201,466.

Total exceptions amounted to \$414,737 of the \$2,239,702 sampled from the \$4,622,197 of total procured expenditures for the fiscal year ended June 30, 2008.

GEAR-UP: In our sample of 40 expenditures, we noted the following 10 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, we noted the following:
 - Neither 3 required quotations nor a waiver were obtained and documented for 2 samples
 - Only 1 quotation was obtained and documented for 1 sample

Total of 3 samples totaling \$46,170.

- Of the procurements omitted due to “Urgent and Compelling Necessity”, which require an approved After-the-Fact Memorandum and documented justification for the Urgent situation complied in accordance with the definition of Urgent and Compelling Necessity, we noted that the After-the Fact Memorandum was not properly approved and that the justification documented does not satisfy the definition for Urgent and Compelling Necessity for 3 samples totaling \$131,611.
- Of the expenditures reviewed, we were not provided with any procurement documentation (i.e. Procurement Documentation/Certification form, bids/quotes, RFP, evaluation summary, score sheets, contract, etc.) for 3 samples totaling \$114,380.
- Of the expenditures reviewed, we noted that a “cost/benefit” analysis was not conducted for the Piggyback contract used by the District for 1 sample totaling \$4,789.

Total exceptions amounted to \$296,950 of the \$1,114,289 sampled from the \$3,681,455 of total procured expenditures for the fiscal year ended June 30, 2008.

Reading First State Grants: In our sample of 40 expenditures, we noted the following 2 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, we noted that neither 3 required quotations nor a waiver were obtained and documented for 1 sample totaling \$7,808.

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- Of the expenditures reviewed, we were not provided with any procurement documentation (i.e. Procurement Documentation/Certification form, bids/quotes, RFP, evaluation summary, score sheets, contract, etc.) for 1 sample totaling \$1,000.

Total exceptions amounted to \$8,808 of the \$1,516,480 sampled from the \$4,713,027 of total procured expenditures for the fiscal year ended June 30, 2008.

English Language Acquisition Grants: In our sample of 40 expenditures, we noted the following 11 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, we noted that neither the 3 required quotations nor a waiver were obtained and documented for 2 samples totaling \$27,306.
- Of the procurements omitted due to “Urgent and Compelling Necessity”, which require an approved After-the-Fact Memorandum and documented justification for the Urgent situation complied in accordance with the definition of Urgent and Compelling Necessity, we noted that the After-the Fact Memorandum was not properly approved and that the justification documented does not satisfy the definition for Urgent and Compelling Necessity for 1 sample totaling \$7,500.
- Of the expenditures reviewed, we were not provided with any procurement documentation (i.e. Procurement Documentation/Certification form, bids/quotes, RFP, evaluation summary, score sheets, contract, etc.) for 6 samples totaling \$191,595.
- Of the expenditures reviewed, we noted that items purchased from a Master contract, which were charged to the program, were not included in the contract items awarded for 1 sample totaling \$16,325.
- Of the expenditures reviewed, we noted that a “cost/benefit” analysis was not conducted for the piggyback contract used by the District for 1 sample totaling \$13,339.

Total exceptions amounted to \$256,065 of the \$1,487,476 sampled from the \$7,567,898 of total procured expenditures for the fiscal year ended June 30, 2008.

Improving Teacher Quality State Grants: In our sample of 40 expenditures, we noted the following 8 exceptions:

- Of the expenditures reviewed, we were not provided with any procurement documentation (i.e. Procurement Documentation/Certification form, bids/quotes, RFP, evaluation summary, score sheets, contract, etc.) for 8 samples totaling \$128,722.

Total exceptions amounted to \$128,722 of the \$3,381,000 sampled from the \$6,500,281 of total procured expenditures for the fiscal year ended June 30, 2008.

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 goods or services for the federally funded programs.

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Questioned Costs

\$4,438,549

Food Stamp Cluster: \$379,958

Title I Grants to LEA: \$1,260,821

Vocational Education Basic Grants to States: \$360,598

Special Education Cluster: \$51,099

Safe and Drug-free Schools and Communities: \$35,404

Fund for the Improvement of Education: \$107,486

Twenty-First Century Community Learning Centers: \$1,092,901

State Grants for Innovative Programs: \$45,000

Education Technology State Grants: \$414,737

GEAR-UP: \$296,950

Reading First State Grants: \$8,808

English Language Acquisition Grants: \$256,065

Improving Teacher Quality State Grants: \$128,722

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.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the finding. The District published and issued a new procurement manual that replaced all previous policies related to procurement. The District is also developing internal standard operating procedures which include document retention policies and procedures.

Program Identification

Finding Reference Number:

F-08-15

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 07-14329-6473;

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 07/08-14893-74435-00 and 07-14894-64733-00;

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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 Q186A070005;

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

Twenty-First Century Community Learning Centers, U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.287, Grant Agreements 06-14349-6473-1A, 06-14349-6473-3A, and 06-14349-6473-2A, 07-14535-6473-4A, 07-14349-6473-3A;

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 06-14368-6473, 07-14368-6437;

Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP), U.S. Department of Education (ED), CFDA No. 84.334, Grant Agreements P334A050178-07 and P334A050205-07;

Reading First State Grants; U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.357, Grant Agreement 07-14328-6473-00;

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:

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

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for participation in federal assistance programs under Executive Order 12549, "Debarment and Suspension."

Condition

Title I Grants to LEA: During our procedures performed over suspension and debarment, we noted 1 exception out of 40 expenditures sampled totaling \$15,000 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 1 exception out of 40 expenditures sampled totaling \$42,000 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.

Safe and Drug-free Schools and Communities: During our procedures performed over suspension and debarment, we noted 4 exceptions out of 40 expenditures totaling \$149,125 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.

Fund for the Improvement of Education: During our procedures performed over suspension and debarment, we noted 1 exception out of 40 expenditures sampled totaling \$27,000 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.

Twenty-First Century Community Learning Centers: During our procedures performed over suspension and debarment, we noted 5 exceptions out of 40 expenditures sampled totaling \$271,492 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 1 exception out of 40 expenditures sampled totaling \$50,000 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.

GEAR-UP: During our procedures performed over suspension and debarment, we noted 7 exceptions out of 40 expenditures sampled totaling \$544,516 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 2 exceptions out of 40 expenditures sampled totaling \$18,241 that did not contain a certification for the

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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.

Improving Teacher Quality State Grants: During our procedures performed over suspension and debarment, we noted 4 exceptions out of 40 expenditures sampled totaling \$142,447 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.

Cause and Effect

Subsequent to our audit year ending June 30, 2008, the District consolidated all procurement policies and procedures. On September 1, 2008, the new procurement policy manual was issued. This was in response to the prior audit finding corrective action plan. However, the impact of the corrective action does not take effect until fiscal year ending June 30, 2009.

Questioned Costs

Not applicable.

Recommendation

We recommend that the District monitor the internal controls as documented in the new procurement policy manual to ensure compliance with federal suspension and debarment regulations. It is also our recommendation that the District provide training to the appropriate procurement staff on the new procurement manual and hold periodic meetings for any future updates or revisions.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the finding. As mentioned above, the District issued a new procurement policy manual in September 2008, which includes policies regarding suspension and debarment certification. The District will closely monitor compliance with this requirement.

Program Identification

Finding Reference Number:

F-08-16

Federal Program Title, Awarding Agency, Pass-Through Entity, CFDA Number, Award Number:

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-7163

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

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Department of Education, CFDA Nos. 10.553, 10.555, and 10.559, Grant Agreement 19-64733-0000000-01.

Pass-Through Entity: California Department of Education

Compliance Requirement: Program Income

State Audit Guide Finding Code: 30000 and 50000

Criteria

Circular A-102 – Program Income

- Agencies shall encourage grantees to generate program income to help defray program costs. However, Federal agencies shall not permit grantees to use grant-acquired assets to compete unfairly with the private sector.
- Federal agencies shall instruct grantees to deduct program income from total program costs as specified in the grants management common rule at paragraph .25 (g)(1), unless agency regulations or the terms of the grant award state otherwise. Authorization for recipients to follow the other alternatives in paragraph .25 (g) (2) and (3) shall be granted sparingly.

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.

Condition

Child Care Development Fund Cluster: During our testing of parent fees calculation for 60 children's records selected from 10 centers, we noted that 4 parent fee computations were incorrectly billed to the parents. As a result, the fees were under-billed by the District to 3 families, and one family was overbilled.

Total Parent fees collected for the fiscal year 2007-08 from the 100 child care centers operated by the District amounted to \$2,393,597. We sampled a total of 60 student records from 10 centers for a total parent fee collection of \$11,793.

Child Nutrition Cluster: During our walk-through to observe the meal count, cash collection and reporting process for 4 schools, we noted that there was a segregation of duties deficiency for 1 school. The Cafeteria Manager handled cash collections, inputs data into the Food Services Data Capture (FSDC) system, and made deposits to the bank.

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The total amount of cash collected from meal service for the fiscal year ended June 30, 2008 for that school was \$65,830. Total cash collections for the fiscal year 2007-08 for all 779 schools operating the meal program amounted to \$14,098,798.

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.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the findings. One family was under billed. The Notice of Action (NOA) incorrectly reflected a \$0/day fee based on family size of four and income of \$2,708. The fee should have been \$5.30/day. The error has been corrected.

One family's original application incorrectly listed a family size of three when it should have been five. The family was recertified on 7/25/08 with a monthly income of \$2,324 and a correct family size of five, for which there is no fee due.

The remaining family in question is a case of family members being added to the case at different times, thus resulting in an incorrect family size depending on the date reviewed. The system does not allow a user to add family members after the fact and backdate their entry. The system only sees them from the date their data is entered. Both parents were in the home on 4/17/08 although they failed to show the mother at that time. She was not added to the family until 3/18/09 but her income of \$1,896 was shown effective 4/17/08. On 4/17/08 the father had no income. The 4/17/08 NOA was not generated until 3/18/09 and with a family size of three there would have been no fee due. The older children were not added to the family until 4/23/09 but probably should have been shown in the family the entire time. The family had \$0/day fee until 4/17/09.

Principals will regularly review the Office Manager's work to ensure that recertification are done timely and thoroughly documented in order to avoid oversights from occurring.

Child Nutrition Cluster:

The District agrees with the audit finding. The department has developed a standard operating procedure that will be implemented in all schools by October 1, 2009. The process has been revised to mandate that 2 signatures will be required for counting and collecting cash. In addition, the Food Services Division will be devising a strategy to have the deposit verified and transferred to the bank vault via armored car transport.

In addition to the revised change in procedures, traditional calendar Cafeteria Managers and High School Seniors working in the cafeteria will be trained on the new procedure in opening school orientation. The

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training will be conducted from August 24th- 28th and a sign in sheet will be used as the documentation tool of record for the Food Services Division and as an audit cross reference.

Program Identification

Finding Reference Number:	F-08-17
Federal Catalog of Domestic Assistance Numbers:	84.334
Federal Program Title:	Gaining Early Awareness and Readiness for Undergraduate Programs, U.S. Department of Education (ED)
Pass-Through Entity:	California Department of Education
Award Number:	Grant Agreements P334A050178-07 and P334A050205-07
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.
 - 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

During our review of the District's 2006-07 Annual Performance Reports for Partnership and State Projects (APRs), discrepancies of \$43,441 and \$73,839 were noted between the APRs and the reports generated from the Financial Reporting Database for Local Districts 4 and 8, respectively.

Cause and Effect

Through discussions with the two District's responsible personnel, the condition was due to a timing difference as the APRs are due and prepared 8 - 10 months after the fiscal year ended and certain costs were added to the reports to CDE. However, there was no appropriate reconciliation to support the variances.

The differences noted in the APRs were 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.

Questioned Costs

Undetermined.

Recommendation

We recommend the District strengthen its current controls over reporting to ensure that reports are completed accurately and budgeted numbers are reconciled to the actual expenditures and amended reports are properly submitted to the federal funding agency upon finalization of the expenditures.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the finding. GEAR UP Directors will work closely with accounting personnel to accurately reflect actual expenditures on their Annual Performance Reports.

Program Identification

Finding Reference Number:	F-08-18
Federal Catalog of Domestic Assistance Number:	84.048
Federal Program Title:	Vocational Education Basic Grants to States (Perkins III), U.S. Department of Education (ED)
Pass-Through Entity:	California Department of Education
Award Number:	Grant Agreements 07/08-14893-74435-00, 07/08-14893-64733-00 and 07-14894-64733-0007-14894-64733-00
Compliance Requirement:	Reporting
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 80.20, Standards for financial management systems:

- A State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to:
- Permit preparation of reports required by this part and the statutes authorizing the grant, and
- Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions or applicable statutes.

The financial management systems of other grantees and subgrantees must meet the following standards:

- Financial reporting: Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.
- Accounting records: Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

Condition

Financial Reporting: In our procedures performed over financial reporting, we noted that 1 of 3 final claim document reports for Secondary Education was submitted on August 29, 2008, which was a month behind the July 31, 2008 due date.

Program Reporting: In our procedures performed over programmatic reporting, we noted that the District compiled CDE Form 101: E1 Report of Career Technical Education Enrollment and Program Completion (CDE Form 101 or E1) for both adult education and secondary education by retrieving data submitted by individual schools and the Student Information System (SIS). Further, we noted that the District class code was converted to the CBED code for secondary education.

In order to test the accuracy of the data reported on the E1, we traced 12 items of student population data reported on the E1 to the SIS and noted discrepancies between the numbers of students reported. In the secondary education E1 report for school year 2006-2007, we were unable to reconcile the data for 12 of the 12 line items sampled to the baseline information from the SIS. Through our discussion with the program staff, the reported data was based on SIS and their judgmental adjustments; however, no documentation was provided to support how the adjustments were determined.

In order to test the reasonableness of the conversion table for secondary education codes used by the District, we compared the District course titles and numbers with the CBED description code. For 3 of the 30 line items sampled, the District's secondary education class code did not match with the CDE course definition.

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Cause and Effect

The District's policy does not require documentation be maintained to support numbers reported and any reconciliation between the information submitted by the individual schools and the SIS. The District does not have policies and procedures in place to ensure accuracy of the conversion from CDE course definition to the District secondary education class code.

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 the finding. Career Technical Education (CTE) staff will align the District's CTE course codes with the corresponding CBED codes in time for the October report. Staff from CTE and The Office of Student Research and Evaluation will design a software program to aggregate the necessary CTE student enrollment. Data will be formatted and consistent with the parameters necessary according to the instructions provided by CDE for the CDE Form 101: E1 Report of Career Technical Education Enrollment and Program Completion.

