NEW ISSUE – BOOK-ENTRY-ONLY **See "Ratings" herein.**

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

LOS ANGELES UNIFIED SCHOOL DISTRICT • BOARD OF EDUCATION

$99,660,000
Certificates of Participation
2007 Series A
(Information Technology Projects)
Evidencing Proportionate and Undivided Interests of the Owners Thereof in Lease Payments to be made by the
LOS ANGELES UNIFIED SCHOOL DISTRICT

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

The Certificates of Participation 2007 Series A (Information Technology Projects) (the "Certificates") are being executed and delivered pursuant to a Trust Agreement, dated as of November 1, 2007 (the "Trust Agreement"), by and among the Los Angeles Unified School District (the "District"), the LAUSD Financing Corporation (the "Corporation") and U.S. Bank National Association, as trustee (the "Trustee").

The Certificates evidence proportionate and undivided interests in the lease payments (the "Lease Payments") to be made by the District pursuant to that certain Lease Agreement, dated as of November 1, 2007 (the "Lease"), by and between the District and the Corporation, pursuant to which the District leases from the Corporation certain real property and all the improvements thereon or to be located thereon, as more particularly described herein (the "Property"). See "Security and Sources of Payment for the Certificates – Lease Payments" herein. The proceeds of the Certificates will be applied to (i) finance certain acquisition, development and installation of information technology systems of the District (the "Projects"), (ii) fund a reserve fund for the Certificates and (iii) pay costs of issuance incurred in connection with the Certificates. See "Plan of Financing" herein.

Interest represented by the Certificates is payable on April 1 and October 1 of each year, commencing on April 1, 2008. The Certificates will be delivered as fully-registered certificates registered in the name of a nominee of The Depository Trust Company ("DTC"), which will act as securities depository for the Certificates. Purchases of the Certificates may be made in book-entry form only. Beneficial owners of the Certificates will not receive physical delivery of such Certificates. Payments of the principal amount of, premium, if any, and interest on the Certificates will be made to DTC by the Trustee. Disbursement of payments to DTC Participants is the responsibility of DTC and disbursement of payments to the beneficial owners is the responsibility of DTC Participants. See "The Certificates" herein and Appendix F – "Book-Entry System" attached hereto.

Payment of the principal of and interest with respect to a portion of the Certificates when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the Certificates. See "Certificate Insurance" herein and Appendix H – "Specimen of Financial Guaranty Insurance Policy" attached hereto.

Ambac

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

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

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

The Certificates will be offered when, as and if executed and delivered, and received by the Underwriters, subject to the approval as to their legality by Sidley Austin LLP, San Francisco, California, Special Counsel to the District, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by their counsel, Squire, Sanders & Dempsey L.L.P., Los Angeles, California, and for the District by the General Counsel to the District and by its Disclosure Counsel, Hawkins Delafield & Wood LLP, Los Angeles, California. First Southwest Company and Annette Yee and Company are serving as Co-Financial Advisors to the District in connection with the issuance of the Certificates. It is expected that the Certificates in definitive form will be available for delivery through the facilities of DTC in New York, New York, on or about November 15, 2007.

Banc of America Securities LLC

Ramirez & Co., Inc. **UBS Investment Bank**

Dated: November 1, 2007

$99,660,000
Certificates of Participation
2007 Series A
(Information Technology Projects)
Evidencing Proportionate and Undivided Interests of the Owners
Thereof in Lease Payments to be made by the
LOS ANGELES UNIFIED SCHOOL DISTRICT

MATURITY SCHEDULE

BASE CUSIP No.†: 544648

Maturity (October 1)	Principal Amount	Interest Rate	Yield	CUSIP Suffix†
2008	$ 8,640,000	4.000%	3.340%	RL4
2009*	8,415,000	4.000	3.320	RM2
2010*	6,775,000	4.000	3.380	RN0
2010*	1,975,000	5.000	3.380	RP5
2011*	5,995,000	4.000	3.470	RQ3
2011*	3,125,000	5.000	3.470	RR1
2012*	9,515,000	5.000	3.550	RS9
2013*	9,995,000	5.000	3.620	RT7
2014*	10,495,000	5.000	3.690	RU4
2015*	11,015,000	5.000	3.760	RV2
2016*	11,570,000	5.000	3.870	RW0
2017*	12,145,000	5.000	3.970	RX8

* Insured by Ambac Assurance Corporation.

† CUSIP Copyright 2007, American Bankers Association. CUSIP numbers herein are provided by Standard & Poor's CUSIP Service Bureau, a division of the McGraw-Hill Companies, Inc., and are set forth herein for convenience of reference only. The District, the Corporation, the Trustee, Ambac Assurance and the Underwriters assume no responsibility for the accuracy of such numbers.

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

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

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

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

THE CERTIFICATES HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR HAS THE RESOLUTION BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS.

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

The District maintains a website. However, the information presented there is not part of this Official Statement, is not incorporated by reference herein and should not be relied upon in making an investment decision with respect to the Certificates.

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LOS ANGELES UNIFIED SCHOOL DISTRICT

Board of Education

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

District Officials

David Brewer III, Superintendent
Kevin S. Reed, General Counsel
David Holmquist, Interim Chief Operating Officer
Dr. Joseph P. Zeronian, Interim Chief Financial Officer
Joseph A. Mehula, Chief Facilities Executive
Kenji Furuya, Interim Controller

Special Counsel

Sidley Austin LLP
San Francisco, California

Disclosure Counsel

Hawkins Delafield & Wood LLP
Los Angeles, California

Co-Financial Advisors

First Southwest Company
Santa Monica, California

Annette Yee and Company
Carmel, California

Trustee

U.S. Bank National Association
Los Angeles, California

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$99,660,000
Certificates of Participation
2007 Series A
(Information Technology Projects)
Evidencing Proportionate and Undivided Interests of the Owners
Thereof in Lease Payments to be made by the
LOS ANGELES UNIFIED SCHOOL DISTRICT

INTRODUCTION

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

General

This Official Statement, including the cover page and the Appendices attached hereto (the "Official Statement"), provides certain information concerning the sale and delivery of the Certificates of Participation 2007 Series A (Information Technology Projects) (the "Certificates"). The Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of November 1, 2007 (the "Trust Agreement"), by and among the Los Angeles Unified School District (the "District"), the LAUSD Financing Corporation (the "Corporation") and U.S. Bank National Association, as trustee (the "Trustee") to (i) finance certain acquisition, development and installation of information technology systems of the District (the "Projects"), (ii) fund a reserve fund for the Certificates and (iii) pay costs of issuance incurred in connection with the Certificates. See "Plan of Financing" herein.

The District leases certain real property and all improvements thereon or to be located thereon, as more particularly described herein (the "Property"), to the Corporation pursuant to a Site and Facilities Lease, dated as of November 1, 2007 (the "Site Lease"), by and between the District and the Corporation. The District leases the Property from the Corporation pursuant to a Lease Agreement, dated as of November 1, 2007 (the "Lease"), by and between the District and the Corporation. The Certificates evidence proportionate and undivided interests in the lease payments (the "Lease Payments") to be made by the District pursuant to the Lease. See "Security and Sources of Payment for the Certificates" herein.

The District

The District, encompassing approximately 704 square miles, is located in the western section of Los Angeles County (the "County") and includes virtually all of the City of Los Angeles and all or significant portions of the cities of Bell, Carson, Commerce, Cudahy, Gardena, Hawthorne, Huntington Park, Lomita, Maywood, Rancho Palos Verdes, San Fernando, South Gate, Vernon and West Hollywood, in addition to considerable unincorporated territory which includes residential and industrial areas. The District was formed in 1854 as the Common Schools for the City of Los Angeles and became a unified school district in 1960. The District is the second largest public school district in the United States and is the largest public school district in the State of California (the "State"). Additional information on the District is provided in Appendices A and B hereto. See Appendix A – "District Financial and Demographic Information" and

Appendix B – "Selected Information from Audited Financial Statements of the District for the Fiscal Year Ended June 30, 2006" attached hereto.

The Corporation

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

Security and Source of Payment for the Certificates

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

Pursuant to an Assignment Agreement, dated as of November 1, 2007 (the "Assignment Agreement"), by and between the Trustee and the Corporation, the Corporation assigned to the Trustee, for the benefit of the Owners of Certificates all of its rights, title and interest in and to the Lease, including the right to receive Lease Payments under the Lease. See Appendix C – "Summary of Principal Legal Documents – The Lease" and "– Trust Agreement" attached hereto.

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

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

The Certificates

The Certificates will be executed and delivered in the form of fully registered certificates in principal amounts of $5,000 each or any integral multiple thereof. The Certificates will be dated their date of delivery and mature on October 1 in the years set forth on the inside cover page hereof. The interest represented by the Certificates will represent the sum of the portions of the Lease Payments designated as interest components coming due on the Interest Payment Dates in each year. The principal represented by the Certificates will represent the sum of the portions of the Lease Payments designated as principal components coming due on the Principal Payment Date in each year. Interest represented by the Certificates is payable on April 1 and October 1 of each year, commencing on April 1, 2008.

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

Financial Guaranty Insurance

Payment of the principal of and interest with respect to a portion of the Certificates (the "Insured Certificates") when due will be insured by a Financial Guaranty Insurance Policy (herein defined) to be issued concurrently with the delivery of the Certificates by Ambac Assurance Corporation. See "Certificate Insurance" herein and Appendix H – "Specimen Financial Guaranty Insurance Policy" attached hereto.

Tax Matters

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

Continuing Disclosure

The District has agreed to provide, or cause to be provided, to each nationally recognized municipal securities information repository and any public or private repository or entity designated by the State as a state repository for purposes of Rule 15c2-12(b)(5) (the "Rule") adopted by the Securities and Exchange Commission (each, a "Repository") certain annual financial information and operating data and, in a timely manner, notice of certain material events. These covenants have been made in order to assist the Underwriters in complying with the Rule. See "Continuing Disclosure" herein for a description of the specific nature of the annual report and notice of material events and summary description of the terms of the disclosure agreement pursuant to which reports are to be made.

Forward-Looking Statements

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

Miscellaneous

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

The description herein of the Trust Agreement, the Lease, the Site Lease and the Assignment Agreement and any other agreements relating to the Certificates are qualified in their entirety by reference to such documents, and the descriptions herein of the Certificates are qualified in their entirety by the form thereof and the information with respect thereto included in the aforementioned documents. See Appendix C – "Summary of Principal Legal Documents" attached hereto. Copies of the documents are on file and available for inspection at the Corporate Trust Office of the Trustee at U.S. Bank National Association, 633 West Fifth Street, 24th Floor, Los Angeles, California 90071.

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

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

PLAN OF FINANCING

General

The proceeds of the Certificates will be applied to (i) finance certain acquisition, development and installation of information technology systems of the District, (ii) fund a reserve fund for the Certificates and (iii) pay costs of issuance incurred in connection with the Certificates.

The Property

Pursuant to the Site Lease and the Lease, the District will lease Panorama High School or any other property set forth in the Lease, to the Corporation and lease such property back from the Corporation.

Panorama High School is located at 8015 Van Nuys Boulevard in Panorama City, California. Panorama High School was built in 2006 and is currently in operation. Panorama High School encompasses 18.22 square acres and includes 89 classrooms contained within three four-story classroom buildings, an auditorium, a food service/physical education complex and a parking center. The classroom buildings contain classrooms, a semi-public library, teacher workrooms, and administrative offices. The food service/physical education complex also houses a community center, competition and practice gymnasiums, athletic facilities, and an outdoor competitive swimming pool. Basketball, tennis and handball courts occupy the roof of a parking structure. Over 10 acres of the 18.2-acre site is reserved for assorted athletic fields. The value of Panorama High School is estimated to be approximately $117.3 million.

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

The Projects

General. In 2003, the District authorized funding $133 million of information technology projects to integrate student and school-related information and replace the District's legacy technology systems, which were originally developed in the 1960s and partially updated in the 1990s to consolidate more than 60 different operating systems onto a single platform. The initial phase of the information technology projects consisted of the procurement and customization of an Integrated Student Information System ("ISIS") and an enterprise resource planning system called Business Tools for Schools project ("BTS"), which were funded from $41.3 million and $44 million, respectively, of proceeds of certificates of participation executed and delivered in June 2003 and certain available moneys of the District. The Projects consist of the continued implementation of ISIS and BTS, which will be financed with proceeds derived from the sale of the Certificates executed and delivered pursuant to the previous funding authorization, an additional $12 million authorization approved in 2005, and an additional $37.5 million authorization approved in 2007, and certain available moneys of the District.

Student Information System. ISIS provides a single integrated source for all student and school-related information such as student demographics, grades, attendance and educational programs. In 2003, the District purchased and began the implementation of a commercial off-the-shelf software system. To date, the District has completed the Secondary Attendance and Mark Reporting Modules of ISIS. The initial phase started with a 6-month pilot program at 12 schools and was then released to the remaining 150 secondary schools over the following 7 months. It is anticipated that, in the next 18 months, the District will implement the remaining modules at the secondary schools and start the implementation of ISIS at the elementary schools. At this time, the implementation of ISIS is expected to be completed by fall of 2009.

The total costs of procuring and implementing ISIS, including the costs of the software and hardware and funds necessary to hire in-house, consultant and project management staff, is estimated to be $119.1 million. The District financed $41.3 million of the total costs of ISIS with certificates of participation in 2003. The Certificates will be used to finance approximately $30.4 million of the total costs of ISIS. The remaining $47.4 million is expected to be paid from new and existing funds in the District's Information Technology Division's budget.

Business Tools for Schools Project. BTS refers to the enterprise resource planning system created by Systems Applications and Products in Data Processing to integrate the District's finance-related functions, human resources and payroll functions and the supply chain and employee self-service functions. BTS is a fully integrated software system designed to manage various business functions, including accounting, budget, payroll, accounts receivables, accounts payable, facilities, human resources and supply chain. The implementation of BTS is intended to assist the District by replacing an out-dated payroll system, reducing the paperwork required to complete business transactions and streamlining redundant processes and data entry points into multiple systems by various business units.

In 2003, the District purchased and, with the assistance of expert systems integrators, began to design, configure and implement a commercial off-the-shelf software version of BTS to meet the needs of the District. In June 2006, the District commenced the release of the finance component of BTS, which included integration of general ledger, accounts receivable and grants management functions. Budget development functions, originally planned for release with the finance component, were implemented in March 2007. Implementation of the finance and budget development components proceeded as scheduled. The human resources and payroll component of BTS was released on January 1, 2007. The implementation of the human resource and payroll component of BTS has experienced significant problems, although such problems have not affected the District's receipt of revenues or the timely payment of its vendors and debt obligations and are not expected to adversely affect the District's ability to pay its debt obligations and perform its other obligations payable from the District's general fund as and when due. See Appendix A – "District Financial and Demographic Information – District General Information – Information Technology Implementation Problems".

Proceeds derived from the sale of the Certificates will be used to complete implementation of BTS and retain an additional technology consulting group to help implement the software redesign. The release of the last components of the Projects, including functions relating to supply chain, accounts payable, funds management, job cost and employee self-service, will be scheduled when appropriate.

The total costs of procuring and implementing BTS is estimated to be $132.75 million, which amount includes $10.4 million for the purchase of BTS and subsequent maintenance thereof, $55 million for expert systems integrators, $7.3 million in new computers and servers, $25 million in contracts with various vendors to, among other things, train employees of the District on BTS, and $35.05 million in time paid to District employees who dedicated themselves to the BTS project. The District financed $44 million of the total costs of BTS with proceeds of certificates of participation in 2003. The Certificates will be used to finance approximately $63.55 million of the Projects relating to BTS, $26 million of which will be used to finance implementation of originally approved components, $27.5 million of which will be allocated to additional reconfigurations and customizations of BTS and $10 million of which will be used to retain an additional technology consulting group to help implement the software redesign. The remaining $25.2 million is expected to be paid from funds in the District's Information Technology Division's budget.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds of the Certificates and certain other amounts are expected to be applied approximately as follows:

Sources:	
Principal Amount of Certificates	$ 99,660,000.00
Original Issue Premium	5,713,758.85
Total Sources	$105,373,758.85
Uses:	
Project Fund	$ 93,950,000.00
Reserve Fund	10,537,375.88
Delivery Costs Fund[1]	886,382.97
Total Uses	$105,373,758.85

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

THE CERTIFICATES

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

General

The Certificates will be dated their date of delivery and principal with respect to the Certificates will be payable on the dates set forth on the inside cover page of this Official Statement. The interest represented by the Certificates will represent the sum of the portions of the Lease Payments designated as interest components coming due on the Interest Payment Dates in each year. The principal represented by the Certificates will represent the sum of the portions of the Lease Payments designated as principal components coming due on the Principal Payment Date in each year. Interest with respect to the Certificates will be payable semiannually on each April 1 and October 1 of each year, commencing on April 1, 2008 (each, an "Interest Payment Date") and will be computed on the basis of a 360-day year of twelve 30-day months.

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

Prepayment

No Optional Prepayment. The Certificates are not subject to optional prepayment prior to their respective maturity dates.

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

Partial Prepayment. All or a portion of any Certificate may be prepaid, but only in a principal amount equal to an Authorized Denomination. In the event that less than all of the Certificates Outstanding are to be prepaid, the Trustee shall select the Certificates to be prepaid in such order of prepayment as shall be selected by the District. Upon surrender of any Certificate for prepayment in part, the Trustee shall execute and deliver to the Owner thereof, at the expense of the District, a new Certificate or Certificates of Authorized Denominations of the same tenor and maturity and in an aggregate principal amount equal to the unprepaid portion of the Certificate so surrendered.

Notice of Prepayment. Notice of any such prepayment shall be given by the Trustee on behalf and at the expense of the District by mailing a copy of a prepayment notice by first class mail at least thirty (30) days and not more than sixty (60) days prior to the date fixed for prepayment to such Owner of the Certificate or Certificates to be prepaid at the address shown on the Registration Books maintained by the Trustee;

provided, however, that neither the failure to receive such notice nor any defect in any notice shall affect the sufficiency of the proceedings for the prepayment of the Certificates.

All notices of prepayment shall be dated and shall state the prepayment date, the prepayment price, if less than all Outstanding Certificates are to be prepaid, the identification (and, in the case of partial prepayment, the respective principal amounts) of the Certificates to be prepaid, that on the prepayment date the prepayment price will become due and payable with respect to each such Certificate or portion thereof called for prepayment, and that interest with respect thereto shall cease to accrue from and after said date, the place where such Certificates are to be surrendered for payment of the prepayment price and whether the District has deposited, or caused the deposit of, an amount of money sufficient to pay the prepayment price of all the Certificates or portions of Certificates which are to be prepaid on such date and, if not, that such notice of prepayment is revocable.

Effect of Prepayment. Notice of prepayment having been given, and if the money for the prepayment price (including premium, if any) are set aside in the related Prepayment Account, the Certificates or portions of Certificates so to be prepaid shall, on the prepayment date, become due and payable at the prepayment price therein specified, and from and after such date (unless the District shall default in the payment of the prepayment price) interest with respect to such Certificates or portions of Certificates shall cease to be payable.

SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES

Lease Payments

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

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

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

The Trustee, pursuant to the Trust Agreement, will receive Lease Payments for the benefit of the Owners. Lease Payments are scheduled to be sufficient to pay, when due, amounts designated as principal and interest represented by the Certificates. Except as expressly provided in the Trust Agreement, the Trustee will not have any obligation or liability to the Owners with respect to the payment when due of the Lease

Payments by the District, or with respect to the performance by the District or the Corporation of the other agreements and covenants required to be performed by them, respectively contained in the Lease or in the Trust Agreement. Additional Payments payable by the District under the Lease include, among others, amounts sufficient to pay certain taxes and assessments and insurance premiums, and certain administrative costs.

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

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

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

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

LEASE PAYMENTS

Lease Payment Dates	Certificates Principal	Certificates Interest	Total Lease Payments
April 1, 2008	--	$ 1,769,794.44	$ 1,769,794.44
October 1, 2008	$ 8,640,000.00	2,342,375.00	10,982,375.00
April 1, 2009	--	2,169,575.00	2,169,575.00
October 1, 2009	8,415,000.00	2,169,575.00	10,584,575.00
April 1, 2010	--	2,001,275.00	2,001,275.00
October 1, 2010	8,750,000.00	2,001,275.00	10,751,275.00
April 1, 2011	--	1,816,400.00	1,816,400.00
October 1, 2011	9,120,000.00	1,816,400.00	10,936,400.00
April 1, 2012	--	1,618,375.00	1,618,375.00
October 1, 2012	9,515,000.00	1,618,375.00	11,133,375.00
April 1, 2013	--	1,380,500.00	1,380,500.00
October 1, 2013	9,995,000.00	1,380,500.00	11,375,500.00
April 1, 2014	--	1,130,625.00	1,130,625.00
October 1, 2014	10,495,000.00	1,130,625.00	11,625,625.00
April 1, 2015	--	868,250.00	868,250.00
October 1, 2015	11,015,000.00	868,250.00	11,883,250.00
April 1, 2016	--	592,875.00	592,875.00
October 1, 2016	11,570,000.00	592,875.00	12,162,875.00
April 1, 2017	--	303,625.00	303,625.00
October 1, 2017	12,145,000.00	303,625.00	12,448,625.00

Reserve Fund

The Reserve Fund shall be held by the Trustee and shall be kept separate and apart from all other funds held by the Trustee. The Reserve Fund must be funded in the amount of the Reserve Requirement and must be used and withdrawn by the Trustee solely for the purposes and at the times specified in the Trust Agreement. The "Reserve Requirement" is, as of the date of calculation, the least of (1) the maximum aggregate annual Lease Payments payable under the Lease during the then-current and all remaining Certificate Years the Certificates are to remain Outstanding calculated based on a Certificate Year, (2) 125% of the average annual aggregate Lease Payments payable under the Lease for the then-current and any remaining Certificate Years the Certificates are to remain Outstanding calculated based on a Certificate Year, or (3) 10% of the proceeds derived from the sale the Certificates (par amount of the Certificates plus the original issue premium). The initial Reserve Requirement for the Certificates is $10,537,375.88, which will initially be funded with a portion of the proceeds of the Certificates. The District may substitute any credit facility in lieu of all or any portion of moneys on deposit in the Reserve Fund subject to satisfaction of the conditions set forth in the Trust Agreement.

Insurance

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

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

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

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

Abatement

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

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

Substitution

The District has the option at any time and from time to time during the Term of the Lease, to substitute other land or facilities for the Property or a portion thereof, or to add additional land to the Property, provided that the District satisfied all of the conditions precedent to such substitution or addition under the Lease. The District has the option at any time and from time to time during the Term of the Lease to release any portion of the Property, provided that the District satisfies all of the conditions precedent to such release under the Lease. See Appendix C - "Summary of Principal Legal Documents – The Lease" attached hereto.

No Additional Encumbrances

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

Investment of Funds

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

CERTIFICATE INSURANCE

The following information has been furnished by the Ambac Assurance for use in this Official Statement. The District and the Underwriters cannot and do not make any representation as to the accuracy or completeness of such information or the absence of material adverse changes in such information subsequent to the date hereof. Reference is made to Appendix H for a specimen of the Financial Guaranty Insurance Policy attached hereto.

Payment Pursuant to Financial Guaranty Insurance Policy

Ambac Assurance Corporation ("Ambac Assurance") has made a commitment to issue a financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") relating to the Insured Certificates, effective as of the date of issuance of the Insured Certificates. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York, or any successor thereto (the "Insurance Trustee"), that portion of the principal of and interest on the Insured Certificates that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and/or interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the Insured Certificates and, once issued, cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Insured Certificates become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Certificates, Ambac Assurance will remain obligated to pay the principal of and interest on outstanding Certificates on the originally scheduled interest and principal payment dates, including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Insured Certificates, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration, except to the extent that Ambac Assurance elects, in its sole discretion, to pay all or a portion of the accelerated principal and interest accrued thereon to the date of acceleration (to the extent unpaid by the Obligor). Upon payment of all such accelerated principal and interest accrued to the acceleration date, Ambac Assurance's obligations under the Financial Guaranty Insurance Policy shall be fully discharged.

In the event the Trustee has notice that any payment of principal of or interest on an Insured Certificate that has become Due for Payment and that is made to a holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, non-appealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does **not** insure any risk other than Nonpayment (as set forth in the Financial Guaranty Insurance Policy). Specifically, the Financial Guaranty Insurance Policy does **not** cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity;

2. payment of any redemption, prepayment or acceleration premium; and

3. nonpayment of principal or interest caused by the insolvency or negligence of the Trustee, Paying Agent or Bond Registrar, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of the Insured Certificates to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Certificates to be registered in the name of Ambac Assurance to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of holder entitlement to interest payments and an appropriate assignment of the holder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Insured Certificate, appurtenant coupon, if any, or right to payment of the principal of or interest on such Certificate and will be fully subrogated to the surrendering holder's rights to payment.

In the event that Ambac Assurance were to become insolvent, any claims arising under the Financial Guaranty Insurance Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

Ambac Assurance Corporation

Ambac Assurance is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin, and is licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately **$10,391,000,000** (unaudited) and statutory capital of approximately **$6,730,000,000** (unaudited) as of **June 30, 2007.** Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., Moody's Investors Service, Inc. and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in the Financial Guaranty Insurance Policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor. **No representation is made by Ambac Assurance regarding the federal income tax treatment of payments that are made by Ambac Assurance under the terms of the Financial Guaranty Insurance Policy due to non-appropriation of funds by the Lessee.**

Ambac Assurance makes no representation regarding the Insured Certificates or the advisability of investing in the Insured Certificates and makes no representation regarding, nor has it participated in the preparation of, this Official Statement other than the information supplied by Ambac Assurance and presented under the heading "Certificate Insurance".

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at http://www.sec.gov that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices is One State Street Plaza, 19th Floor, New York, New York 10004, and its telephone number is (212) 668-0340.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

1. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006 and filed on March 1, 2007;

2. The Company's Current Report on Form 8-K dated and filed on April 25, 2007;

3. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2007 and filed on May 10, 2007;

4. The Company's Current Report on Form 8-K dated and filed on July 25, 2007;

5. The Company's Current Report on Form 8-K dated and filed on August 3, 2007;

6. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2007 and filed on August 9, 2007;

7. The Company's Current Report on <u>Form 8-K</u> dated October 10, 2007 and filed on October 11, 2007;

8. The Company's Current Report on <u>Form 8-K</u> dated and filed on October 24, 2007; and

9. The Company's Current Report on <u>Form 8-K</u> dated November 6, 2007 and filed on November 7, 2007.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in **"Available Information"**.

THE DISTRICT

A description of the District, including information concerning its finances and organization, its major revenue sources, funds, liabilities and indebtedness, and certain factors affecting its finances and operations, is set forth in Appendix A hereto and excerpts from the District's audited financial statements for the fiscal year ended June 30, 2006 is set forth in Appendix B hereto.

