



2007-08

First Period Interim Financial Report

Los Angeles Unified School District
Office of the Chief Financial Officer

December 11, 2007

What is the First Interim Report?

- One of two annual revenue and expenditure estimates for the current fiscal year and the two subsequent years
- Education Code Section 42130 requires school districts to file a 1st and 2nd Interim Financial Report annually.
- These reports require districts to certify whether they can meet their financial obligations for the current fiscal year and the subsequent two fiscal years.
- The 1st Interim Report is due on December 15 and the 2nd Interim Report is due on March 15. A 3rd Interim Report is required in June for districts whose 2nd Interim Report is either qualified or negative.

Certification indicates District's ability to meet its financial obligations.

- **Positive** = Based on current projections, the district can meet its financial obligations for the current fiscal year and two subsequent fiscal years.
- **Qualified** = Based on current projections, the district may not be able to meet its financial obligations for the current fiscal year or either of the subsequent two fiscal years.
- **Negative** = Based on current projections, the district will not be able to meet its financial obligations for the current fiscal year or for either of the two subsequent fiscal years.

Qualified or negative certifications have consequences.

- Unless the County Superintendent determines otherwise, a district with a qualified or negative certification may not, in that fiscal year or the next succeeding fiscal year, issue certificates of participation, tax anticipation notes, or other debt instruments that do not require voter approval.
- The County Office of Education may impose various other sanctions or restrictions on school districts that fail to deal with financial issues raised in interim reports.
- Rating agencies will consider interim reports when making credit ratings.