Program Identification

Finding Reference Number:	F-08-19
CFDA Numbers:	84.287
Federal Program Titles:	Twenty-First Century Community Learning Centers, U.S. Department of Education (ED)
Pass-Through Entity:	California Department of Education
Award Number:	Grant Agreements 07-14349-6473-3A and 07-14535-6473-4A
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:

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- 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

During our review of the attendance reporting, we sampled 1 month out of a quarter to trace the attendance information from the District's Semiannual Attendance Reports to 10 individual after schools providers to verify the accuracy of the attendance reported and noted the following:

- No signature on the Sign In/Out sheets for 1 student and 1 student's name could not be found on the Sign-in Sheet for Harmony School.
- No Sign-in sheets were provided for 4 out of the 13 students and 12 out of the 12 students we sampled for Bell High School and Fremont High School, respectively.
- No attendance records were provided for 3 out of the 25 sampled students. In addition, on the monthly attendance sheet, a section is designed for daily initials of the attendance taker; however, we noted that there were no daily initials by the attendance taker for Reseda.

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.

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 reports is complete and accurate.

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Views of Responsible Officials and Planned Corrective Actions

The District agrees with the finding. The Master Service Agreement (MSA) for sub-recipients has been revised and includes language requiring them to provide accurate attendance reports that meet all District requirements. The District will perform spot checks to ensure attendance signatures are obtained.

Program Identification

Finding Reference Number:	F-08-20
Federal Catalog of Domestic Assistance Number(s):	10.553, 10.555, and 10.559
Federal Program Title(s):	Child Nutrition Cluster: School Breakfast Program, National School Lunch Program, Summer Food Service Program for Children, U.S. Department of Agriculture (USDA)
Pass-Through Entity:	California Department of Education
Award Number:	Grant Agreement 19-64733-0000000-01
Compliance Requirement:	Reporting
State Audit Guide Finding Code:	30000 and 50000

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,

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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.

Condition

During our review of the reporting procedures for the monthly claims reports, we noted that the District implemented a new computerized meal claiming system, Food Services Data Capture, starting October 2007. FSDC replaced the manual weekly meal reporting process which required the weekly reports to be sent to the District office for input into the District's claiming system. With FSDC, the data is input by the school cafeteria personnel (the centers) and then interfaced with District's claiming system (Unisys) used to prepare the monthly billing to California Department of Education. In order to test the accuracy of the meals claimed, we selected 40 schools (34 for FSDC and 6 for the old manual system) and noted the following:

1. **Segregation of Duties:** The new FSDC system does allow for the supervisor review of data entered into the system. However the data is invariably entered and reviewed by the same person (usually the Cafeteria Manager both enters and reviews the data entered.) The Accounting Analysts at the District are required to review the data, but since they do not have the back-up (meal count and cash collections worksheets) used by school centers to review the accuracy, the review process appears redundant.
2. **Inadequate Support – General:** At the schools, the cafeteria managers collect meal tickets, count and bag them and summarize them by meal types (free/reduced/full priced) into meal count worksheets. However, they are not required to send these tickets over to the District nor retain them for more than 3 months after they are collected. Therefore, we were unable to perform the verification of the initial input into the FSDC system.
3. **Un-reconciling Differences:** To test the accuracy of the data interface between FSDC and Unisys, we compared a sample of meals and supplements reported from the Unisys to the corresponding FSDC's weekly summary reports for 34 schools and we noted the following exceptions for 1 school:
 - 1,161 lunch and breakfast counts totaling \$657 were under-reported for 1 out of 34 schools in the Unisys. No adjusted claim report was filed to correct this exception.
 - 16 free breakfast counts were over-reported on the Unisys report and 16 full priced counts were under-reported on the FSDC.

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4. ***Inadequate Support – Unisys:*** To test the accuracy of the data input manually into the Unisys system, we traced a sample of meals and supplements from the Unisys system to the corresponding school's weekly manual prepared reports. We noted that 124 meal counts totaling \$131 were over-reported for 1 out of 6 schools sampled.
5. ***Inadequate Support – Manual Adjustments:*** Through discussion with the financial analysts for the monthly claims reports process, we noted that the Food Services Branch provides manual adjustments to the accounting department for additional claims made to the monthly claim reports. In our procedures to verify the manual adjustments made for the months of September 2007 and June 2008, we noted the following:
 - 3,314 (1,616 counts for lunch and 1,698 counts for breakfast) free and reduced meals totaling \$3,166 were not supported by either the weekly Forms 1 or the edit worksheet for 1 out of 6 schools that was under the legacy CAFS system, an old data capture system replaced by FSDC starting January 2008.

Cause and Effect

The differences in procedures 3 and 4 appeared to be the results of manual errors that were not detected by the District's control processes. The differences noted in procedure 5 were due to manual additions made by the accounting department to the monthly claim reports. Through discussion with the financial analysts, 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

\$3,297

Recommendation

We recommend the District strengthen controls to ensure claims are compiled and reported accurately. We also recommend the District maintain sufficient documentation to support the manually adjustments for audit purposes.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the finding. The Food Services Branch has strengthened controls over cash collections by developing worksheets to assist schools to reconcile the cash collection to sales. The worksheets are kept at the school site where the manager has easy access to discuss information when financial analyst contacts them regarding their cash collections.

Food Services Branch has improved the reporting accuracy in the implementation of a web-based Food Services Data Capture System (FSDC) to automate the Cafeteria Managers' data entry of weekly meal counts/sales and monthly inventory tracking and cash collections. All Cafeteria Personnel have undergone training prior to the system being implemented at their school site. Cafeteria Managers, Senior Cafeteria Workers, and Financial Managers attend a mandatory 4-hour training course (Financial Managers training is 1-2 hours). All schools are on the current system as of April 2008.

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Program Identification

Finding Reference Number:

F-08-21

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, U.S. Department of Education (ED), Passed through the California Department of Education, CFDA No. 84.287, Grant Agreements 07-14349-6473-3A and 07-14349-6473-4A;

Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP), U.S. Department of Education (ED), CFDA No. 84.334, Grant Agreement P334A050205-07 and P334A050205-07

Compliance Requirement:

Subrecipient Monitoring

State Audit Guide Finding Code:

30000 and 50000

Criteria

United States Code, Title 31 – Money and Finance, Subtitle V – General Assistance Administration, Chapter 75 – Requirements for Single Audits, Section 7502, Audit requirements; exemptions:

- Each pass-through entity shall:
 - (a) provide such subrecipient the program names (and any identifying numbers) from which such assistance is derived, and the federal requirements which govern the use of such awards and the requirements of this chapter;
 - (b) monitor the subrecipient's use of federal awards through site visits, limited scope audits, or other means;
 - (c) review the audit of a subrecipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, as defined by the Director, pertaining to federal awards provided to the subrecipient by the pass-through entity; and
 - (d) require each of its subrecipients of federal awards to permit, as a condition of receiving federal awards, the independent auditor of the pass-through entity to have such access to the subrecipient's records and financial statements as may be necessary for the pass-through entity to comply with this chapter.

Condition

Twenty-First Century Community Learning Centers: The District contracted with 30 agencies under the Beyond the Bell program funded by the 21st Century Community Learning Centers. During our procedures over subrecipient monitoring, we noted the following:

- 4 agencies did not submit a copy of the financial audit reports for FY 2006-07.

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- 19 agencies did not provide the District the Single Audit reports or proof of exemption to the requirement; therefore, we could not determine if those agencies are subject to the Single Audit.
- The District did not have a system to verify if the subrecipients were required to have a Single Audit.
- There were no formal policies and procedures in place for those agencies who did have a Single Audit performed, to (1) ensure that the required audits were completed within 9 months of the end of the subrecipients' audit period; (2) issue a management decision on audit findings within 6 months after receipt of the subrecipient's audit reports; and (3) ensure that the subrecipient takes timely and appropriate correction action on all audit findings.

GEAR-UP: District 8 contracted with 3 colleges; however, the District did not obtain the Single Audit reports until we requested them for review. In addition, the subrecipient contracts did not contain appropriate award identification information (i.e. CFDA No., federal awarding agencies).

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, 2008. 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 the finding. Required Single Audits or proof of exemption will be or have been collected and procedures have been developed to ensure these documents are collected each year.

Program Identification

Finding Reference Number: **F-08-22**

Federal Catalog of Domestic Assistance Number(s): 84.365

Federal Program Titles: English Language Acquisition Program, U.S.

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Department of Education (ED)

Pass-Through Entity:

California Department of Education

Award Number:

Grant Agreement T365A070005 (03-14346-6473-00
and 10084-6474-00)

Compliance Requirement:

Special Tests and Provisions – Parental Notification

State Audit Guide Finding Code:

30000 and 50000

Criteria

Elementary & Secondary Education Act, Subpart 5 – Administration, Part C – General Provisions, Section 3302, Parental Notification:

In General – Each eligible entity using funds provided under this title to provide a language instruction educational program shall, not later than 30 days after the beginning of the school year, inform a parent or the parents of a limited English proficient child identified for participation in, or participating in, such program of:

- (1) The reasons for the identification of their child as limited English proficient and in need of placement in a language instruction educational program;
- (2) The child's level of English proficiency, how such level was assessed, and the status of the child's academic achievement;
- (3) The method of instruction used in the program in which their child is, or will be, participating, and the methods of instruction used in other available programs, including how such programs differ in content, instruction goals, and use of English and a native language in instruction;
- (4) How the program in which their child is, or will be participating will meet the educational strengths and needs of the child;
- (5) How such program will specifically help their child learn English, and meet age-appropriate academic achievement standards for grade promotion and graduation;
- (6) The specific exit requirements for such program, the expected rate of transition from such program into classrooms that are not tailored for limited English proficient children, and the expected rate of graduation from secondary school for such program if funds under this title are used for children in secondary schools;
- (7) In the case of a child with a disability, how such program meets the objectives of the individualized education program of the child; and
- (8) Information pertaining to parental rights that includes written guidance:
 - a) Detailing:
 - The right that parents have to have their child immediately removed from such program upon their request and
 - The options that parents have to decline to enroll their child in such program or to choose another program or method of instruction, if available and
 - Assisting parents in selecting among various programs and methods of instruction, if more than one program or method is offered by the eligible entity.

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- 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 2007-2008 school year. In our sample of 40 participating students, we noted the following:

- 11 signed copies of student parent notifications were not provided;
- 2 parent notifications were signed but not dated;
- 4 parent notifications were dated subsequent to the school year of 2007-08 (rather than beginning of the school year).

Cause and Effect

In general, there does not appear to be effective controls in place to ascertain that sufficient documentation is maintained to support its compliance.

Questioned Costs

Not applicable.

Recommendation

We recommend the District strengthen its policies and procedures to ensure that the schools comply with the requirement that all parental notifications are made in a timely manner and the supporting documentation is maintained on file to support the schools' compliance.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the finding. Greater control over the notification process needs to be exercised by school administrators to ensure that requirements are met and documentation is retained for audit purposes. The District has established policies and procedures in place to communicate program requirements to school personnel. Secondary schools use REF-2635.0 titled *Annual Parent Notification Requirements Under Title III of the No Child Left Behind Act for Secondary Schools*, dated July 17, 2006. Elementary schools use REF-2638.1 titled *Annual Parent Notification Requirements Under Title III of the No Child Left Behind Act, for Elementary Schools*, dated July 24, 2006. These reference guides clearly identify the requirements and provide instructions, procedures, guidelines, and necessary forms needed to be in compliance with federal rules. These reference guides were updated for the 2008-2009 fiscal year. The District will provide additional training to school administrators.

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Program Identification

Finding Reference Number:	F-08-23
Federal Catalog of Domestic Assistance Number(s):	84.010
Federal Program Titles:	Title I Grants to LEAs, U.S. Department of Education (ED)
Pass-Through Entity:	California Department of Education
Award Number	Grant Agreement 07-14329-6473
Compliance Requirement:	Special Tests and Provisions – Highly Qualified Teachers and Paraprofessionals
State Audit Guide Finding Code:	30000 and 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.

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.

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- 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, 2008.

Teachers: The District provided us with a copy of its Plan for Equitable Distribution of Highly Qualified Teachers and Administrators (Plan) submitted to The California Department of Education in August 2008. The Plan provides the compliance percentages by school, local district and district wide of highly qualified teachers. According to the Plan, the District reached 92.5% highly qualified teachers overall for the fiscal year 2007-08, and has strategies and programs in place to ensure that all of its teachers are making progress toward becoming highly qualified.

Paraprofessionals: During our review, we were provided a listing of all non-highly qualified paraprofessionals. According to the list, it appeared that the District had 297 non-highly qualified paraprofessionals who were assigned to Title I schools operating schoolwide programs. Additionally, through our discussion with the Director of Classified Employment Transactions Service Branch, we noted that the District did not have a tracking system in place to monitor the placement/transfer of non-highly qualified paraprofessionals hired before January 8, 2002 to ensure that they were not assigned to Title I schools.

Furthermore, we sampled 20 paraprofessionals from the list of the highly qualified paraprofessionals working in Title I schoolwide programs. Based on our testing, we found 1 paraprofessional who was not highly qualified according to documents provided by the district.

Cause and Effect

The District indicated challenges in hiring and placement of prospective teachers who might have been hesitant to serve at low-performing schools. It was this inability to attract desirable candidates that appeared to contribute to the number of nonhighly qualified teachers.

In addition, the district indicated lack of funds for administrative personnel necessary to track placement of nonhighly qualified paraprofessionals.

Questioned Costs

Not applicable.

Recommendation

We recommend the District continue to implement policies and procedures to ensure the remainder of its teachers obtain their highly qualified status to comply with NCLB requirements.

We also recommend the District implement policies and procedures to ensure that nonhighly qualified paraprofessionals hired before January 8, 2002 are not placed in Title I schools where a highly qualified status is required to comply with NCLB requirements.

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Views of Responsible Officials and Planned Corrective Actions

High Quality Teachers:

The District agrees with the finding. Since June 2008 there has been considerable change. The District has continued its effort to increase the percentage of teachers meeting NCLB requirements. As of June 2009, this percentage increased to 95% which meets the State Department of Education's goal for school districts in California.

The strategic steps taken to achieve this goal are included in the recruitment plan and the Equitable Distribution Plan that were provided to the auditors.