THE CORPORATION

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

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

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

Mónica García, President
Yolie Flores Aguilar, Vice President
Dr. Joseph P. Zeronian, Treasurer
Kenji Furuya, Secretary

RISK FACTORS

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

Not a Pledge of Taxes

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

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

Additional Obligations of the District

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

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

Current and Future Obligations

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

Limited Recourse on Default

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

Default; Remedies Upon Default; No Right of Acceleration

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

Abatement

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

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

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

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

Constitutional School Funding Guarantee

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

Seismic Events; Force Majeure

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

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

No Liability of Corporation to the Owners

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

Hazardous Substances

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

State Funding of Education

Historically, a large portion of the District's annual general fund revenues have consisted of payments from the State. While the California Constitution contains certain minimum funding requirements for public education pursuant to Proposition 98, State funding can be affected by a number of factors, including poor performance of the California economy and State budget shortfalls. See Appendix A – "District Financial and Demographic Information – District Financial Information – State Funding of Education" attached hereto.

TAX MATTERS

General

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

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

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

Certain requirements and procedures contained or referred to in the Trust Agreement, Lease or other documents pertaining to the Certificates may be changed, and certain actions may be taken under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. Special Counsel renders no opinion as to the exclusion from gross income for federal income tax purposes of the portion of each Lease Payment due under the Lease designated as and comprising interest with respect to the Certificates in the event an action is taken or omitted to be taken relating to such covenants or requirements upon the approval of counsel other than Special Counsel.

In the further opinion of Special Counsel, the portion of each Lease Payment due under the Lease designated as and comprising interest with respect to the Certificates is exempt from personal income taxes imposed by the State. The proposed form of opinion of Special Counsel is attached hereto as Appendix D.

Original Issue Premium

The excess, if any, between the tax basis of a maturity of substantially identical Certificates to a purchaser (other than a purchaser who holds such Certificates as inventory, stock in trade, or for sale to customers in the ordinary course of business) who purchases such Certificates at the initial offering price and the amount payable at maturity is “certificate premium”. Certificate premium is amortized over the respective terms of the Certificates with certificate premium (the “Premium Certificates”) for federal income tax purposes (or, in the case of a Certificate with certificate premium callable prior to its stated maturity, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such Certificate). Owners of the Premium Certificates are required to decrease their adjusted basis in the Premium Certificates by the amount of amortizable certificate premium attributable to each taxable year such Premium Certificates are held. The amortizable certificate premium attributable to a taxable year is not deductible for federal income tax purposes. Owners of the Premium Certificates should consult their tax advisors with respect to the precise determination for federal income tax purposes of the treatment of the certificate premium upon the sale or other disposition of Premium Certificates and with respect to the state and local tax consequences of owning and disposing of Premium Certificates.

Future Developments

Future legislative proposals, if enacted into law, regulations, rulings or court decisions may cause the portion of each Lease Payment due under the Lease designated as and comprising interest with respect to the Certificates to be subject, directly or indirectly, to federal income taxation or to be subject to State or local income taxation, or otherwise prevent the owners of the Certificates from realizing the full current benefit of the tax status of such interest. On May 21, 2007, the United States Supreme Court agreed to review the decision of the Court of Appeals of Kentucky in the matter of *Kentucky v. Davis*, which held that it was a violation of the Commerce Clause of the United States Constitution for the Commonwealth of Kentucky to grant a state income tax exemption to the interest on bonds and certificates issued by or on behalf of the Commonwealth of Kentucky and its political subdivisions while subjecting interest on bonds and certificates issued by or on behalf of other states and their political subdivisions to Kentucky state income tax. It is not possible to know at this time how the Supreme Court will decide *Kentucky v. Davis*. If the Kentucky decision is affirmed by the United States Supreme Court, states such as the State of California, may be required to eliminate the disparity between the income tax treatment of out-of-state bonds and certificates and the income tax treatment of in-state bonds and certificates, such as the Certificates. The impact of this decision may also affect the market price for, or the marketability of, the Certificates.

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

Information Reporting

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

CERTAIN LEGAL MATTERS

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

FINANCIAL STATEMENTS

The basic financial statements of the District for the Fiscal Year ended June 30, 2006, certain sections of which are included in Appendix B to this Official Statement, have been audited by KPMG LLP, independent certified public accountants, as stated in their report appearing in Appendix B. The District has not requested nor has the District obtained the consent of KPMG LLP to the inclusion of its report as Appendix B. KPMG LLP, as the District's independent auditor, has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. KPMG LLP also has not performed any procedures relating to this Official Statement.

LITIGATION

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

RATINGS

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

Fitch Ratings ("Fitch") has not assigned or been requested to assign a rating on the Certificates. Fitch maintains ratings on certain outstanding issues of the District's general obligation bonds and certificates of participation. On November 5, 2007, Fitch issued a press release concerning the process it will employ in updating its analysis of the collateralized debt obligations of asset-backed securities ("ABS CDOs") insured by the financial guaranty industry, as well as the potential implications for Fitch's triple-A Insurer Financial Strength ratings. In its announcement, Fitch indicated that it was updating its capital adequacy analysis in light of recent downgrades and placement of securities on negative rating watch with respect to ABS CDOs having subprime mortgage-backed securities exposure, and that it expects to complete this capital analysis within four to six weeks. Fitch indicated further that a possible conclusion of its analysis may be that one or more of the financial guarantors being reviewed (which, according to the release, includes Ambac Assurance) may no longer meet Fitch's "AAA" capital adequacy guidelines. See "Certificate Insurance" herein. Fitch presently assigns a financial strength rating of "AAA" to Ambac Assurance. Further information concerning this matter may be obtained from Fitch.

UNDERWRITING

The Certificates are being purchased by Banc of America Securities LLC, on behalf of itself, Ramirez & Co., Inc. and UBS Securities LLC (collectively, the "Underwriters"), pursuant to a Purchase Contract with the District (the "Purchase Contract"). The Underwriters have agreed, subject to certain conditions, to purchase the Certificates at a price of $105,125,605.45 (representing the principal amount of the Certificates, plus an original issue premium of $5,713,758.85, less an Underwriters' discount of $248,153.40). The Purchase Contract relating to the Certificates provides that the Underwriters will purchase all of the Certificates if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Purchase Contract, the approval of certain legal matters by counsel and certain other conditions. The Underwriters may offer and sell the Certificates to certain dealers and others at prices lower than the offering prices stated on the inside cover page. The offering prices may be changed from time to time by the Underwriters.

CO-FINANCIAL ADVISORS

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

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

CONTINUING DISCLOSURE

The District has covenanted for the benefit of the holders and beneficial owners of the Certificates to provide certain financial information and operating data relating to the District (the "Annual Report") by not later than 240 days following the end of the District's fiscal year (currently ending June 30), commencing with the report for Fiscal Year 2006-07, and to provide notices of the occurrence of certain enumerated events, if material. The District will provide the Annual Report to Digital Assurance Certification, L.L.C. ("DAC"), as dissemination agent, to file with each Nationally Recognized Municipal Securities Information Repository, and with the State information repository, if any. The District will provide the notices of material events to DAC to file with each Nationally Recognized Municipal Securities Information Repository or with the Municipal Securities Rulemaking Board, and with the State information repository, if any. Copies of the District's Annual Reports and notices of material event filings are available at DAC's website, www.dacbond.com, although the information presented there is not incorporated by reference in this Official Statement and should not be relied upon in making an investment decision with respect to the Certificates. The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth in Appendix E – "Form of Continuing Disclosure Certificate" attached hereto. These covenants have been made in order to assist the Underwriters in complying with the Rule.

The District's budget for Fiscal Year 2002-03, the Annual Report for Fiscal Year 2002-03 and the annual update to the District's contract with United Teachers of Los Angeles for Fiscal Years 2001-02, 2003-04, 2004-05 and 2005-06 were filed late by the District. The District provided notice of its failure to file such items on a timely basis with the Nationally Recognized Municipal Securities Information Repository and the Municipal Securities Rulemaking Board, through DAC. As of the date hereof, the District is in compliance with its continuing disclosure obligations.

Implementation difficulties associated with the Projects have resulted in delayed reporting of the District's finances for the fiscal year ended June 30, 2007, which is expected to, among other things, affect the timely delivery of the District's comprehensive annual financial report for Fiscal Year 2006-07 (the "Fiscal Year 2006-07 CAFR"). The District anticipates complying with its continuing disclosure undertakings with respect to its outstanding debt obligations, including the Certificates, by filing with the appropriate repositories unaudited financial statements for Fiscal Year 2006-07 and filing the Fiscal Year 2006-07 CAFR, which will include the audited financial statements for Fiscal Year 2006-07, when it becomes available, all in accordance with such undertakings. See Appendix A – "DISTRICT FINANCIAL AND DEMOGRAPHIC INFORMATION – District Financial Information – *Significant Accounting Policies, System of Accounts and Audited Financial Statements* – Audited Financial Statements and Accounting Policies" attached hereto.

MISCELLANEOUS

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

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

LOS ANGELES UNIFIED SCHOOL DISTRICT

By: /s/ Joseph P. Zeronian
Interim Chief Financial Officer

APPENDIX A

DISTRICT FINANCIAL AND DEMOGRAPHIC INFORMATION

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DISTRICT FINANCIAL AND DEMOGRAPHIC INFORMATION

The information in this Appendix A concerning the operations of the Los Angeles Unified School District (the "District") and the District's finances and demographics is provided as supplementary information only. The Los Angeles Unified School District Certificates of Participation 2007 Series A (Information Technology Projects) (the "Certificates") are payable from lawfully available funds of the District. Principal of and interest on the Certificates is not payable from the proceeds of any ad valorem tax levied by the County of Los Angeles (the "County"). See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES" in the forepart of this Official Statement. Investors must read the entire Official Statement, including this Appendix A, to obtain information essential to making an informed investment decision. See "GLOSSARY OF CERTAIN TERMS AND ABBREVIATIONS" for a description of certain terms and abbreviations used in this Appendix A.

DISTRICT GENERAL INFORMATION

District Organization

The District, encompassing approximately 704 square miles, is located in the western section of the County and includes virtually all of the City of Los Angeles (the "City") and all or significant portions of the cities of Bell, Carson, Commerce, Cudahy, Gardena, Hawthorne, Huntington Park, Lomita, Maywood, Rancho Palos Verdes, San Fernando, South Gate, Vernon and West Hollywood, in addition to considerable unincorporated territory which includes residential and industrial areas. The boundaries for the District are about 80% coterminous with the City, with the remaining 20% included in unincorporated County areas and smaller neighboring cities. The District was formed in 1854 as the Common Schools for the City and became a unified school district in 1960.

District Governance; Senior Management

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

<u>David L. Brewer III, Superintendent of Schools</u>. On October 13, 2006, the Board selected David L. Brewer III to succeed Superintendent Roy Romer. Superintendent Brewer's contract with the District became effective on November 13, 2006. Prior to being named Superintendent, Mr. Brewer served as U.S. Navy Vice Chief of the Education and Training Command for seven years, spearheading new programs to support students in their academic and personal development. During his tenure, he was responsible for educational programs for hundreds of thousands of sailors and their families and developed models to provide customized learning by leveraging modern technology and teaching strategies to accelerate student learning and deepen comprehension. Superintendent Brewer also developed partnerships between the maritime unions and public schools in the San Diego area to motivate students to stay in school and participate in apprenticeship programs. Superintendent Brewer's experience in managing complex organizations includes serving as the chief executive officer of the U.S. Navy's Military SeaLift Command, a $3.1 billion dollar enterprise responsible for moving large volumes of Naval staff and supplies all over the world, for which he managed a fleet of 120 ships worldwide, comprised of thousands of sailors and civilian employees.

Superintendent Brewer has a Masters of Arts in National Security and Strategic Studies from Naval War College and a Bachelor of Science in Biology from Prairie View A&M University, and has received distinguished awards including the Naval War College's Distinguished Graduate Leadership Award and the Navy League of U.S. Vincent T. Hirsch Maritime Award.

Kevin S. Reed, General Counsel. Kevin S. Reed was named General Counsel to the District in May 2004, after representing the District as outside counsel in a wide range of litigation matters and regulatory affairs for over three years. Mr. Reed was the primary author of the District's $3.35 billion Measure K general obligation bond measure and was the primary advocate in Sacramento, on behalf of the District, for ensuring that the State's 2002 and 2004 school bond measures dealt equitably with severely overcrowded urban school districts.

Mr. Reed is a former partner of Strumwasser & Woocher LLP in Santa Monica, California, a small public-policy oriented law firm that represents a broad spectrum of governmental entities. Mr. Reed joined Strumwasser & Woocher LLP in 1996 and played a leading role in the firm's education law, regulatory, and civil litigation practices. Mr. Reed's prior experience includes six years with the NAACP Legal Defense & Educational Fund, where he served as Managing Attorney for the Western Regional Office and conducted major trial and appellate litigation in the areas of housing discrimination, police misconduct, health care and criminal justice reform. Mr. Reed also served as Deputy General Counsel on the Rampart Independent Review Panel established by the Los Angeles Police Commission to review corruption within the Los Angeles Police Department. He also served as law clerk to Michigan Supreme Court Justice Dennis W. Archer, former President of the American Bar Association.

Mr. Reed is an honors graduate of the University of Virginia (1986) and received his law degree, cum laude, from Harvard Law School (1989).

Chief Operating Officer. The District's Director of Risk Management and Insurance, David R. Holmquist, is serving as the Interim Chief Operating Officer. The District's former Chief Operating Officer, Dan M. Isaacs, retired on June 30, 2007, and the District has initiated a search for a new Chief Operating Officer.

Chief Financial Officer. Joseph P. Zeronian, Ed.D., the District's Chief Financial Officer from 2000-2003, is serving as the District's Interim Chief Financial Officer. Dr. Zeronian has served as the Managing Director of U.S. Bancorp Piper Jaffray and John Nuveen & Co., the Director of Prudential Securities Incorporated, and the Interim Superintendent of the Pasadena School District. He has held several positions with Fortune 100 financial institutions and is a past board member for the Armory Center for the Arts in Pasadena. Dr. Zeronian is currently the Director of USC's School of Education's Business Management Certificate Program, where he supervises programs in the University Park and Orange County campuses. Dr. Zeronian has a Doctorate of Education from the University of Southern California.

The Board has approved the selection of Megan K. Reilly as the District's Chief Financial Officer. Ms. Reilly is expected to assume the responsibilities of the Chief Financial Officer on December 1, 2007. Ms. Reilly has served at the Naval Postgraduate School for 12 years, first as the Deputy Comptroller from 1995 to 1997 and then as Executive Director of Business Services and Comptroller from 1997 to 2007, during which time she directed a $700 million financial management program for, among other things, education, facilities and capital improvement projects. Ms. Reilly has also served as the Comptroller of the Fleet Numerical Meteorology & Oceanography Center, Budget Analyst for the Naval Postgraduate School and Budget Analyst for the Department of the Navy Centralized Financial Management Trainee Program. Ms. Reilly graduated from Loyola College with a Bachelors Degree of Science, Marion Knott Scholar, cum laude, from the Naval Postgraduate School with a Master of Science, Financial Management, and from Monterey College of Law with a Juris Doctorate.

Controller. Kenji Furuya is serving as the District's Interim Controller. Mr. Furuya joined the District in April 1994. He served as the District's Chief Accountant, General Accounting Branch, from November 1999 through June 2004, and most recently served as the District's Director of Accounting, General Accounting Branch, which position he held from July 2004 through September 2007. Prior to joining the District, Mr. Furuya served as the Vice-President-Mutual Fund Accounting and Compliance and Secretary-Treasurer of a mutual funds investment management company and worked in public accounting as a Senior Audit Manager with a national accounting firm. Mr. Furuya graduated from the University of California at Los Angeles with a Bachelors Degree in Business Administration. He has held a California certified public accountant license since 1973 and was formerly registered with the National Association of Securities Dealers as a financial and operations principal. The Board is in the process of searching for a new Controller.

Facilities and Staff

As of June 30, 2006, the District operated 437 elementary schools, 74 middle/junior high schools, 61 senior high schools, 10 multi-level schools, 59 options high schools, 22 magnet schools and 138 magnet centers, 17 special education schools, 100 early childhood education centers, 24 community adult schools, five regional occupational centers, five skills centers, one regional occupational program center, five infant centers, 27 primary school centers and one newcomer school. In addition, as of June 30, 2006, there were 10 dependent charter schools operated by the District and 77 fiscally independent charter schools within the District's boundaries. The District currently has 94 fiscally independent charter schools and expects to have 20 additional fiscally independent charter schools open in Fiscal Year 2007-08. The District has certain fiscal oversight and other responsibilities with respect to both dependent and independent charter schools. However, independent charter schools receive their funding directly from the State of California (the "State") and function as separate local educational agencies, including having control over their staffing and budget. For these reasons, information regarding enrollment, average daily attendance, budgets and other financial information relating to independent charter schools is not included in the District's audit reports or in this Official Statement.

As of June 30, 2006, the District employed approximately 45,265 certificated (full-time equivalent) employees, approximately 32,669 classified (full-time equivalent) employees and approximately 27,213 non-regular employees. The District also employs part-time or temporary employees.

Enrollment

General. K-12 School Enrollment (as defined below) was 673,500 for Fiscal Year 2006-07 and is approximately 650,722 for Fiscal Year 2007-08.

The following Table A-1 sets forth the population of the District and school enrollment information for the District for Fiscal Year 1998-99 through Fiscal Year 2007-08. In Table A-1 below, "School Enrollment" includes enrollment for all schools operated by the District, including graded and ungraded enrollment in K-12 schools, adult education schools and early education centers, and "K-12 School Enrollment" includes all School Enrollment less enrollment in adult education schools and early education centers. Changes in School Enrollment may not correspond to similar changes in K-12 School Enrollment due to increases or decreases in enrollment for adult education and early education centers.

TABLE A-1

Los Angeles Unified School District
Population and School Enrollment Figures
Fiscal Years 1998-99 through 2007-08
(in thousands)

Fiscal Year Ended June 30	Population of District[1]	School Enrollment in District[2] [3]	K-12 School Enrollment [3]
1999	4,601	913	697
2000	4,675	875	711
2001	4,637	889	723
2002	4,503	907	737
2003	4,660	905	747
2004	4,718	892	727
2005	4,776	879	718
2006	4,785	847	698
2007	N/A[1]	830	674
2008	N/A[1]	N/A[2]	651[3]

(1) Based on estimates of City and County population as set forth in the Los Angeles Unified School District Comprehensive Annual Financial Report for the Fiscal Year 2005-06. Data for Fiscal Years 2006–07 and 2007–08 not yet available.
(2) Includes adult education and early education centers enrollment as set forth in the Los Angeles Unified School District Comprehensive Annual Financial Report for the Fiscal Year 2005-06. Data for Fiscal Year 2007–08 not yet available.
(3) Beginning in Fiscal Year 2003-04, enrollment figures do not include fiscally independent charter schools; data for Fiscal Year 2007–08 is estimated.

Source: Los Angeles Unified School District Comprehensive Annual Financial Reports for the Fiscal Years 1997-98 through 2005-06; Los Angeles Unified School District Final Adopted Budgets for Fiscal Years 2006-07 and 2007-08.

K-12 School Enrollment. As set forth in Table A-1 above, the District's K-12 School Enrollment figures decreased in Fiscal Year 2007-08 to approximately 650,722. The District anticipates, based on certain demographic information, that total K-12 School Enrollment, which excludes independent charter schools, will continue to decrease annually over the next several years. Declining enrollment will result in reduced revenue from a variety of funding sources, including but not limited to reduction of the District's revenue limit and other revenue sources from the State, including categorical funds and State lottery funds. See "STATE FUNDING OF EDUCATION—General." Moreover, declining enrollment may entail other cost implications, including a decline in expenditures at a slower rate than any corresponding decline in revenue. Despite declining enrollment and the anticipated completion of the New Construction Program (defined below), the District estimates that over 200,000 students will still be placed in portable classrooms in Fiscal Year 2014-15.

Academic Performance and Instructional Initiatives

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

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

In addition, the NCLB Act requires that each LEA identified for Program Improvement take a variety of actions, including but not limited to developing or revising an improvement plan, promptly implementing that plan and informing parents of the LEA's Program Improvement status. Failure to make AYP in three consecutive years will result in corrective action by the state education agency. As of September 2007, the State had identified 99 school districts, independent charter schools and county offices of education in California, including the District, for Program Improvement Year 3 Correction Action. However, on October 22, 2007, the State indicated that it will slow down its evaluation process to allow the Department of Education and the State Board of Education more time to hear from affected LEAs and to make appropriate decisions that will improve student achievement. The potential corrective actions include authorizing the transfer of pupils to a higher performing school, instituting and fully implementing a new curriculum based on State academic content and achievement standards and deferring programmatic funds or reducing administrative funds, as set forth under Section 52055.57(c)(1) of the Education Code. The District has adopted a LEA Program Improvement Plan designed to address these academic performance concerns and has received additional categorical funding for this purpose. The District does not anticipate its Program Improvement status will jeopardize the availability of federal or State categorical funding.

Potential Changes in Governance and District Division

State Legislative Changes in the Structure of the District's Governance. The State Legislature approved and the Governor signed legislation to change the governance structure of the District ("AB 1381") on August 29, 2006 and September 18, 2006, respectively. AB 1381, which was to become effective on January 1, 2007, provided for the establishment of a council of mayors, composed of certain city mayors within the County, including the Mayor of the City of Los Angeles, California (the "Mayor"), and members of the County board of supervisors (collectively, the "Council of Mayors") which would participate in various aspects of the District's governance. On October 10, 2006, the District and a group of 12 other plaintiffs filed an action with the Superior Court of Los Angeles asking for a writ of mandate to declare AB 1381 unconstitutional and for an injunction to prevent AB 1381 from taking effect. On December 21, 2006, the Superior Court of Los Angeles declared AB 1381 unconstitutional and issued an injunction that prevents the enforcement or implementation of AB 1381. The Mayor and the State filed a notice of appeal. On April 14, 2007, the State Court of Appeal unanimously ruled AB 1381 unconstitutional and affirmed the Superior Court's decision. Neither the Mayor nor the State filed a petition for review with the State Supreme Court prior to the May 29, 2007 deadline to petition for review.

Petitions with LACOE and CCSDO. Petitions have been occasionally filed with LACOE to divide portions of the District into smaller school districts. In addition, the County Committee on School District Organization (the "CCSDO") has been periodically requested to approve petitions to form school districts within the District. Pursuant to Education Code Section 35730.1, the evaluation of such petitions requires extensive review of 10 critical factors, including equitable division of assets and liabilities and compliance with socio-economic diversity requirements and existing legal mandates. Under Education Code Section 35736, an equitable allocation of existing District debt obligations, including the Certificates, would be required in any division of the District. As of the date of this Official Statement, there are no petitions pending with LACOE or CCSDO to divide the District. The District is unable to predict whether any petitions to create school districts within the District will be filed or the impact that any such petitions would have on the District.

Reviews of District Organization and Management

From time to time, reviews have been conducted of the District's organization and management focusing on ways to improve the effectiveness and efficiency of the District's operations. One such review was conducted by the Council of the Great City Schools, a coalition of 66 of the nation's largest urban public school systems, which issued a number of recommendations in December 2005, proposing a greater emphasis on integrating the organizational and management structure of the District's operations.

In November 2006, Superintendent Brewer requested a performance review by Evergreen Solutions LLC ("Evergreen"), a Florida firm that has conducted other school district performance reviews nationally, to review the District's infrastructure, instruction, operations and processes, from the District's central office to local school sites. The first phase of the performance review was completed in April 2007. During the first phase, Evergreen reviewed the District's food services and performed a diagnostic review in which it reviewed existing reports and documents, interviewed employees and other external stakeholders, determined the status of recommendations implemented to date and recommended areas requiring a new or deeper review in the second phase of its performance review, including evaluations of District instruction, finance and organizational structure. In response to the recommendations from the first phase, the District expects to hire a Chief Academic Officer and Chief Professional Learning Officer. Superintendent Brewer also expects to present a strategic plan to the Board to provide a framework for reorganizing roles and responsibilities in the District. Neither the second phase of the performance review, nor the Superintendent's strategic plan have been released as of the date of this Official Statement.

***Williams* Settlement Agreement and the New School Construction Program**

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

The *Williams* case was settled in 2004. The settlement provided for several legislative proposals to ensure that all students will have books in specified subjects and that their schools be clean and in safe condition. On September 29, 2004, Governor Schwarzenegger signed laws implementing the legislative proposals set forth in the settlement, including (i) Senate Bill 550 and Assembly Bill 2727, which establish minimum standards for school facilities, teacher quality and instructional materials, and an accountability system to enforce these standards; (ii) Assembly Bill 1550, which requires the elimination of the use of the multi-track, year-round school calendar, known as Concept 6, with a shortened school year by July 1, 2012; (iii) Assembly Bill 3001, which encourages the placement of qualified teachers in low performing schools, ensures the proper training of teachers of English Learners, and streamlines the process for highly qualified teachers from out-of-state to teach in California schools; and (iv) Senate Bill 6, which provides up to $800 million beginning in Fiscal Year 2005-06 for school districts to address emergency facility repair projects and approximately $25 million in Fiscal Year 2004-05 to assess the condition of schools in the bottom three API deciles. Under this legislation, the District received approximately $4.9 million for assessment of the condition of its schools in Fiscal Year 2004-05, did not receive any funds under this legislation in Fiscal Year 2005-06 and received approximately $276,645 in Fiscal Year 2006-07. In addition to the funds received pursuant to the *Williams* legislation, the District will also receive $102 million for 88 schools under Assembly Bill 1133 which was signed into law by Governor Schwarzenegger on September 29, 2006, continuing funding of such high priority schools.

Pursuant to the terms of the settlement agreement and in accordance with the *Williams* legislation, in December 2004, the Board adopted a construction plan that prioritizes school construction to ensure all schools are removed from the Concept 6 calendar by July 1, 2012 (the "New School Construction Program"). The New School Construction Program is a multi-year capital improvement program that is the major component of the District's effort to relieve overcrowding in its schools by returning students to a traditional two-semester calendar. As of July 1, 2007, the program's cost is $12.4 billion and the program is expected to provide facilities for approximately 6,600 classrooms by the end of the year 2012. State and local bond measures and other funding sources provide revenues for this program. The District has identified a potential funding shortfall due to (1) projected increased costs of the New School Construction Program, which projected increased costs are due primarily to higher than originally projected construction and land acquisition costs and (2) projected declining enrollment of the District, as State matching funds are currently determined according to formulae that require enrollment growth as opposed to relief of overcrowding. The estimated total shortfall is approximately $1.6 billion. Pursuant to AB 1014, which Governor Schwarzenegger signed into law on October 14, 2007, the Leroy F. Greene School Facilities Act of 1998 will be amended to, among other things, supplement the factors included in the calculations pursuant to which State construction and modernization of school facilities funding is allocated. Such amendment to the funding calculations is expected to result in $600 million in additional State matching funds for the District's bond program, which will be applied to address the estimated total shortfall. The District continues to evaluate various options to address the remaining costs and funding issues. Some of the options, among others, being considered are reallocation of existing bond funds, additional bond authorization and proposed State legislation that would change the eligibility formulae for State matching funds to consider overcrowding, as opposed to only enrollment.