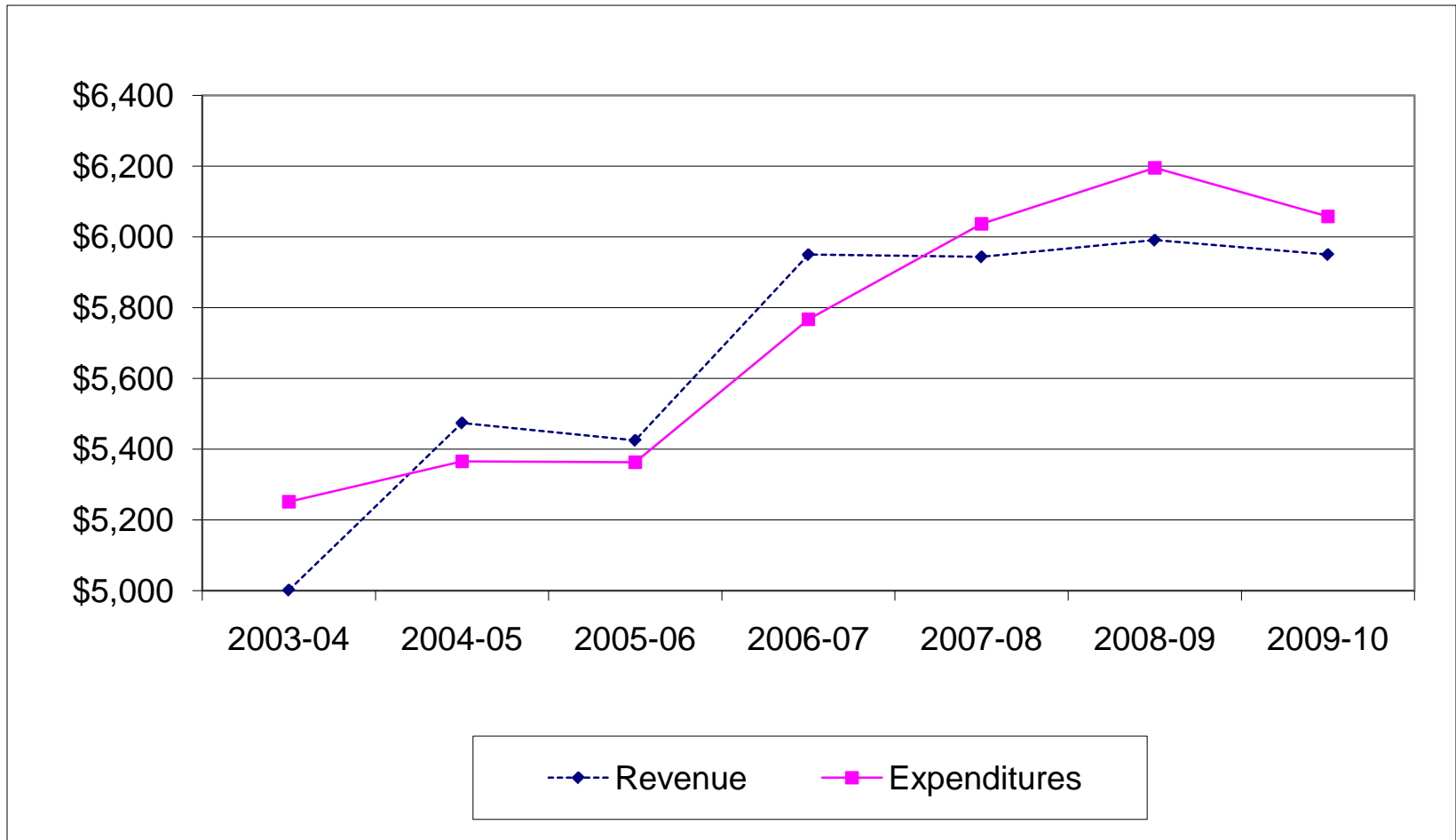
Findings and Recommendation

- Current financial projections indicate that LAUSD will be able to meet its financial obligations in 2007-08
- Unless budget adjustments are made, LAUSD faces a negative undesignated balance of \$96.3 million in 2008-09 and \$207.3 million in 2009-10.
- It is recommended that LAUSD file a positive certification and certify that LAUSD will be able to meet its financial obligations for 2007-08, 2008-09, and 2009-10, with a commitment from the Board to identify the necessary budget reductions by February 15, 2008.

Expenditures are expected to exceed revenues in 2007-08 and the out years.

		2006-07	2007-08	2008-09	2009-10
		Actuals	First Interim	First Interim	First Interim
Sources of funds					
	Beginning balance	\$410.2	\$592.9	\$499.5	\$295.4