High Quality Paraprofessionals:

The District agrees with the finding. According to the audit findings, there are 297 non-highly qualified paraprofessionals who are assigned to Title 1 schools operating the schoolwide program. As of June 2009, the number has been reduced to about 40 paraeducators who are assigned to Title 1 schools. However, these individuals have been or are being moved into positions that are not in Title 1 schools.

The District agrees with the recommendation to implement policies and procedures to ensure that non-highly qualified paraprofessionals hired before January 8, 2002 are not placed in Title 1 schools. The District will be requesting an enhancement to the current system to allow Employee Transaction Services Branch staff the ability to view the funding source for each paraeducator position when making staffing decisions. This will enable them to assign non-highly qualified paraprofessionals to non-Title 1 funded positions.

The District is also considering another option in which all non-compliant paraeducators are separated from employment. This would ensure that non-compliant paraeducators could not be placed in a Title 1 school at any point. However, before implementing this option the Office of General Counsel will have to determine whether this option is feasible.

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Findings and Questioned Costs Relating to State Awards

S-08-01 Regular and Special Day Classes – Elementary Schools – Attendance Computations

State Audit Guide Finding Codes: 10000 and 40000

Schools Affected

10th Street Elementary	Chase Elementary School
122 nd Street Elementary School	Crescent Heights Elementary School
Canfield Elementary School	El Dorado Elementary School
Richard Riordan Primary Center	Halldale Elementary School
Russell Elementary School	Kester Elementary School
Shenandoah Elementary School	Lockwood Elementary School
Wadsworth Elementary School	Noble Yrs Elementary School
59 th Street Elementary School	Purche Sci/Tech 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 control 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). We also traced the days reported on the monthly teacher control cards to the student apportionment attendance record card, which was completed by the classroom teacher daily for a total of 13,587 days of attendance, 774 days of excused absences, and 385 days of unexcused absences, and noted differences for 16 of the 25 schools sampled.

The following summarizes the differences:

10th Street Elementary School – 427 days of attendance, 24 excused and 17 unexcused absences sampled, and noted the following differences for 2 of 26 students sampled:

- Two students were overstated by one day of attendance and understated by one day of unexcused absence.

122nd Street Elementary School – 1,119 days of attendance, 11 excused and 45 unexcused absences sampled, and noted the following differences for 7 of 62 students sampled:

- One student was overstated by one day of attendance and understated by one day of unexcused absence.

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- 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.
- One student was understated by one day of attendance and overstated by one day of unexcused absence.
- One student was overstated by three days of attendance and understated by one day of excused absence and understated by two days of unexcused absence.
- Two students were understated by one day of excused absence and overstated by one day of unexcused absence.

Canfield Elementary School – 499 days of attendance, 22 excused and 30 unexcused absences sampled, and noted the following differences for 2 of 29 students sampled:

- One student was understated by one day of attendance and overstated by one day of unexcused absence.
- One student was overstated by three days of unexcused absences and understated by three days of excused absences.

Richard Riordan Primary Center– 376 days of attendance, 19 excused and 4 unexcused absences sampled, and noted the following differences for 2 of the 21 students sampled:

- 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 unexcused absence and understated by one day of excused absences.

Russell Elementary School – 366 days of attendance, 15 excused and 17 unexcused absences sampled, and noted the following differences for 7 of 23 students sampled:

- Five students were understated, as a group, by forty-two days of attendance as a result of mathematical errors in the students' attendance data not being included in the Daily Attendance Register's monthly totals.
- One teacher's class Daily Attendance Record was overstated by one day of attendance and understated by one day of unexcused absence as a result of mathematical errors, affecting the school month six.
- One student was overstated by one day of unexcused absence and understated by one day of excused absence.
- One student was overstated by two days of unexcused absences and overstated by two days of excused absences.

Shenandoah Elementary School – 1,005 days of attendance, 26 excused and 30 unexcused absences sampled, and noted the following differences for 8 of 56 students sampled:

- One student was overstated by one day of attendance and understated by one day of unexcused absence.

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- One student was overstated by three days of attendance and understated by two days of excused absence and understated by one day unexcused absence.
- Two students were overstated by one day of unexcused absence and understated by one day of excused absence.
- One student was overstated by one day of excused absence and understated by one day of unexcused excused absence.
- Two students were overstated by three days of excused absence and understated by three days of excused absence.
- One student was overstated by two days of unexcused absence and understated by two days of excused absence.

Wadsworth Elementary School – 302 days of attendance, 6 excused and 5 unexcused absences sampled, and noted the following differences for 1 of 19 students:

- One student was overstated by one day of unexcused absence and understated by one day of excused absence.

59th Street Elementary School – 629 days of attendance, 43 excused and 53 unexcused absences sampled, and noted the following differences for 2 of 38 students:

- One student was understated by one day of attendance and overstated by one day of unexcused absence.
- One student was understated by one day of excused absence and overstated by one day of excused absence.

Chase Elementary School – 1,173 days of attendance, 68 excused and 13 unexcused absences sampled, and noted the following differences for 1 of 66 students sampled:

- One student was overstated by one day of attendance and understated by one day of unexcused absence.

Crescent Heights Elementary School – 525 days of attendance, 34 excused and 30 unexcused absences sampled, and noted the following differences for 1 of 31 students sampled:

- One student was overstated by one day of attendance and understated by one day of unexcused absence.

El Dorado Elementary School – 871 days of attendance, 86 excused and 7 unexcused absences sampled, and noted the following differences for 12 of 51 students sampled:

- One student was overstated by one day of attendance and understated by one day of unexcused absence.
- Two students were overstated by one day of attendance and understated by one day of excused absence.
- Two students were understated by one day of attendance and overstated by one day of excused absence.

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- One student was overstated by two days of attendance and understated by two days of unexcused absence.
- One student was understated by four days of excused absences and overstated by four days of excused absences.
- Four students were overstated by one day of excused absence and understated by one day of unexcused absence.
- One student was overstated by three days of excused absence and understated by three day of unexcused absence.

Halldale Elementary School – 889 days of attendance, 66 excused and 14 unexcused absences sampled, and noted the following differences for 1 of 51 students:

- One student was overstated by one day of attendance and understated by one day of excused absence.

Kester Elementary School – 260 days of attendance, 24 excused and 1 unexcused absences sampled, and noted the following differences for 2 of 15 students sampled:

- One student was overstated by one day of attendance and understated by one day of excused absence.
- One student was understated by two days of attendance and overstated by two days of excused absences.

Lockwood Elementary School – 824 days of attendance, 25 excused and 6 unexcused absences sampled, and noted the following differences for 2 of 45 students sampled:

- 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 excused absence and understated by one day of unexcused absence.

Noble Elementary School – 233 days of attendance, 18 excused and 1 unexcused absences sampled, and noted the following differences for the 18 students sampled, while affecting the entire school for school month six:

- The school's monthly report: overstated attendance by three days; understated excused absences by two days and understated unexcused absences by one day as a result of mathematical errors, affecting the monthly Statistical Report for school month six.

Purche Sci/Tech Elementary School – 104 days of attendance, 8 excused, and 2 unexcused absences sampled, and noted the following differences for 1 of 6 students sampled:

- One student was overstated by one day of attendance and understated by one day of unexcused absence.

These findings are repeat findings, having been reported previously for June 30, 2007 (S-07-14) but for different schools.

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Questioned Costs:

$\$(1,130) = [(0.1949) \text{ Total ADA understated} \times \$5,797]$

2 days 10th Street overstated/121 days in 4-track-A school year = 0.0165 ADA

3 days 122nd Street overstated/122 days in single-track school year = 0.0246 ADA

1 day Canfield understated/122 days in single track school year = (0.0082) ADA

1 day Richard Riordan Center overstated/122 days in single track school year = 0.0082 ADA

41 days Russell understated/121 days in 4-track-A school year = (0.3388) ADA

4 days Shenandoah overstated/122 days in single-track school year = 0.0328 ADA

1 day 59th Street understated/122 days in single-track school year = (0.0082) ADA

1 day Chase overstated/122days in single-track school year = 0.0082 ADA

1 day Crescent Heights overstated/122 days in single-track school year = 0.0082 ADA

3 days El Dorado overstated/122 days in single-track school year = 0.0246 ADA

1 day Halldale overstated/122 days in single-track school year = 0.0082 ADA

1 days Kester understated/122 days in single-track school year = (0.0082) ADA

1 day Lockwood overstated/122 days in single-track school year = 0.0082 ADA

3 days Noble overstated/144 days in 4-track-D school year = 0.0208 ADA

1 day Purche Sci/Tech overstated/122 days in single-track school year = 0.0082 ADA

Recommendation

We recommend that the District ensure that its schools strengthen the review process over student attendance reporting, which includes but not limited to the compilation of the Student Apportionment Attendance Cards, Monthly Control Cards, and Monthly Statistical Reports so that they accurately reflect student attendance data.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the finding. Schools will in-service staff on attendance recording and reporting procedures, and discuss the importance of keeping the attendance records consistent and accurate. Attendance records will also be reviewed to help ensure accuracy. Revised statistical reports will be submitted, as needed.

In addition, the new attendance system (ISIS) will be rolled out to all elementary schools in the 2009-10 school year. Implementation of the ISIS and procedures will help ensure consistency and accuracy of attendance data.

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S-08-02 Regular and Special Day Classes – Secondary Schools – Attendance Computations

State Audit Guide Finding Codes: 10000 and 40000

Schools Affected:

Sylmar High School

Woodland Hills Academy

Fremont High School

Mann Middle School

McAlister High School

Criteria

California Education Code, Section 46300(a) – in computing average daily attendance of a school district or county office of education, there shall be included the attendance of pupils who were engaged in educational activities required of those pupils under the immediate supervision and control of an employee of the district or county office who possessed a valid certification document, registered as required by law.

Condition, Cause and Effect

In our sample of 14 schools, we traced the school's monthly Statistical Report to the Revised Annual Attendance Registers (i.e., ISIS Files Dump Report) for the school month six, which in turn were traced to the *Second Principal Report* (P2) and the *Annual Summary Report* (P3). To test for attendance data integrity, consistency and documents of origination support, we traced the attendance reported on the Teacher's Sign-off reports to the Student Attendance Update Report (AT06) in combination with the Student Attendance Record (AT10) from the ISIS and SSIS.

We also tested the District's absence recording for accuracy and support by various documents of origination through our random selections of recorded absences and tracing our sample selections to absence notes, logs and other evidentiary matter to ensure that absences were not included in the Average Daily Attendance reporting.

We selected a sample of a total of 8,099 days of attendance; 525 population of students; 655 excused absences and 699 unexcused absences for testing. We noted differences and observations for 5 of the 14 schools sample, which are summarized and described as follows:

Sylmar High School – 1,122 days of attendance, 133 excused absences and 46 unexcused absences sampled, and we noted the following differences for 1 of 73 students sampled:

- One student was understated by one day of attendance and overstated by one day of excused absence.

Woodland Hills– 287 days of attendance, 16 excused absences and 2 unexcused absences sampled, and we noted the following differences for 1 of 17 students:

- One student was understated by one day of attendance and overstated by one day of excused absence.

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Fremont High School – 895 days of attendance, 17 excused and 148 unexcused absences sampled, and we noted that 24 out of 62 students sampled:

The original Teacher's Sign-offs for school month six were not available for testing. Even though we were provided copies of the unsigned Teacher's Sign-off reports, Teacher's Sign-off reports were required to be printed and signed by the teacher as evidence of certifying the correctness of the attendance entered by the teacher into the Integrated Student Information System (ISIS) of attendance. The computerized ISIS system is designed to log and track the user (teacher) who entered the attendance data by name, date and time; therefore, as an alternative audit procedure, we were able to verify the daily attendance reporting entries from the ISIS and substantiate that the daily entries were entered by the classroom teacher or authorized school administrative school staff. Based on the alternative procedures performed, we were able to satisfy ourselves that the attendance data was provided by the teacher having immediate supervision and control of the students' activities, and therefore, we do not question the attendance reported associated with those students. However, it is required by CDE as part of the attendance reporting procedures for the District, that teachers should sign and certify Teacher's Sign-off reports and retain original documentation for attendance. In this regard, the school was not in compliance with such requirements.

Mann Middle School – 292 days of attendance, 10 excused and 29 unexcused absences sampled, and we noted that 9 out of 27 students sampled:

The original Teacher's Sign-offs for school month six were not available for testing. Even though we were provided copies of the unsigned Teacher's Sign-off reports, Teacher's Sign-off reports were required to be printed and signed by the teacher as evidence of certifying the correctness of the attendance entered by the teacher into the Integrated Student Information System of attendance. The computerized ISIS system is designed to log and track the user (teacher) who entered the attendance data by name, date and time, therefore, as an alternative audit procedure, we were able to verify the daily attendance reporting entries from the ISIS and substantiate that the daily entries were entered by the classroom teacher or authorized school administrative school staff. Based on the alternative procedures performed, we were able to satisfy ourselves that the attendance data was provided by the teacher having immediate supervision and control of the students' activities, and therefore, we do not question the attendance reported associated with those students. However, it is required by CDE as part of the attendance reporting procedures for the District, that teachers should sign and certify Teacher's Sign-off reports and retain original documentation for attendance. In this regard, the school was not in compliance with such requirements.

McAlister High School– 168 days of attendance, 86 excused and 114 unexcused absences sampled, and noted the following differences for 11 of 16 students:

The school was transitioning during the school month sixth from a completely manual-based attendance reporting to the District's computer based ISIS for the school's attendance reporting. Because not all teachers were utilizing computer based daily attendance reporting, manual attendance was used as source documentation and were entered into the computerized ISIS by school office staff. Accordingly, alternative testing procedures were found to be appropriate in our attendance testing. We traced manually-based student's Daily Sign-in Sheet in combination with the manually-produced student's Apportionment Attendance Record to the Student Attendance Update Report (AT06) in conjunction with the Student Attendance Record (AT10). Differences were noted in the comparisons of the aforementioned documents:

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- Five students were overstated by one day of attendance
- Three students were overstated by two days of attendance
- One student was overstated by three days of attendance
- One student was understated by four days of attendance
- One student was overstated by five days of attendance

These findings are repeat findings, having been reported previously for June 30, 2007 (S-07-15), June 30, 2006 (S-06-01) for different schools.