Information Technology Implementation Problems

In 2003, the Board authorized funding $133 million of information technology projects (the "Projects") to integrate student and school-related information and to replace the District's legacy technology systems, which were originally developed in the 1960s and updated in the 1990s, to consolidate more than 60 different operating systems onto a single platform. The first phase of the Projects was funded from $85.3 million of proceeds of certificates of participation issued in June 2003 and available moneys of the District. The second phase of the Projects is being funded from the Certificates, which will be executed and delivered pursuant to the previous funding authorization, an additional $12 million authorization approved in 2005 and an additional $37.5 million authorization approved in 2007, and certain available moneys of the District. See "PLAN OF FINANCING – The Projects" for a detailed discussion of the funding and timing of the Projects.

On June 27, 2005, the District commenced the implementation of an enterprise resource planning system called Business Tools for Schools ("BTS") to begin implementation of various components of the Projects. The finance component of BTS was released on July 1, 2006 and included integration of general ledger, accounts receivable and grants management functions. Budget development functions, originally planned for release with the finance component, were released in March 2007. Implementation of the finance and budget development components proceeded as scheduled.

The human resources and payroll component of BTS was released on January 1, 2007 and was intended to integrate job applicant tracking, payroll processing, time and attendance reporting, and benefits administration functions. Since its release, the human resources and payroll component has encountered significant operational difficulties generated by software configurations and customizations that did not, among other things, adequately replicate and account for the complex and varied job assignments, pay scales and pay periods characteristic of the District's employees, particularly its teachers. For example, teachers with multiple assignments work 10 or 11 months (depending on their arrangements with the District) but are paid over a 12-month period, thereby requiring very customized payroll calculation algorithms. Difficulties with BTS resulted initially in a number of employees being underpaid, overpaid or not paid at all. The District established hotlines and an emergency office to remedy these errors, which have been reduced to 4% of total paychecks for teachers and less than 1% of total paychecks for classified employees, and approved an additional $27.5 million to complete BTS implementation for the Projects and $10 million for the retention of an additional technology consulting group to help implement the software fixes.

The release of the last components of the Projects, which includes supply chain, accounts payable, funds management, job cost and employee self-service, will be scheduled when appropriate. See "PLAN OF FINANCING – The Projects" in the forepart of this Official Statement. The District anticipates a functionally operational system by the end of 2008. See "DISTRICT FINANCIAL INFORMATION – Significant Accounting Policies, System of Accounts and Audited Financial Statements – *Audited Financial Statements and Accounting Policies*".

The implementation problems, which mostly affected the District's teachers, have also delayed reconciliation of the District's Fiscal Year 2006-07 finances, including an estimated $50 million in net overpayment of employees. However, BTS implementation problems have not affected the District's receipt of revenues or the timely payment of its vendors and debt obligations and are not expected to adversely affect the District's ability to pay its debt obligations and perform its other obligations payable from the District's General Fund as and when due.

STATE FUNDING OF EDUCATION

General

Public school district revenues consist primarily of guaranteed State moneys, ad valorem property taxes and funds received from the State and federal government in the form of categorical aid under ongoing programs. All State Aid (as defined below) is subject to the appropriation of funds in the State's annual budget. Decreases in State revenues may affect appropriations made by the State Legislature to the District. See "DISTRICT FINANCIAL INFORMATION."

Each school district receives a portion of the local property taxes that are collected within its district boundaries. Most local property taxes are deducted from the State revenue limit to determine the portion of the State revenue limit funded from the State's apportionment of revenue limit aid ("State Aid"), as described below.

School districts in the State have historically received most of their revenues under a formula known as the "revenue limit." Each school district's revenue limit, which is funded by State general fund moneys and local property taxes, is allocated based on the average daily attendance ("ADA") of each school district for either the current or preceding school year. Generally, the State's apportionment of revenue limit aid to a school district will amount to the difference between the school district's revenue limit and the school district's local property tax allocation.

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

The revenue limit calculation formula was first instituted in Fiscal Year 1973-74 to provide a mechanism to calculate the amount of general purpose revenue a school district is entitled to receive from State and local sources. Prior to Fiscal Year 1973-74, taxpayers in school districts with low property values per pupil paid higher tax rates than taxpayers in school districts with high property values per pupil. However, despite higher tax rates, less was spent per pupil in school districts with low property values per pupil than school districts with high property values per pupil. Thus, the State revenue limit funding helps to alleviate the inequities between the two types of school districts.

ADA is reported by school districts each year in April, July and December. Revenue limit calculations are adjusted annually in accordance with a number of factors designed primarily to provide cost of living increases and to equalize revenues among school districts in the State of similar type (i.e., unified school districts, high school districts or elementary school districts) and size (e.g., large or small).

The calculation of the amount of State Aid a school district is entitled to receive each year is basically a five-step process. First, the prior year school district revenue limit per ADA is established, with recalculations as are necessary for adjustments for equalization or other factors. Second, the adjusted prior year revenue limit per ADA is inflated according to formulas based on the implicit price deflator for government goods and services and the Statewide average revenue limit per ADA for school districts. During this phase, a deficit factor may be applied to the base revenue limit if so provided in the State Budget Act (when appropriation of funds in the State's annual budget for revenue limits or for any categorical program is not sufficient to pay all claims for State Aid, a deficit factor is applied to reduce the allocation of State Aid to the amount appropriated). Third, the current year's revenue limit per ADA for each school district is multiplied by such school district's ADA for the current or prior year. For a school district with declining enrollment, the current year's revenue limit per ADA is multiplied by the school district's ADA for the prior year. This has been the case for the District in recent years, thereby providing a cushion until the District's cost structure adjusts to lower ADA. Fourth, revenue limit add-ons are calculated for each school district if such school district qualified for the add-ons. Add-ons include the necessary small school district adjustments, meals for needy pupils and small school district transportation, and are added to the revenue limit for each qualifying school district. Finally, local property tax revenues are deducted from the revenue limit to arrive at the amount of State Aid to which each school district is entitled for the current year.

The following Table A-2 sets forth the District's revenue limit per unit of ADA from Fiscal Year 1998-99 through Fiscal Year 2005-06 and the projected revenue limit per unit of ADA for Fiscal Years 2006-07 and 2007-08.

TABLE A-2

Los Angeles Unified School District
Revenue Limit Per Unit of Average Daily Attendance
Fiscal Years 1998-99 to 2007-08

Fiscal Year Ended June 30	K-12 Base Limit[1]	Adult Total Limit[2]
1999	$4,282.13	$1,991.48
2000	4,342.13	2,022.90
2001	4,480.13	2,101.66
2002	4,654.13	2,196.82
2003	4,747.13	2,242.12
2004	4,835.13	2,242.12
2005	4,968.66	2,292.26
2006	5,179.66	2,389.22
2007	5,544.35	2,530.66
2008[3]	5,796.56	2,645.30

(1) The K-12 Base Limit figures represent the funded revenue limits.
(2) The Adult Total Limit figures represent the funded revenue limits for adult educational programs.
(3) Estimated.

Source: Los Angeles Unified School District Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2006 for Fiscal Years 1997-98 through 2005-06. California Department of Education for Fiscal Year 2006–07. Los Angeles Unified School District Final Adopted Budget for Fiscal Year 2007–08.

From Fiscal Years 1998-99 through 1999-2000 and in Fiscal Years 2003-04 through 2005-06, actual amounts received by the District under the revenue limit were reduced by a deficit factor applied by the State to school districts Statewide as set forth in Table A-3 below. The State Budget Act for Fiscal Years 2006-07 and 2007-08 included funds to eliminate the revenue limit deficit factor.

TABLE A-3

Los Angeles Unified School District
Deficit Factor
Fiscal Years 1998-99 to 2007-08

Fiscal Year Ended June 30	Deficit Factor
1999	8.800%
2000	6.996
2001	0.000
2002	0.000
2003	0.000
2004	3.002
2005	2.143
2006	0.892
2007	0.000
2008	0.000

Source: Los Angeles Unified School District.

The following Table A-4 sets forth the cost-of-living adjustments ("COLA") from Fiscal Years 1998-99 through Fiscal Year 2007-08 as reflected in the State Budget Acts for those respective years.

TABLE A-4

Los Angeles Unified School District
Cost-of-Living Adjustment
Fiscal Years 1998-99 to 2007-08

Fiscal Year Ended June 30	Cost of Living Adjustment
1999	3.95%
2000	1.41
2001	3.17
2002	3.87
2003	2.00
2004	1.86
2005	2.41
2006	4.23
2007	5.92
2008	4.53

Source: State Budget Acts for Fiscal Year 1998-99 through Fiscal Year 2007-08.

The District's ADA record for each of the Fiscal Years 1998-99 through 2007-08 is set forth in Table A-5 below:

TABLE A-5

Los Angeles Unified School District
Annual Average Daily Attendance
Fiscal Years 1998-99 to 2007-08

Fiscal Year Ended June 30	Average Daily Attendance[1] K-12	Dependent Charter Schools[2]	Adult Education Program	Total
1999	641,074	–	78,031	719,105
2000	654,664	–	77,745	732,409
2001	642,713	19,952	77,628	740,293
2002	656,306	20,010	86,372	762,688
2003	661,615	17,681	86,841	766,137
2004	666,169	5,143[3]	87,293	758,605
2005	654,308	5,990	86,307	746,605
2006	633,013	5,958	83,593	722,564
2007[4]	639,189	6,248	89,674	735,111
2008[4]	616,845	N/A[5]	91,368	N/A[5]

(1) Beginning in Fiscal Year 1998-99, and pursuant to Senate Bill 727, ADA excludes excused absences and is based strictly on in-seat attendance. Each district's base revenue limit was adjusted in 1998-99 to offset the impact of excluding excused absences for revenue limit purposes.
(2) Prior to Fiscal Year 2000-01, the State did not require the District to distinguish between regular schools and charter schools in calculating the ADA.
(3) Decrease primarily attributable to dependent charter schools converting to regular District schools or to independent charter schools.
(4) Estimated.
(5) Estimate is not available.

Source: Los Angeles Unified School District Comprehensive Annual Financial Report for Fiscal Years 1998-99 through 2005-06. Los Angeles Unified School District Adopted Budgets for Fiscal Years 2006-07 and 2007-08.

Historically, approximately 85% of the District's annual General Fund revenues have consisted of payments from or under the control of the State. As part of the Fiscal Year 1992-93 State budget resolution, the State required counties, cities and special districts to shift property tax revenues to school districts by contributing to the Education Revenue Augmentation Fund ("ERAF") in lieu of direct payments to school districts from the State General Fund. This transfer is commonly referred to as the "ERAF" shift. The Fiscal Year 1993-94 State Budget Act required a similar shift of property taxes to school districts from local government entities, which shift of property taxes has since continued. The Fiscal Year 2004-05 State Budget Act included a $1.3 billion ERAF shift in local property taxes from cities, counties, special districts and redevelopment agencies to school districts. However, the Fiscal Year 2004-05 State Budget Act also included a $1.136 billion diversion of ERAF funds from school districts and community colleges to local governments to offset the reduction in sales tax revenues to local governments to pay debt service on the State's economic recovery bonds. In addition, $2.8 billion was reduced from property tax allocations to school districts to replace the shift of vehicle license fee revenues from local governments to the State. The State General Fund offsets both transfers to hold school districts and community colleges harmless. As a result of these property tax shifts, the share of District revenues that come from the State fluctuates. Nevertheless, the influence of the State in the District's funding is substantial. Regardless of the shifts in property tax revenues in recent years, and the potential decrease in such revenues, certain levels of funding are guaranteed as described in "Proposition 98" below.

Charter School Funding

A charter school is a public school authorized by a school district, county office of education or the Board of Education of the State. A proposed charter school submits a petition to one of these entities for approval and that petition details the operations of the charter school. State law requires that charter petitions be approved if they comply with the statutory criteria. The District has certain fiscal oversight and other responsibilities with respect to both dependent and independent charter schools. However, independent charter schools that receive their funding directly from the State are not included in the District's audit report and function like independent agencies, including having control over their staffing and budget whereas dependent charter schools receive their funding from the District and are included in the District's budgets and audit reports. The District's 2007-08 Adopted Budget reflects authorization of 103 charter schools, comprised of one independent charter school and 102 dependent charter schools.

Charter schools generally receive funding in three broad categories. Charter schools receive a block grant that is similar to school district revenue limit funding and is based on Statewide average revenue limits for school districts within specified ranges of grades. These charter school revenues are deducted from the amount of State Aid a school district is entitled to receive each year. Charter schools also receive a block grant in lieu of many categorical programs. Charter schools may spend these block grants for any educational purpose. The third broad category of funding for charter schools is categorical funds not included in the block grant. A charter school must apply for these funds, program by program, and if received, must spend the funds in accordance with the same program requirements as traditional schools. An increase in the number of independent charter schools within a school district, or of independent charter school students in a school district who had previously been students at a traditional school in that same school district, results in a reduction of the revenue limit and, possibly, program funding for that school district.

Proposition 98

On November 8, 1988 voters of the State approved Proposition 98, a combined initiative constitutional amendment and statute called the "Classroom Instructional Improvement and Accountability Act." Proposition 98 changed State funding of public education below the university level and the operation of the State Appropriations Limit, primarily by guaranteeing K-14 schools a minimum share of State General Fund revenues. Under Proposition 98 (as modified by Proposition 111, which was enacted on June 5, 1990), there are currently three tests which determine the minimum level of K-14 funding.

Proposition 98 permits the State Legislature by two-thirds vote of both houses, with the Governor's concurrence, to suspend the K-14 schools' minimum funding formula for a one year period. The amount of suspension is eventually repaid according to a specified State Constitutional formula, thereby restoring Proposition 98 funding to the level that would have been required in the absence of such suspension. The Fiscal Year 2004-05 State Budget Act suspended the Proposition 98 minimum guarantee for Fiscal Year 2004-05; however, the suspended amount was fully paid in Fiscal Year 2005-06. The Proposition 98 minimum guarantee was fully funded for Fiscal Years 2005-06 and 2006-07 and is fully funded in the Fiscal Year 2007-08 State Budget. Proposition 98 also contains provisions transferring certain State tax revenues in excess of the limit to K-14 schools under Article XIIIB of the State

Constitution. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS—Proposition 98" below for further discussion of the minimum funding tests under Proposition 98 and the impact of Proposition 98 on K-14 education funding.

State Budget

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

The State Budget Process. The State's fiscal year begins on July 1 and ends on June 30. According to the State Constitution, the Governor of the State is required to propose a budget for the next fiscal year (the "Governor's Budget") to the State Legislature no later than January 10 of each year, and a final budget must be adopted by a two-thirds vote of each house of the State Legislature by no later than June 15. The budget becomes law upon the signature of the Governor. Although the State's final budget has not been adopted prior to the June 15th deadline in prior years, the State's final budget for Fiscal Year 2006-07 was timely adopted by the State Legislature.

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

Fiscal Year 2006-07 State Budget. On June 30, 2006, Governor Schwarzenegger signed into law the Fiscal Year 2006-07 State Budget (the "2006-07 State Budget"). The Fiscal Year 2006-07 State Budget projects Fiscal Year 2006-07 General Fund revenues and transfers of $93.9 billion, total expenditures of $101.3 billion and a year-end reserve of $2.102 billion. The budget imbalance between the anticipated revenues and transfers and the proposed expenditures is expected to be reconciled by applying the estimated ending fund balance in Fiscal Year 2005-06 of $9.53 billion. The year-end reserve of $2.102 billion for Fiscal Year 2006-07 is comprised of $1.630 billion as a special fund for economic uncertainties and $472 million to be deposited in the Budget Stabilization Account of the State General Fund in accordance with Proposition 58.

The Fiscal Year 2006-07 State Budget includes $55.1 billion in Proposition 98 funding, an increase of $8.1 billion, or 17% compared to the Fiscal Year 2005-06 State Budget. Total K-12 per-pupil expenditures from all sources are projected to be $11,264 in Fiscal Year 2006-07, an increase of $1,287 or 13% compared to the Fiscal Year 2005-06 State Budget. The Fiscal Year 2006-07 State Budget includes the restoration of funding for arts and music, physical education, student counselors in grades 7-12 and a new, targeted preschool initiative. In addition, the Fiscal Year 2006-07 State Budget provides $1.4 billion to fully fund Proposition 42 for the second consecutive year and provides an additional $1.4 billion for the early repayment of past loans from Proposition 42, for a total of $2.8 billion. Of the $1.4 billion repayment, $446 million is designated for cities and counties for local road and street maintenance. The Fiscal Year 2006-07 State Budget also provides $250 million for deferred maintenance in the State park system.

The Fiscal Year 2006-07 State Budget includes total Proposition 98 funding for Fiscal Year 2006-07 of $55.1 billion, a 3.3% increase above the revised estimate for Fiscal Year 2005-06. This amount includes an increase of $426 million associated with the full implementation of Proposition 49. The State General Fund contributes approximately 75%, or $41.3 billion, of total proposed Proposition 98 funding. These totals include funding for K-12 and community college districts.

The Fiscal Year 2006–07 State Budget contains the following major components relating to K-12 education funding:

1. Enrollment Growth - The Fiscal Year 2006-07 State Budget includes $112.4 million for K-12 enrollment growth increases. Because statewide K-12 enrollment growth is projected to be negative for Fiscal Year 2006-07, growth costs were limited to certain programs with targeted populations, such as Economic Impact Aid ($29.3 million) and Adult Education ($15.1 million).

2. Cost of Living Adjustments - The Fiscal Year 2006-07 State Budget includes a $2.6 billion augmentation to provide a 5.92% statutory COLA adjustment ($1.9 billion for revenue limits, $184.3 million for special education and $182.5 million for class size reduction).

3. Revenue Limits - The Fiscal Year 2006-07 State Budget provides an increase of $2.3 billion in revenue limits to school districts, which reflects the increase in the COLA and revised local revenues net of the decrease to average daily attendance. The increase also incorporates the cost of eliminating the deficit factor and the proposed increase in equalization funding.

4. Deficit Reduction - The Fiscal Year 2006-07 State Budget includes $308.6 million for school district and county offices of education revenue limit deficit reduction funding. This funding compensates these local education agencies for reduced COLAs provided in prior years.

5. Equalization - The Fiscal Year 2006-07 State Budget includes $350 million for school district revenue limit equalization to address the disparity in base general-purpose funding levels across equally situated school districts within the State.

6. K-12 Education Mandates - The Fiscal Year 2006-07 State Budget includes $957 million in Proposition 98 General Fund funds to fund K-12 mandated costs, of which $927 million will be used to pay prior year claims. The payment of the prior year claims is expected to eliminate the accumulated debt the State has incurred from deferring mandated payments.

7. Charter Schools - The Fiscal Year 2006-07 State Budget includes approximately $32.9 million in increases for the Charter School Categorical Block Grant.

8. Economic Impact Aid - The Fiscal Year 2006-07 State Budget includes a $350 million Proposition 98 General Fund augmentation to the Economic Impact Aid Program to help close the achievement gap of English Learners and economically disadvantaged students.

9. After-School Programs - The Fiscal Year 2006-07 State Budget includes an increase of $428 million in Proposition 49 funding above the Fiscal Year 2005-06 funding level of $121.6 million. In 2002, California voters approved Proposition 49, which expanded access to before and after-school programs for schools within the State. Proposition 49 also established funding priorities and expanded program activities to include computer training, fine arts and physical fitness.

10. One-Time Discretionary Block Grant - The Fiscal Year 2006-07 State Budget includes $533.5 million one-time Proposition 98 General Fund funds for a discretionary block grant, of which 75% will be used for school site programs and the remaining 25% will be used to address district wide issues.

11. Art and Music Grants - The Fiscal Year 2006-07 State Budget includes $105 million for the Art and Music Block Grant, which supports standards-aligned art and music instruction in kindergarten and grades one through eight. The funds will be allocated at an equal amount per pupil, with a minimum of $2,500 for school sites with 20 or fewer students, and a minimum of $4,000 per site for school sites with more than 20 students.

12. Arts, Music and Physical Education One-time Equipment Grants - The Fiscal Year 2006-07 State Budget includes $500 million Proposition 98 General Fund grants on a one-time basis for the purchase of arts, music and physical education supplies and equipment. The grants will be allocated to school districts on an equal amount per pupil, with a minimum funding level of $2,500 for small schools.

13. Supplemental School Counseling Program - The Fiscal Year 2006-07 State Budget includes $200 million Proposition 98 General Fund funds to increase the number of school counselors that serve seventh through twelfth grade students.

Fiscal Year 2007-08 State Budget. On August 24, 2007, Governor Schwarzenegger signed into law the Fiscal Year 2007-08 State Budget (the "2007-08 State Budget"). The 2007-08 State Budget projects Fiscal Year 2007-08 general fund revenues and transfers of $101.2 billion (exclusive of amounts transferred to the State's budget stabilization account), total expenditures of $102.3 billion and a year-end reserve of $4.1 billion. The budget imbalance between the anticipated revenues and transfers and the proposed expenditures is expected to be reconciled by applying the estimated ending fund balance in Fiscal Year 2006-07 of $4.1 billion. The year-end reserve of $4.1 billion for Fiscal Year 2007-08 is comprised of $745 million held in a reserve for the liquidation of encumbrances, $2,575 million held in a special fund for economic uncertainties and $1,494 million held in the State's budget stabilization account.

The 2007-08 State Budget includes $66.8 billion total revenue funding for K-12 education, an increase of approximately $3.5 billion above the amount included in the revised Fiscal Year 2006-07 State Budget. Total per pupil expenditures from all sources are projected to be $11,163 in Fiscal Year 2006-07 and $11,541 in Fiscal Year 2007-08, respectively, including funds provided for prior year settle-up obligations.

The 2007-08 State Budget includes total Proposition 98 funding for Fiscal Year 2007-08 of $57.1 billion, a 3.9% increase above the revised estimate for Fiscal Year 2006-07. The State General Fund contributes approximately 73%, or $41.5 billion of total proposed Proposition 98 funding. These totals include funding for K-12, community colleges, and other state agencies that serve students.

The 2007-08 State Budget contains the following major components relating to K-12 education funding:

1. Cost of Living Adjustment Increases – The 2007-08 State Budget includes a $2.1 billion increase to fund a 4.53% statutory COLA: $1.6 billion for revenue limits, $150.9 million for special education, $69.7 million for child care programs, $58.6 million for class size reduction and $303 million for various categorical programs.

2. Home-to-School Transportation and Deferred Maintenance Adjustments – The 2007-08 State Budget replaces $429 million in ongoing Proposition 98 General Fund for K-12 Home-to-School Transportation and K-12 School Deferred Maintenance with funding from the Public Transportation Account and the Proposition 98 Reversion Account. The 2007-08 State Budget includes $277.4 million to fully fund the Deferred Maintenance program, which will funded with $161.9 million in ongoing Proposition 98 General Fund and $115.5 million in one-time Proposition 98 Reversion Account funding.

3. Adjustments for Average Daily Attendance – The 2007-08 State Budget includes a $11 million net reduction in Fiscal Year 2007-08 to reflect the statewide decline in ADA, which net amount includes a $42.1 million reduction in school district and county office of education revenue limit apportionments (general purpose funding for schools). Due to the decline in attendance for Fiscal Year 2006-07, there is a $89 million decrease in revenue limit apportionments for that year.

4. Local Property Tax Adjustments – For Fiscal Year 2005-06, Proposition 98 funding was $53.3 billion, as recalculated pursuant to the Proposition 98 settlement agreement, of which the General Fund share was $39.7 billion and the local property tax share was $13.6 billion. The Fiscal Year 2006-07 Proposition 98 funding is estimated to be $55 billion, of which the General Fund share was $40.8 billion and the local property tax share was $14.2 billion. The funding levels reflect the higher attendance estimates and costs of apportionments for the applicable year.

Legislative Analyst's Office Analysis of the 2007-08 State Budget. On August 31, 2007, the Legislative Analyst's Office (the "LAO") released a report entitled "Major Features of the 2007 California Budget" (the "LAO Budget Overview"). The LAO is a non-partisan body which advises the State Legislature on a variety of public policy matters, including State finance. The LAO Budget Overview observed that while expenditures do not exceed revenues in the 2007-08 State Budget, the one-time nature of many of the budget solutions would result in operating shortfalls of more than $5 billion in both 2008-09 and 2009-10.

State Treasurer's Report on State Debt. On October 1, 2007, the State Treasurer issued a report entitled "Looking Beyond the Horizon: Investment Planning for the 21st Century" (the "Treasurer's Report"), which provides a 20-year planning horizon and bifurcates the projected State General Fund spending between debt service payments and operating expenditures. According to the Treasurer's Report, the State has a structural budget deficit that could grow to $14.6 billion, or an average annual revenue deficit of 3.5%, by Fiscal Year 2027-28. The Treasurer's Report proposes various measures to address the structural budget imbalance, including lessening the life-cycle costs of government facilities by increasing energy efficiency, reducing criminal recidivism. broadening the sales tax base by extending it to certain services, funding infrastructure development and operation through user-pays financing and financing transportation infrastructure with revenue bonds.

Additional State Budget Information; Future State Budgets. Information about the State budget and State spending for education is regularly available at various State-maintained websites. Text of the State budget may be found at the website of the Department of Finance, www.dof.ca.gov, under the heading "2007-08 Budget". Various analyses of the budget may be found at the website of the LAO at www.lao.ca.gov. In addition, various State official statements, many of which contain a summary of the current and past State budgets and the impact of those budgets on school districts in the State, may be found at the website of the State Treasurer, www.treasurer.ca.gov. The information presented in these websites is not incorporated by reference in this Official Statement.

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

State Funding of Schools Without a State Budget

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

The State Supreme Court granted the State Controller's petition for review of the *Connell* case on a procedural issue unrelated to continuous appropriations and on the substantive question as to whether the State Controller is authorized to pay State employees their full and regular salaries during a budget impasse. No other aspect of the Court of Appeal's decision was addressed by the State Supreme Court. On May 1, 2003, with respect to the substantive question, the State Supreme Court concluded that the State Controller is required, notwithstanding a budget impasse and the limitations imposed by State law, to timely pay those State employees who are subject to the minimum wage and overtime compensation provisions of the federal Fair Labor Standards Act. To the extent the *Connell* decision applies to State payments reflected in the District's budget, the requirement that there be either a final budget bill or an emergency appropriation may result in the delay of some payments to the District while such required legislative action is delayed, unless the payments are self-executing authorizations, continuing appropriations or are subject to a federal mandate.

DISTRICT FINANCIAL INFORMATION

District Budget

General. State law requires that each school district maintain a balanced budget in each Fiscal Year, and that each district project beginning balances, revenues, expenditures, and ending balances for two subsequent years in order to certify, based upon the available information, that the district can project a positive ending balance for each of the three fiscal years. The CDE imposes a uniform budgeting and accounting format for school districts.

Under current law, a school district governing board must file with the county superintendent of schools a budget by June 30 in each Fiscal Year (referred to herein as the "Provisional Budget") and adopt revisions to the district budget by September 8 of each Fiscal Year (referred to herein as the "Final Adopted Budget"). After approval of the adopted budget, the school district's administration may submit budget revisions for governing board approval.