	Revenues	\$5,988.8	\$5,943.6	\$5,990.8	\$5,950.1
Total sources		\$6,399.0	\$6,536.5	\$6,490.3	\$6,245.5
Uses of funds					
	Expenditures	\$5,806.0	\$6,037.0	\$6,194.9	\$6,057.6
	Ending balance	\$592.9	\$499.5	\$295.4	\$187.9
Total uses		\$6,398.9	\$6,536.5	\$6,490.3	\$6,245.5

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In September, the multi-year projection was positive.

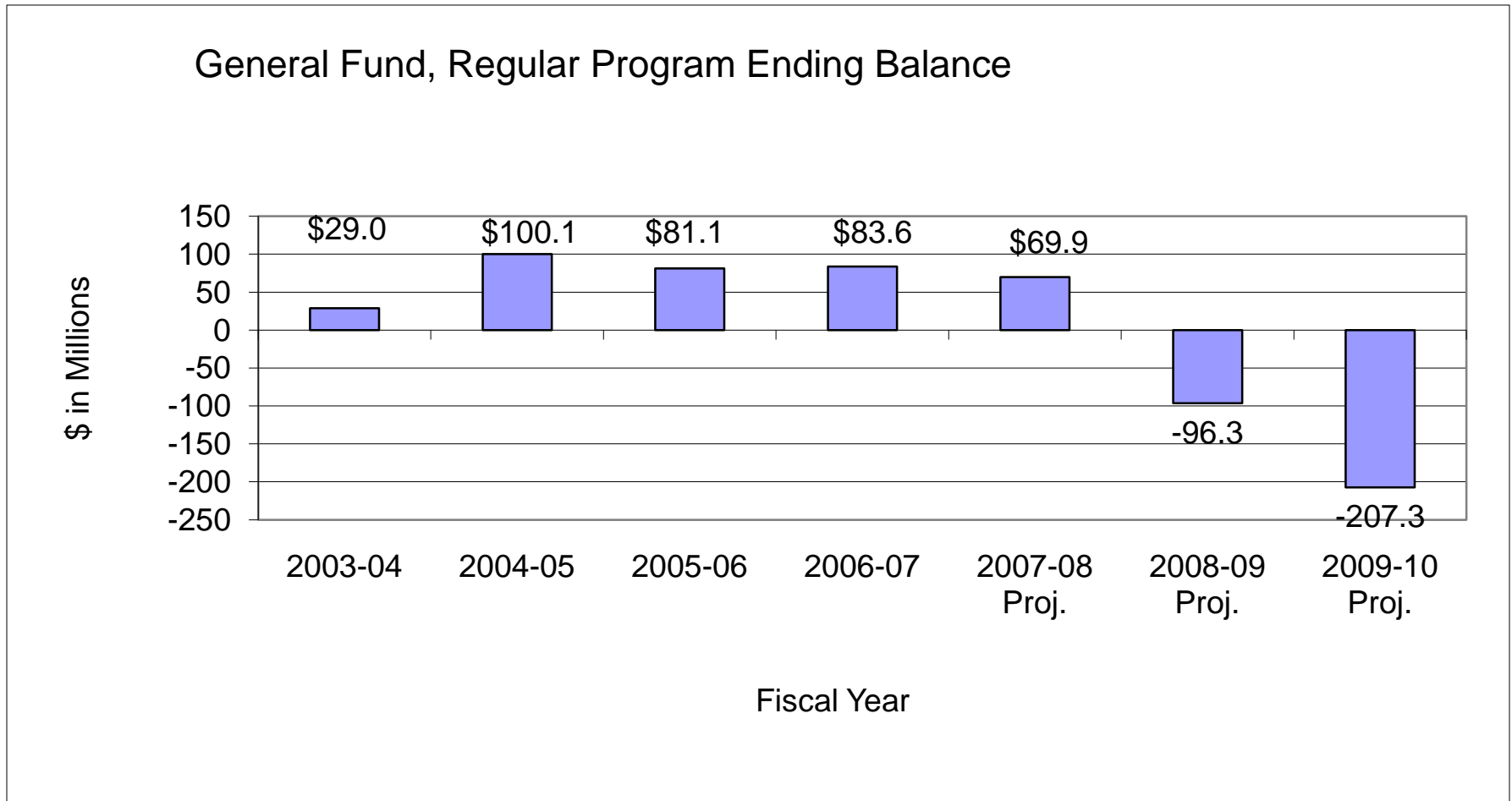
	2006-07	2007-08	2008-09	2009-10
	Estimated	Final	Final	Final
		Budget	Budget	Budget
Legally restricted balances	\$202.7	\$202.7	\$249.7	\$261.9
Carryovers	\$76.3	\$62.1	\$63.3	\$64.9
Reserve - economic uncert	\$71.5	\$72.4	\$71.0	\$69.9
Reserve for stores	\$15.6	\$15.6	\$15.6	\$15.6
Undesignated balance	\$72.1	\$92.2	\$8.1	\$8.9
Total ending balance	\$438.2	\$445.0	\$407.7	\$421.2