Questioned Costs:

\$479 = [0.0827 Total ADA overstated x \$5,797]

1 day Sylmar High School understated/121 days in single-track school year = (0.0083) ADA

1 day Woodland Hills Academy understated/121 days in single-track school year = (0.0083) ADA

15 days McAlister High School overstated/151 days in continuous school year = 0.0993 ADA

Recommendation

We recommend that the District strengthen its review process over the compilation of the *Monthly Statistical Reports* to ensure that the report accurately reflects student attendance data. Also, we recommend that the District implement procedures to ensure original attendance documentation are retained for the required period of time. Furthermore, we recommend that the District provide adequate attendance reporting training to the schools so that proper attendance reporting procedures are adhered to.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the finding. Schools will in-service teachers and office personnel on attendance procedures to maintain consistency of attendance records. Attendance records will also be reviewed to help ensure accuracy. Revised statistical reports will be submitted, as needed.

In addition, CDE has approved the District's use of electronic certification beginning with the 2009-10 school year for schools using the ISIS system. Certification will be maintained in the attendance system, thus eliminating paper certifications for these schools.

S-08-03 Attendance Accounting – Continuation Education – Attendance Computations

State Audit Guide Finding Codes: 10000 and 40000

School Affected

Duke Ellington Continuation High School

San Antonio Continuation High School

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Criteria

Title 5, California Code of Regulations, Section 401(d) – in all classes for adults, continuation schools, and classes, and regional occupational centers and programs, attendance shall be reported to the supervising administrator at least once each school month.

California Education Code, Section 46300(a) – in computing average daily attendance of a school district or county office of education, there shall be included the attendance of pupils while engaged in educational activities required of those pupils and under the immediate supervision and control of an employee of the district or county office who possessed a valid certification document, registered as required by law.

California Education Code, Section 46170 – in continuation high schools and continuation education classes, a day of attendance is 180 minutes of attendance but no pupil shall be credited with more than 15 hours of attendance per school per week, proportionately reduced for those school weeks having weekday holidays on which classes are not held.

Condition, Cause and Effect

In our sample of two continuation schools, we traced the total on *Worksheet for Completing the Statistical Report* and compared the totals to the monthly school's *Statistical Report* totals, which in turn were traced to the *Second Principal Report* (P2) and the *Annual Summary Report* (P3) for the sixth school month. We also employed the same sample of two continuation schools, and traced the days reported on the *Monthly School Statistical Report* and compared the totals to the *Student Apportionment Attendance Cards*.

We noted the following differences as follows:

Duke Ellington High School – 1,208 hours (403 days) of attendance, 183 hours (61 days) excused and 139 hours (46 days) unexcused absences sampled, and noted difference for 31 of the 31 students:

- Thirty-one students' attendance was understated by an aggregate total of 250 hours, excused absence was understated by an aggregate total of 73 hours, and unexcused absence was understated by an aggregate total of 25 hours.
- When the totals of the *Worksheet for Completing the Statistical Report* was compared to the monthly school's *Statistical Report* totals for school month six, attendance was understated by 8 hours (2.67 days) for Special Education; excused absence was understated by 6 hours (2 days) and unexcused absence was understated by 2 hours (0.67 day) for Regular attendance.

San Antonio High School - 852 hours (284 days) of attendance, 228 hours (76 days) excused absences sampled, and noted difference for 23 of the 23 students:

- Twenty-three students' attendance was understated by an aggregate total of 149 hours (50 days), excused absence was overstated by an aggregate total of 136 hours (45 days), and unexcused absence was understated by an aggregate total of 149 hours (50 days).

This is a repeat finding from June 30, 2006 (S-07-02) and June 30, 2005 (S-06-08).

Questioned Costs

\$(6,499) [(1.1211) Total ADA understated x \$5,797]

258 hours Duke Ellington understated/3 hours per day/121 days in single track school year = (0.7107) ADA

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149 hours San Antonio understated/3 hours per day/121 days in single track school year = (0.4104) ADA

Recommendation

We recommend that the District strengthen its review process over the compilation of the *Monthly Statistical Reports* to ensure that the report accurately reflects student attendance data.

View of Responsible Officials and Planned Corrective Actions

The District agrees with the finding. Staff has received in-service in the proper attendance reporting for continuation students. Schools also implemented additional measures to tighten the attendance review process and improve accuracy of attendance data.

S-08-04 Attendance Accounting – Adult Education – Concurrently Enrolled Students

State Audit Guide Finding Codes: 10000 and 40000

Schools Affected:

Garfield Education & Career Center

North Hollywood Polytechnic

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 and attendance reporting in 10 of the 46 students sampled summarized as follows:

Garfield Education & Career Center:

- One student was overstated by 5 hours (1.7 days) of attendance resulting from a lack of evidence available on file of a counseling session having taken place.
- One student was overstated by 1.0 hour (0.3 days) of attendance as the result of a discrepancy between the Adult Weekly Attendance Form (Scantron sheets) and the Attendance Record for school month six.

North Hollywood Polytechnic Community Adult School:

- Two students were overstated by 1.0 hour each (0.3 days each) of attendance as the result of a discrepancy between the Adult Weekly Attendance Form (Scantron sheets) and the Attendance Record for school month six.
- Four students were overstated by 90.0 hours in total (30 days) as there was no evidence on file of a certificated representative of the high school's signature was affixed to the Concurrent Student Enrollment Permit.

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- Two students were overstated by 16.5 hours in total (5.5 days) as there was no evidence on file of a counseling session having taken place, the same two students sampled also did not have the Concurrent Student Enrollment Permit on file.

These findings are repeat findings, having been reported previously for the years ended June 30, 2007 (S-07-04) and June 30, 2006 (S-06-07)

Questioned Costs

\$579 = [0.219 Total ADA x \$2,645]

6 hours Garfield overstated/3 hours per day/175 fixed divisor = 0.0114 ADA

109 hours North Hollywood overstated/3 hours per day/175 fixed divisor = 0.2076 ADA

Recommendation

We recommend that the school strengthen the review process over the Concurrently Enrolled Student Agreements and the attendance reporting to ensure that: (a) they retain original documentation as evidence of counseling sessions; (b) the compilation of attendance accurately reflects student attendance data; and (c) they retain evidence of certified representative's signature to the Concurrent Student Enrollment Permit.

View of Responsible Officials and Planned Corrective Action

The District agrees with the finding. Schools' counseling staff will carefully review the concurrent permit forms for completeness and ensure that these forms are maintained in the school files. Staff will also conduct periodic reviews of these forms. In addition, staff will review the weekly attendance forms against the attendance system's records to ensure accuracy.

S-08-05 Attendance Accounting – Regional Occupational Schools – Documentations on Teacher Certified Records

State Audit Guide Finding Codes: 10000 and 40000

Schools Affected

Pacoima Skill 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

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submitted to the Adult SIS to be scanned to record attendance, which in turn were traced to Second Principal Report (P2) and the Annual Summary Report (P3) for the school month sixth. We also verified documentations of teacher-certified records of minutes of students selected in our sample. A total of 2,767 hours of attendance was sampled and tested. We noted differences for the school sampled in 8 of the 85 students sampled:

- Three students were overstated by a total of 180 hours (60 days) of attendance, as there was no indication on the Student Record Sheet that the students' participation in the distance learning program had been graded by a certificated teacher and that attendance hours assigned had been assessed accordingly.
- Five students were overstated by 24 hours (8 days) of attendance, as records of the Student Record Sheet were not on file and could not be located. We, therefore, could not substantiate that the students' participation in the distance learning program had been graded by a certificated teacher and that attendance hours assigned had been assessed accordingly.

Questioned Costs:

\$1,313 = [204 hours overstated/3 hours per day/175 fixed divisor (0.3886 Total ADA) x \$3,380]

Recommendation

We recommend that the school stress to staff and certificated employees the importance of Student Record Sheets being fully completed in all respects for all appropriate sections of the report.

Emphasis should be placed on properly documenting on the form that the students' work product was graded by a certificated teacher and that attendance hours had been valued and assigned accordingly.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the finding. The school has provided in-service to the Distance Learning coordinator and teachers regarding State and District guidelines, rules, and policies on the implementation of the distance learning program. The school has also implemented additional procedures to ensure compliance with record-keeping requirements.

S-08-06 Attendance Accounting – Regional Occupational Schools – Attendance Computations State Audit Guide Finding Codes: 10000 and 40000

Schools Affected

Pacoima Skill 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.

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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, which in turn were traced to *Second Principal Report* (P2) and the *Annual Summary Report* (P3) for the school month sixth. We also verified documentations of teacher-certified records of minutes of students selected in our sample. A total of 2,767 hours of attendance was sampled and tested. We noted the following difference for the school month six:

- Attendance was overstated, in the aggregate, by 36 hours (12 days) of all students' hours accumulated per Class Hours List compared to the school's Statistical Report for school month six.

These findings are repeat findings, having been reported previously for the years ended June 30, 2007 (S-07-05).

Questioned Costs:

$\$232 = [36 \text{ hours overstated} / 3 \text{ hours per day} / 175 \text{ fixed divisor} (0.0686 \text{ Total ADA}) \times \$3,380]$

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 data.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the finding. The school will ensure that revised statistical reports are submitted when changes to attendance data are made.

S-08-07 Attendance Accounting – Community Day Schools – Attendance Computations

State Audit Guide Finding Codes: 10000 and 40000

School Affected

CDS Secondary 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, (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 day of attendance, for purpose 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

We tested attendance reporting data by comparing attendance per the Supporting Worksheet for the month to the teachers' roster; the Worksheet for Completing the Statistical Report to the apportionment card; and we recalculated the Worksheet for Completing the Statistical Report, with differences as outlined summarized by the following:

In our sample school, we traced 4,314 hours (1,438 days) of attendance, 402 hours (134 days) excused absences, and 750 hours (250 days) unexcused absences, and noted differences for 22 of the 49 students sampled:

When comparing the Supporting Worksheet for Monthly Summary to the Teacher's Rosters for the school month sixth, we noted the following differences:

- One student was overstated by one day of attendance and overstated by two days of excused and understated by three days of unexcused absence.
- Four students were 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 by one day of unexcused absence.
- Three students were overstated by one day of attendance and understated by one day of unexcused absence.
- Three students were overstated by two days of attendance and understated by two days of unexcused absences.
- One student was overstated by three days of attendance and understated by three days of unexcused absences.
- One student was understated by six days of attendance.

When comparing the Monthly Summary to the Supporting Worksheet for the school month sixth, we noted the following differences:

- Attendance was overstated by an aggregate total of fourteen days, excused absence was understated by an aggregate total of four days, and unexcused absence was overstated by an aggregate total of five days.

Questioned Costs

\$515 [16 days overstated/180 fixed divisor (.0889 Total ADA) x \$ 5,797]

Recommendation

We recommend that the District ensure that its schools strengthen the review process over the student attendance reporting, including compilation of the Monthly Statistical Report and its related supporting worksheets so that they accurately reflect student attendance data.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the finding. The school will in-service teaching staff on the policy and procedures pertaining to hourly attendance and absence reporting, and the importance of accurately transferring attendance data to the monthly report. The school will also in-service office staff on the

LOS ANGELES UNIFIED SCHOOL DISTRICT

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proper completion of the monthly statistical reports. The school will review attendance information received from teachers for accuracy and submit revised statistical reports, as needed.

S-08-08 - Kindergarten Continuance

State Audit Guide Finding Codes: 10000 and 40000

School Affected

Marianna Elementary School

Criteria

California Education Code, Section 46300(g) – in computing the average daily attendance of a school district, there shall be included the attendance of pupils in kindergarten after they have completed one school year in kindergarten only if the school district has on file for each of those pupils an agreement made pursuant to Section 48011, approved in form and content by the State Department of Education and signed by the pupil's parent or guardian, that the pupil may continue in kindergarten for not more than an additional school year.

Condition, Cause and Effect

During our procedures performed over Kindergarten Continuance, we noted the following:

One student was erroneously enrolled in kindergarten in fiscal year 2006-07 for five weeks before changed to pre-kindergarten status. As a result, ADA was overstated in fiscal year 2006-07.

Questioned Costs

\$721 [17 days overstated/128 days in single track school year (0.1328 Total ADA) x \$5,545]

Recommendation

We recommend that the District strengthen the reviewing process on student enrollment procedures to ensure that students are enrolled in the correct grade levels.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the finding. District will issue a communication to schools and central offices regarding the exclusion of Pre-kindergarten students from reports for K-12 students. This communication will include instructions for the correction of attendance and enrollment documents in the event of a misassignment of a Pre-Kindergarten student.

S-08-09 – Instructional Materials – Sufficiency of Laboratory Science Equipment

State Audit Guide Finding Codes: 40000 and 70000

Schools Affected

Annenberg (Wallis) High
Imagine Academy Charter

Francis (John H.) Polytechnic
Franklin (Benjamin) Senior High

North Hollywood Senior High
Reseda Senior High

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Central City Value	Fremont (John C.) Senior High	Roosevelt (Theodore) Senior High
Crenshaw Arts-Technology High	Gardena Senior High	San Fernando Senior High
Heritage College-Ready High	Garfield (James A.) Senior High	San Pedro Senior High
Huntington Park College-Ready Academy	Grant (Ulysses S.) Senior High	South Gate Senior High
South LA Area New High #1	Hamilton (Alexander) Senior High	Sylmar Senior High
South East High	Hollywood Senior High	University Senior High
Southeast Area New Learning Center	Huntington Park Senior High	Van Nuys Senior High
Banning (Phineas) Senior High	Jefferson (Thomas) Senior High	Washington Preparatory High
Bell Senior High	Jordan (David Starr) Senior High	Westchester Senior High
Belmont Senior High	Lincoln (Abraham) Senior High	Wilson (Woodrow) Senior High
Birmingham Senior High	Locke (Alain Leroy) Senior High	Kennedy (John F.) High
Canoga Park Senior High	Los Angeles Senior High	Discovery Charter
Carson Senior High	Manual Arts Senior High	Los Angeles Leadership Academy
Crenshaw Senior High	Marshall (John) Senior High	
Dorsey (Susan Miller) Senior High	Monroe (James) High	
Fairfax Senior High	Narbonne (Nathaniel) Senior High	

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.
- 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 9, 2007, the Board of Education had declared there were insufficiencies in science laboratory materials in all the District's senior high schools. The Board directed the Superintendent of Schools, or designee, to ensure that all necessary actions were taken to timely remedy all noted science laboratory material deficiencies at the schools where insufficiencies were noted. The Board letter indicated that in

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the event of an insufficiency, schools must take action to procure materials to ensure sufficiency by June 30, 2008.