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

Furthermore, county offices of education are required to review school district budgets, complete the budget review checklist, and conduct an analysis of any budget item that does not meet the established standards and criteria. A copy of the completed checklist, together with any comments or recommendations, must be provided to the school district and its governing board by November 1. By November 30, every school district must have an adopted and approved budget, or the county superintendent of schools will impose one.

The District follows a dual adoption process for its budget. The first adoption is referred to as the "Provisional Budget" that is adopted on or prior to June 30 each year. The second adoption is referred to as the "Final Adopted Budget" that is due to the Los Angeles County Office of Education on or before September 8 each year. The Board adopted its Fiscal Year 2007-08 Provisional Budget on June 28, 2007 and its Final Adopted Budget on September 4, 2007.

Fiscal Year 2007-08 Final Adopted Budget. The District's 2007-08 Final Adopted Budget projects a General Fund beginning balance of $518.3 million, revenues of $7.160 billion, total estimated expenditures of $7.208 billion and an ending balance of $470.2 million for Fiscal Year 2007-08. The General Fund beginning balance of $518.3 million includes $71.5 million for the mandatory 1% Reserve for Economic Uncertainties, $359.1 million restricted either by statute or by District policy, $15.6 million reserved for inventories and revolving cash funds, and $72.1 million from the unreserved undesignated balance from Fiscal Year 2006-07.

The District's Final Adopted Budget reflects the revenue assumptions of the 2007-08 State Budget. Because the District was unable to conclude the closing of its 2006-07 financial records prior to the publication date of the District's budget, however, the 2007-08 beginning balance assumptions reflect the projections included in the District's Second Period Interim Financial Report for the 2006-07 Fiscal Year, which were presented to the Board in March of 2007 based upon information available as of January 31, 2007. The District is continuing to work toward finalizing its 2006-07 revenue and expenditure information, and anticipates that upon the conclusion of that process, the actual 2006-07 ending balances (and thus the 2007-08 beginning balances) will change. The direction and amount of the change to the District's balances are unknown at this time.

In the 2007-08 Final Adopted Budget, the District's total K-12 school enrollment is projected to decrease by approximately 17,000 in Fiscal Year 2007-08 to approximately 650,722. This decrease is comprised of a loss of approximately 23,000 from District non-charter schools, partially offset by growth of approximately 6,000 in fiscally independent charter schools. The Education Code's declining enrollment statutes enabled the District to claim Fiscal Year 2007-08 revenue limit funding on the basis of the ADA for Fiscal Year 2006-07. The full extent of revenue losses attributable to enrollment declines are expected to occur in special education, lottery and other funding sources, as those funding sources are not afforded the same benefit that is provided for revenue limit funding by the Education Code's declining enrollment statutes.

In the 2007-08 Final Adopted Budget, the Base Revenue Limit, the largest unrestricted General Fund revenue source, is projected to generate $3.65 billion in Fiscal Year 2007-08. The District's 2007-08 Final Adopted Budget reflects the Fiscal Year 2007-08 State Budget's full funding of the statutory 4.53% revenue limit. The Fiscal Year 2007-08 State Budget did not include funding for revenue limit equalization. Based on these factors, the District's 2007-08 Base Revenue Limit per unit of ADA is projected to be $5,796.56. However, due primarily to declining enrollment, revenue limit funding is projected to decrease by approximately $9.7 million from the amount budgeted for 2006-07. The loss in revenues for declining enrollment districts typically exceeds the cost savings resulting from the decreased enrollment following the first year of enrollment decline.

In the 2006-07 Final Adopted Budget, approximately $350 million in new, primarily one-time, State categorical programs were funded; these were largely eliminated in the 2007-08 State Budget. The District's 2007-08 Final Adopted Budget reflects funds for these programs carried forward from the prior fiscal year, but does not reflect new revenue for one-time 2006-07 programs that were not continued in the State Budget. For Fiscal Year 2007-08, it is estimated that the special education program will require $618.3 million in General Fund support, and that K–3 class-size reduction encroachment will be approximately $80 million.

The District's 2007-08 Final Adopted Budget projects a Fiscal Year 2007-08 budget deficit (estimated expenditures in excess of estimated revenues) of $48 million. The reasons for the deficit include the inability to use restricted State funding on the District's core programs, declining enrollment that results in revenue losses that exceed spending reductions, health benefit cost increases that exceed the growth of the District's unrestricted revenues, the commitment of unrestricted revenues to class size reduction and salary and benefit increases totaling 7.5% for most bargaining units in Fiscal Year 2006-07 for which growth in general purpose revenue in Fiscal Year 2007-08 is insufficient. The Superintendent recommended and the Board approved the elimination of approximately 500 administrative positions, mostly from the District's headquarters, as well as net spending reductions in other areas and small increases in fee revenues in order to close the remaining budget gap. Additionally, in adopting the 2007-08 Final Adopted Budget the Board approved $30.4 million in increased Fiscal Year 2007-08 costs and $37.2 million in increased ongoing costs for Fiscal Years 2008-09 and 2009-10 to increase hours and health benefits for unbenefitted cafeteria employees. Because the Cafeteria Fund's revenues are fully utilized, these costs will be borne by the General Fund through a combination of factors, including using uncommitted funds, reducing non-school spending, reducing school expenditures, and various other savings.

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

The following Table A-6 sets forth the District's Final Adopted Budgets for the General Fund for Fiscal Year 2004-05 through Fiscal Year 2007-08.

TABLE A-6

Los Angeles Unified School District
Final Adopted Budgets for the General Fund for Fiscal Year 2004-05 through Fiscal Year 2007-08
($ in millions)

	Final Adopted Budget 2004-05	Final Adopted Budget 2005-06	Final Adopted Budget 2006-07	Final Adopted Budget 2007-08
Beginning Balance[1]	$ 324.0	$ 349.6	$ 434.5	$ 518.3
Revenue:				
State Apportionment	$2,243.5	$ 2,883.9[2]	$2,880.5[2]	$2,912.0
Property Taxes	1,195.9	668.0[2]	782.3[2]	741.2[2]
Total Revenue Limit Revenues[3]	$3,439.5	$3,551.9	$3,662.8	$3,653.2
Federal	$1,054.6	$1,016.6	$ 936.1	$ 905.7
Other State	1,968.5	1,986.7	2,274.3	2,336.4
Other Local	91.3	93.1	105.6	139.8
Other Sources	97.1	86.8	128.0	124.4
Total Revenue[3]	$6,651.0	$6,735.0	$7,106.7	$7,159.5
Total Beginning Balance and Revenue[3]	$6,975.0	$7,084.6	$7,541.3	$7,677.9
Expenditures:				
Certificated Salaries	$2,871.8	$3,008.5	$3,137.2	$3,376.7
Classified Salaries	913.2	883.4	971.1	977.7
Employee Benefits	1,296.8	1,328.5	1,347.8	1,346.9
Books and Supplies	399.8	404.9	672.3	589.7
Other Operating Expenses	643.2	610.5	733.8	763.7
Capital Outlay	59.6	52.8	76.7	60.9
Other Outgo/Other Uses	466.4	437.4	54.9	91.9
Total Expenditures[3]	$6,650.9	$6,726.0	$6,993.8	$7,207.6
Ending Balance[3]	$ 324.1	$ 358.6	$ 547.4	$ 470.2

(1) Actual beginning balance for each Fiscal Year, except for Fiscal Year 2007-08 which is an unaudited estimate that has been revised to reflect refinements of Fiscal Year 2006-07 expenditures in selected programs.
(2) As a result of the California Economic Recovery Act and related economic recovery bonds approved by voters on March 2, 2004, a portion of the property tax revenues due to school districts have been redirected to local governments. The State has addressed the reduction in property tax revenues paid to school districts through an increase in State Apportionment revenues. The net impact of these actions, referred to as the "Triple Flip," is the reason for the substantial increase in State Apportionment revenues and corresponding decrease in Property Tax revenues for the District in Fiscal Years 2005-06 to 2007-08 in comparison to prior Fiscal Years.
(3) Total may not equal sum of components due to rounding.

Source: Los Angeles Unified School District Final Adopted Budgets for Fiscal Years 2004-05 through 2007-08.

The following Table A-7 summarizes the originally budgeted revenues and expenditures, the modified budget for revenues and expenditures and the projected year-end amounts, including the projected year-end General Fund Balance as reported in the Second Interim Financial Report for Fiscal Year 2006-07.

TABLE A-7

Los Angeles Unified School District
Fiscal Year 2006-07
General Fund
Summary of Balances, Revenues and Expenditures
($ in millions)[1]

	Final Adopted Budget	Modified Budget[2] (As of March 13, 2007)	Second Interim Report (March 13, 2007)
Beginning Balance	$ 434.5	$ 434.5	$ 434.5
Revenues/Other Sources	7,106.7	7,106.7	7,013.1
Expenditures/Other Uses	6,993.9	6,996.4	6,890.7
Operating Surplus	$ 112.8	$ 110.3	$ 122.4
Ending Balance	$ 547.3	$ 544.8	$ 556.9

(1) Totals may not add due to rounding.
(2) Does not project financial results through fiscal year end as does the Second Interim Report.

Source: Controller, Los Angeles Unified School District.

Assessed Valuation of Property Within the District

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

State law exempts $7,000 of the full cash value of an owner-occupied dwelling, but this exemption does not result in any loss of revenue to local entities because an amount equivalent to the taxes which would have been payable on such exempt values is paid by the State.

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

In Fiscal Year 2006-07, the District's total net secured and unsecured assessed valuation is $402.6 billion. The net assessed valuation of property in the District for each Fiscal Year from Fiscal Year 1997-98 through 2006-07 is set forth in Table A-8 below.

TABLE A-8

Los Angeles Unified School District
Historical Assessed Valuations
Fiscal Years 1998-99 through 2007-08
(full cash value, $ in thousands)

Fiscal Year Ended June 30	Secured[1]	Unsecured	Total	Increase (Decrease) From Prior Year	Percent Increase (Decrease)
1999	$205,280,714	$18,081,722	$223,362,436	$ 5,898,474	2.71%
2000	218,916,146	18,927,746	237,843,892	14,481,456	6.48
2001	233,797,971	20,142,603	253,940,574	16,096,682	6.77
2002	249,496,423	22,018,503	271,514,926	17,574,352	6.92
2003	266,383,265	21,142,670	287,525,935	16,011,009	5.90
2004	287,673,344	20,855,436	308,528,780	21,002,845	7.30
2005	311,419,822	20,505,315	331,925,137	23,396,357	7.58
2006	343,302,944	20,566,535	363,869,479	31,944,342	9.62
2007	382,212,502	20,396,335	402,608,837	38,739,358	10.65
2008	419,052,509	21,861,881	440,914,390	38,305,553	9.51

(1) Includes utility valuations.

Source: Los Angeles Unified School District Comprehensive Annual Financial Report for Fiscal Years 1996-97 through 2004-05. Los Angeles County Auditor-Controller for Fiscal Year 2005-06 through 2007-08.

Tax Rates, Levies, Collections and Delinquencies

Taxes are levied for each fiscal year on taxable real and personal property as of the preceding January 1. Real property that changes ownership or is newly constructed is revalued at the time the change occurs or the construction is completed. The current year property tax rate is applied to the reassessed value, and the taxes are then adjusted by a proration factor that reflects the portion of the remaining tax year for which taxes are due. The annual tax rate is based on the amount necessary to pay all obligations payable from *ad valorem* taxes and the assessed value of taxable property in a given year. Economic and other factors beyond the District's control, such as a general market decline in land or property values, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable or religious purposes), or the complete or partial destruction of taxable property caused by natural or manmade disaster such as earthquake, flood, toxic dumping, etc., could cause a reduction in the assessed value of taxable property within the District and necessitate a corresponding increase in the annual tax rate to be levied to pay the principal of and interest on the District's outstanding general obligation bonds.

For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing real property the taxes on which are a lien sufficient, in the opinion of the County Assessor, to secure payment of the taxes. Other property is listed on the "unsecured roll."

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

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

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

The County levies a 1% property tax on behalf of all taxing agencies in the County. The taxes collected are allocated on the basis of a formula established by State law enacted in 1979. Under this formula, the County and all other taxing entities receive a base year allocation plus an allocation on the basis of "situs" growth in assessed value (new construction, change of ownership, inflation) prorated among the jurisdictions which serve the tax rate areas within which the growth occurs. Tax rate areas are specifically defined geographic areas which were developed to permit the levying of taxes for less than county-wide or less than city-wide special and school districts. In addition, the County levies and collects additional approved property taxes and assessments on behalf of any taxing agency within the County, including the *ad valorem* taxes collected to pay debt service on the District's outstanding general obligation bonds, as described in the following paragraph.

Government Code Sections 29100 through 29107 provide the procedures that all counties must follow for calculating tax rates. The secured tax levy within the District consists of the District's share of the general *ad valorem* and unitary taxes assessed on a County-wide basis. The secured tax levy also includes the District's share of special voter approved *ad valorem* taxes assessed on a District-wide basis. In addition, the total secured tax levy includes special assessments, improvement bonds, supplemental taxes or other charges which have been assessed on property within the District. State law allows homeowners' exemptions (described above) and certain businesses exemptions from *ad valorem* property taxation and, therefore, such exemptions are not included in the total secured tax levy.

The following Table A-9 sets forth the tax rates for Proposition BB, Measure K, Measure R and Measure Y from Fiscal Years 2000-01 through Fiscal Year 2006-07.

TABLE A-9

Los Angeles Unified School District
Tax Rates
Fiscal Years 2000-01 through Fiscal Year 2006-07
(per $100,000 of Assessed Valuation)

Fiscal Year	Proposition BB	Measure K	Measure R	Measure Y
2000-01	$40.40	--	--	--
2001-02	48.13	--	--	--
2002-03	36.87	--	--	--
2003-04	46.97	$30.01	--	--
2004-05	50.55	31.97	$ 6.18	--
2005-06	42.75	29.16	12.33	--
2006-07	40.06	26.60	36.63	$3.45

Source: Los Angeles Unified School District.

The following Table A-10 shows real property tax levies, collections and delinquencies and the total tax rate in the District from Fiscal Years 1996-96 through Fiscal Year 2005-06.

TABLE A-10

Los Angeles Unified School District
Summary of Property Tax Levies, Collections and Tax Rates
Fiscal Years 1996-97 through Fiscal Year 2005-06
($ in thousands)

Fiscal Year Ended June 30	Total Tax Levy	ERAF Funds[1]	Tax Collections[2]	Delinquent & Other Unpaid Tax Levies[3]	Current Delinquency Rate[4]	Total District Tax Rate[5]
1997	$ 420,158	$ 392,577	$ 775,879	$ 15,807	2.04%	1.003338%
1998	442,619	428,745	832,010	33,855	4.07	1.012017
1999	486,496	420,226	834,727	22,342	2.68	1.024749
2000	532,436	434,175	941,023	19,589	2.08	1.031528
2001	583,508	465,002	1,037,958	29,973	2.89	1.040765
2002	652,455	493,649	1,125,788	29,264	2.60	1.048129
2003	656,436	536,530	1,190,192	13,881	1.17	1.036973
2004	821,820	576,038	1,386,560	34,987	2.52	1.077145
2005	929,248	171,052[6]	1,091,325	34,128	3.13	1.088839
2006	991,275	76,068[6]	1,026,351	30,963	3.02	1.084346

(1) Educational Revenue Augmentation Funds (ERAF) are added to tax levies received by the District and are subject to adjustment annually pursuant to the State Budget. See APPENDIX A – "DISTRICT FINANCIAL AND DEMOGRAPHIC INFORMATION–STATE FUNDING OF EDUCATION–General."

(2) Includes collections from prior years.

(3) For the Fiscal Years referenced above, the District participated in a countywide delinquent tax financing program through which the District has sold its delinquent tax revenues and received 100% of the delinquent amount plus a premium. The District may, but is not obligated to, continue to participate in the delinquent tax financing program in the future.

(4) Delinquent and other unpaid tax levies divided by total tax collections.

(5) Includes applicable aggregate tax rate related to the District's outstanding general obligation bonds.

(6) The Fiscal Year 2004-05 State Budget Act provided for a significant portion of all school district ERAF funds to be shifted to cities and counties. The State backfilled these funds by increasing State aid to schools.

Source: Los Angeles Unified School District Comprehensive Annual Financial Report for Fiscal Years ended June 30, 1997 through 2006.

Largest Taxpayers in the District

The 20 largest secured taxpayers in the District for Fiscal Year 2006-07 are set forth in Table A-11 below.

TABLE A-11

Los Angeles Unified School District
Largest Local Secured Taxpayers
Fiscal Year 2006-07

	Property Owner[1]	Primary Land Use	2006-07 Assessed Valuation	% of Total Secured Property Tax Base[2]
1.	Douglas Emmett Realty Funds	Office Building	$ 2,362,525,243	0.62%
2.	Ardean Realty Finance Partnership LP	Office Building	1,341,587,844	0.35
3.	Universal Studios LLC	Motion Picture Studio	1,337,429,891	0.35
4.	Anheuser Busch Inc.	Industrial	826,130,916	0.22
5.	Maguire Partners, 355 S. Grand LLC	Office Building	544,749,668	0.14
6.	One Hundred Towers LLC	Office Building	543,860,949	0.14
7.	Duesenberg Investment Company	Office Building	529,099,443	0.14
8.	Trizec 333 LA LLC	Office Building	422,268,780	0.11
9.	Casden Park LA Brea LLC	Apartments	381,729,612	0.10
10.	Paramount Pictures Corp.	Motion Picture Studio	369,428,644	0.10
11.	Trizec 601 Figueroa LLC	Office Building	365,350,000	0.10
12.	Rreef America REIT II Corp. BBBB	Office Building	355,000,000	0.09
13.	Twentieth Century Fox Film Corp.	Motion Picture Studio	343,965,462	0.09
14.	1999 Stars LLC	Office Building	328,421,915	0.09
15.	Century City Mall LLC	Shopping Center	325,890,378	0.09
16.	Library Square Associates LLC	Office Building	294,949,089	0.08
17.	515 555 Flower Associates LLC	Office Building	289,212,549	0.08
18.	Sunstone Century Star LLC	Hotel	283,250,000	0.07
19.	2121 Avenue of the Stars LLC	Office Building	276,500,000	0.07
20.	Maguire Properties 555 W. Fifth LLC	Office Building	270,785,099	0.07
			$11,792,135,482	3.09%

(1) Excludes taxpayers with values derived from mineral rights and/or possessory interest. Historically, among the top 10 taxpayers within the District are landowners with primary land use of oil and gas production, including Atlantic Richfield Company, Tosco Corporation and Ultramar Inc., which are not reflected in the table above.
(2) 2006-07 Local Secured Assessed Valuation not including utility valuations: $381,923,172,738.

Source: California Municipal Statistics, Inc.

Significant Accounting Policies, System of Accounts and Audited Financial Statements

The CDE imposes by law uniform financial reporting and budgeting requirements for K-12 school districts. Financial transactions are accounted for in accordance with the California School Accounting Manual. KPMG LLP, Los Angeles, California, serves as independent auditor to the District and excerpts of its report for Fiscal Year ended June 30, 2006 are attached hereto as APPENDIX B. The District is required to file its audit report for the preceding fiscal year with the State Controller's Office, the CDE and the County Superintendent of Schools by December 15. The District filed its audit report for the Fiscal Year ended June 30, 2006 in compliance with such requirement. See APPENDIX B – "SELECTED INFORMATION FROM AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2006."

State Financial Accountability and Oversight Provisions. State Assembly Bill 1200 ("A.B. 1200"), effective January 1, 1992, tightened the budget development process and interim financial reporting for public school districts, enhancing the authority of the offices of the county superintendents of schools and establishing guidelines for emergency State aid apportionments. State Assembly Bill 2756 ("A.B. 2756"), effective June 21, 2004, revised the existing provisions of A.B. 1200 and imposed additional financial accountability and oversight requirements on public school districts. Under the provisions of A.B. 1200, each school district is required to file interim certifications with the county office of education as to its ability to meet its financial obligations for the remainder of the then-current fiscal year and, based on current forecasts, for the two subsequent fiscal years. A positive certification is assigned to any school district that will meet its financial obligations for the current fiscal year and subsequent two fiscal years. A negative certification is assigned to any school district that will be unable to meet its financial obligations for the remainder of the fiscal year or subsequent fiscal year. A qualified certification is assigned to any school district that may not meet its financial obligations for the current fiscal year or two subsequent fiscal years. Under the provisions of A.B. 2756, for school districts that are certified as qualified or negative, the county superintendent of schools is required to report to the State Superintendent of Public Instruction on the financial conditions of the school district and his or her proposed remedial actions and to take all actions that are necessary to ensure that the school district meets its financial obligations. The county office of education reviews the interim reports and certifications made by school districts and may change certification to qualified or negative if necessary. If a school district has a qualified or negative certification report in any year, the district may not issue non-voter approved debt instruments in that fiscal year or in the next succeeding fiscal year, unless the county office of education, using criteria from the state Superintendent of Public Instruction, determines repayment is probable. The Board approved the Second Interim Report for Fiscal Year 2006-07 on March 13, 2007 and the submission of a positive certification to LACOE, with which LACOE concurred.

Audited Financial Statements and Accounting Policies. Independently audited financial reports are prepared annually in conformity with generally accepted accounting principles for educational institutions. The annual audit report is generally available about six months after the June 30 close of each fiscal year. However, implementation difficulties associated with the Projects (see "DISTRICT GENERAL INFORMATION – Information Technology Implementation Challenges") have resulted in delayed reporting of the District's finances for the fiscal year ended June 30, 2007, which is, in turn, expected to affect the timely delivery of the District's comprehensive annual financial report for Fiscal Year 2006-07 (the "Fiscal Year 2006-07 CAFR") to LACOE by the December 15, 2007 deadline set forth in Section 41020 of the Education Code. See description of the reconciliation of the District's finances below. For selected excerpts from the District's most recent available audited financial statements, see APPENDIX B – "SELECTED INFORMATION FROM AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2006."

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

The requirements of Statement No. 34 were effective in three phases based on a government's total annual revenues (excluding extraordinary items) for the first fiscal year ending after June 15, 1999. The District was first required to implement Statement No. 34 for the Fiscal Year 2001-02 audited financial statements. See APPENDIX B – "SELECTED INFORMATION FROM AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2006" for the District's Management's Discussion and Analysis for Fiscal Year 2005-06. See also "DISTRICT FINANCIAL INFORMATION—Other Post-Employment Benefits" for a discussion of the recent GASB Statement No. 45, with which the District will be required to comply beginning in Fiscal Year 2007-08.

The District uses fund accounting and maintains governmental funds, proprietary funds and fiduciary funds. The General Fund is the chief operating fund of the District. For a description of the other major funds of the District, see APPENDIX B – "SELECTED INFORMATION FROM AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2006—Note 1."

The following Table A-12 sets forth the District's audited General Fund revenues, expenditures and fund balances for the Fiscal Years ended June 30, 2002 through June 30, 2006.

TABLE A-12

Los Angeles Unified School District
Statement of Revenues, Expenditures and General Fund Balances[(1)]
Fiscal Years Ended June 30, 2002 through June 30, 2006
($ in millions)

	Fiscal Year 2001-02	Fiscal Year 2002-03	Fiscal Year 2003-04	Fiscal Year 2004-05	Fiscal Year 2005-06
Beginning Balance	$732.3	$582.3	$579.0	$324.0	$349.6
Revenues:					
State Apportionment	$2,217.3	$2,230.1	$2,105.4	$2,592.9	$2,791.7
Property Taxes	1,035.1	1,086.0	1,195.4	839.0	777.6
Total Revenue Limit Revenues	$3,252.4	$3,316.1	$3,300.8	$3,431.9	$3,569.3
Federal	475.0	581.3	720.2	796.9	889.5
Other State	1,744.1	1,796.1	1,749.1	1,890.0	1,915.1
Other Local	73.3	106.0	78.0	85.7	98.1
Other Sources	230.7	285.0	27.9	257.5	100.7
Total Revenue	$5,775.5	$6,084.5	$5,876.0	$6,461.9	$6,572.7
Total Beginning Balance and Revenues	$6,507.8	$6,666.8	$6,455.0	$6,785.9	$6,922.3
Expenditures					
Certificated Salaries	$2,819.6	$2,899.9	$2,919.4	$2,977.2	$3,051.0
Classified Salaries	865.0	876.2	880.4	870.9	897.9
Employee Benefits	971.8	1,097.2	1,196.5	1,228.2	1,292.2
Books and Supplies	363.9	372.6	352.1	368.7	435.9
Other Operating Expenses	498.4	547.6	575.4	555.1	616.8
Capital Outlay	48.4	53.7	44.3	53.8	63.1
Other Outgo/Other Uses[(2)]	358.4	240.6	162.8	382.4	130.9
Total Expenditures	$5,925.5	$6,087.8	$6,131.0	$6,436.3	$6,487.8
Ending Balance	$ 582.3	$ 579.0	$ 324.0	$ 349.6	$ 434.5

(1) Totals may not add due to rounding.
(2) Includes Operating Transfers and Support Costs transferred back to the General Fund.
Source: District's audited financial statements for Fiscal Years 2001-02 through 2005-06.

Implementation difficulties associated with the Projects (see "DISTRICT GENERAL INFORMATION – Information Technology Implementation Problems") have resulted in the delayed reporting of the District's finances for the fiscal year ended June 30, 2007 and the delayed submission of the District's Statements of Unaudited Actuals for Fiscal Year 2006–07 to LACOE by September 14, 2007, pursuant to Section 42100 of the Education Code. Such delays are expected to affect the timely delivery of the District's comprehensive annual financial report for Fiscal Year 2006-07 (the "Fiscal Year 2006-07 CAFR") to LACOE by the December 15, 2007 deadline set forth in Section 41020 of the Education Code and may affect the timely filing by December 15, 2007 of the District's First Interim Financial Report based on actual financial information through October 31, 2007 (the "Fiscal Year 2007-08 First Interim Report").

The District anticipates reconciling its finances for Fiscal Year 2006-07 by November 29, 2007, filing its Fiscal Year 2007-08 First Interim Report by December 15, 2007, the deadline therefor, and publishing its Fiscal Year 2006-07 CAFR by the end of February 2008. If the reporting of the District's finances for Fiscal Year 2006-07 and filing of the Fiscal Year 2007-08 First Interim Report do not occur as anticipated, it is possible that the District may not be able to submit a positive certification to LACOE in connection with the Fiscal Year 2007-08 First Interim Report and/or LACOE may not be able to concur with any submitted positive certification.

A qualified certification, if issued, would indicate that the District may not be able to meet its financial obligations. Under the provisions of A.B. 2756, the county superintendent of schools is required to report to the State Superintendent of Public Instruction on the financial conditions of school districts that are certified as qualified or negative, to propose remedial actions, and to take all actions that are necessary to ensure that such school district meets its financial obligations. See "DISTRICT FINANCIAL INFORMATION – Significant Accounting Policies, System of Accounts and Audited Financial Statements – *State Financial Accountability and Oversight Provisions*". However, the District believes that the delays in the completion and filing of the District's various financial reports as described herein are associated with the implementation difficulties relating to BTS and are not a result of the District's underlying financial condition. Further, the timing of the reporting and filings described herein are not expected to adversely affect the financial condition of the District or the payment and performance by the District of its debt obligations as and when due.