In December, the undesignated ending balance is projected to go negative in 2008-09.

(General Fund, Regular Program - \$millions)

	2006-07	2007-08	2008-09	2009-10
	Actual	First Interim	First Interim	First Interim
Legally restricted balances	\$219.9	\$210.8	\$210.5	\$212.9
Carryovers	\$207.0	\$135.5	\$98.6	\$100.8
Reserve - economic uncert	\$71.5	\$72.4	\$71.7	\$70.6
Reserve for stores	\$10.9	\$10.9	\$10.9	\$10.9
Undesignated balance	\$83.6	\$69.9	-\$96.3	-\$207.3
Total ending balance	\$592.9	\$499.5	\$295.4	\$187.9

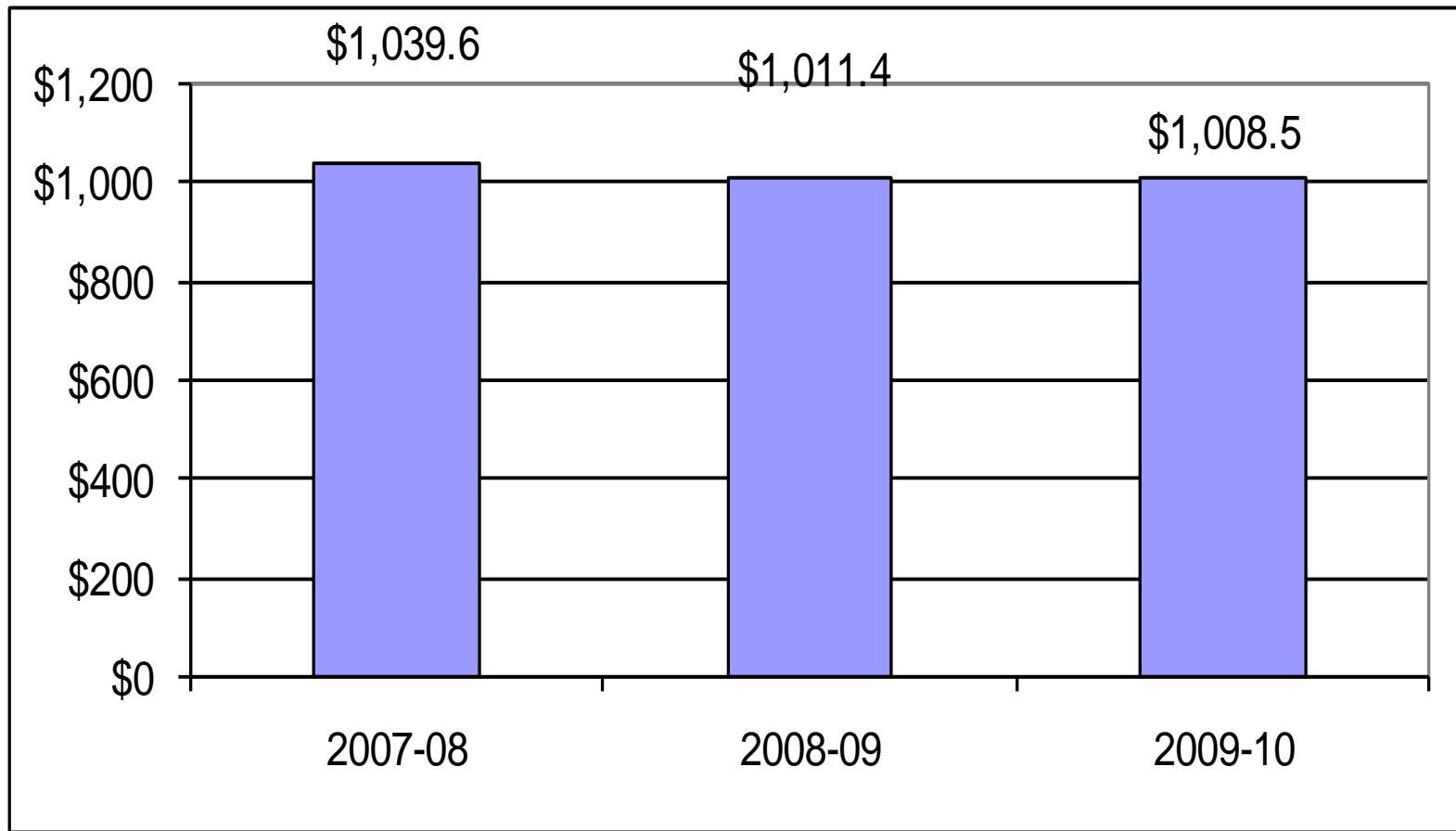
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Explaining the Problem

	2007-08	2008-09	2009-10
Undesig. ending balance per Final Budget	\$92.2	\$8.1	\$8.9
Undesig. ending balance per First Interim	\$69.9	(\$96.3)	(\$207.3)
Change	(\$22.3)	(\$104.4)	(\$216.2)
Major Causes of the Change:			
Special education increased cost estimate	(\$48.0)	(\$58.0)	(\$68.0)
Health and welfare costs	(\$18.7)	(\$36.2)	(\$45.9)
Midyear renorming	(\$18.4)	(\$18.4)	(\$18.4)
All other causes	\$43.1	\$2.9	\$4.2
TOTAL INCREASED EXPENDITURES	(\$42.0)	(\$109.7)	(\$128.1)
Changes in unrestricted revenues	\$19.7	\$27.6	\$16.3
NET CHANGE	(\$22.3)	(\$82.1)	(\$111.8)

Specially Funded (e.g., Title I and Economic Impact Aid) expenditures are expected to be stable.



Revenue Assumptions

1. The District is experiencing declining enrollment. The First Interim projects a 2007-08 ADA decline of 20,572.
2. The 1st Interim Report assumes that enrollment will continue to decline during the 3-year reporting period.
3. The 1st Interim Report assumes a fully-funded 4.30% COLA for 2008-09 and a 2.50% COLA for 2009-10.
4. No assumptions are made in this report regarding equalization funding.

Expenditure Assumptions

1. A 6% settlement for 2006-07 is assumed for units that have not yet settled.
2. The First Interim Report includes funding for health and medical benefits at the collectively bargained levels estimated to be \$828.4 million for 2007-08, \$848 million for 2008-09, and \$862.0 million for 2009-10.
3. Funds have not been set aside for 2007-08 collective bargaining except employee benefits.
4. The First Interim Report assumes full funding of the required 3% for routine repair and general maintenance.
5. The Reserve for Economic Uncertainties is funded at the full 1% level.

Next Steps

- LAUSD staff will submit the First Interim report to the County by December 15, 2007.
- LAUSD staff will prepare recommendations for improving the ending balance in 2008-09 and 2009-10.
- Board will consider and act on staff recommendations on or before February 15, 2008.