According to District personnel, all the schools that had insufficiencies in science laboratory materials had declared sufficiency by June 30, 2008. However, we were unable to determine that materials were purchased within two months of the beginning of the school year.

Questioned Costs

Not applicable.

Recommendation

We recommend that the District take steps to ensure noted science laboratory materials insufficiency are timely remedied.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the finding. Policy Bulletin 3868.0 dated November 2, 2007 was issued to ensure science lab equipment sufficiency. The District was sufficient for the October 2008 hearing. Furthermore, the District issued Reference 4799 dated July 6, 2009 to provide instructions regarding certification of sufficient science laboratory equipment in Grades 9-12, and establish a list of basic required science instructional materials for these science classes.

S-08-10 – Instructional Materials – Textbook Purchase

State Audit Guide Finding Codes: 40000 and 70000

Schools Affected

Hooper Avenue Elementary School

Criteria

California Education Code, Section 60200 - The state board shall adopt basic instructional materials for use in kindergarten and grade 1 to 8, inclusive.

California Education Code, Section 60400- The governing board of each school district maintaining one or more high schools shall adopt instructional materials for use in the high schools under its control.

Condition, Cause and Effect

We selected a sample of fifty (50) text book purchases for testing to determine whether the expenditures were incurred for qualifying instructional materials as adopted by the state board and approved by the District.

Of the fifty (50) book purchases sampled, one (1) book purchase order in the amount of \$1,148 did not appear to have proper supporting documentation and one (1) expenditure in the amount of \$24,864 was not properly accrued.

Questioned Costs

\$26,012

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Recommendation

We recommend that the District strengthen its review process over the book purchases to ensure that book purchases are accurate and supportive.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the finding. The textbook order form should have been reviewed by the Local District for accuracy as to price and quantity as well as the books being purchased. Accounts Payable did accrue the amount of \$24,864.09 based on the difference between the purchase order amount \$42,952.12 and invoices paid \$18,088.03. Accounts Payable will be requested to release the accrual so funds may be used for future book purchases. The Local District will review each school's book purchase request more thoroughly and accurately.

S-08-11 – School Accountability Report Card – Availability of Sufficient Science Laboratory Equipment

State Audit Guide Finding Codes: 40000 and 72000

School Affected

Fremont Senior High School

Abraham Lincoln Senior High

Westchester 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.
- 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.

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(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 45 schools tested for appropriate disclosure regarding the availability of sufficient science laboratory equipment on the *School Accountability Report Card* (SARC), we noted three (3) of the senior high schools in our sample had not reported insufficiencies in science laboratory equipment. On October 9, 2007, the District's Board Resolution declared insufficiency of science laboratory equipment. However, when we compared the information from the SARCs to the schools sampled, we noted the above three schools sampled had not reported the insufficiencies noted in the Board Resolution in its SARC. SARCs were published on February 4, 2008. Insufficiency was determined on October 9, 2007.

This is a repeat finding from June 30, 2007 (S-07-16).

Questioned Costs

Not Applicable

Recommendation

We recommend that the District ensure any insufficiencies noted in the instructional materials including science laboratory equipments are accurately reflected on the School Accountability Report Card so that accurate information and data are provided to parents for comparison and making informed decisions on the school his or her children are enrolled. 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.) and subject areas: i) 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; and iv) Visual and performing arts.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the finding. The following steps will be taken as corrective action: 1) The specific measurement dates will be listed for each of the reporting elements so that readers will be clear when the data was collected. 2) Develop a comprehensive checklist for the file received from Textbook Services to clearly indicate sufficiency in instructional materials for specific subject areas including: 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; and iv) Visual and performing arts.

S-08-12 – Math & Reading Professional Development

State Audit Guide Finding Codes: 10000 and 40000

School Affected

Hazeltine Ave Elementary

Aragon Ave Elementary

Fletcher Drive Elementary

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Olympic Primary Center

Harvard Elementary

Canfield Ave Elementary

John Burroughs Middle School

Paseo Del Rey Elementary

Criteria

California Education Code – 99232:

- (a) The Mathematics and Reading Professional Development Program is hereby established and shall be administered by the Superintendent of Public Instruction with the approval of the State Board of Education.
- (b) A local education agency that maintains kindergarten or any of grades 1 to 12, inclusive, is eligible to apply for and receive incentive funding from funds appropriated for the purpose of this article.
- (c) From funds appropriated for the purpose of this article, the Superintendent of Public Instruction shall award funding to provide teachers and instructional aides and paraprofessionals who directly assist with classroom instruction in mathematics and reading with instruction and training in the areas of mathematics and reading.

California Education Code – 99234 (g)

Of the funding a local educational agency is eligible to receive pursuant to this section for each eligible teacher, 50 percent shall be awarded following the provision of 40 hours of professional development based on the statewide academic content standards adopted pursuant to Section 60605, the Mathematics and Reading/English Language Arts frameworks adopted by the State Board of Education, and instructional materials adopted by the state board or standards-aligned instructional materials, as specified in subdivision (b) of Section 99237, with the remaining funding to be awarded following certification of the provision of the 80 hours of follow-up instruction as specified in subdivision (b) of Section 99237. The 80 hours of training may be completed over a two-year period.

Condition, Cause and Effect

During our procedures performed over the Math & Reading Professional Development program, we compared the list of teachers who participated in the training to the list of teachers submitted to the State for reimbursement. As a result, we noted the following:

Elementary Reading Program:

- a) The District claimed reimbursement for 11 teachers who did not belong to this program.
- b) The District over claimed reimbursement for 5 teachers and under claimed reimbursement for 4 teachers.

Elementary Math Program:

- a) The District over claimed reimbursement for 8 teachers.

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Questioned Costs

\$22,769

Recommendation

We recommend that the District strengthen its review procedures over the Math & Reading Professional Development program to ensure accuracy in the amounts claimed for reimbursement.

Views of Responsible Officials and Planned Corrective Actions

The District partially agrees with the finding. The claims made over and under the correct amount could be attributed to the fact that CDE modified the claim reimbursement process and required the District to input the data online per teacher by school, as opposed to the former practice of attaching one excel file to go with each claim. When there are thousands of pieces of information entered online, errors are bound to occur.

However, in regards to corrective action, the findings are no longer applicable in fiscal year 2008-2009 and onwards. SB472 is a block grant between fiscal years 2008 and 2013. Therefore, districts will no longer be filing claims or applications online, making the current findings inconsequential.

S-08-13 – After School Education and Safety Program

State Audit Guide Finding Codes: 40000

School Affected

Bell High School

Fremont High School

Criteria

California Education Code 8482 – The purpose of this program is to create incentives for establishing locally driven before and after school enrichment programs both during schooldays and summer, intersession, or vacation days that partner public schools and communities to provide academic and literacy support and safe, constructive alternatives for youth. The applicants for grants pursuant to this article agree to provide schoolday attendance rates and Program attendance to the Department of Education.

Condition, Cause and Effect

On a sample basis, we tested attendance documentation of fifteen (15) schools and five hundred thirty eight (538) students who participated in the After School Education and Safety Program. We noted that sixteen (16) students did not have sign in/out sheets to support their attendance.

Questioned Costs

Not Applicable

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Recommendation

We recommend that the District strengthen its procedures on attendance documentation for the After School Education and Safety program.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the finding. The District will meet with after school program providers to remind them of their contractual responsibility for maintaining accurate attendance records. In addition, the District will develop and distribute standardized attendance reporting forms to be used by the after school program providers. Further, regular site visits by District staff will place a greater emphasis on review of attendance reporting procedures.

S-08-14 – Teacher Credentialing

State Audit Guide Finding Codes: 40000 and 71000

Schools Affected

Fremont Senior High School

Lanterman 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.

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- (B) Exchange credentials as specified in Section 44333.
 - (C) District intern credentials as specified in Section 44325.
 - (D) Sojourner 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.
 - (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:
- The nature and content of culture.
 - Cross-cultural contact and interactions.
 - Cultural diversity in the United States and California.
 - Providing instruction responsive to the diversity of the pupil population.
 - Recognizing and responding to behavior related to the characteristics listed in Section 220.
 - 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

For each class sampled for attendance procedures over regular and special day classes, adult education, continuation, and community day school, 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 224 teachers and noted four (4) exceptions for K-12 teachers without an English instruction certification who taught a class in which more than 20% of the pupils were English learners:

- Fremont Senior High School – 2 teachers taught a class with more than 20% of English learners without proper English instruction certification.

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- Lanterman High School - 2 teachers taught a class with more than 20% of English learners without proper English instruction certification.

Questioned Costs

Not Applicable.

Recommendation

We recommend that the schools and District implement controls to ensure that the teachers who provide instruction to classes with over 20% English learners have the required English teaching credentials.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the finding. Guidance will be provided to teachers on the pathways to become compliant which will result in them becoming appropriately assigned, when teaching English language learners. A District-wide policy is currently under consideration by the Board of Education. If adopted, all K-12 teachers and instructional coaches will be required to hold an English learner authorization by March 1, 2010 as a factor to continue employment in the 2010-2011 school year.

INDEPENDENT AUDITOR'S MANAGEMENT LETTER



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August 15, 2009

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

Members of the Board:

We have audited the financial statements of the **Los Angeles Unified School District** (the District) as of and for the year ended June 30, 2008, and have issued our report thereon dated August 15, 2009. In planning and performing our audit of the basic financial statements of the District, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and 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 items FS-08-03, FS-08-04, FS-08-05 and FS-08-06 to be significant deficiencies 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 items FS-08-01 and FS-08-02 constitute material weaknesses.

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 314 to 321.

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,

Simpson & Simpson

(1) ML-08-01 - Inappropriate Update/Delete Access to System Resources in the Production Environment

Observation

We reviewed the access list of SAP Payroll users who have been granted access to Table Browser (SE16) and Debug Object-Type in the Production environment. A combination of these two functions enables a user to directly change the content of a table while bypassing security access restrictions. Our review revealed that there are 4 (four) financial analysts who are granted such access.

We also reviewed an access list of critical SAP Basis and Security transactions in the Production environment and noted the following:

- The Role Maintenance Function (PFCG) was granted to a user account BIWREMOTE which also have SAP_ALL and SAP_NEW profiles
- The Profile Maintenance Function (RZ10) was granted to a business user

Subsequent to presenting this issue to ITD management, inappropriate access was removed.

Impact

Excessive access to sensitive SAP system privileges (especially those that enable one to grant system access) can result in unauthorized changes to application data. This can adversely impact application system integrity and availability.

Recommendation

A review of access to critical SAP privilege functions should be performed periodically by management to ensure access is valid and appropriately restricted.

Management Response

To address the SE16 access in production, BTS has removed all update capability to all user roles in production. BIWREMOTE has been modified and no longer has access to SAP_ALL, SAP_NEW or PFCG. SAP Security has removed RZ10 access to all business users in the system.

(2) ML-08-02 - Non compliance with ITD Security Policy for SAP User Accounts

Observation

A review of the RSPARM report of SAP Payroll security parameter settings revealed that the SAP user account password settings are not in compliance with the District's security policy as passwords are not aged to expire and are only required to be 6 characters in length instead of 8. This condition pertains to SAP back-end user accounts not validated via the District's Single Sign On (SSO) authentication process.

Impact

The lack of consistent application of strong password policies may increase the risk of system intruders attempting to exploit less than robust password security controls and gain unauthorized access to SAP Payroll.

Recommendation

The SAP Payroll password parameter setting should be modified to ensure compliance with the District's password policy and IT best practices.

Management Response

BTS has modified the password for those accounts that have back-end access to SAP to comply with ITD security standards.

(3) ML-08-03 - Excessive Assignment of SAP Payroll Batch Job Execution Authorization Privileges

Observation

We have reviewed a list of users who have been granted the SAP Payroll batch administration authorization privilege and noted more than 250 SAP Payroll users with this privilege in the production environment. These users are able to schedule, change and release jobs that they created in the production environment. We have also noted that the same 250 users can execute batch programs via proxy, (i.e., the capability to assign other users to execute batch jobs) even if the other users have elevated security to run transactions.

Subsequent to presenting this issue to ITD management, Batch Scheduling capabilities have been removed from payroll user (i.e., non-ITD personnel) roles.

Impact

Excessive assignment of the SAP Payroll batch job execution privilege may result in compromising the integrity of SAP Payroll.

Recommendation

Develop and implement a SAP Payroll task procedure for pre-scheduled or on-request batch job submissions. Also, District management should consider having the BTS BASIS Operations group own the scheduling, execution, and monitoring of batch processes. Policies and procedures should also be developed to govern these processes.

Management Response

BTS has removed the ability of business users to schedule batch jobs by removing access to SM36. BTS recognizes the need for developing policies and procedures to manage the submissions of batch jobs and will work with the business units to develop the process to manage risk and support their business needs.

(4) ML-08-04 - Inadequate SAP Default Account Password Setting

Observation

SAP Payroll comes supplied with a number of privileged accounts with default user IDs and passwords. As the passwords to these IDs are well known, there is a potential for them to be misused if not changed (e.g. the known default password for SAP* is PASS, DDIC is 19920806, SAPCPIC is ADMIN and Earlywatch is SUPPORT). In addition, some of these default user IDs have powerful system access rights and should be adequately protected to ensure that unauthorized access to the system is prevented. However, we noted that the password setting for SAPCPIC, Earlywatch and SAP* had not been modified from their default passwords.

Subsequent to presenting this issue to ITD management, the default passwords were changed.

Impact

Default vendor accounts, passwords, and services may be exploited to gain unauthorized access to critical application systems and devices.

Recommendation

SAP default system settings (e.g., default passwords) and unnecessary system services should be disabled and/or modified to include changing vendor default passwords, deleting or renaming default IDs, disabling unnecessary system services, etc.

Management Response

The SAP delivered default IDs have been locked and their passwords changed. In addition, BTS has established a 2 step process to manage the usage of these IDs. The required system IDs have been locked by the SAP Security team and their passwords are only known by the BASIS team.

(5) ML-08-05 Excessive Number of Customized T-Codes in SAP

Observation

We reviewed a list of SAP Payroll customized t-codes and noted that there are more than 650 customized T-codes which exist in the Payroll production environment. Customized t-codes are used only when solutions within SAP Payroll standard functionality cannot satisfy business requirements. Although customized T-codes can provide a solution, they do not always have the comparable level of data validation and integrity controls that are common to standard SAP Payroll transaction codes and they may increase maintenance costs when major SAP Payroll releases are required.