The District anticipates complying with the continuing disclosure undertakings with respect to its outstanding debt obligations by filing with the appropriate repositories unaudited financial statements for Fiscal Year 2006-07 and filing the Fiscal Year 2006-07 CAFR, which will include the audited financial statements for Fiscal Year 2006-07, when it becomes available, all in accordance with such undertakings.

Collective Bargaining

A three year labor agreement has been reached between the District and UTLA and AALA that provides for a one year 6% salary increase retroactive to July 1, 2006, with salary re-openers in Fiscal Years 2007-08 and 2008-09. The District has settled with a majority of the other bargaining units for Fiscal Year 2006-07 for a one year 6% salary increase; although negotiations with SEIU – Local 99 have not been completed; employees in the school police bargaining unit received a 10% salary increase for Fiscal Year 2006-2007. In addition, the District agreed to pay the 1.5% increase in health care costs for employees in these bargaining units. The District has sufficient resources in its Fiscal Year 2006-07 Final Adopted Budget and Fiscal Year 2007-08 Final Adopted Budget to meet its obligations with respect to the salary increase portion of the three year labor agreement and also expects to maintain the 5% reserve required under the District's reserves policy.

Collective bargaining with the District's unions regarding salaries and health care is in process and negotiations will continue in Fiscal Year 2007-08.

Retirement Systems

The District participates in the California State Teachers' Retirement System ("STRS"). This defined benefit plan basically covers all full-time certificated and some classified District employees. Employees and the District contribute 8% and 8.25%, respectively, of gross salary expenditures to STRS. The District's regular employer contribution to STRS for Fiscal Year 2006-07 is projected to be at least equal to its contribution for Fiscal Year 2005-06, after adjusting for specially funded categorized programs. Benefit provisions are established by State legislation in accordance with the State Teachers' Retirement Law.

Set forth in Table A-13 below is the District's annual contributions to STRS for Fiscal Years 2001-02 through 2005-06 and the budgeted annual contributions for Fiscal Years 2006-07 and 2007–08. Historically, the District has paid all of its portion of required STRS annual contributions.

TABLE A-13

Los Angeles Unified School District
Annual Regular STRS Contributions
Fiscal Years 2001-02 through 2007-08
($ in millions)

Fiscal Year	District Contributions[1]
2001-02	$205.9
2002-03	237.0
2003-04	241.2
2004-05	245.3
2005-06	251.5
2006-07[2]	268.9
2007-08[3]	288.3

(1) Includes payments to STRS for pension costs associated with the District's specially funded programs.
(2) Budgeted at June 30, 2007.
(3) Budgeted at October 16, 2007.

Source: Los Angeles Unified School District Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2004 for Fiscal Years 2001-02 through 2003-04; Los Angeles Unified School District Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2005 for Fiscal Year 2004-05; and Los Angeles Unified School District Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2006 for Fiscal Year 2005-06; Los Angeles Unified School District 2006-07 Final Adopted Budget for Fiscal Year 2006-07; and Los Angeles Unified School District 2007-08 Final Adopted Budget for Fiscal Year 2007-08.

The District also participates in the State Public Employees' Retirement System ("CalPERS"). This defined benefit plan covers classified personnel who work four or more hours per day. Benefit provisions are established by State legislation in accordance with the Public Employees' Retirement Law. The District's regular employer contribution (including PERS Recapture as described in footnote (2) in Table A-14 below) to CalPERS for Fiscal Year 2005-06 was approximately $138.2 million. The District's budgeted regular employer contribution to CalPERS for Fiscal Year 2006-07 is projected to be equal to $115.3 million. The District's contribution to CalPERS is capped at 13.02% of gross salary expenditures. If the District's contribution rate to CalPERS is less than 13.02% of gross salary expenditures for a given year, then the State will reduce the District's revenue limit for that year by the amount of the difference between the District's contribution calculated based on a contribution rate of 13.02% of gross salary expenditures and the District's actual contribution. Moreover, if the required contribution rate is greater than 13.02% for a given year, then the State will provide additional revenue limit to the District for that year by the amount of the difference between the District's actual contribution to CalPERS and the District's contribution calculated based on a contribution rate of 13.02% of gross salary expenditures.

Set forth in Table A-14 below is the District's regular annual contributions to CalPERS for Fiscal Years 2001-02 through Fiscal Year 2005-06 and the budgeted annual contributions for Fiscal Years 2006-07 and 2007-08. Historically, the District has paid all required CalPERS annual contributions.

TABLE A-14

Los Angeles Unified School District
Annual CalPERS Regular Contributions
Fiscal Years 2001-02 through 2007-08
($ in millions)

Fiscal Year	District Contributions(1)(2)
2001-02	$100.9
2002-03	111.1
2003-04	134.3
2004-05	136.2
2005-06	137.1
2006-07(3)	156.9
2007-08(4)	162.3

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

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

(3) Budgeted at June 30, 2007.

(4) Budgeted at October 16, 2007.

Source: Los Angeles Unified School District Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2004 for Fiscal Years 2001-02 through 2003-04; Los Angeles Unified School District Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2005 for Fiscal Year 2004-2005; Los Angeles Unified School District Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2006 for Fiscal Year 2005-06; Los Angeles Unified School District 2006-07 Final Adopted Budget for Fiscal Year 2006-07; and Los Angeles Unified School District 2007-08 Final Adopted Budget for Fiscal Year 2007-08.

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

The respective unfunded actuarial accrued liabilities of CalPERS and STRS as of their most recent actuarial valuation are set forth in Table A-15 below. The individual funding progress for the District itself is not available from STRS.

TABLE A-15

Actuarial Value of CalPERS and STRS Retirement Systems

Name of Plan	Excess of Actuarial Value of Assets Over Actuarial Accrued Liabilities (Unfunded Actuarial Accrued Liability)
Public Employee's Retirement Fund (CalPERS)[1]	$(26.621) billion
State Teachers' Retirement Fund Defined Benefit Program (STRS)[2]	(20.311) billion

[1] Based on actuarial valuations as of June 30, 2005, using individual entry age normal cost method and 30 year amortization period. Actuarial assumptions included an assumed 7.75% investment rate of return, projected salary increases of 3.25% to 19.95%, projected 3.00% inflation and projected 2-5% post-retirement benefit increases. Reflects a funded ratio of 87.3%.

[2] As of June 30, 2005, using entry age normal cost method. Actuarial assumptions included an assumed 8.00% investment rate of return, projected salary increases of 4.25%, projected 3.25% inflation and projected 2.00% post-retirement benefit increases. Reflects a funded ratio of 86%.

Source: CalPERS Comprehensive Annual Financial Report Year Ended June 30, 2006. STRS Defined Benefit Program Actuarial Valuation as of June 30, 2005.

Set forth in Table A-16 below is the funded status of STRS and CalPERS for Fiscal Years 2001-02 through 2005-06.

TABLE A-16

Funded Status of STRS and CalPERS
Fiscal Years 2001-02 through 2005-06

Fiscal Year	STRS	CalPERS
2001-02	N/A[1]	95.2%
2002-03	82.0%	87.7
2003-04	83.0	87.3
2004-05	86.0	87.3
2005-06	87.0	N/A[2]

[1] Actuarial valuations not prepared or estimated.

[2] Not available as of the date of the CalPERS Comprehensive Annual Financial Report Year Ended June 30, 2006

Source: STRS Defined Benefit Program Actuarial Valuation as of June 30 of each respective year. CalPERS Comprehensive Annual Financial Report Year Ended June 30, 2006.

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

On July 1, 1992, the District joined the Public Agency Retirement System ("PARS"), a multiple-employer retirement trust. This defined contribution plan covers the District's part-time, seasonal, temporary and other employees not otherwise covered by CalPERS or STRS, but whose salaries would otherwise be subject to Social Security tax. Benefit provisions and other requirements are established by District management based on agreements with various bargaining units. The District's contribution to PARS for Fiscal Year 2004-05 and Fiscal Year 2005-06 totaled approximately $6.6 million and $6.8 million, respectively.

Set forth in Table A-17 below is the District's annual PARS contributions for Fiscal Years 2003-04 through 2007-08.

TABLE A-17

Los Angeles Unified School District
Annual PARS Contributions
Fiscal Years 2003-04 through 2007-08
($ in millions)

Fiscal Year	District Contributions[1]
2003-04	$7.1
2004-05	6.6
2005-06	6.8
2006-07[2]	9.5
2007-08[2]	5.0

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

Source: Los Angeles Unified School District Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2004 for Fiscal Year 2003-04; Los Angeles Unified School District Comprehensive Annual Financial Report the Fiscal Year Ended June 30, 2006 for Fiscal Year 2004-05 and 2005-06. Los Angeles Unified School District 2007-08 Provisional Budget for Fiscal Years 2006–07 and 2007–08.

For additional information regarding the District's pension and retiree health care programs and costs, see APPENDIX B – "SELECTED INFORMATION FROM AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2006—Note 8."

Other Post-Employment Benefits

In addition to employee health care costs, the District provides post-employment health care benefits in accordance with collective bargaining agreements. As of July 1, 2006, there are approximately 34,000 retirees who meet the eligibility requirements for these benefits. The District currently funds these benefits on a pay-as-you-go basis, paying an amount in each Fiscal Year equal to the benefits distributed or disbursed in that Fiscal Year. The amount paid by the District's General Fund for such benefits was $159.1 million in Fiscal Year 2002-03, $174.2 million in Fiscal Year 2003-04, $179.3 million for Fiscal Year 2004-05 and $192.9 million in Fiscal Year 2005-06. The District included $208.3 million for post-employment health care benefits for Fiscal Year 2006-07 in the District's 2006-07 Final Adopted Budget for the General Fund. The cost of retiree health care benefits in 2007-08 remains subject to approval by the Board. The amount included in the District's 2007-08 Final Adopted Budget for the General Fund for retiree health care benefits in Fiscal Year 2007-08 is $213.7 million.

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

The firm of The Segal Company prepared a report for the District entitled "Actuarial Valuation and Review of Other Postemployment Benefits (OPEB) as of June 30, 2005 in accordance with GASB Statements No. 43 and 45," dated May 26, 2006 (the "Postemployment Valuation"). The Postemployment Valuation sets forth the District's actuarial valuation of post-employment medical benefits as of June 30, 2005 for its employees and retirees. The Postemployment Valuation sets forth the liabilities of the post-employment benefit plan assuming that the recently adopted Statement Nos. 43 and 45 are effective for the Fiscal Year ending June 30, 2005. The market value of plan net assets as of June 30, 2005 is estimated to be $0. The Postemployment Valuation reports that, as of July 1, 2005, the actuarial accrued liability ("AAL") of the District's post-retirement health and welfare benefits program is approximately $10 billion. The Postemployment Valuation recommended an annual contribution of $1,025,659,000, or 26.5% of the District's payroll, for Fiscal Year 2005-06.

The District has been and is expected to continue to review the actuarial study, in conjunction with the District's obligations under its post-employment benefit plan, to determine, among other things, its course of action with respect to post-employment benefit contributions and what other post-employment benefit liability must be reported beginning in Fiscal Year 2007-08. In the opinion of District management, any increase in the District's AAL as described in the Postemployment Valuation will not adversely affect the District's ability to pay debt service on the Certificates.

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

Insurance

The District maintains various excess property, casualty and fidelity insurance programs, which are self-insured, with varying self-insured retentions. The District's excess property coverage is provided currently through its membership in the Public Entity Property Insurance Program ("PEPIP"), an insurance pool comprised of certain cities, counties and school districts. In addition, buildings under construction and renovation with project values under $50 million, the costs of which are financed with the proceeds of District general obligation bond issues, are covered under PEPIP. The District maintains excess property insurance on all District facilities under a combination of self-insurance retentions and varying sublimits through the excess insurance policies of PEPIP. The current self-insured retention for fire loss damage for excess property coverage is $500,000 per occurrence and the policy limit is $1 billion. The District maintains what it considers to be adequate reserves to cover losses within the self-insurance retention. General Fund resources are used to pay for property loss insurance and uninsured repairs for property damage. In addition to the above excess property policies, the District purchases a separate Boiler and Machinery policy with $100 million in occurrence limits and a Fidelity Crime policy with $500,000 in occurrence limits.

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

The District is self-insured for its Workers' Compensation Program. Worker's compensation claims paid in Fiscal Years 2001-02, 2002-03, 2003-04, 2004-05 and 2005-06 totaled approximately $98.6 million, $110.0 million, $116.3 million, $112.4 million and $96.8 million respectively. Such claims for Fiscal Year 2006-07 are estimated at $86 million based on projections as of February 28, 2007, excluding adjustments for future claims. The lower amount of claims is the result of worker's compensation reforms implemented by the State as well as District activities to improve investment earnings on the workers' compensation fund balances, improve third party management of claims and reduce worker's compensation fraud. Separate funds are used to account for amounts set aside to pay claims incurred and related expenditures under the respective insurance programs.

The District has also purchased through the AIG companies a Pollution Legal Liability policy with coverage of $50 million for each incident with an aggregate of $100 million (coverage period of August 11, 1999 through August 11, 2019) and a Contractor's Pollution Liability ("CPL") insurance policy with $50 million of coverage provided per covered site (and $50 million of coverage in aggregate losses through August 11, 2006). The District filed a lawsuit in Los Angeles County Superior Court in March 2006 against AIG alleging the insurance carrier of bad faith for failure to honor claims incurred during the policy period. The AIG CPL policy expired on August 11, 2006. The District purchased a new CPL policy providing $30 million of coverage from a combination of non-AIG carriers.

The District implemented a second Owner Controlled Insurance Program (OCIP II) on May 1, 2006 covering new construction and renovation projects funded by school bonds starting between May 1, 2006 and April 30, 2009. Under an OCIP, owners provide general liability and workers' compensation insurance coverage to construction contractors; builders risk and CPL coverage are also provided. The benefits derived from the large buying power of an OCIP, along with centralized risk management and safety create savings that accrue to the owner. Under the District's OCIP II, workers' compensation coverage with statutory limits, and primary and excess liability coverage with limits of $102 million have been underwritten by six major insurance carriers. Builders risk coverage for projects valued above $50 million is currently covered under individual policies underwritten by Zurich NA. Savings to the District over the next period of the construction program are estimated in the range of approximately $32-45 million.

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. The District believes that, given the inherent variability in any such estimates, the aggregate liabilities are within a reasonable range of adequacy. Individual reserves are continually monitored and reviewed, and, as settlements are made or reserves adjusted, differences are reflected in current operations. See APPENDIX B – "SELECTED INFORMATION FROM AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2006—Note 9."

District Fiscal Policies

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

The Debt Management Policy is required to be reviewed annually. The most recent review was completed in April 2007 with no material policy changes. The Debt Management Policy sets forth an annual gross debt service cap of $105 million attributable to COPs and establishes a target of 2.0% and a ceiling of 2.5% for the ratio of gross COPs debt service as of July 1, 2006 divided by General Fund appropriations for Fiscal Year 2005-06. The District's current actual maximum fiscal year COPs debt service is $25.48 million, which is below the $105 million cap, and is 0.4% of Fiscal Year 2005-06 General Fund appropriations, which is below the 2.0% to 2.5% policy range. A target may be increased only through Board authorization each time a new debt is proposed, but is not intended to exceed the ceiling established in the Debt Management Policy.

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

As of June 30, 2007, the District had $384 million of outstanding COPs (net of economically defeased COPs), of which $211 million are variable rate COPs. Given the District's projected average daily General Fund unrestricted cash balance of $349 million for Fiscal Year 2006-07, the District believes that interest rate exposure on its variable rate COPs is naturally hedged by its cash position.

The District advance refunded and defeased $390 million in aggregate principal amount of its outstanding COPs in Fiscal Years 2004-05 and 2005-06 from proceeds of general obligation bonds, thereby changing the source of debt repayment from District resources such as the General Fund and developer fees to taxpayer levies.

Table A-18 below sets forth the debt factors for COPs which are to be repaid from the District's General Fund or other internal District resources.

TABLE A-18

Los Angeles Unified School District
Debt Management Policy – Debt Factors
(as of June 30, 2006)[(1)]

Debt Factor	Target[(2)]	Ceiling[(2)]	Actual
COPs Debt Service Limit (gross)	2.0% of General Fund Expenditures	2.5% of General Fund Expenditures	0.4%
Annual COPs Gross Debt Service Cap[(3)]	Not applicable	\$105 million	\$25.48 million

(1) Information in Table A-18 is as set forth in the District's Debt Report submitted on April 5, 2007 for the Fiscal Year ended June 30, 2006.
(2) "General Fund Expenditures" includes said amounts based upon the District's Fiscal Year 2005-06 Final Adopted Budget.
(3) May increase with each approved issuance of COPs.

Source: Los Angeles Unified School District.

Table A-19 below sets forth the benchmark debt burden ratios that recognize the combined direct debt and overall debt of the District. Table A-19 also provides a summary of the District's performance against policy benchmarks for the District's General Obligation Bond and COPs debt and debt issued by overlapping agencies. These benchmarks pertain to large school districts nationwide whose ratings are in the double-A or higher rating category.

Due to the statistical dispersion of the underlying data for the benchmarks in Table A-19 and the large size of the District's bonding program relative to other large school districts, the District's debt burden ratios are not unexpectedly higher than most of the benchmarks values. Even though some of the other large school districts have school funding mechanisms different than the District's and may have budgets that are considerably smaller than the District's, the District believes that the "large, highly-rated" school district cohort to be the most appropriate cohort group against which it should be compared. The execution and delivery of the Certificates is not expected to result in a material change to the District's performance against policy benchmarks as set forth in Table A-19 below.

TABLE A-19

Los Angeles Unified School District
Policy Benchmarks for District's Direct and Overall Debt
(As of June 30, 2006)[1]

Debt Burden Ratio	Benchmark	Benchmark's Value	LAUSD Actual
Direct Debt to Assessed Value	Moody's Median for Aa Rated School Districts With Student Population Above 200,000	1.10%	1.56%
	Standard & Poor's Mean for AA Rated School Districts With Student Population Above 150,000	1.50%	1.56%
Overall Debt to Assessed Valuation	Moody's Median for Aa Rated School Districts With Student Population Above 200,000	2.60%	3.20%
	Standard & Poor's Mean for AA Rated School Districts With Student Population Above 150,000	3.20%	3.20%
Direct Debt Per Capita	Standard & Poor's Median for AA Rated School Districts With Student Population Above 150,000	$736	$1,188.5
	Standard & Poor's Mean for AA Rated School Districts With Student Population Above 150,000	$847	$1,188.5
Overall Debt Per Capita	Standard & Poor's Median for AA Rated School Districts With Student Population Above 150,000	$1,665	$2,331.2
	Standard & Poor's Mean for AA Rated School Districts With Student Population Above 150,000	$2,639	$2,331.2

(1) Information in Table A-19 is as set forth in the District's Debt Report submitted on April 5, 2007 for the Fiscal Year ended June 30, 2006.

Source: Los Angeles Unified School District.

Budget and Finance Policy. On June 22, 2004, the Board adopted a Budget and Finance Policy that took effect on July 1, 2005. The purposes of the Budget and Finance Policy are to establish best practices for the District's budget process and to establish a reserves policy for District operations, liabilities and asset/equipment replacement. The purpose of the operating reserves is to set aside monies for current year obligations. These reserves include the Reserve for Anticipated Balances, the Reserve for Revolving Cash, Stores, and Prepaid Expenses, the Emergency Reserve, and the Reserve for Economic Uncertainties. The purpose of the liability reserves is to set aside monies for future obligations of the District. Liability reserves include the Liability Self Insurance Account Reserve, the Workers' Compensation Fund Unfunded Liability Reserve, and the Health & Welfare Fund Retirement Benefits for Employees Reserve. The Budget and Finance Policy also includes the creation of a new reserve, the Special Reserve for Equipment Replacement.

Under State law, the District is required to maintain only one of the operating reserves, the Reserve for Economic Uncertainties. In Fiscal Year 2007-08, this reserve has been funded at the current legally mandated minimum of 1.0%, or approximately $71.5 million. The other reserves may be funded and phased in annually based on the Board's actions, although the Interim Chief Financial Officer of the District has not recommended any such funding at present.

District Debt

General Obligation Bonds. Pursuant to Sections 15106 and 17422 of the Education Code, the District's bonding capacity for general obligation bonds is 2.5% of taxable property value in the District and is currently approximately $10.1 billion. The District's unused bonding capacity is approximately $2.7 billion. The District may not issue general obligation debt without voter approval. From July 1997 through March 2003, the District issued the entire amount of general obligation bonds pursuant to a $2.4 billion authorization approved by voters in the April 8, 1997 election ("Proposition BB"). A $3.35 billion general obligation bond authorization was approved by the voters on November 5, 2002 ("Measure K"). The District has issued $2.75 billion of Measure K general obligation bonds. A $3.87 billion general obligation bond authorization was approved by the voters on March 2, 2004 ("Measure R"). The District has issued $2.05 billion aggregate principal amount of Measure R bonds. A $3.985 billion general obligation bond authorization also was approved by the voters on November 8, 2005 ("Measure Y"). The District has issued $694.385 million aggregate principal amount of Measure Y bonds.

As described in the text of each of ballot Measure K, Measure R and Measure Y, the Board does not guarantee that the respective Measure K bonds, Measure R bonds and Measure Y bonds will provide sufficient funds to allow completion of all potential projects listed in connection with said measures. Certain projects and their budgets may be adjusted according to evolving District needs and priorities and economic circumstances such as greater than anticipated inflation of construction costs. The Citizen's Bond Oversight Committee regularly reviews the potential bond projects and budgets and provides non-binding advice to the Board on how to allocate and reallocate scarce bond proceeds in order to ensure the completion of viable projects and to avoid non-completion of projects once commenced.

Moneys in the building funds and the debt service funds relating to the District's general obligation bonds may be invested at the request of the District by the County Treasurer in the Los Angeles County Investment Pool, the Local Agency Investment Fund in the treasury of the State, any investment authorized pursuant to Section 53601 of the Government Code, or in investment agreements, including guaranteed investment contracts, which comply with the requirements of each rating agency then rating such general obligation bonds necessary to maintain the then-current ratings on such bonds. See APPENDIX G – "LOS ANGELES COUNTY TREASURY POOL."

The following Table A-20 sets forth the voter authorized and unissued amounts for Proposition BB, Measure K, Measure R and Measure Y.

TABLE A-20

Voter Authorized Amounts
($ in thousands)

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

(1) Proceeds of six refunding bond issues refunded $1,350.885 million aggregate principal amount of the Proposition BB Bonds. See Table A-21 below.
(2) Proceeds of three refunding bond issues refunded $1,582.895 million aggregate principal amount of the Measure K Bonds. See Table A-22 below.

Source: Los Angeles Unified School District.

The following Tables A-21, A-22, A-23 and A-24 set forth the outstanding bonds issued under Proposition BB, Measure K, Measure R and Measure Y, respectively.

TABLE A-21

Proposition BB (Election of 1997) Bonds

Bonds Issued	Aggregate Principal Amount ($ in thousands)	Outstanding Amount as of December 1, 2007 ($ in thousands)	Date of Issue
Series A Bonds	$356,000[1] [2]	$ 114,750	July 22, 1997
Series B Bonds	350,000[2] [3]	24,345	August 25, 1998
Series C Bonds	300,000[1] [2] [3]	28,790	August 10, 1999
Series D Bonds	386,655[1] [2] [3]	34,535	August 3, 2000
Series E Bonds	500,000[1] [4] [6]	106,390	April 11, 2002
2002 Refunding Bonds[7]	258,375	254,085	April 17, 2002
Series F Bonds	507,345[5]	336,880	March 13, 2003
2004 Refunding Bonds[7]	219,125	218,535	December 21, 2004
2005 Refunding Bonds[7]	467,675	467,675	July 20, 2005
2006 Refunding Bonds, Series B[7]	254,544	249,762	November 15, 2006
2007 Refunding Bonds, Series A-2[7]	136,055	136,055	January 31, 2007
2007 Refunding Bonds, Series B[7]	24,845	24,650	February 22, 2007
		$1,996,452	

(1) $215.68 million principal amount of the Series A, C, D and E Bonds were refunded with the proceeds of the 2004 Refunding Bonds.
(2) $485.95 million principal amount of the Series A, B, C and D Bonds were refunded with the proceeds of the 2005 Refunding Bonds.
(3) $262.73 million principal amount of the Series B, C and D Bonds were refunded with the proceeds of the 2002 Refunding Bonds.
(4) $231.23 million principal amount of the Series E Bonds were refunded with proceeds of the 2006 Refunding Bonds, Series B.
(5) $129.51 million principal amount of the Series F Bonds were refunded with proceeds of the 2007 Refunding Bonds, Series A.
(6) $25.79 million principal amount of the Series E Bonds were refunded with proceeds of the 2007 Refunding Bonds, Series B.
(7) Refunding bonds are not counted against the bond authorization limit.

Source: Los Angeles Unified School District.

TABLE A-22

Measure K (Election of 2002) Bonds

Bonds Issued	Aggregate Principal Amount ($ in thousands)	Outstanding Amount as of December 1, 2007 ($ in thousands)	Date of Issue
Series A Bonds	$2,100,000[(1) (2)(3)]	$ 501,040	March 5, 2003
2006 Refunding Bonds, Series A[(4)]	132,325	132,325	February 22, 2006
2006 Refunding Bonds, Series B[(4)]	320,361	313,318	November 15, 2006
2007 Refunding Bonds, Series A-1[(4)]	1,153,195	1,146,125	January 31, 2007
Series B Bonds	500,000	500,000	February 22, 2007
Series C Bonds	150,000	150,000	August 16, 2007
		$2,742,808	

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

Source: Los Angeles Unified School District.

TABLE A-23

Measure R (Election of 2004) Bonds

Bonds Issued	Aggregate Principal Amount ($ in thousands)	Outstanding Amount as of December 1, 2007 ($ in thousands)	Date of Issue
Series A Bonds	$ 72,630	$ 38,085	September 23, 2004
Series B Bonds	60,475	25,645	September 23, 2004
Series C Bonds	50,000	45,920	September 23, 2004
Series D Bonds	16,895	8,695	September 23, 2004
Series E Bonds	400,000	357,365	August 10, 2005
Series F Bonds	500,000	488,190	February 16, 2006
Series G Bonds	400,000	377,500	August 17, 2006
Series H Bonds	550,000	550,000	August 16, 2007
		$1,891,400	

Source: Los Angeles Unified School District.

TABLE A-24

Measure Y (Election of 2005) Bonds

Bonds Issued	Aggregate Principal Amount ($ in thousands)	Outstanding Amount as of December 1, 2007 ($ in thousands)	Date of Issue
Series A Bonds	$ 56,785	$ 56,785	February 22, 2006
Series B Bonds	80,200	80,200	February 22, 2006
Series C Bonds	210,000	210,000	February 22, 2006
Series D Bonds	47,400	47,400	February 22, 2006
Series E Bonds	300,000	300,000	August 16, 2007
		$694,385	

Source: Los Angeles Unified School District.

Certificates of Participation. As of October 1, 2007, the District had outstanding lease obligations issued in the form of certificates of participation in the aggregate principal amount of $395.7 million, representing approximately $571.0 million in total debt service, based upon assumed interest rates for the District's variable rate lease obligations. The following Table A-25 sets forth the District's gross lease obligations with respect to its outstanding certificates of participation.

TABLE A-25

Los Angeles Unified School District
Certificates of Participation Gross Lease Obligations[(1) (2)(3)]
($ in thousands)

Fiscal Year Ending June 30	Paid From General Fund	Paid From Developer Fees[(4)]	Total
2008	$13,930	$21,397	$35,327
2009	20,105	14,670	34,775
2010	19,834	14,585	34,419
2011	19,824	14,588	34,412
2012	19,830	13,454	33,285
2013	17,278	13,436	30,714
2014	17,278	16,138	33,416
2015	17,271	10,818	28,089
2016	14,870	10,784	25,655
2017	14,861	10,734	25,595
2018	14,863	10,783	25,646
2019	14,856	4,152	19,008
2020	14,850	4,155	19,005
2021	14,840	4,151	18,992
2022	14,294	4,146	18,439
2023	14,285	4,146	18,432
2024	14,280	4,144	18,424
2025	14,247	4,140	18,388
2026	14,494	4,139	18,633
2027	14,486	–	14,486
2028	14,473	–	14,472
2029	14,455	–	14,455
2030	12,329	–	12,329
2031	12,309	–	12,309
2032	12,303	–	12,303
Total	$386,449	$184,570	$571,019

(1) The District has assumed certain interest rates for the variable rate lease obligations included in Table A-25 above.
(2) Although the District has economically defeased certain lease obligations, the lease payments shown above reflect the gross (not net) obligations of the District.
(3) Amounts exclude lease payments relating to the Certificates.
(4) In the event that insufficient developer fees are available to pay the indicated lease obligations, the General Fund is obligated to pay said obligations, subject to the terms of the applicable leases.

Source: Los Angeles Unified School District.

Other Long Term Obligations. The following Table A-26 summarizes the District's other long-term obligations as of June 30, 2006.

TABLE A-26

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

	Audited Balance As of June 30, 2006
Claims and judgments[(1)]	$731,676
Compensated absences	78,309
Revolving loan and other loans	2,035
State school building fund	880
Capital leases payable	6,619
TOTAL	$819,519

(1) Includes the total claims liabilities recorded for medical, dental, liability and workers' compensation. Beginning with Fiscal Year ended June 30, 2004, the District, in conformity with generally accepted accounting principles, implemented a change that recognizes estimated claims liabilities at the full present value of claims in its fund financials. In the past, the District recorded estimated claims liabilities only to the extent funded in its fund financial statements, which is substantially less than the present value for the Workers' Compensation Self-Insurance Fund.

Source: Los Angeles Unified School District Comprehensive Annual Financial Report, June 30, 2006.

Future Financings

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

General Obligation Bonds. The District has $600 million authorized and unissued general obligation bond authorization remaining under Measure K, $1.82 billion authorized and unissued general obligation bond authorization remaining under Measure R and $3.29 billion authorized and unissued general obligation bond authorization remaining under Measure Y. The District currently anticipates semi-annual issuances of additional series of general obligation bonds under its Measure K authorization, Measure R authorization and Measure Y authorization over the next several years to finance various elements of the District's capital plan. The District may issue refunding bonds to refund outstanding general obligation bonds from time to time, depending on market conditions.

Certificates of Participation. The District expects that, from time to time, additional capital projects will be approved by the Board for funding through the execution and delivery of COPs, in addition to the Certificates described in this Official Statement.

Tax and Revenue Anticipation Notes. The District has issued tax and revenue anticipation notes annually since Fiscal Year 1990-91 to fund partially the timing differences between receipts and disbursements. The District anticipates the issuance of 2007-08 Tax and Revenue Anticipation Notes in December 2007.

Overlapping Debt Obligations

Set forth on Table A-27 on the following page is a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics Inc. and dated October 1, 2007. The Debt Report is included for general information purposes only. The District has not reviewed the Debt Report for completeness or accuracy and makes no representations in connection therewith. The Debt Report generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the District. Such long-term obligations generally are not payable from revenues of the District (except as indicated) nor are they necessarily obligations secured by land within the District. In many cases, long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

The first column in Table A-27 names each public agency which has outstanding debt as of the date of the report and whose territory overlaps the District in whole or in part. Column 2 shows the percentage of each overlapping agency's assessed value located within the boundaries of the District. This percentage, multiplied by the total outstanding debt of each overlapping agency (which is not shown in Table A-26) produces the amount shown in column 3, which is the apportionment of each overlapping agency's outstanding debt to taxable property in the District.

TABLE A-27
Los Angeles Unified School District
Schedule of Direct and Overlapping Bonded Debt
As of October 1, 2007

2007-08 Assessed Valuation:	$440,914,389,742
Redevelopment Incremental Valuation:	38,304,640,270
Adjusted Assessed Valuation:	$402,609,749,472

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable [1]	Debt 10/1/07
Los Angeles County Flood Control District	46.427%	$ 52,722,501
Metropolitan Water District	22.738	81,655,569
Los Angeles Community College District	81.811	790,556,055
Pasadena Area Community College District	0.001	860
Los Angeles Unified School District	**100.**	**7,325,045,000**
City of Los Angeles	99.916	1,301,940,451
Other Cities	Various	46,889,208
Palos Verdes Library District	5.047	458,015
City Community Facilities Districts	100.	142,450,000
Los Angeles Metropolitan Transportation Agency Benefit Assessment Districts	100.	43,535,000
City of Los Angeles Landscaping and Special Tax Assessment Districts	99.916	111,191,521
City of Los Angeles Assessment District No. 1	100.	6,489,479
Other City and Special District 1915 Act Bonds	100.	27,160,000
Los Angeles County Regional Park & Open Space Assessment District	45.700	123,387,715
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$10,053,481,374
DIRECT AND OVERLAPPING GENERAL FUND DEBT:		
Los Angeles County General Fund Obligations	45.699%	$ 481,278,795
Los Angeles County Pension Obligations	45.699	249,904,592
Los Angeles County Superintendent of Schools Certificates of Participation	45.699	8,162,328
Pasadena Area Community College District Certificates of Participation	0.001	34
Los Angeles Unified School District Certificates of Participation	**100.**	**410,366,700**[2]
City of Los Angeles General Fund and Judgment Obligations	99.916	1,766,749,682
Other City General Fund and Pension Obligations	Various	173,149,684
Los Angeles County Sanitation District Nos. 1,2,3,4,5,8,9,16 & 23 Authorities	Various	54,709,716
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		$ 3,144,321,531
Less: **Los Angeles Unified School District (amount set-aside in Building Fund to make payments on 2000 Series A Qualified Zone Academic Bonds)**		**21,568,359**
Los Angeles Unified School District (economic defeasance of 2005 Qualified Zone Academic Bonds resulting from investment agreement)		**10,000,000**
City self-supporting bonds		12,567,630
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT		$ 3,100,185,542
GROSS COMBINED TOTAL DEBT		$13,197,802,905[3]
NET COMBINED TOTAL DEBT		$13,153,666,916

(1) Based on 2006-07 ratios.
(2) Excludes certificates of participation to be sold.
(3) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2007-08 Assessed Valuation:	
Direct Debt ($7,325,045,000)	**1.66%**
Total Overlapping Tax and Assessment Debt	2.28%
Ratios to Adjusted Assessed Valuation:	
Gross Combined Direct Debt ($7,735,411,700)	**1.92%**
Net Combined Direct Debt ($7,703,843,341)	**1.91%**
Gross Combined Total Debt	3.28%
Net Combined Total Debt	3.27%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/07: $590,299

Source: California Municipal Statistics, Inc.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

Constitutionally Required Funding of Education

The State Constitution requires that from all State revenues there shall first be set apart the moneys to be applied by the State for the support of the public school system and public institutions of higher education. California school districts receive a significant portion of their funding from State appropriations. As a result, decreases as well as increases in State revenues can significantly affect appropriations made by the State Legislature to school districts.

Article XIIIA of the State Constitution

On June 6, 1978, California voters approved Proposition 13 ("Proposition 13"), which added Article XIIIA to the State Constitution ("Article XIIIA"). Article XIIIA, as amended, limits the amount of any ad valorem tax on real property to 1% of the full cash value thereof, except that additional ad valorem taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978 and on bonded indebtedness approved by a two-thirds vote on or after July 1, 1978, for the acquisition or improvement of real property. Proposition 39, approved by California voters on November 7, 2000, provides an alternative method of seeking voter approval for bonded indebtedness (see "Proposition 39" below). Article XIIIA defines full cash value to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under "full cash value," or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment." This full cash value may be increased at a rate not to exceed 2% per year to account for inflation.

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

Legislation Implementing Article XIIIA

Legislation has been enacted and amended a number of times since 1978 to implement Article XIIIA. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter approved indebtedness). The 1% property tax is automatically levied by the County and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1989.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the 2% annual adjustment are allocated among the various jurisdictions in the "taxing area" based upon their respective "situs." Local agencies and school districts share the growth of "base" revenue from the tax rate area. Each year's growth allocation becomes part of each agency's allocation the following year. The District is unable to predict the nature or magnitude of future revenue sources which may be provided by the State to replace lost property tax revenues. Article XIIIA effectively prohibits the levying of any other ad valorem property tax above the 1% limit except for taxes to support indebtedness approved by the voters as described above.

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

Article XIIIB of the State Constitution

An initiative to amend the State Constitution entitled "Limitation of Government Appropriations" was approved on September 6, 1979 thereby adding Article XIIIB to the State Constitution ("Article XIIIB"). In June 1990, Article XIIIB was amended by the voters through their approval of Proposition 111. Under Article XIIIB, the State and each local governmental entity have an annual "appropriations limit" and are not permitted to spend certain moneys that are called "appropriations subject to limitation" (consisting of tax revenues, state subventions and certain other funds) in an amount higher than the appropriations limit. Article XIIIB does not affect the appropriations of moneys that are excluded from the definition of "appropriations subject to limitation," including debt service on indebtedness existing or authorized as of January 1, 1979, or bonded indebtedness subsequently approved by the voters. In general terms, the appropriations limit is to be based on certain 1978-79 expenditures, and is to be adjusted annually to reflect changes in costs of living and changes in population, and adjusted where applicable for transfer of financial responsibility of providing services to or from another unit of government. Among other provisions of Article XIIIB, if these entities' revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years. However, in the event that a school district's revenues exceed its spending limit, the district may, in any fiscal year, increase its appropriations limit to equal its spending by borrowing appropriations limit from the State, provided the State has sufficient excess appropriations limit in such year.

Article XIIIC and Article XIIID of the State Constitution

On November 5, 1996, the voters of the State approved Proposition 218, the so called "Right to Vote on Taxes Act." Proposition 218 added Articles XIIIC and XIIID to the State Constitution, which contain a number of provisions affecting the ability of local agencies, including school districts, to levy and collect both existing and future taxes, assessments, fees and charges.

Article XIIID deals with assessments and property related fees and charges. Article XIIID explicitly provides that nothing in Article XIIIC or XIIID shall be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development; however it is not clear whether the initiative power is therefore unavailable to repeal or reduce developer and mitigation fees imposed by the District.

Proposition 62

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

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

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

Proposition 98

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

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

Proposition 98 permits the State Legislature by a two-thirds vote of both houses of the State Legislature, with the Governor's concurrence, to suspend the K-14 districts' minimum funding formula for a one year period. In the fall of 1989, the State Legislature and the Governor utilized this provision to avoid having 40.3% of revenues generated by a special supplemental sales tax enacted for earthquake relief go to K-14 districts. The 2004-05 State Budget included trailer bill legislation suspending the Proposition 98 minimum guarantee for 2004-05; however the suspended amount is proposed to be fully funded in the Fiscal Year 2006-07 State Budget. Proposition 98 also contains provisions transferring certain State tax revenues in excess of the Article XIIIB limit to K-14 districts.

Proposition 39

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

Proposition 1A

Proposition 1A (SCA 4) ("Proposition 1A"), proposed by the State Legislature in connection with the 2004-05 State Budget and approved by the voters in November 2004, provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. Proposition 1A generally prohibits the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any fiscal year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of both houses of the State Legislature. Proposition 1A provides, however, that beginning in fiscal year 2008-09, the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe State financial hardship, the shift is approved by two-thirds of both houses and certain other conditions are met. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also provides that if the State reduces the vehicle license fee rate, the State must provide local governments with equal replacement revenues. Further, Proposition 1A requires the State, beginning July 1, 2005, to suspend State mandates affecting cities, counties and special districts, excepting mandates relating to employee rights, schools or community colleges, in any year that the State does not fully reimburse local governments for their costs to comply with such mandates.

State School Facilities Bonds

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

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

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

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

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

Proposition 1D makes $3.3 billion available for the reconstruction or modernization of existing public school facilities. Districts would be required to pay 40% of project costs from local resources. Proposition 1D directs a total of $1.0 billion to school districts with schools which are considered critically overcrowded. These funds would go to schools that have a large number of pupils relative to the size of the school site. Proposition 1D also makes a total of $29 million available to fund joint-use projects. Proposition 1D includes $3.1 billion to construct new buildings and related infrastructure, alter existing buildings and purchase equipment for use in these buildings for California's public higher education systems. The measure allocates $890 million to University of California and $690 million to California State University campus and $1.5 billion to California community colleges. The Governor and the State Legislature will select specific projects to be funded by the bond proceeds.

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

Future Initiatives

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

REGIONAL ECONOMY

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

Income

The following Table A-28 summarizes the median household effective buying income for the City, the County, the State and the nation for the years 2002 through 2005.

TABLE A-28

Median Household Effective Buying Income[1] For Years 2002 through 2005[2]

Year	City of Los Angeles	County of Los Angeles	State of California	United States
2002	$36,548	$40,789	$44,050	$38,365
2003	33,398	37,983	42,484	38,035
2004	33,541	38,311	42,924	38,201
2005	34,480	39,414	43,915	39,324

(1) "Effective Buying Income," also referred to as "disposable" or "after tax" income, consists of personal income less personal tax and certain non-tax payments. Personal income includes wages and salaries, other labor-related income (such as employer contributions to private pension funds), and certain other income (e.g. proprietor's income; rental income; dividends and interest; pensions; Social Security; unemployment compensation; and welfare assistance). Deducted from this total are personal taxes (federal, state and local), certain non-tax payments (e.g. fines, fees and penalties) and personal contributions to a retirement program.

(2) In 2002, the publisher of Sales and Marketing Management, altered the methodology used in order to produce current year estimates. Therefore, 2001 estimates are not available. The 2006 edition of Sales and Marketing Management has not been published as of the date hereof, and therefore 2006 estimates are not available.

Source: Sales and Marketing Management, Survey of Buying Power.

Set forth in Table A-29 below is the distribution of effective buying income by certain income groupings per household for the City, the County and the State.

TABLE A-29

Income Groupings 2005[(1)]
(Percent of Households)

Income Per Household	City of Los Angeles	County of Los Angeles	State of California
$20,000-34,999	23.4%	21.8%	20.0%
35,000-49,999	17.3	18.4	18.8
50,000 & Over	31.9	37.2	42.5

(1) The 2006 edition of Sales and Marketing Management has not been published as of the date hereof, and therefore 2006 estimates are not available.

Source: Sales and Marketing Management, Survey of Buying Power.

Employment

The District is within the Los Angeles-Long Beach Primary Metropolitan Statistical Area Labor Market (Los Angeles County) reported on periodically by the State Department of Employment Development.

Table A-30 below summarizes the development of wage and salary employment in the County during the 2002-2006 period.

TABLE A-30

Labor Force and Employment in Los Angeles County[1]

	2002	2003	2004	2005	2006
Civilian Labor Force[2]	4,770,200	4,773,500	4,789,000	4,837,300	4,860,600
Employment	4,447,100	4,440,800	4,477,900	4,581,100	4,631,600
Unemployment	323,100	332,700	311,000	256,200	229,000
Unemployment Rate	6.8%	7.0%	6.5%	5.3%	4.7%
Wage and Salary Employment[3]:					
Farm	7,800	7,800	7,600	7,400	7,600
Natural Resources and Mining	3,700	3,800	3,800	3,700	4,000
Construction	134,500	134,600	140,200	148,700	156,700
Manufacturing	534,800	500,000	483,600	471,700	462,300
Trade, Transportation and Utilities	782,700	774,900	781,600	795,400	814,100
Information	207,300	202,300	211,900	207,600	209,700
Financial Activities (Finance, Insurance, Real Estate)	232,600	239,800	241,600	244,000	248,000
Business and Professional Services	575,000	559,900	562,400	576,100	594,700
Education and Health Services	450,400	460,400	467,000	471,300	481,300
Leisure and Hospitality	354,200	362,600	372,800	377,800	387,500
Other Services	145,600	145,500	144,700	144,300	145,700
Government	606,100	599,300	587,100	583,700	588,600
Total	4,082,100	3,990,100	3,878,300	4,031,700	4,100,200

(1) Columns may not add to totals due to independent rounding. All information updated per August 2006 Benchmark.
(2) Based on place of residence.
(3) Based on place of work.
Source: State Employment Development Department, Labor Market Information Division.

Commercial Activity

The following Table A-31 sets forth the history of taxable transactions in the County for the years 2001 through 2005.

TABLE A-31

County of Los Angeles
Taxable Transactions
($ in thousands)

	2001	2002	2003	2004	2005
Retail Stores:					
Apparel Stores	$ 3,812,218	$ 4,306,630	$ 4,356,666	$ 4,806,681	$ 5,248,349
General Merchandise Stores	10,860,214	11,196,707	11,749,089	12,592,214	13,176,715
Specialty Stores	11,541,707	11,638,907	12,107,226	13,026,931	13,840,030
Food Stores	4,210,291	4,235,299	4,240,110	4,222,270	4,532,723
Eating/Drinking Places	10,081,425	10,541,880	11,151,772	12,035,694	12,904,310
Household Furnishings and Appliances	3,193,526	3,378,316	3,719,168	4,030,834	4,263,142
Building Materials	5,069,789	5,528,888	6,016,548	7,310,663	7,701,383
Automotive	21,387,319	22,273,351	24,307,334	26,518,947	28,525,468
Other Retail Stores	1,678,073	1,717,999	1,778,813	1,952,451	2,079,035
Retail Store Total	$ 71,834,562	$ 74,547,977	$ 79,426,726	$ 86,496,685	$ 92,271,155
Business and Personal Services	5,134,859	5,055,527	5,066,634	5,275,051	5,414,432
All Other Outlets	30,457,271	29,149,560	29,192,062	30,761,368	33,036,786
Total All Outlets	$107,426,692	$108,753,064	$113,685,422	$122,533,104	$130,722,373
Number of permits	272,973	281,496	289,892	295,398	298,083

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

Leading County Employers

The economic base of the County is diverse with no one sector being dominant. Some of the leading activities include government (including education), business/professional management services (including engineering), health services (including training and research), tourism, distribution, and entertainment. The top twenty-four major employers in the County are set forth below in Table A-32.

TABLE A-32

Los Angeles County
Major Non-Governmental Employers

Employer	Product/Service	Employees
Kaiser Permanente	Health care provider	32,180
Northrop Grumman Corp.	Aerospace/Defense design and manufacturing	21,000
Boeing Co.	Aerospace high technology	15,825
Kroger Co. (1)	Grocery retailer	14,000
University of Southern California	Private university	12,379
Bank of America Corp.	Banking and financial services	12,200
Vons	Grocery retailer	12,116
Target Corp.	Retailer	12,066
AT&T Inc. (2)	Telecommunications, data	9,500
Cedars-Sinai Health System	Medical center	8,817
Wells Fargo	Banking and financial services	8,458
California Institute of Technology	Private university	8,453
Amgen Inc.	Biotechnology	8,000
Fedex Corp.	Delivery services	7,976
Albertsons Southern California Region	Food and drug retailer	7,431
ABM Industries Inc.	Building maintenance, engineering, HVAC, janitorial, lighting, parking, security service contractor	7,221
Providence Health System	Acute medical, surgical, transition care	7,058
Edison International	Electric utility	6,768
Catholic Healthcare West	Hospitals	6,338
UPS	Package delivery	6,295
Washington Mutual Inc.	Banking and financial services	6,000
Long Beach Memorial Medical Center(2)	Regional hospital	5,262
Sempra Energy	Energy services	4,151
Adventist Health	Hospitals	4,029
Childrens Hospital Los Angeles	Hospital	3,814

(1) Los Angeles Business Journal estimate.
(2) Formerly SBC Communications Inc.
Source: Los Angeles Business Journal, “The Lists 2007” from the August 21, 2006 issue.

Construction

The following Table A-33 sets forth the valuation of permits for residential buildings and new single-family and multi-family dwelling units in the City for the years 2002 to 2006.

TABLE A-33

City of Los Angeles
Permit Valuations and Units of Construction
2002 to 2006
(dollars in thousands)

Year	Valuation Residential	New Dwelling Units Single Family	New Dwelling Units Multi-Family	Total Units
2002	$ 1,520,916	1,433	7,170	8,603
2003	1,675,827	1,498	6,433	7,931
2004	2,560,906	1,878	10,362	12,240
2005	2,629,470	2,001	9,549	11,550
2006	3,194,070	2,427	13,487	15,914

Source: Construction Industry Research Board.

GLOSSARY OF CERTAIN TERMS AND ABBREVIATIONS

The following are definitions and abbreviations of certain terms used in this Appendix A.

"AALA" means the Associated Administrators of Los Angeles, which represents the middle managers in the District.

"Accountability Act" means the Classroom Instructional Improvement and Accountability Act, approved by California voters on November 8, 1988, which guarantees State funding for K-12 school districts and community college districts.

"ADA" means average daily attendance, a measure of pupil attendance used as the basis for providing revenue to school districts and as a measure of unit costs. ADA includes only in-seat attendance.

"API" means Academic Performance Index. Schools' scores on the API scale, and their improvement as reflected by API scores, form the basis for funding in several Governors' Initiatives programs. The API scale measures student achievement on certain standardized tests.

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

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

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

"CDE" means the California Department of Education.

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

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

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

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

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

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

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

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

“UTLA” means the United Teachers of Los Angeles, which is the collective bargaining unit representing teachers and support service personnel throughout the District.

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APPENDIX B

SELECTED INFORMATION FROM THE AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

Independent Auditors' Report

The Honorable Board of Education
Los Angeles Unified School District:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Los Angeles Unified School District (the District) as of and for the year ended June 30, 2006, 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 an opinion on these financial statements based on our audit.

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

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, 2006, and the respective changes in financial position, and where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2006 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 and the schedules of funding progress on pages 48 and 50 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, the supplementary information section, the statistical section, and the state and federal compliance information section are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information listed in the supplementary section and the information on pages 151 to 156 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 statistical section, and pages 158 to 160 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 them.

KPMG LLP

December 11, 2006

As management of the Los Angeles Unified School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2006. 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-xi of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by $4.2 billion (net assets). Of this amount, $222.7 million (unrestricted net assets) may be used to meet the District's ongoing obligations to students and creditors.
- The District's total net assets increased by $462.1 million from prior year total, primarily due to the revenue increases in operating and capital grants and contributions, State aid formula grants, and unrestricted investment earnings.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of $2.8 billion, an increase of $255.0 million from June 30, 2005.
- At the end of the current fiscal year, unreserved fund balance for the General Fund, including designated for economic uncertainties, was $289.8 million, or 4.5% of total General Fund expenditures.
- The District's total long-term obligations increased by $1.1 billion (18.8%) during the current fiscal year. The increase resulted from a net increase in outstanding general obligation bonds partially offset by a decrease in outstanding certificates of participation.

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 (e.g., uncollected taxes and earned but unused vacation leave).

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.

(Continued)

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

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund 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 22 individual governmental funds. In the governmental fund balance sheet and in the governmental fund 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 rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

In the past, the District's practice was to record estimated claim liabilities to the extent funded. This practice approximated the present value of the claims, in conformity with the accrual basis of accounting, with respect to the Health and Welfare Benefits Fund (fully funded since fiscal year 1992-1993) and the Liability Self-Insurance Fund (fully funded since fiscal year 1996-1997) but not the Workers' Compensation Self-Insurance Fund.

Starting with fiscal year ended June 30, 2004, the District has recorded estimated claims liabilities at the present value of claims, thereby eliminating the overstatement in net assets previously reported in the Workers' Compensation Self-Insurance Fund. The District has provided funds to partially cover the negative net assets since the fiscal year 2004-2005 Budget.

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 27-72 of this report.

Combining and individual fund schedules and statements. The combining schedules and statements showing the individual District bond accounts and nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund schedules and statements can be found on pages 75-90 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 $4.2 billion at the close of the most recent year.

By far the largest portion of the District's net assets (68.6%) 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 26.1% of the District's net assets ($1,089.2 million) represent resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets ($222.7 million) may be used to meet the District's ongoing obligations to students and creditors.

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

The $1,338.6 million increase in capital assets primarily relates to the continuing construction of additions to school buildings as well as school modification projects throughout the District.

Long-term liabilities increased by $1.1 billion due to a net increase in outstanding general obligation bonds, offset by a decrease in outstanding certificates of participation.

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Net Assets (In Thousands)

As of June 30, 2006 and 2005:

	Governmental activities	
	2006	**2005**
Current assets	$ 4,931,309	$ 4,929,137
Capital assets	7,797,753	6,459,158
Total assets	12,729,062	11,388,295
Current liabilities	1,497,680	1,736,603
Long-term liabilities	7,053,181	5,935,608
Total liabilities	8,550,861	7,672,211
Net assets:		
Invested in capital assets, net of related debt	2,866,293	2,704,302
Restricted:		
Restricted for debt service	309,525	217,807
Restricted for program activities	779,640	483,972
Unrestricted	222,743	310,003
Total net assets	$ 4,178,201	$ 3,716,084

Changes in Net Assets (In Thousands)

	Governmental activities	
	2006	**2005**
Revenues:		
Program revenues:		
Charges for services	$119,327	$108,881
Operating grants and contributions	2,971,836	2,795,565
Capital grants and contributions	374,192	93,700
Total program revenues	3,465,355	2,998,146
General revenues:		
Property taxes levied for general purposes	644,637	850,516
Property taxes for debt service	331,097	308,537
Property taxes levied for community redevelopment	1,713	3,394
State aid, formula grants	2,781,133	2,582,322
Grants, entitlements, and contributions not restricted to specific programs	441,396	489,060
Unrestricted investment earnings	138,346	70,589
Miscellaneous	6,386	13,001
Total general revenues	4,344,708	4,317,419
Total revenues	7,810,063	7,315,565
Expenses:		
Instruction	4,032,673	3,996,454
Support services:		
Support services - students	298,911	311,449
Support services - instructional staff	650,551	647,207
Support services - general administration	46,913	46,195
Support services - school administration	466,862	444,656
Support services - business	106,523	138,800
Operation and maintenance of plant services	599,899	588,588
Student transportation services	161,395	161,845
Data processing services	115,311	230,434
Operation of noninstructional services	282,992	273,236
Facilities acquisition and construction services	135,827	160,224
Other uses	799	778
Interest expense	285,051	256,372
Interagency disbursements	33,678	28,927
Depreciation - unallocated	130,561	105,026
Total expenses	7,347,946	7,390,191
Changes in net assets	462,117	(74,626)
Net assets - beginning	3,716,084	3,790,710
Net assets - ending	$4,178,201	$3,716,084

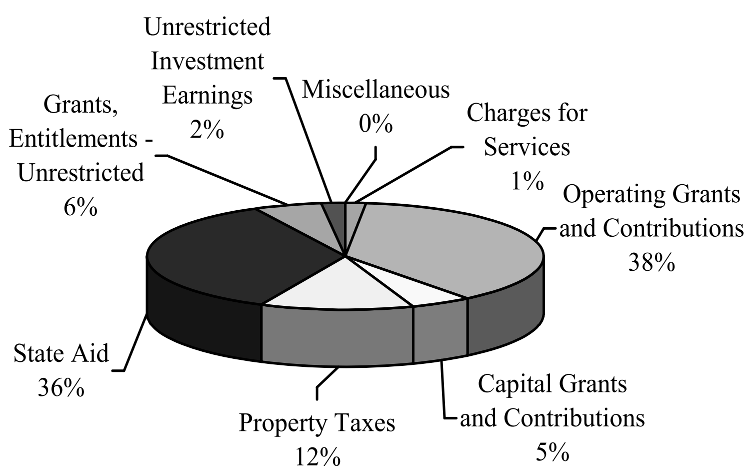
(Continued)

The District's net assets increased by $462.1 million in the current fiscal year. The major components of this increase are as follows:

- Capital grants and contributions increased by $280.5 million due to higher school facilities apportionments from State bonds; operating grants and contributions increased by $176.3 million due to higher Specially funded grant revenues; and total general revenues increased by $27.3 million primarily due to higher State aid apportionments, partially offset by lower property taxes levied for general purposes.