Impact

Excessive use of customized T-codes may compromise payroll system integrity and unnecessarily increase system maintenance costs.

Recommendations

BTS and Accounting management should review the 650 custom t-codes to determine which T-codes are no longer required and should be removed from the production environment. We also

recommend that more complete descriptions of the custom T-code functionality be documented for these transactions.

Management Response

Due to business needs, LAUSD requires the creation of these custom T-codes in order to perform certain business activities. BTS, along with the business units, will perform a review of these T-codes to ensure that they are necessary and to update the descriptions to provide more relevant and complete information. This activity will be done over time as resources permit.

(6) ML-08-06 - Review of SAP Payroll User Access

Observation

There are more than 100,000 SAP users defined in the District's production network. However, SAP Payroll user access is not periodically reviewed to certify the appropriateness of access and to remove inappropriate access.

Impact

The lack of regularly scheduled reviews of user accounts, access rights and system privileges/attributes performed by management (e.g., Payroll, ITD, etc.) can adversely impact the confidentiality, integrity, and availability the District's mission critical accounting systems and data.

Recommendations

Management should review the SAP Payroll roles and assigned transactions to ensure system access is restricted to users solely based on what is required for their respective job functions. A tool can be used to help facilitate identifying and correcting potential segregation of duties conflict.

Management Response

BTS does perform monthly reviews of user access and roles in SAP. However, going forward BTS will formally document these reviews and obtain formal signoff from business owners.

(7) ML-08-07 - Lack of a Business Continuity Plan

Observation

A Business Continuity Plan is comprised of an IT Disaster Recovery and Business Resumption Plan. It is designed to reduce the impact of a major disruption on key business functions and processes. However, such a plan has not been developed. We also noted that there is no offsite alternate processing facility established for recovery of IT operations.

Impact

In the event of a major disruption, the District will not be able to recover its critical business operations and processes in a timely manner.

Recommendation

Although a Business Impact Analysis (BIA) was completed, a Business Continuity Plan (BCP) based on risks and threats identified in the BIA should be developed. This plan should address the requirements for alternative processing and timely recovery of mission critical IT services. The plan should be tested on a regular basis to ensure that IT systems can be effectively recovered, shortcomings are addressed and the plan remains relevant.

Management Response

ITD agrees with the finding and the recommendation. Appropriate funding has to be identified to complete the BCP.

(8) ML-08-08 - Outdated Policies and Procedures

Observation

We obtained and reviewed the District's policies and procedures for IT Operations, Change Management, Logical and Physical Security and Program Development. We noted that although most of the policies and procedures were available, they appeared to be out of date or were not easily accessible. In addition, we observed the lack of documentation specifically for:

- Formal policies for addition, modifications and removals of user's access from the SAP Payroll system.
- Policies and procedures for processing, scheduling, making changes to and executing SAP Payroll batch programs.
- Procedures for management review and approval of District-wide policies and procedure (e.g., performed annually).

Impact

Without established and/or current policies and procedures, inconsistent practices may increase the risk of the District's information system resources not being adequately protected.

Recommendation

We recommend that IT policies and procedures providing overall direction for the implementation of IT General Computer Controls be centrally managed, reviewed by management on a timely basis (e.g., annually) and made easily accessible to the District's IT personnel.

Management Response

ITD agrees with this recommendation and has already started updating some policies.

(9) ML-08-09 - Network Vulnerability Monitoring

Observation

We noted the following relative to network security monitoring control practices for the District:

- Network server scanning of production servers is not run periodically to identify security vulnerabilities.
- An independent network vulnerability assessment is not performed on an annual basis.

Impact

Undetected network vulnerabilities may disable the network (e.g. DOS attacks) and significantly impact LAUSD operations.

Recommendation

ITD management should periodically run vulnerability scans of the network to ensure network vulnerabilities are identified and contained in a timely manner. Also, ITD management should consider having a periodic (e.g., annual) independent network vulnerability assessment performed to ensure the network is sufficiently hardened against the latest known network vulnerabilities.

Management Response

ITD agrees with this recommendation. Appropriate funding has to be identified to complete the independent network vulnerability assessments.

(10) ML-08-10 – Third Party Payroll Deductions

Observation

The SAP-Payroll module generates a Third Party Transaction Report which is designed to reflect summarized payroll deductions by Vendor for amounts withheld from employees' pay checks, from which vendor payments are made. This functionality did not work as originally designed, so the Third Party Transaction Report was not used as the basis of the vendor payments, except for the wage garnishment deductions. The District is aware of the problem, and during 2007-08 they did not rely on this report for remittance of payments to third parties. Instead, manual controls were implemented to ensure timely payments to third parties until the complete functionality of the SAP third party reporting process could be reviewed, corrected and fully implemented.

Financial Accounting/Controlling (FI/CO) module in the SAP is designed to provide automatic third party transaction posting from the SAP-Payroll to SAP-General Ledger. Every payroll cycle, the payroll data is interfaced between the Payroll and Accounting modules in SAP through the FI/CO posting process. In this process, the salary expenditures and payroll liabilities are posted to the appropriate general ledger accounts. The reclassification posting of the third party liabilities from the payroll payable account to the third party deduction payable account within the general ledger is created through the FI/CO posting process. During our audit period, this functionality was manually triggered to post from SAP-Payroll to the general ledger. However, certain third party deductions remained unposted during the year. Adjustments of \$76,156,755 were needed to reclassify the payroll payable and other payable accounts in the general ledger.

Manual controls were not in place to insure that the unposted third party deductions were recorded to correct the balances in the payroll payable and other payable accounts. The District did not reconcile the third party liabilities processed by SAP-Payroll to the general ledger.

Impact

Lack of review and reconciliation between the Payroll and the general ledger accounts resulted in a significant understatement in the third party deductions payable and significant overstatement in the payroll payable general ledger accounts.

Recommendation

To mitigate the risk of inaccurate and/or unposted third party liabilities, we recommend that the BTS project team run the Payroll to FI/CO Reconciliation report to identify all unposted transactions for review, reconciliation and manual journal entry posting to the general ledger. We also recommend that the District reconcile the third party liabilities in a timely manner.

The District is aware of the functionality issues of the third party deductions report and the third party transactions postings generated by the FI/CO posting process. Also, the Office of Inspector General (OIG) has issued a detailed audit report on the Third Party Payroll Deductions process and controls. We recommend that the District fully implement all recommendations in the OIG report.

Management Response

The District agrees that the third party liabilities must be reconciled in a timely manner. The District recently implemented the “SAP Completeness Report”. This report allows the District to accurately identify unevaluated and un-posted payroll transactions in a more efficient and timely manner.

The District also agrees that they should fully implement all recommendations in the OIG report. Currently, the District has implemented 9 of the 10 recommendations. Recommendation 6 was previously scheduled but postponed due to projects with a higher priority and impact. This recommendation is being re-scheduled for implementation by January 31, 2010.

(11) ML-08-11 – Delay of Reconciliation of Accounts Payable Accrual Accounts

Observation

Accrual basis of accounting is a generally accepted accounting practice that reports expenditures in the fiscal year they are actually incurred. According to the California School Accounting Manual, expenditures of governmental funds are accounted for on the modified accrual basis. Expenditures are recorded when the related liabilities, if measurable, are incurred. Accruals for accounts payable at the end of the fiscal year are recorded for services rendered or for goods received by June 30.

Based upon our understanding of the District’s accounting policies and procedures, when expenditures are accrued at year end based upon open purchase orders (PO), the expenditures are charged based on the current year’s funding line of the PO and the accrual is recorded in the Accounts Payable account. When the actual payment is processed in the following fiscal year, the invoice is charged to the Accounts Payable account. However, when the subsequent payment is different from the accrued amount, the variance remains in the Accounts Payable account. The

***The Honorable Board of Education
Los Angeles Unified School District
August 15, 2009***

District's general practice is to review the variances remaining after two years and write off the outstanding balances.

As of June 30, 2008, the accounts payable accounts contained old outstanding balances for more than 2 years as follow:

Accounts Payable 1994-1995	\$	61,000
Accounts Payable 2002-2003		24,000
Accounts Payable 2004-2005		13,348,000
Accounts Payable 2005-2006		18,443,000
Total	\$	<u>31,876,000</u>

Impact

The District's policy for review and reconciliation of the purchase order accruals paid in the subsequent year is to perform the review within 2 years after year end. Due to the time frame of their review, over-accrued expenditures at year-end could result in over charging expenditures.

Recommendation

We recommend the District establish controls to ensure that appropriate procedures for accuracy of the year-end accruals based upon the open POs be established to avoid over-accrual. The District should update their written policies and procedures to require reconciliation of the subsequent payments of the accruals in a timely manner.

Management Response

The District agrees with the recommendation. The District will review the status of accruals 3 months after the fiscal year end and send reminders to offices/schools of outstanding accruals. The District will reconcile and close accruals after six months from the end of the fiscal year. Further, the District will update its written policies and procedures to require reconciliation of Accounts Payable Accrual Liability after six months from the end of the fiscal year.

To date, Accounts Payable Accruals for 1994-95, 2002-03 and 2004-2005 are reconciled and closed.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Status of Prior Year Findings and Recommendations

Year ended June 30, 2008

Findings Related to the Basic Financial Statements Reporting in Accordance with *Government Auditing Standards*

(1) Finding FS-07-01 – Payroll Material Weakness

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.

Current Status

SAP Change Management procedures were addressed with the development of the SAP Release Methodology. Also, BTS project managers have completed PMI (Project Management Institute) training as of June 2009. Semi-monthly SAP Governance Committee meetings were initiated as of February 2009. These meetings are held to set priorities and software changes for SAP.

(2) Finding FS-07-02 – Inappropriate Access to Migrate Changes to production

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.

Current Status

Legacy Systems In Place Prior to SAP: The five (5) deficiencies relating to PTRS are obsolete due to PTRS having been replaced by SAP. As for the remaining six (6) comments, management does not concur with the prior auditor's assertion that inappropriate access exists. Also, sufficient supporting detail is not provided in most of the remaining comments to properly ascertain their validity.

SAP ERP System: The deficiencies related to SAP privilege account access have been resolved with the disabling of associated inappropriate access.

Findings and Questioned Costs Relating to Federal Awards

(3) Finding F-07-01 – Allowable Costs – Payroll Certifications and Documentation for Specially Funded Employee Positions

Finding F-06-01 – Allowable Costs – Payroll Certifications and Documentation for Specially Funded Employee Positions

LOS ANGELES UNIFIED SCHOOL DISTRICT

Status of Prior Year Findings and Recommendations

Year ended June 30, 2008

Finding F-05-01 – Allowable Costs – Payroll Certifications and Documentation for Specially Funded Employee Positions

Program Identification:

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 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

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*, 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

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)

LOS ANGELES UNIFIED SCHOOL DISTRICT

Status of Prior Year Findings and Recommendations

Year ended June 30, 2008

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 (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 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.

Current Status

Partially implemented.

District's Explanation If Not Implemented

The District has issued BUL-2643.4 "Time reporting for Federal and State Categorical Programs" on March 30, 2009 replacing BUL-2643.3. The bulletin places several emphases on the supporting requirements for the federal and state categorical funded personnel. The new BUL-2643.4 also provides a new standardized Multi-Funded Time Report and adds a requirement to maintain certificate for federally funded training. The District has met with and trained School Administrative Assistants (SAA) from four of the eight local districts, who are responsible for payroll time reporting. The remaining SAA's from the other four local districts will be trained in September and October 2009.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Status of Prior Year Findings and Recommendations

Year ended June 30, 2008

(4) Finding F-07-02 – Allowable Costs – Unsupported adjusting journal vouchers recorded to payroll expenditure

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

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

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

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

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

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

Child Care and Development Fund: Child Care and Development Block Grant, Child Care Mandatory and Matching Funds of the Child Care and Development Fund; U.S. Department of Health and Human Services, Passed through the California Department of Education, CFDA Nos. 93.575 and 93.596, Contract CCTR-6164

Recommendation

We recommend the District enhance policies and procedures to ensure that all payment vouchers are adequately supported before recording them in the general ledger. We also recommend the District establish policies and procedures to ensure that salary allocations are made based on actual time and effort documentation and not based on estimated budgeted information.

Current Status

Partially Implemented

District's Explanation if Not Implemented

The District is finalizing Internal Control Guidelines to adhere the effectiveness of the internal controls over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Status of Prior Year Findings and Recommendations

Year ended June 30, 2008

(5) Finding F-07-03 – Allowable Costs – Approval of Nonpayroll Expenditures

Finding F-06-02 – Allowable Costs – Approval of Nonpayroll Expenditures

Program Identification:

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* (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 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.

Current Status

Partially implemented

District's Explanation if Not Implemented

The District is finalizing Internal Control Guidelines to adhere the effectiveness of the internal controls over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs with requirements of laws, regulations, contracts, and grants applicable to federal programs.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Status of Prior Year Findings and Recommendations

Year ended June 30, 2008

(6) Finding F-07-04 – Allowable Costs – Unsupported Year-End Adjustments Made to Nonpayroll Expenditures

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

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.

Current Status

Implemented. The District has provided sufficient documentation i.e. vendor invoices to support the 2 journal vouchers in question.

(7) Finding F-07-05 – Allowable Costs – Entertainment and Travel Costs

Program Identification:

Fund for the Improvement of Education, *U.S. Department of Education* (ED) Grant Agreements 05-14349-6473-2A and 06-14349-6473-1A

Recommendation

We recommend the District provide additional guidance/training to ensure appropriate documentation is maintained to support expenditure charged to federally funded programs.

Current Status

Partially implemented

District's Explanation if Not Implemented

Of the total questioned cost of \$6,428, \$5,920 had been adjusted through a JV07SSPFC0124 dated July 26 2007 posted in the fiscal year ended June 30, 2007. The District will repay the revised questioned cost of \$299 to CDE.

Revised questioned cost

\$299 (\$6,428 - \$5,920 - \$209)

(8) Finding F-07-06 – Allowable Costs – Classification of Indirect Program Expenditure as Direct

Finding F-06-05 – 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

LOS ANGELES UNIFIED SCHOOL DISTRICT

Status of Prior Year Findings and Recommendations

Year ended June 30, 2008

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)

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.