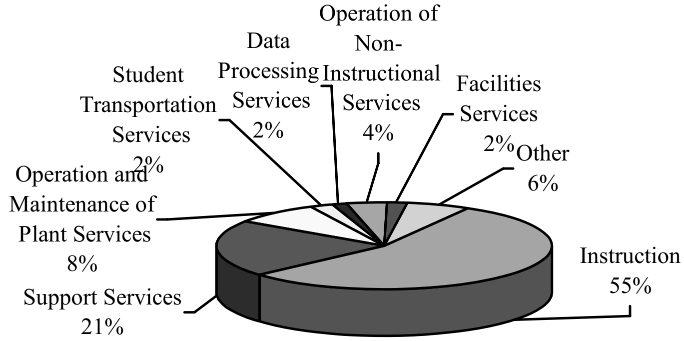
The following graph shows that operating grants and contributions and state aid are the main revenue sources of the District.

Revenues by Source
Year ended June 30, 2006



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

Expenses
Year ended June 30, 2006



Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal 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 $2.8 billion, an increase of $255.0 million in comparison with the prior year. Approximately 83.7% ($2.3 billion) of this total combined ending fund balance constitutes unreserved fund balance, which is available for spending at the District's discretion. The remaining 16.3% is reserved to indicate that it is not available for new spending because it has already been committed for: debt service ($302.5 million), legally restricted balances ($129.1 million), inventories and prepaid expenses ($20.5 million), and revolving cash ($6.2 million).

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, the unreserved fund balance of the General Fund was $289.8 million, while the total fund balance reached $434.5 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 4.5% of the total General Fund expenditures, while the total fund balance represents 6.8% of that same amount.

The fund balance of the District's General Fund increased by $84.9 million during the current fiscal year as a result of higher revenues and other financing sources partially offset by higher operating expenditures and other financing uses. It includes $27.4 million of Social Studies textbook adoption delay to 2006-2007, $25 million of projected 2005-2006 salary increase for some employee groups to be implemented in 2006-2007, and other miscellaneous items.

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

	District bonds	Special revenue	Debt service	Other capital projects	County School facilities bond
Fund balance, June 30, 2006:					
Reserved for:					
Revolving cash	$ 3,300	$ 187	$ —	$ —	$ —
Inventories	—	7,680	—	—	—
Debt service	—	—	302,482	—	—
Unreserved	1,096,859	187,178	—	428,119	344,922
Total	1,100,159	195,045	302,482	428,119	344,922
Fund balance, July 1, 2005	1,130,923	108,930	224,398	489,976	246,432
Increase (decrease) in fund balance	$ (30,764)	$ 86,115	$ 78,084	$ (61,857)	$ 98,490

The fund balance increased during the current year: for the County School Facilities Bonds as a result of apportionments from the State bond proceeds; for the Special Revenue, due to increase in operating revenues and decrease in operating expenditures; and for the Debt Service, due to deposit of portions from the proceeds of new G.O. bonds issued with the Bond Interest and Redemption Fund. The fund balance decreased for the District Bonds and the Capital Projects, due to spending for continuing school construction and renovation projects.

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

At the end of the year, the District's proprietary funds, considered as *Internal Service Funds* have negative unrestricted net assets of $164.0 million. The net increase of $107.2 million in the current year is largely the result of lower claims expense in the Workers' Compensation Self-Insurance Fund.

General Fund Budgetary Highlights

Differences between the original 2005-2006 General Fund budget (the 2005-2006 Final Budget adopted by the Board of Education in August of 2005) and the year-end budget resulted in a net decrease to the overall 2005-2006 General Fund ending balance. This net decrease resulted primarily from spending down of balances relating to entitlements carried forward from previous years. The decrease of $313.2 million in the object for other outgo represented budget transfers made for expenditures occurring in other objects as partially reflected in the increases of $152.2 million in books and supplies and $118.6 million in services and other operating expenditures. The District closely reviews its revenue and expenditure data to ensure that a sufficient ending balance is maintained. This review occurs throughout the fiscal year, utilizing the State-mandated first and second interim financial reports, and at year end utilizing the actual revenue and expenditure data for the past fiscal year.

In order to address the sufficiency of balances, the District has undertaken two significant steps. First, a Budget and Finance Policy adopted by the Board for implementation with the 2005-2006 fiscal year calls for the District to strive for a balancing of ongoing expenditures with ongoing revenues, as a means of ensuring a stable or growing ending balance. And secondly, the District began in 2005-2006 to indicate in its budget documents both an "authorized" expenditure level, indicating the gross amount available for expenditure, and an "estimated" expenditure level, reflecting the most likely spending for the year, given historic trends and known revisions to the prior year expenditure plan.

The difference between the "authorized" and the "estimated" expenditure levels represents an estimate of the budgeted amount that will remain unexpended during the fiscal year. This amount can be combined with other components of the ending balance (the Reserve for Economic Uncertainties, the Reserve for Inventories, Revolving Cash Funds, etc.) to determine whether the District's revenue estimates and expenditure plan are likely to produce a satisfactory ending balance.

Differences between budgeted and actual revenues often occur in the General Fund due to the need to budget multi-year categorical program revenues in their entirety in order to reflect the amount which potentially could be expended. Because funds in these programs are earned only to the extent that actual expenditures occur, the actual revenue level can differ significantly from the budgeted amount. The use of "authorized" and "estimated" budget amounts enables staff to recognize these differences and project the level of unrealized revenue that is likely to occur in a given fiscal year.

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The $175.5 million variance in revenues 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 expenditure occurred. The District has begun building its budget with both "authorized and estimated" revenue amounts which will enable staff to recognize the amount of unrealized revenue that is likely to occur as a result of budgeting full revenue for multi-year grants.

The $121.1 million variance in books and supplies expenditures and the $112.3 million variance in services and other operating expenditures between final budget and actual occurred primarily because expenditures in categorical (specially funded) programs were less than the budget. A significant portion of these variances resulted from the factor described in the revenue variance – the full budgeting of expenditures in the first year of a multiyear grant. As with revenues, the District's budget now includes "authorized" and "estimated expenditure amounts; the difference between them is the lower expenditures estimated.

The $43.3 million variance in other outgo between final budget and actual resulted from expenditures that occurred in other objects such as salaries and employee benefits, particularly for reading coaches initially budgeted in a "pending distribution" account.

Capital Assets and Debt Administration

Capital assets. The District's investment in capital assets for its governmental activities as of June 30, 2006 amounts to $7.8 billion (net of accumulated depreciation), a 20.7% increase from the prior year. This investment in capital assets includes sites, improvement of sites, buildings and improvements, equipment and construction in progress.

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

- Continuing construction of additional school buildings as well as school modernization projects throughout the District. Construction in progress as of the close of the fiscal year had reached $2.5 billion.
- Various building additions and modernizations were completed at a cost of $1.2 billion.
- A total of 12 new schools were completed in 2006 and will be opening their doors during the 2006-2007 school year to new students.

Capital Assets (net of accumulated depreciation)

As of June 30, 2006 and 2005 (in thousands):

	Governmental activities 2006	Governmental activities 2005
Sites	$ 2,105,429	$ 1,805,711
Improvement of sites	133,754	102,275
Buildings and improvements	2,896,905	1,824,125
Equipment	115,773	126,572
Construction in progress	2,545,892	2,600,475
Total	$ 7,797,753	$ 6,459,158

Additional information on the District's capital assets can be found in note 7 on page 45 of this report.

Long-term obligations. At the end of the current fiscal year, the District had total long-term obligations of $7.1 billion. Of this amount, $5.8 billion comprises debt to be repaid by voter-approved property taxes and not the General Fund of the District.

Outstanding Obligations

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

	Governmental activities	
	2006	**2005**
General Obligation Bonds	$ 5,803,689	$ 4,479,633
State School Building Aid Fund	880	1,219
Liability for compensated absences	78,309	76,066
Certificates of Participation (COPs)	429,974	615,396
Capital Lease Obligations	6,619	9,951
Children's Center Facilities Loan	792	792
CA Energy Commission Loan	1,243	1,379
Self-insurance claims	731,675	751,172
Total	$ 7,053,181	$ 5,935,608

The District's total long-term obligations increased by $1.1 billion (18.8%) during the current fiscal year. The key factors in this increase were the issuances of general obligation bonds, offset by the refunding of certificates of participation.

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

- On July 20, 2005, the District issued $346.8 million of 2005 General Obligation Refunding Bonds, Series A-1 to advance refund a portion of each of the General Obligation Bonds, Election of 1997, Series A (1997), Series B (1998) and Series D (2000). In addition, the District issued $120.9 million of 2005 General Obligation Bonds, Series A-2 to advance refund a portion of the General Obligation Bonds, Election of 1997, Series C (1999).
- On August 10, 2005, the District issued $400.0 million of General Obligation Bonds, Election of 2004 (Measure R), Series E to fund new school construction, modernization, and other capital projects for the Measure R portion of the bond program.
- On February 16, 2006, the District issued $500.0 million of General Obligation Bonds, Election of 2004 (Measure R), Series F to fund new school construction, modernization, and other capital projects for the Measure R portion of the bond program.
- On February 22, 2006, the District issued an aggregate principal amount of $394.4 million of General Obligation Bonds, Election of 2005 (Measure Y) as follows:

- $56.8 million of Series A (2006) were issued to advance refund and defease $56.3 million of Certificates of Participation (COPs), 2002 Series B.
- $80.2 million of Series B (2006) were issued to advance refund and defease $78.9 million of COPs, 2003 Series A.
- $210.0 million of Series C (2006) were issued to provide funds for school buses and other Measure Y capital projects; and
- $47.4 million of Series D (2006) were issued to advance refund and defease $42.0 million of Certificates of Participation, 2004A Series A and B and to fund $5.7 million of future lease payments on the 2000 COPs (Qualified Zone Academy Bonds).

- On February 22, 2006, the District issued $132.3 million of 2006 General Obligation Refunding Bonds, Series A to advance refund a portion of the General Obligation Bonds, Election of 2002, Series A (2003).

In addition to the above, the District issued $10.0 million of Qualified Zone Academy Bonds (QZAB) on a private-placement basis to fund the District's portion of various capital projects undertaken at academies throughout the District pursuant to the guidelines of the federal QZAB program.

The District's current underlying ratings on its general obligation bonds are "Aa3", "AA-" and "A+" from Moody's Investors Service (Moody's), Standard and Poor's Ratings Group (S&P) and Fitch Ratings (Fitch), respectively. The District's current underlying ratings on its nonabatable leases (COPs) are "A1", "A+" and "A-" from Moody's, S&P and Fitch, respectively; for abatable leases (COPs), the underlying ratings are "A2", "A+" and "A-" from Moody's, S&P and Fitch, respectively. The District has purchased municipal bond insurance for its COPs and bonds when economically advantageous to do so. The insured COPs and bonds have received the ratings of "Aaa", "AAA" and "AAA" by Moody's, S&P and Fitch, respectively.

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, 2006 is $9.097 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 53-62 of this report.

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

State of California and Los Angeles Unified School District Fiscal Outlook

Governor Arnold Schwarzenegger signed the 2006-2007 State Budget Act on June 30, 2006. The State Budget was balanced without the need for issuances of deficit-financing bonds, and reflected the out-of-court settlement of the *California Teachers' Association v. Schwarzenegger* lawsuit, which was intended to provide to public education its "fair share" of increased 2004-2005 and 2005-2006 State revenues that were initially withheld by the Governor.

The settlement of the lawsuit, and the strength of California's economy, brought about a sizable increase in State funding for public education. An additional $757 million in ongoing 2006-2007 K-12 education spending and $2.3 billion in onetime funding were provided, and $2.9 billion will be spread over future years, beginning in 2007-2008.

The 2006-2007 State Budget Act provided to public education a fully funded cost-of-living adjustment (COLA) of 5.92% and eliminated the base revenue limit deficit factor, which had been 0.892% in 2005-2006. Equalization funding of $350 million statewide was also provided. Much of the 2006-2007 K-12 education revenue increase, however, was provided in the form of new and increased categorical program funding, providing limited flexibility in the use of the increased income.

The State's financial outlook for 2007-2008 and subsequent out years remains uncertain. The nonpartisan Legislative Analyst's Office (LAO) has estimated that the State will face deficits of approximately $3 to $5 billion in 2007-2008 and 2008-2009, and continues to stress the need for structural changes in the State's finances. Given the high level of dependency of public education on State revenues, particularly relatively volatile revenue sources such as State income, sales, and property taxes, the District must continue to review the State's finances closely. As always, the District continues its efforts to build a budget that is both fiscally and structurally balanced.

In June 2004, for the first time in the District's history, the Board of Education adopted a Budget and Finance Policy which enumerates a wide variety of principles to be followed in future District budgets. Among its precepts, the Policy would require the District to begin the lengthy process of accumulating reserves to cover costs of outstanding liabilities, as well as an emergency reserve in excess of the required reserve for economic uncertainties and a reserve to cover costs of replacing equipment as it becomes damaged or obsolete. It would also call for a balancing of ongoing costs to ongoing revenues (structural balance) and for the District to make a substantial effort to maximize its revenues.

While the Budget and Finance Policy became the District's official operating guide with the beginning of the 2005-2006 fiscal year, it has not been possible to implement all of its precepts immediately. However, many of the Policy's recommendations have been implemented. Among these are: a Grants Assistance Unit, established as a means of seeking additional District revenue; substantial additions and improvements to the budget document to enhance understanding and clarity; and the establishment of an "estimated expenditures" column and a Reserve for Anticipated Ending Balances for each District Defined Program and Fund in the budget, to more closely align the budget with the actual level of anticipated expenditures.

Bond Revenues

The District continues to utilize proceeds from voter-approved bond measures to fulfill the goal to return all schools to a two-semester calendar, end involuntary busing, focus on critically needed schools for our youngest students, and ensure that every community receives its fair share of new schools and classrooms. Through these bond issuances, the District is repairing and upgrading aging and deteriorating classrooms and restrooms, building new neighborhood schools, upgrading fire and earthquake safety and emergency response equipment, and seeking to eliminate asbestos and lead paint hazards.

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, 2006

(In thousands)

	Governmental activities
Assets:	
Cash and cash equivalents	$ 3,151,386
Investments	819,660
Property taxes receivable	41,360
Accounts receivable, net	817,504
Accrued interest and dividends receivable	47,476
Prepaid expense	21,257
Deferred charges	17,398
Inventories	15,268
Capital assets:	
Sites	2,105,429
Improvement of sites	386,968
Buildings and improvements	4,298,752
Equipment	1,124,779
Construction in progress	2,545,892
Less accumulated depreciation	(2,664,067)
Total capital assets, net of depreciation	7,797,753
Total assets	12,729,062
Liabilities:	
Vouchers and accounts payable	395,174
Contracts payable	125,522
Accrued payroll	246,401
Other payables	163,066
Unearned revenue	138,135
Tax and revenue anticipation notes and interest payable	429,382
Long-term liabilities:	
Portion due or payable within one year	329,152
Portion due or payable after one year	6,724,029
Total liabilities	8,550,861
Net assets:	
Invested in capital assets, net of related debt	2,866,293
Restricted for:	
Debt service	309,525
Program activities	779,640
Unrestricted	222,743
Total net assets	$ 4,178,201

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2006

(In thousands)

Functions/programs	Expenses	Program revenues: Charges for services	Program revenues: Operating grants and contributions	Program revenues: Capital grants and contributions	Net (expense) revenue and changes in net assets
Governmental activities:					
Instruction	$ 4,032,673	$ 2,968	$ 1,473,164	$ —	$ (2,556,541)
Support services – students	298,911	—	178,438	—	(120,473)
Support services – instructional staff	650,551	290	526,379	—	(123,882)
Support services – general administration	46,913	—	23	—	(46,890)
Support services – school administration	466,862	—	143,761	—	(323,101)
Support services – business	106,523	5,769	99,041	—	(1,713)
Operation and maintenance of plant services	599,899	4,154	131,411	7,719	(456,615)
Student transportation services	161,395	—	170,604	—	9,209
Data processing services	115,311	—	7,404	—	(107,907)
Operation of noninstructional services	282,992	21,024	236,391	—	(25,577)
Facilities acquisition and construction services*	135,827	85,122	5,220	366,473	320,988
Other uses	799	—	—	—	(799)
Interest expense	285,051	—	—	—	(285,051)
Interagency disbursements**	33,678	—	—	—	(33,678)
Depreciation – unallocated***	130,561	—	—	—	(130,561)
Total	$ 7,347,946	$ 119,327	$ 2,971,836	$ 374,192	(3,882,591)
General revenues:					
Taxes:					
Property taxes, levied for general purposes					644,637
Property taxes, levied for debt service					331,097
Property taxes, levied for community redevelopment					1,713
State aid – formula grants					2,781,133
Grants, entitlements, and contributions not restricted to specific programs					441,396
Unrestricted investment earnings					138,346
Miscellaneous					6,386
Total general revenues					4,344,708
Change in net assets					462,117
Net assets – beginning of year					3,716,084
Net assets – end of year					$ 4,178,201

* 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 represents transfers to fiscally independent charter schools in lieu of property taxes.

*** 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, 2006

(In thousands)

Assets	**General**	**District bonds**	**Other governmental funds**	**Total governmental funds**
Cash in county treasury, in banks, and on hand	$ 320,946	$ 1,151,119	$ 1,345,726	$ 2,817,791
Cash held by trustee	29,925	376	100,610	130,911
Investments	427,693	—	16,022	443,715
Taxes receivable	—	—	41,360	41,360
Accounts receivable – net	694,784	8,970	112,834	816,588
Accrued interest and dividends receivable	10,496	18,495	12,308	41,299
Prepaid expenditures	5,273	—	—	5,273
Due from other funds	645,319	103,896	99,793	849,008
Inventories	7,588	—	7,680	15,268
Total assets	$ 2,142,024	$ 1,282,856	$ 1,736,333	$ 5,161,213
Liabilities and Fund Balances				
Vouchers and accounts payable	$ 259,741	$ 70,343	$ 31,203	$ 361,287
Contracts payable	2,526	84,893	38,103	125,522
Accrued payroll	231,383	2,689	14,147	248,219
Other payables	126,138	8,959	24,786	159,883
Due to other funds	529,247	15,813	307,126	852,186
Deferred revenue	129,095	—	50,400	179,495
Tax and revenue anticipation notes		—		
and interest payable	429,382	—	—	429,382
Total liabilities	1,707,512	182,697	465,765	2,355,974
Fund balances:				
Reserved	144,673	3,300	310,349	458,322
Unreserved:				
Designated	208,729	1,096,859	—	1,305,588
Designated, reported in:				
Special revenue funds	—	—	177,994	177,994
Capital projects funds	—	—	771,248	771,248
Undesignated	81,110	—	—	81,110
Undesignated, reported in:				
Special revenue funds	—	—	9,184	9,184
Capital projects funds	—	—	1,793	1,793
Total fund balances	434,512	1,100,159	1,270,568	2,805,239
Total liabilities and fund balances	$ 2,142,024	$ 1,282,856	$ 1,736,333	$ 5,161,213

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, 2006

(In thousands)

Total fund balances – governmental funds	$	2,805,239
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 $10,461,820 and the accumulated depreciation is $2,664,067.		7,797,753
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.		41,360
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.		(164,035)
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.		(6,319,514)
Other assets – deferred charges (cost of bond issuance, net of amortization) not reflected in fund financials		17,398
Total net assets – governmental activities	$	4,178,201

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, 2006

(In thousands)

	General	District bonds	Other governmental funds	Total governmental funds
Revenues:				
Revenue limit sources	$ 3,569,303	$ —	$ 155,296	$ 3,724,599
Federal revenues	889,523	—	260,537	1,150,060
Other state revenues	1,915,110	—	504,302	2,419,412
Other local revenues	98,075	52,632	487,234	637,941
Total revenues	6,472,011	52,632	1,407,369	7,932,012
Expenditures:				
Current:				
Certificated salaries	3,050,960	—	136,481	3,187,441
Classified salaries	897,903	52,066	148,589	1,098,558
Employee benefits	1,292,176	16,973	109,426	1,418,575
Books and supplies	435,882	11,320	119,965	567,167
Services and other operating expenditures	616,844	46,510	28,034	691,388
Capital outlay	63,096	1,053,631	416,135	1,532,862
Debt service – principal	4,650	—	90,193	94,843
Debt service – bond, COPs, and capital leases interest	847	—	240,284	241,131
Debt service – refunding bond issuance cost	—	—	2,732	2,732
Other outgo	41,695	—	—	41,695
Total expenditures	6,404,053	1,180,500	1,291,839	8,876,392
Excess (deficiency) of revenues over (under) expenditures	67,958	(1,127,868)	115,530	(944,380)
Other financing sources (uses):				
Transfers in	92,057	1	289,600	381,658
Transfers – support costs	7,248	—	(7,248)	—
Transfers out	(83,701)	(208,618)	(89,339)	(381,658)
Issuance of bonds	—	1,115,712	—	1,115,712
Premium on bonds issued	—	7,903	56,380	64,283
Refunding bonds issued	—	178,673	600,000	778,673
Premium on refunding bonds issued	—	3,433	60,625	64,058
Issuance of COPs	—	—	10,000	10,000
Payment to refunded bonds escrow agent	—	—	(656,098)	(656,098)
Payment to refunded COPs escrow agent (from proceeds of refunding bonds)	—	—	(178,618)	(178,618)
CA Energy Commission loan	63	—	—	63
Capital leases	1,318	—	—	1,318
Total other financing sources	16,985	1,097,104	85,302	1,199,391
Net changes in fund balances	84,943	(30,764)	200,832	255,011
Fund balances, July 1, 2005	349,569	1,130,923	1,069,736	2,550,228
Fund balances, June 30, 2006	$ 434,512	$ 1,100,159	$ 1,270,568	$ 2,805,239

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, 2006

(In thousands)

Total net changes in fund balances – governmental funds	$	255,011
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay ($1,532,861) exceeds depreciation ($194,242) and loss on equipment disposal ($24) in the period.		1,338,595
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.		(1,318)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		94,981
Proceeds of new debt are reported as other financing sources in the governmental funds, but these receipts are considered long-term liabilities in the statement of net assets, including those used to refund older bonds and COPs, net of premium amortization.		(2,023,206)
Bond issuance costs are reported as expenditures in the governmental funds, but presented as deferred charges, net of amortization of issuance costs.		12,540
Payments to escrow agents for refunded bonds and COPs are reported as other financing uses in the governmental funds, but these payments include defeasement of long-term liabilities in the statement of net assets.		834,716
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.		(114,705)
In the statement of activities, compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, vacation leave earned exceeded the amounts used.		(1,891)
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires the use of financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.		(39,853)
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.		107,247
Changes in net assets of governmental activities	$	462,117

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, 2006

(In thousands)

	Budget			Variance with final
	Original	**Final**	**Actual**	**budget***
Revenues:				
Revenue limit sources	$ 3,551,884	$ 3,552,611	$ 3,569,303	$ 16,692
Federal revenues	1,015,475	1,065,015	889,523	(175,492)
Other state revenues	1,994,840	1,988,482	1,915,110	(73,372)
Other local revenues	93,106	79,150	98,075	18,925
Total revenues	6,655,305	6,685,258	6,472,011	(213,247)
Expenditures:				
Current:				
Certificated salaries	3,008,540	3,068,925	3,050,960	(17,965)
Classified salaries	883,353	905,594	897,903	(7,691)
Employee benefits	1,328,500	1,327,061	1,292,176	(34,885)
Books and supplies	404,944	557,172	435,882	(121,290)
Services and other operating expenditures	610,526	729,100	616,844	(112,256)
Capital outlay	52,785	71,842	63,096	(8,746)
Debt service – principal	1,051	4,650	4,650	—
Debt service – bond, COPs, and capital leases interest	948	1,016	847	(169)
Other outgo	398,206	84,967	41,695	(43,272)
Total expenditures	6,688,853	6,750,327	6,404,053	(346,274)
Excess of revenues over expenditures	(33,548)	(65,069)	67,958	133,027
Other financing sources (uses):				
Transfers in	76,428	97,698	92,057	(5,641)
Transfers – support costs	7,579	(7,998)	7,248	15,246
Transfers out	(44,720)	(85,263)	(83,701)	1,562
CA Energy Commission loan	1,318	1,318	63	(1,255)
Capital leases	1,999	1,999	1,318	(681)
Total other financing sources	42,604	7,754	16,985	9,231
Net changes in fund balances	9,056	(57,315)	84,943	142,258
Fund balances, July 1, 2005	349,569	349,569	349,569	—
Fund balances, June 30, 2006	$ 358,625	$ 292,254	$ 434,512	$ 142,258

* Over (under)

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, 2006

(In thousands)

Assets:	
Cash in county treasury, in banks, and on hand	$ 202,684
Investments	375,945
Accounts receivable – net	916
Accrued interest and dividends receivable	6,177
Prepaid expenses	15,984
Due from other funds	35,643
Total assets	637,349
Liabilities:	
Current:	
Vouchers and accounts payable	33,429
Accrued payroll	692
Other payables	2,665
Due to other funds	32,923
Estimated liability for self-insurance claims	170,863
Total current	240,572
Noncurrent:	
Estimated liability for self-insurance claims	560,812
Total liabilities	801,384
Total net deficit – unrestricted	$ (164,035)

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Statement of Revenues, Expenses, and Changes in Fund Net Deficit

Proprietary Funds

Governmental Activities – Internal Service Funds

Year ended June 30, 2006

(In thousands)

Operating revenues:		
In-district premiums	$	912,296
Total operating revenues		912,296
Operating expenses:		
Certificated salaries		146
Classified salaries		6,785
Employee benefits		3,230
Supplies		305
Premiums and claims expenses		802,594
Claims administration		13,347
Other contracted services		555
Total operating expenses		826,962
Operating income		85,334
Nonoperating revenues:		
Interest income		21,874
Other local income		39
Total nonoperating revenues		21,913
Change in net assets		107,247
Total net deficit, July 1, 2005		(271,282)
Total net deficit, June 30, 2006	$	(164,035)

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, 2006

(In thousands)

Cash flows from operating activities:		
Cash payments to employees for services	$	(7,908)
Cash payments for goods and services		(830,554)
Receipts from assessment to other funds		897,826
Other operating revenue (miscellaneous)		12,953
Net cash provided by operating activities		72,317
Cash flows from investing activities:		
Earnings on investments		18,021
Purchase of investments		(77,535)
Net cash used in investing activities		(59,514)
Net increase in cash and cash equivalents		12,803
Cash and cash equivalents, July 1		189,881
Cash and cash equivalents, June 30	$	202,684
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	85,334
Adjustments to reconcile operating income to net cash provided by operating activities:		
Changes in operating assets and liabilities:		
Decrease in accounts receivable		313
Decrease in prepaid expense		406
Decrease in due from other funds		2,854
Increase in vouchers and accounts payable		7,161
(Decrease) in accrued payroll		(41)
Increase in other payables		1,842
(Decrease) in due to other funds		(6,055)
(Decrease) in estimated liability for self-insurance claims – current		(65,280)
Increase in estimated liability for self-insurance claims – noncurrent		45,783
Total adjustments		(13,017)
Net cash provided by operating activities	$	72,317

See accompanying notes to basic financial statements.