Current Status

Partially implemented

District's Explanation in Not Implemented

The District has repaid the questioned cost of \$38,349 to the California Department of Education for F-07-06 finding related to the State Grants for Innovative Programs. For prior year finding F-06-05, the District continues its efforts to provide training/workshops for program people and staff on the appropriate charging methodologies.

(9) Finding F-07-07 – Allowable Costs – Unsupported Nonpayroll Expenditures

Finding F-06-03 – Allowable Costs – Unsupported Nonpayroll Expenditures

Finding F-05-02 – Allowable Costs – Missing Documentation to Support Program Expenditures

Program Identification:

Reading First State Grants, U.S. Department of Education (ED) Pass-Through Entity: California Department of Education Award Number: Grant Agreement 04-14328-6473-00

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

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

LOS ANGELES UNIFIED SCHOOL DISTRICT

Status of Prior Year Findings and Recommendations

Year ended June 30, 2008

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.

Current Status

Partially implemented

District's Explanation if Not Implemented

The District has repaid the questioned costs of \$52,201 to the California Department of Education for finding number F-07-07, Reading First State Grants.

For finding number F-06-03, Fund for Improvement of Education, the District has:

1. Paid \$2,119 to the California Department of Education;
2. Provided invoices to support the questioned cost of \$3,997; and
3. Returned the amount of \$54,718 to the remaining grant funds through a JV09SFPMG011 dated February 2, 2009 and posted in the fiscal year ended June 30, 2009. The U.S. Department of Education has closed out the grant and de-obligated the remaining grant funds which included the questioned costs.

The District will repay the questioned costs of \$979 for F-05-02.

Revised Questioned Cost

F-05-02: \$979

(10) Finding F-07-08 – Allowable Costs – Controls over Calculation of Indirect Costs Charged to Program

Program Identification:

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

GEAR-UP, U.S. Department of Education (ED), CFDA No. 84.334, Grant Agreements P334A000061-05, P334A050178-06, and P334A050205

Recommendation

We recommend the District provide additional guidance/training to its accountants to ensure that grants required to use the restricted indirect cost rate are calculated using the appropriate direct cost base in accordance with federal guidelines.

Current Status

Partially implemented

LOS ANGELES UNIFIED SCHOOL DISTRICT

Status of Prior Year Findings and Recommendations

Year ended June 30, 2008

District Explanation if Not Implemented

On February 12, 2008, the District has issued BUL-4110.0 – New Object Code for Subagreement for Services Effective Fiscal Year 2007-2008, which requires a new set of object codes to be used to identify subrecipient costs to exclude from the calculation of indirect costs.

(11) Finding F-07-09 – Cash Management – Interest Income from Advances not Returned to Federal Government

Finding F-06-07 – Cash Management – Interest Income from Advances not Returned to Federal Government

Program Identification:

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)

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;

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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 review its current interest estimation methodology to ensure compliance with federal cash management requirements and return interest to the federal government.

Current Status

Partially implemented

District's Explanation in Not Implemented

In March 2007, the District has issued additional procedure bulletin ADD-007, which requires additional procedures be performed for calculation of interest earned, interest returned, and remaining unremitted interest and be reviewed by management. The District will provide its calculations and supporting documentation for repayment to CDE at a later date.

(12) Finding F-07-10 – Equipment – Equipment Management Policies

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 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

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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 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

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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 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.

Current Status

Partially implemented

District's Explanation if Not Implemented

As mentioned in the prior year's report, the District issued BUL-3508.1 – Inventory for Equipment Purchased through Categorical Programs on February 4, 2008.

The following corrective action plan has been implemented by Federal and State Education Programs Branch to resolve the audit findings at the central-office and local district levels:

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- Federal and State Education Programs Branch has provided technical assistance regarding the mandates required in Bulletin Number BUL-3508.1 to the local district categorical coordinators at the monthly meeting on Friday, August 7, 2009.
- The local district categorical coordinators will be required to provide training on Bulletin Number BUL-3508.1 at the opening meeting for school-site categorical program advisors. Additionally, training will be provided to the categorically funded microcomputer support assistant and information systems support assistant personnel in the maintenance of equipment inventories/logs.

(13) Finding F-07-11 – Eligibility – Annual Eligibility Determination Finding

Program Identification:

Child and Adult Care Food Program: *U.S. Department of Agriculture (USDA)* Pass-Through Entity: California Department of Education Award Number: Grant Agreement 19-2016-3A

Recommendation

We recommend the District strengthen controls to ensure participant data is compiled and reported accurately.

Current Status

Implemented. As indicated on the District's prior year's Planned Corrective Action, the District deployed an automated software for processing meal application during the fiscal year ended June 30, 2007.

(14) Finding F-07-12 – Matching, Level of Effort, Earmarking, and Reporting – Matching Funds Reported

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.

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P334A000061; Project Title: Project Linking Academic Success with Student Outreach (LASSO), Award No. P334A050217

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.

Current Status

Partially implemented

District's Explanation if Not Implemented

The District has revised its Personnel Activity Report (PAR) for the GEAR UP program and issued a letter dated May 10, 2009 to its sub-recipients to require hours worked for matching be reported accurately on the revised PAR. The District will develop procedures for reporting in-kind matching expenditures.

(15) Finding F-07-13 – Matching, Level of Effort, and Earmarking – Supplement not Supplant

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, 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;

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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

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.

Current Status

Not implemented

District's Explanation if Not Implemented

The District disagrees with the finding. The District has been able to provide sufficient documentation, through comparisons of general fund expenditures, etc., to show that supplanting is not taking place. The District also employs a specific process for budgeting funds of categorical programs. This annual process provides schools a packet of materials that explains budgeting requirements. It also requires approvals of the budget by school site councils and a review and approval of budgets, plans and narratives by local district coordinators. These various steps are undertaken to ensure the school meets the supplement not supplant requirement. The District will look into documenting this process for use in future audits.

(16) Finding F-07-14 – Matching, Level of Effort, and Earmarking – Transferability

State Grants for Innovative Programs, U.S. Department of Education, Passed through the California Department of Education, CFDA No. 84.298, Pass-Through Identification 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

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

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Current Status

Not implemented

District Explanation if Not Implemented

The District disagrees with the finding. The District indicates that the transferability limitation for fiscal year 2005 was 50%. The District received the fiscal year 2005 final allocation, and applied the 50% transfer limitation. The 30% transferability limitation applies to fiscal year 2006 award.

(17) Finding F-07-15 – Matching, Level of Effort, and Earmarking – Administrative Cost

Finding F-06-15 – Matching, Level of Effort, and Earmarking – Administrative Cost

Program Identification:

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

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

Recommendation

We recommend the District strengthen policies and procedures to ensure that administrative costs are appropriately computed and not charged over the allowable maximum.

Current Status

Not implemented

District's Explanation if Not Implemented

The District disagrees with the finding. The District believes it is correctly accounting for all costs and expenditures of the programs. The District will review opportunities to develop a distinct identifier to properly attribute allowable direct costs and allowable administrative costs.

(18) Finding F-07-16 – Matching, Level of Effort, and Earmarking – Program Administrative Costs Plus the Indirect Cost Rate Limitation

Finding F-06-14 – Matching, Level of Effort, and Earmarking – Administrative Cost

Finding F-05-17 – Matching, Level of Effort, and Earmarking – Administrative Cost over the Restricted 2% Limit

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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 the District strengthen its policies and procedures to ensure that administrative costs are appropriately computed and not charged over the allowable maximum.

Current Status

Not implemented

District's Explanation if Not Implemented

The District disagrees with the finding. The District believes it is correctly accounting for all costs and expenditures of the programs.

(19) Finding F-07-17 – Matching, Level of Effort, and Earmarking – Professional Development Earmark

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 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.

Current Status

Partially implemented

District's Explanation if Not Implemented

The District was able to provide support (such as timesheets, vendor invoices and sign-in sheets) for the total questioned cost of \$38,801. The District was unable to provide documentation supporting the direct benefit of the remaining questioned cost of \$417.

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(20) Finding F-07-18 – Period of Availability – Program Code Controls

Finding F-06-17 – Period of Availability – Program Code Controls

Program Identification:

Title I Grants to Local Educational Agencies: *U.S. Department of Education* (ED), 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)

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

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 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.

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Current Status

Not implemented

District's Explanation if Not Implemented

The District will work with its Information Technology Division (BTS/SAP) team to ensure that accounting expenditures for the programs are posted to the appropriate fiscal/grant year, except for Title I. The District will develop a system solely for Title I to track program costs based on the First-in and First-out methodology.

(21) Finding F-07-19 – Period of Availability – Expenses Not Claimed in Proper Period and Liquidation of Obligations

Finding F-06-18 – Period of Availability – Expenses Not Claimed in Proper Period

Finding F-06-19 – Period of Availability – Liquidation of Obligations

Finding F-05-19 – Period of Availability – Expenses Not Claimed in Proper Period

Program Identification:

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

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* (DOE), Passed through the California Department of Education (CDE), Title V, Part A, Innovative Education Program Strategies (CFDA 84.298)

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Child Care and Development Fund: Child Care and, Development Block Grant, Child Care Mandatory and Matching Funds of the Child Care and Development Fund; U.S. Department of Health and Human Services, Passed through the California Department of Education, CFDA Nos. 93.575 and 93.596, Contract CCTR-6164

Recommendation

We recommend the District 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.

Current Status

Not implemented

District's Explanation if Not Implemented

The District will work with its Information Technology Division (BTS/SAP) team to ensure that accounting expenditures for the programs are posted to the appropriate fiscal/grant year, except for Title I. The District will develop a system solely for Title I to track program costs based on the First-in and First-out methodology.

(22) Finding F-07-20 – Procurement, Suspension and Debarment – Suspension or Debarment Certifications for Contracts between \$25,000 and \$100,000

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:

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 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

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Public Assistance Grants: Department of Homeland Security (DHS), CFDA 83.544, Passed through the California Governor's Office of Emergency Services (OES), FEMA 1008-DR, P.A. 037-91146, OES 93708.4

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: 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 (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

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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 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 standard templates for all contract and procurement types to ensure they incorporate and comply with federal suspension and debarment regulations.

Current Status

Implemented. The District has issued a Procurement Manual on September 1, 2008. The manual consolidates numerous individual bulletins, reference guides, and memorandums regarding procurement policies and procedures.

(23) Finding F-07-21 – Procurement, Suspension, and Debarment – No Evidence of Required Quotations or Waivers for Competitive Bidding

Finding F-06-21 – Procurement, Suspension, and Debarment – No Evidence of Required Quotations or Waivers for Competitive Bidding

Finding F-05-21 – Procurement, Suspension, and Debarment – No Evidence of Required Quotations or Waivers for Competitive Bidding

Program Identification:

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

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;

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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;

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: 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 (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

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

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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: 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 and Development Fund: Child Care and Development Block Grant, Child Care Mandatory and Matching Funds of the Child Care and Development Fund; U.S. Department of Health and Human Services, Passed through the California Department of Education, CFDA Nos. 93.575 and 93.596, Contract CCTR-6164

Recommendation

We recommend the District strengthen its controls over its procurement approval process and document retention policies to ensure that required policies of the District are being followed with proper documentation maintained in the procurement files.

Current Status

Partially implemented

District's Explanation if Not Implemented

The District has issued a Procurement Manual on September 1, 2008. The manual consolidates numerous individual bulletins, reference guides, and memorandums regarding procurement policies and procedures. The District is developing internal standard operating procedures that include document retention policies.

(24) Finding F-07-22 – Program Income – Controls over Cash Receipts Collected at School Sites

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 the District strengthen controls over cash collection and reporting process.

Current Status

Partially implemented

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District's Explanation for Not Implemented

The Branch has strengthened controls over cash collections by developing worksheets to assist schools to reconcile the cash collection to sales. The worksheets are kept at the school site where the manager has easy access to discuss information when a Financial Accountant contacts them regarding their cash collections.

Food Services has improved the reporting accuracy in the implementation of a web-based Food Services Data Capture System (FSDC) to automate the Cafeteria Managers' data entry of weekly meal counts/sales and monthly inventory tracking and cash collections. All schools are on the current system since April 2008. All Cafeteria Personnel have undergone training prior to the system being implemented at their school site. Cafeteria Managers, Senior Cafeteria Workers, and Financial Managers attend a mandatory 4-hour training course (Financial Managers training is 1-2 hours). Ongoing training of newly promoted managers and senior workers is also available.

(25) Finding F-07-24 – Reporting – Monthly Claim Report

Finding F-07-23 – Reporting – Monthly Claim Report

Program Identification:

Child Nutrition Cluster: School Breakfast Program, National School Lunch Program, Summer Food Service Program for Children, *U.S. Department of Agriculture (USDA)* Pass-Through Entity: California Department of Education Award Number: Grant Agreement 19-64733-0000000-01

Child and Adult Care Food Program: *U.S. Department of Agriculture (USDA)* Pass-Through Entity: California Department of Education Award Number: Grant Agreement 19-2016-3A

Recommendation

We recommend the District strengthen controls to ensure claims are compiled 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.

Current Status

Partially implemented

District's Explanation if Not Implemented

The District implemented a new web-based Food Services Data System (FSDC) to automate the reporting process for weekly meal counts and monthly inventory tracking and cash collection.

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(26) Finding F-07-25 – Reporting – Performance Reporting

Finding F-07-27 – Reporting – Performance Reporting

Finding F-06-25 – Reporting – Financial and Performance Reporting

Program Identification:

Vocational Education Basic Grants to States (Perkins III), U.S. Department of Education (ED) Pass-Through Entity: California Department of Education Award Number: Grant Agreement 13924 and 13923 Compliance Requirement:

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, *U.S. Department of Education (ED)* Pass-Through Entity: California Department of Education Award Number: Grant Agreements P334A050178, and P334A050205

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.

We recommend the District strengthen its current controls over reporting to ensure that reports are completed accurately.

Current Status

Partially implemented

District's Explanation if Not Implemented

The District's Division of Adult and Career Education (DACE) has implemented procedures to generate centralized data for the California Department of Education 101 E1 reports. The DACE is currently working with secondary SIS to automate the centralized reporting process.

(27) Finding F-07-26 – Reporting – Attendance Reports

Finding F-06-26 – Reporting – Attendance Reports

Finding F-05-24 – Reporting – Incorrect and Unsupported Expenditure Attendance Reports

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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 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.

Current Status

Implemented. The District submitted the revised attendance report approved by the program coordinator to CDE for F-07-26. The District revised the 4 Quarterly and Final Expenditure Reports and the Semiannual Attendance Reports to CDE for F-06-26. No further corrective action is warranted.

(28) Finding F-07-28 – Reporting – Financial Reporting

Program Identification

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

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.

Current Status

Not implemented

District's Explanation if Not Implemented

The District is in the process of reconciling the differences for the Special Education Cluster.

(29) Finding F-07-29 – Subrecipient Monitoring – Monitoring Procedures Performed

Finding F-06-28 – Subrecipient Monitoring – Monitoring Procedures Performed

Finding F-05-30 – Subrecipient Monitoring – Monitoring Procedures over Subrecipients

Program Identification:

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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 provide additional guidance/training to ensure subrecipient awards are properly identified and monitored to ensure their compliance with federal guidelines.

Current Status

Partially implemented

District's Explanation if Not Implemented

The District implemented procedures to ensure the subrecipient awards are monitored. The District also added monitoring policies and procedures in the subrecipient contracts starting 2009-10.

(30) Finding F-07-29 – Subrecipient Monitoring – Monitoring Procedures Performed

Finding F-06-29 – Subrecipient Monitoring – Monitoring Procedures Performed

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

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

District's Explanation if Not Implemented

The District included the federal program information on the new contracts with its Local District 4's subrecipients. New contracts with Local District 8 will be modified to include the federal program information.

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(31) Finding F-07-30 – Special Tests and Provisions (Participation of Private School Children) – Private School Consultations

Finding F-06-30 – Special Tests and Provisions (Participation of Private School Children) – Private School Consultations

Program Identification:

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

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

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.

Current Status

Implemented. The District monitors the list of private schools listed on the California Department of Education website by downloading the list on a monthly basis. If additional

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private schools are identified, a letter would be sent informing private schools of their eligibility to participate and receive Title II, Part A benefits and services.

(32) Finding F-07-31 – Special Tests and Provisions (Participation of Private School Children) – Per-Pupil Allocations offered to Participating Private Schools

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

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

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

Recommendation

We recommend enhance policies and procedures to ensure participating private schools are timely notified of any changes in per-pupil allocation amounts available.

Current Status

Not implemented

District's Explanation if Not Implemented

The District disagrees with this finding. Of the 50 participating private schools, only 32 were eligible to participate in the program. All 32 schools that were participating private school consortiums and the representatives of participating independent private schools were sent final allocation letters for Title II, part A funding.

(33) Finding F-07-32 – Special Tests and Provisions (Assessment of Need) – Support for Assessments

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 the District establish formal policies and procedures for conducting the required needs assessment to ensure the District comply with federal guidelines.

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Current Status

Implemented. The District performed the need assessment.

(34) Finding F-07-33 – Special Tests and Provisions (Parent Notification Letters) – Support for Notifications

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

Recommendation

We recommend the District establish strengthen policies and procedures to ensure all parental notifications are timely made and supporting documentation is maintained.

Current Status

Partially implemented.

District's Explanation if Not Implemented

On July 21, 2008, the District has issued BUL-4380.0 – Initial Notification Requirements for Parents of English Learners (K-12) and BUL-2638.2 – Annual Parent Notification Requirements under Title III of the No Child Left Behind Act for Elementary Schools. On July 16, 2008, the District issued BUL-2635.1 “Annual Parent Notification Requirements under Title III of the No Child Left Behind Act for Secondary Schools. These bulletins were issued to provide policies and procedures to the school administrators regarding the parent notification requirements.

(35) Finding F-07-34 – Special Tests and Provisions Highly Qualified Teachers and Paraprofessionals

Finding F-06-33 – Special Tests and Provisions (Highly Qualified Teachers) – Qualifications

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

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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.

Current Status

Partially implemented

District's Explanation if Not Implemented

The District continues implementation of its Plan for Equitable Distribution of Highly Qualified Teachers and Administrators for full compliance of all teachers. The District has established policies for paraprofessionals to be highly qualified upon hiring. The District has monitored a group of paraprofessionals previously hired who are not highly qualified to ensure they are not placed in Title I, Part A funded positions.

(36) Finding F-07-35 – Other –Unallowable Expenditures per the Damage Survey Report and the Grant Acceleration Program

Program Identification:

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

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.

Current Status

Partially implemented

District Explanation if Not Implemented

The District has established "Public Assistance Grant Award Process" to separate responsibilities to ensure allowable costs be correctly charged to Public Assistance Grants.

(37) 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:

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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.

Current Status

Implemented. The District has provided initial notification to all participating private schools. The District has improved its process to ensure that final per pupil expenditures allocation is communicated more timely.

(38) 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

Implemented. The District has a record retention policy that requires that all supporting documents used to compile required reporting are retained.

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(39) 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

Implemented. The recommendation is for F-05-09 which was cleared in fiscal year 2006-2007.

(40) 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

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.

Current Status

Implemented. FEMA: Finding warrants no further action. The final closeout report dated October 9, 2006 shows that a total of \$60,745,392 was funded by the U.S. Department of Homeland Security (DHS).

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Findings and Questioned Costs Relating to State Awards

(41) S-07-01 Attendance Accounting – Independent Study – Required Elements of Independent Study Agreement

School Affected

City of Angels

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.

Current Status

Corrective actions were implemented for the above subject school.

**(42) S-07-02 Attendance Accounting – Continuation Education – Attendance Computations
S-06-08 Attendance Accounting – Continuation Education – Attendance Computations**

Schools Affected

Central Continuation High School

Moneta Continuation High School

Recommendation

We recommend that the District strengthen its review process over the compilation of the Monthly Statistical Reports to ensure that the report accurately reflects student attendance in days.

Current Status

Corrective actions were implemented for the above subject schools.

**(43) S-07-03 Attendance Accounting – Continuation Education – Work Experience
S-06-09 Attendance Accounting – Continuation Education – Work Experience
S-05-08 Attendance Accounting – Continuation Education – Work Experience**

Schools Affected

Central Continuation High School

Moneta Continuation High School

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Recommendation

We recommend that the schools 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.

Current Status

Corrective actions were implemented for the subject schools.

(44) S-07-04 Attendance Accounting – Adult Education – Concurrently Enrolled Students

S-06-07 Attendance Accounting – Adult Education – Concurrently Enrolled Students

Schools Affected

Venice Adult School

Manual Arts 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.

Current Status

Corrective actions were implemented for the subject schools.

(45) S-07-05 Attendance Accounting – Regional Occupational Schools – Attendance Computations

Schools Affected

Venice Skills Center

Los Angeles Technology Center

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.

Current Status

Corrective actions were implemented for the subject schools.

(46) S-07-06 Attendance Accounting – Community Day Schools – Minimum School Day

School Affected

West Hollywood Community Day School

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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.

Current Status

Corrective actions were implemented for the subject school.

(47) S-07-07 Attendance Accounting – Dependent Charter Schools – Attendance Computations

School Affected

Pacific Palisades Elementary School

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.

Current Status

Corrective actions were implemented for the subject school.

(48) S-07-08 Attendance Reporting – Teacher Credentialing

Schools Affected

Ford Blvd. Elementary School

Berendo Middle School

Palms Middle School

Locke High School

Recommendation

We recommend that the school and District implement controls to maintain that the teachers who instruct English learners possess proper English teaching credentials.

Current Status

Partially implemented. The District is continuing its efforts on strengthening the controls over teacher credentialing. A District-wide policy is currently under consideration by the Board of Education. If adopted, all K-12 teachers and instructional coaches will be required to hold an English learner authorization by March 1, 2010 as a factor to continue employment in the 2010-2011 school year.

(49) S-07-09 Morgan-Hart Class Size Reduction – Eligible Classes

S-06-12 Morgan-Hart Class Size Reduction – Eligible Classes

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Schools Affected

Grant Senior High School

Hollywood High School

Recommendation

We recommend that the District continue to work with the State Controller's 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.

Current Status

Corrective actions were implemented for the subject schools.

(50) S-07-10 Instructional Materials – Sufficiency of Mathematics, Science, History-Social Science, and English/Language Arts Textbooks and Instructional Materials

S-06-13 Instructional Materials – Insufficiency of Textbooks and Instructional Materials

S-05-14 Instructional Materials – Insufficiency of Textbooks and Instructional Materials Not Corrected within Required Deadlines

Schools Affected

Beckford Elementary	Osceola Elementary	Whitman High School
Birmingham High School	Polytechnic High School	Adams Middle School
Canoga Park High School	San Fernando High School	Carver Middle School
Chatsworth High School	Saticoy Elementary	Central Los Angeles New Middle School #4
Cleveland High School	Sunland Elementary	Lincoln High School
Einstein High School	Sylmar High School	Santee Education Complex
Haskell Elementary	Teffair Elementary	Wilson High School
Justice Elementary	Toluca Lake Elementary	Elizabeth Learning Center
Mulholland Middle School	Van Nuys High School	International ST Learning Center
Napa Elementary	Vena Elementary	Lilian Elementary
Reseda High School	Verdugo Hills	Loma Vista Elementary
Soces Magnet	Victory Elementary	Maywood Academy
Taft high School	Crenshaw High School	Park Avenue Elementary
Vanalden Elementary	Hamilton School Complex	Fremont high School
Woodland Hills Elementary	Mann Middle School	Gompers Middle School
Chandler Elementary	Marquez Elementary	Riley high School Cyesis
Earhart High School	Revere Middle School	Banning High School
Fair Elementary	University High School	Carson Elementary
Grant High School	Bancroft Middle School	Carson High School
Harding Elementary	Belmont High School	Gardena High School

LOS ANGELES UNIFIED SCHOOL DISTRICT

Status of Prior Year Findings and Recommendations

Year ended June 30, 2008

Herrick Elementary	Contreras Learning Complex	Fulton College Prep
Lankershim Elementary	Downtown Business Magnet	Audubon Middle School
Lewis High School	Fairfax High School	Utah Elementary
Mt. Lukens High School	Irving Middle School	

Recommendation

We recommend that the District ensure that all schools purchase instructional material adopted by the State board of Education and that the District take steps to ensure noted textbook insufficiencies are timely remedied.

Current Status

Implemented. The Board of Education was able to certify sufficiency at the hearing for the fiscal year ended June 30, 2008. Further, the District has received waiver for the questioned cost of \$43,880,657 for the Instructional Material Funding Realignment Program from the California Department of Education.

(51) S-07-11 Instructional Materials – Sufficiency of Foreign Language or Health Textbooks and Instructional Materials or Laboratory Science Equipment

Schools Affected

Andarsol Elementary	Valley Alternative Magnet
Birmingham High School	Van Gogh Elementary
Danube Elementary	Carpenter Elementary
Justice Elementary	Earhart Continuation High School
Lanai Elementary	Fulton College Prep
San Fernando	Mann Middle School
Saticoy Elementary	University High School
Sylmar School	Belmont High School
Elizabeth Learning Center	Carson Elementary
International ST Learning Center	Carson High School
Lillian Elementary	Fries Elementary
Limerick Elementary	Haddon Elementary
Newcastle Elementary	Harding Elementary
Monroe High School	Herrick Elementary
Soces Magnet	Polytechnic School
Taft High School	Rio Vista Elementary
Telfair Elementary	Contreas Learning Complex
Van Nuys High School	Whitman High School
Audubon Middle School	Bell high School
Park Avenue Elementary	Gardena High School

LOS ANGELES UNIFIED SCHOOL DISTRICT

Status of Prior Year Findings and Recommendations

Year ended June 30, 2008

Barrett Elementary

Manhattan Elementary

Gompers Middle School

Recommendation

We recommend that the District take steps to ensure noted textbook insufficiencies are timely remedied.

Current Status

Implemented.

(52) S-07-12 Attendance Accounting – Adult Education – Attendance Computations

Schools Affected

Manual Arts Community Adult School

Venice Community Adult School

Recommendation

We recommend that the District strengthen its review process over the compilation of the Monthly Statistical Reports to ensure that the report accurately reflects student attendance in days.

Current Status

Corrective actions were implemented for the subject schools.

(53) S-07-13 Attendance Accounting – Community Day School – Attendance Reporting

Schools Affected

West Hollywood Day School

Aggeler 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

Corrective actions were implemented for the subject schools.

(54) S-07-14 Regular and Special Day Classes – Elementary Schools – Attendance Computations

Schools Affected

LOS ANGELES UNIFIED SCHOOL DISTRICT

Status of Prior Year Findings and Recommendations

Year ended June 30, 2008

49 th Street Elementary School	Coldwater Canyon Elementary School
93 rd Street Elementary School	Eastman Elementary School
Arminta Elementary School	Fair Elementary School
Banneker Elementary School	Ford Elementary School
Baldwin Hills Elementary School	Leland Elementary School
Barret Elementary School	Main Street Elementary School
Burbank Elementary School	Manchester Elementary School
Calahan Elementary School	Sunny Brae Elementary School
Canterbury Elementary School	Telfair Elementary School

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.

Current Status

Corrective actions were implemented for the subject schools.

(55) S-07-15 Regular and Special Day Classes – Secondary Schools and Independent Study – Attendance Computations

Schools Affected

49 th Street Elementary School	Coldwater Canyon Elementary School
93 rd Street Elementary School	Eastman Elementary School
Arminta Elementary School	Fair Elementary School
Banneker Elementary School	Ford Elementary School
Baldwin Hills Elementary School	Leland Elementary School
Barret Elementary School	Main Street Elementary School
Burbank Elementary School	Manchester Elementary School
Calahan Elementary School	Sunny Brae Elementary School
Canterbury Elementary School	Telfair Elementary School

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.

Current Status

Corrective actions were implemented for the subject schools.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Status of Prior Year Findings and Recommendations

Year ended June 30, 2008

(56) S-07-16 School Accountability Report Card – Availability of Sufficient Textbooks

Schools Affected

Barrett Elementary	Chandler Elementary
Telfair Elementary	Birmingham High School
Fair Elementary	Marquez Elementary
Sylmar High School	Cleveland High School

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.

Current Status

Partially implemented. The District continues its efforts to ensure the following steps will be taken as corrective actions:

- 1) The specific measurement dates will be listed for each of the reporting elements so that readers will be clear when the data was collected;
- 2) Develop a comprehensive checklist for the files received from Textbook Services to clearly indicate sufficiency in instructional materials for specific subject areas including:
 - a. the core curriculum areas of readings/language arts, mathematics, science, and history/social science;
 - b. Foreign language and health;
 - c. Science laboratory equipment for grades 9-12, inclusive, as appropriate; and
 - d. Visual and performing arts.