LOS ANGELES UNIFIED SCHOOL DISTRICT

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2006

(In thousands)

		Pension trust funds		Agency fund
Assets:				
Cash in county treasury, in banks, and on hand	$	18,103	$	20,209
Investments		430		—
Due from Primary Government		480		—
Accrued interest and dividends receivable		162		—
Total assets		19,175		20,209
Liabilities:				
Vouchers and accounts payable		4		—
Other payables		18,698		20,209
Due to Primary Government		22		—
Total liabilities		18,724		20,209
Total net assets – held in trust	$	451	$	—

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, 2006

(In thousands)

Additions:		
Investment income	$	85
Total additions		85
Deductions:		
Distributions to participants		9
Other contracted services		70
Total deductions		79
Change in net assets		6
Total net assets, July 1, 2005		445
Total net assets, June 30, 2006	$	451

See accompanying notes to basic financial statements.

(1) Summary of Significant Accounting Policies

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

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.

(Continued)

(b) Government-Wide and Fund Financial Statements

The District's basic financial statements consist of the traditional 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 instead 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 but the individual fund financial statements are presented in the supplemental pages of the annual report.

(c) Measurement Focus and Basis of Accounting

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

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

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

(Continued)

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

(d) Financial Statement Presentation

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

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

(e) Fund Accounting

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

Governmental Funds

The District has the following major governmental funds for the fiscal year 2005-2006:

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

District Bonds Fund – This column represents the total of the following building accounts: Building Account – Bond Proceeds, established on April 4, 1997 to account for bond proceeds received as a result of the passage of Proposition BB in April 1997; Building Account – Measure K, established on February 26, 2003 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" in the November 2002 election, Building Account – Measure R, established on July 19, 2004 to account for bond proceeds received by the passage of Measure R in March 2004, and Building Account – Measure Y, established on January 31, 2006 to account for bond proceeds received by the passage of Measure Y in November 2005.

Other Governmental Funds

The District has the following nonmajor governmental funds:

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

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

Capital Projects Funds – Capital Projects Funds are used to account for all financial resources related to the acquisition or construction of major capital facilities and equipment other than those financed by the General and Special Revenue Funds. The District maintains the following nonmajor Capital Projects Funds: Building, State School Building Lease-Purchase, Special Reserve, Special Reserve – FEMA-Earthquake, Special Reserve – FEMA-Hazard Mitigation, Special Reserve – Community Redevelopment Agency, Capital Facilities Account, County School Facilities, County School Facilities – Prop 47 and County School Facilities – Prop 55. The District Bonds Fund (Bond Proceeds, Measure K, Measure R and Measure Y) is reported separately as a major fund in fiscal year 2005-2006.

Proprietary Funds

The District has the following Proprietary Funds:

Internal Service Funds – Internal Service Funds are used to account for all financial resources intended to provide self-insurance services to other operating funds of the District on a cost-reimbursement basis. The District maintains the following Internal Service Funds: Health and Welfare Benefits, Workers' Compensation Self-Insurance, and Liability Self-Insurance. The Health and Welfare Benefits Fund was established in 1982 to pay for claims, administrative cost, insurance premiums, and related expenditures; the Workers' Compensation Self-Insurance Fund was established in 1977 to pay for claims, excess insurance coverage, administrative costs, and related expenditures. The total of these funds is presented in a single column on pages 23-24.

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. These liabilities have been presented at its full actuarial valuation. 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. For a number of years, the District has been accumulating a deficit in its Workers' Compensation Self-Insurance Fund, which was initially reflected in the 2003-2004 Consolidated Annual Financial Report. Because the District lacks sufficient financial resources to fund the total liability in 2005-2006, the deficit continues into the new fiscal year. Contributions in excess of current claims payments were applied towards the liability to help reduce the deficit. For fiscal year 2006-2007, the Workers' Compensation claims are budgeted at a level designed to prevent the deficit from increasing.

Over the long term, the District will eliminate the unfunded liability by budgeting at a level that exceeds the amount calculated by the actuary to be necessary to cover workers' compensation costs for the year. The District's Budget and Finance Policy assigns to the Chief Financial Officer responsibility to recommend to the Board the appropriate level of funding for the Workers' Compensation Fund.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's internal service funds are charges to other operating funds for self-insurance services. Operating expenses include the cost of services including insurance premiums, claims, and administrative costs. All revenues and expenses not meeting this definition are nonoperating revenues and expenses.

Fiduciary Funds

The District has the following Fiduciary Fund:

Pension Trust Funds – The 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, 2006 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), utilizes a dual-adoption budget schedule. The District adopts a Provisional Budget prior to the State-mandated July 1 deadline and a Final Budget no later than September 8. These budgets are revised by the District's Board during the year to give consideration to unanticipated revenues and expenditures (see note 4 – budgetary appropriation amendments).

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

Formal budgetary integration is employed as a management control device during the year for all budgeted funds. The District employs budgetary control by minor (sub) object and by individual program accounts. Expenditures may not legally exceed budgeted appropriations by major object level as follows: Certificated Salaries, Classified Salaries, Employee Benefits, Books and Supplies, Services and Other Operating Expenditures, Capital Outlay, Other Outgo, and Other Financing Uses. For fiscal year 2005-2006, the Workers' Compensation Fund continues to show the unfunded deficit from the recognition of estimated liabilities at its full actuarial valuation. Notwithstanding the unfunded deficit, the Workers' Compensation Self-Insurance Fund does not have a cash flow problem. The fund generated $70.7 million in cash flows from operating activities and has approximately $93.3 million and $375.9 million in cash and investments as of June 30, 2006, respectively.

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.

(Continued)

(g) Cash and Investments

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

In accordance with State Education Code Section 41001, the District deposits virtually all of its cash with the Treasurer of the County of Los Angeles. The District's deposits, along with funds from other local agencies such as the county government, other school districts, and special districts, make up a pool, which the County Treasurer manages for investment purposes. The pool is also managed to ensure that payrolls and other obligations of all depositors are met daily; and even with high transaction volumes, the pool is usually 100% invested each day. Earnings from the pooled investments are allocated to each participating fund based on each fund's average investment in the pool, during the allocation period.

All District-directed investments are made in compliance with 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 in custody by the County Treasurer. Interest earned on investments is recorded as revenue of the fund from which the investment was made. All the District's investments are stated at fair value based on quoted market prices.

(h) Short-term Interfund Receivables/Payables

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

(i) Inventories

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

(j) Capital Assets

Capital assets, which include sites, improvement of sites, buildings and improvements, equipment and construction in progress are reported in the applicable governmental activities 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 maintains a capitalization threshold of $25,000.

(Continued)

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

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

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

(k) Contracts Payable

Contracts payable include only the portion applicable to work completed and unpaid as of June 30, 2006. All significant incomplete portions of contracts are reported as reserved fund balance.

(l) Compensated Absences

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

An attendance incentive plan was developed and adopted as part of the collective bargaining agreement between the District and UTLA in fiscal year 1992-1993. The objective of the plan is to reduce the cost of absenteeism by rewarding deserving teachers with cash bonuses (after legal deductions) 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 accounts.

(Continued)

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. The plan is in compliance with the provisions of Education Code Section 42841.

(m) Long-term Obligations

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

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

(n) Revenue Limit Sources/Property Taxes

The revenue limit is the basic financial support for District activities. The District's revenue limit is received from a combination of local property taxes and state apportionments. For the fiscal year 2005-2006, the District received local property taxes amounting to $777.6 million and State aid amounting to $2,947.0 million.

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

Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The county apportions secured property tax revenue in accordance with the alternate method of distributions prescribed by Section 4705 of the California Revenue and Taxation Code. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll-approximately 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 all amounts related to the state apportionment have been collected by June 30, 2006.

The District's base revenue limit is the amount of general purpose tax 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) Financial Reporting Change

GASB Statements No. 42 and 44 – Effective on the CAFR for 2005-2006, the District adopted GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, and GASB No. 44*, Economic Condition Reporting – The Statistical Section*, an amendment of National Council on Government Accounting (NCGA) Statement No. 1. The adoption of GASB No. 42 did not have a material affect on the District's financial statements. The adoption of GASB No. 44 resulted in certain changes to disclosure information included in the Statistical Section of the comprehensive annual financial report.

(p) Estimates

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

(2) Tax and Revenue Anticipation Notes

Tax and Revenue Anticipation Notes (TRANs) are a short-term debt instruments used to finance temporary cash flow deficits in anticipation of receiving taxes and other revenues. On October 19, 2005, the District issued $410.0 million of 2005-2006 Tax and Revenue Anticipation Notes (TRANs) with an overall weighted true interest cost of 2.90017% or total premium of $5.6 million. These notes were retired on their due date of October 18, 2006.

On November 9, 2006, the District issued a total of $350.0 million of 2006-2007 TRANs with an overall weighted true interest cost of 3.39227% or total premium of $3.2 million. The principal on the notes are payable at maturity on December 3, 2007 and interest on the notes are payable on November 9, 2007 and at maturity on December 3, 2007. As security for the payment of principal and interest on the notes, the Treasurer and Tax Collector of the County of Los Angeles as the paying agent will deposit and hold in trust in a special repayment account the unrestricted revenues received by the District as follows: $122.5 million on or before February 28, 2007; $122.5 million on or before March 30, 2007; and $105.0 million and any interest on the notes on or before April 30, 2007.

TRANs – Short-Term Notes Payable
(Principal only, in thousands)

Beginning balance, July 1, 2005	$	500,000
Additions		410,000
Deductions		(500,000)
Ending balance, June 30, 2006	$	410,000

(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 $6,319,514 difference are as follows (in thousands):

Bonds payable	$ 5,803,689
Certificates of Participation (COPs)	429,974
State school building fund aid payable	880
Capital leases payable	6,619
Children center facilities revolving loan	792
California Energy Commission loan payable	1,243
Compensated absences	75,799
Other	518
Net adjustment to reduce *total fund balances – governmental funds to arrive at net assets – governmental activities*	$ 6,319,514

(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 $1,338,595 difference are as follows (in thousands):

Capital outlay	$ 1,532,862
Depreciation expense and loss on disposal	(194,267)
Net adjustment to increase *total fund balances – governmental funds* to arrive at *net assets – governmental activities*	$ 1,338,595

Another element of that reconciliation states that "Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets." The details of this $94,981 difference are as follows (in thousands):

General obligation bonds	$	74,995
Certificates of participation		14,876
Capital leases		4,650
California Energy Commission loan		139
State school building aid fund payable		321
Net adjustment to increase *total fund balances – governmental funds* to arrive at *net assets – governmental activities*	$	94,981

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

Details of proceeds of new debt principal:

Bond issuance	$	1,115,712
Bond issuance that refunded bonds and COPs		778,673
Certificates of participation (exclude QZABs already in beginning balance)		10,000
Bond premium – net of amortization		118,758
CA Energy Commission loan		63
Net adjustment to reduce *total fund balances – governmental funds* to arrive at *net assets – governmental activities*	$	2,023,206

Details of payments to escrow agents of refunded debt:

Payment to bond escrow agent from proceeds of refunding bonds:		
Principal of refunded debt	$	617,885
Deferred charge – bond refunding		38,215
	$	656,100
Payment to COPs escrow agent from proceeds of refunding bonds:		
Principal of refunded debt	$	177,945
Interest expense		673
	$	178,618

(Continued)

(4) Budgetary Appropriation Amendments

During the fiscal year, modifications were necessary to increase appropriations for expenditure and other financing uses for the General Fund by $117.6 million. The additional expenditure appropriations were funded by higher than anticipated other financing sources in the General Fund budget.

(5) Cash and Investments (In Thousands)

Cash and investments as of June 30, 2006 are classified in the accompanying financial statements as follows:

Statement of net assets:		
Cash and investments	$	3,834,482
Cash and investments held by trustee		136,564
Subtotal		3,971,046
Fiduciary funds:		
Cash and investments		38,742
Total cash and investments	$	4,009,788

Cash and investments as of June 30, 2006 consist of the following:

Cash on hand (cafeteria change funds)	$	74
Deposits with financial institutions (a)		3,189,624
Investments (b)		820,090
Total cash and investments	$	4,009,788

(a) Deposits with financial institutions include cash in the Los Angeles County Pooled Surplus Investment Fund ($3,024,907), cash held by fiscal agents or trustees ($136,564), cash deposited with various other financial institutions, including impress funds in schools and offices ($33,805).

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 ($427,693), sinking funds invested by trustees of COPs ($16,022), specific purpose investments arranged by the District with the County Treasurer for internal service funds that are not needed for daily operations ($375,945) and investment in fiduciary funds ($430).

The funds set aside in the TRANs repayment account is covered by a guaranteed investment contract (GIC) with an interest rate of 4.562% and a maturity date of October 18, 2006. The GIC is rated AAA and Aaa by Standard & Poor's and Moody's based upon the credit strength of the guarantor (American International Group, Inc.) of the GIC.

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

	Authorized investment type	Maximum maturity	Maximum total par value	Maximum par value per issuer
A.	Obligations of the U.S. government, its agencies and instrumentalities.	None	None	None
B.	Approved Municipal Obligations	5 and 20 years	10% of PSI portfolio	None
C.	Asset-Backed Securities with highest ratings	5 years	20% of PSI portfolio	with credit rating limits
D.	Bankers' Acceptances Domestic and Foreign	180 days	40% of PSI portfolio	with credit rating limits
E.	Negotiable Certificates of Deposits – Domestic & Euro	3 years	30% of PSI portfolio	with credit rating limits
	Negotiable Certificates of Deposits – Euro	1 year	10% of PSI portfolio	with credit rating limits
F.	Corporate and Depository Notes	3 years	30% of PSI portfolio	with credit rating limits
G.	Floating Rate Notes	7 years	10% of PSI portfolio	with credit rating limits
H.	Commercial Paper (CP) rated "A-1" (S&P) and "P-1" (Moody's)	270 days	40% of PSI portfolio	10% per issuer's outstanding CP
I.	Shares of Beneficial Interest – U.S. government obligations		15% of PSI portfolio	
J.	Repurchase Agreement	30 days	$1.0 billion	$500 million/dealer
K.	Reverse Repurchase Agreement	1 year	$500 million	$250 million/broker
L.	Forwards, Futures and Options	90 days	$100 million	$50 million/counterpart
M.	Interest-Rate Swaps in conjunction with approved bonds and limited to highest credit rating categories.			
N.	Securities Lending Agreement	180 days	20% of base portfolio value	

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

	Authorized investment type	Maximum maturity	Maximum total par value	Maximum par value per issuer
A.	Obligations of the U.S. government, its agencies and instrumentalities.	None	None	None
B.	Commercial Paper (CP) rated "A-1" (S&P) and "P-1" (Moody's)	270 days	None	None
C.	Investment agreements, the provider of which is rated at one of the two highest rating categories	None	None	None
D.	Money market funds	None	None	None

Interest-rate risk is the risk involved with fluctuations of interest rates that may adversely affect the fair value of the investments. The County's investment guidelines limit the weighted average maturity of its portfolio to less than 18 months. As of June 30, 2006, over 77% of district funds in the County PSI Fund does not exceed one year. In addition, variable-rate notes that comprised 5.2% of the County PSI Fund and other investments portfolio are tied to periodic coupon resets eliminating interest-rate risk by repricing back to par value at each reset date.

As of June 30, 2006, 44% of the Workers' Compensation Fund investments have a maturity of less than one year. Workers' Compensation Fund investments are shown in the table below. The following is a table showing the credit quality and concentration of credit risk as a percentage of each portfolio's fair value at June 30, 2006:

Investment description	Maturity	Value
Federal Home Loan Banks 3.25%	07/21/2006	$ 29,994
U.S. Treasury Note 2.75%	07/31/2006	19,989
U.S. Treasury Note 2.375%	08/31/2006	24,956
Federal Farm Credit Banks 2.375%	10/2/2006	4,965
U.S. Treasury Note 2.50%	10/31/2006	24,921
U.S. Treasury Note 3.75%	03/31/2007	29,728
U.S. Treasury Note 3.625%	06/30/2007	29,860
U.S. Treasury Note 3.00%	11/15/2007	29,596
U.S. Treasury Note 4.375%	01/31/2008	29,815
U.S. Treasury Note 4.625%	03/31/2008	29,852
Federal Home Loan Mortgage Corp. 4.30%	05/5/2008	14,747
U.S. Treasury Note 2.625%	05/15/2008	4,829
U.S. Treasury Note 3.75%	05/15/2008	24,464
Federal Farm Credit Banks 5.24%	07/18/2008	10,008
Federal Farm Credit Banks 4.25%	10/10/2008	15,767
Federal Home Loan Mortgage Corp. 5.125%	10/15/2008	12,991
U.S. Treasury Note 4.00%	06/15/2009	20,425
U.S. Treasury Note 3.375%	10/15/2009	19,038
Total		$ 375,945

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, 2006, the County did not exceed these limitations.

 (Continued)

The following is a table showing the credit quality and concentration of credit risk as a percentage of each portfolio's fair value at June 30, 2006:

Workers' Compensation Fund Investments

	S&P	**Moody's**	**% of Portfolio**
Federal Home Loan Banks 3.25%	AAA	Aaa	7.98%
U.S. Treasury Note 2.75%	AAA	Aaa	5.32
U.S. Treasury Note 2.375%	AAA	Aaa	6.64
Federal Farm Credit Banks 2.375%	AAA	Aaa	1.32
U.S. Treasury Note 2.50%	AAA	Aaa	6.63
U.S. Treasury Note 3.75%	AAA	Aaa	7.91
U.S. Treasury Note 3.625%	AAA	Aaa	7.94
U.S. Treasury Note 3.00%	AAA	Aaa	7.87
U.S. Treasury Note 4.375%	AAA	Aaa	7.93
U.S. Treasury Note 4.625%	AAA	Aaa	7.94
Federal Home Loan Mortgage Corp. 4.30%	AAA	Aaa	3.92
U.S. Treasury Note 2.625%	AAA	Aaa	1.29
U.S. Treasury Note 3.75%	AAA	Aaa	6.51
Federal Farm Credit Banks 5.24%	AAA	Aaa	2.66
Federal Farm Credit Banks 4.25%	AAA	Aaa	4.19
Federal Home Loan Mortgage Corp. 5.125%	AAA	Aaa	3.46
U.S. Treasury Note 4.00%	AAA	Aaa	5.43
U.S. Treasury Note 3.375%	AAA	Aaa	5.06
Total			100.00%

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 county treasury is not exposed to custodial credit risk since all county deposits are either covered by federal depository insurance or collateralized with securities held by the County. Deposits other than those with the County are also covered by federal depository insurance or collateralized at the rate of 110% of the deposits, although the collateral may not be held specifically in the District's name.

(6) Receivables/Payables

Receivables by Fund at June 30, 2006 consist of the following (in thousands):

	General	District Bonds	Other Governmental	Internal Service Funds	Total
Taxes	$ —	$ —	$ 41,360	$ —	$ 41,360
Accrued state revenues	363,538	—	5,480	—	369,018
Accrued federal revenues	169,645	—	61,085	—	230,730
Specially funded grants	149,236	—	12,319	—	161,555
Other	12,365	8,970	33,950	916	56,201
Interest and dividend	10,496	18,495	12,308	6,177	47,476
Total receivables	$ 705,280	$ 27,465	$ 166,502	$ 7,093	$ 906,340

Payables by Fund at June 30, 2006 consist of the following (in thousands):

	General	District Bonds	Other Governmental	Internal Service Funds	Total
Vouchers and accounts	$ 259,741	$ 70,343	$ 31,203	$ 33,429	$ 394,716
Contracts	2,526	84,893	38,103	—	125,522
Accrued payroll*	231,383	2,689	14,147	692	248,911
Other*	126,138	8,959	24,786	2,665	162,548
Total payables	$ 619,788	$ 166,884	$ 108,239	$ 36,786	$ 931,697

*Excludes adjustment in government-wide statement of net assets for vouchers payable ($458), accrued payroll (-$2,510) and other ($518).

(7) Capital Assets

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

	Balance, June 30, 2005	Increases	Decreases	Balance, June 30, 2006
Governmental activities:				
Capital assets, not being depreciated:				
Sites	$ 1,805,711	$ 299,718	$ —	$ 2,105,429
Construction in progress	2,600,475	1,207,637	(1,262,220)	2,545,892
Total capital assets, not being depreciated	4,406,186	1,507,355	(1,262,220)	4,651,321
Capital assets, being depreciated:				
Improvement of sites	345,725	41,243	—	386,968
Buildings and improvements	3,104,384	1,194,368	—	4,298,752
Equipment	1,094,832	52,115	(22,168)	1,124,779
Total capital assets, being depreciated	4,544,941	1,287,726	(22,168)	5,810,499
Less accumulated depreciation for:				
Improvement of sites	(243,450)	(9,764)	—	(253,214)
Buildings and improvements	(1,280,259)	(121,588)	—	(1,401,847)
Equipment	(968,260)	(62,890)	22,144	(1,009,006)
Total accumulated depreciation	(2,491,969)	(194,242)	22,144	(2,664,067)
Total capital assets, being depreciated, net	2,052,972	1,093,484	(24)	3,146,432
Governmental activities capital assets, net	$ 6,459,158	$ 2,600,839	$ (1,262,244)	$ 7,797,753

Depreciation expense was charged to the following functions:

Governmental activities:		
Instruction	$	7,137
Support services – students		242
Support services – instructional staff		7,533
Support services – general administration		360
Support services – school administration		3,639
Support services – business		1,987
Operation and maintenance of plant services		3,283
Student transportation services		907
Data processing services		37,417
Operation of non-instructional services		1,176
Depreciation – unallocated		130,561
Total depreciation expense – governmental activities	$	194,242

(8) Retirement Plans

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

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

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

Active plan members are required to contribute 7% (miscellaneous) or 9% (safety) of their monthly salary (over $133.33, if the member participates in Social Security) and the District is required to contribute based on an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rates for fiscal year 2005-2006 were 9.116% for miscellaneous and 41.718% for safety members. The District paid the employee's contribution of 9% for most of the safety members, and certain percentages for employees covered under other collective bargaining units. The contribution requirements of the plan members are established by state statute. The following table shows employer and employee contributions for all members for the fiscal years ended June 30, 2006, 2005 and 2004.

Schedule of Employer Contributions:

	2006		2005	2004
	Safety	Miscellaneous	Safety and miscellaneous	Safety and miscellaneous
District contributions:				
Regular	$ 8,369,388	$ 89,260,745	$ 103,274,562	$ 102,600,896
Annual Savings Recapture – AB 702 Credits	(5,809,082)	24,214,200	12,225,940	12,112,116
Total district contributions	2,560,306	113,474,945	115,500,502	114,713,012
Employee contributions:				
Paid by Employees	295,805	49,529,892	47,503,601	47,319,252
Paid by District	1,518,976	19,513,275	20,671,502	19,615,312
Total employee contributions	1,814,781	69,043,167	68,175,103	66,934,564
Total CalPERS contributions	$ 4,375,087	$ 182,518,112	$ 183,675,605	$ 181,647,576
Percentage of required contributions made	100%	100%	100%	100%

The District's contributions for all members for the fiscal years ended June 30, 2006, 2005 and 2004 were in accordance with the required contribution rates calculated by the CalPERS actuary for each year.

The most recent CalPERS actuarial valuation provides the following information:

Valuation Date:	June 30, 2004*
Actuarial Cost Method:	Individual Entry Age Normal Cost
Amortization Method:	Level Percentage of Payroll Closed
Remaining Amortization Period:	30 Years for Schools
Asset Valuation Method:	Smoothing of Market Value
Actuarial Assumptions:	
Net Investment Rate of Return[1]:	7.75%
Projected Salary Increases:	Varies, Based on Duration of Service
Post Retirement Benefits Increase:	State 2% or 3% depending on plans

*2005 and 2006 are not available.

[1]Includes inflation at 3.0%.

Schedule of CalPERS Funding Progress (in millions) (unaudited):

Actuarial valuation date		**June 30, 2004**		**June 30, 2003**		**June 30, 2002**
Actuarial value of assets	$	169,899	$	158,596	$	156,067
Less actuarial accrued liability (AAL) entry age		194,609		180,922		163,961
Unfunded AAL (UAAL)	$	24,710	$	22,326	$	7,894
Funded ratios		87.3%		87.7%		95.2%
Annual covered payroll	$	35,078	$	34,784	$	32,873
UAAL as a % of covered payroll		70.4%		64.2%		24.0%

(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, 2005, there were approximately 1,300 contributing employers (school districts, community college districts, county offices of education and regional occupational programs). The State of California is a nonemployer contributor to the TRF.

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

Active plan members are required to contribute 8% of their salary (6% to the Defined Benefit (DB) Program and 2% to the Defined Benefit Supplement (DBS) Program). The District is required to contribute based on an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2005-2006 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, 2006, 2005 and 2004 are as follows:

	Percentage of applicable member earnings	**2006**	**2005**	**2004**
District contributions	8.25%	$ 251,487,695	$ 245,259,118	$ 241,241,462
Employee contributions (including adjustments)	8.00%	243,589,043	251,139,401	231,916,278
Total STRS contributions	16.25%	$ 495,076,738	$ 496,398,519	$ 473,157,740

The District's contributions to STRS for the fiscal years ended June 30, 2006, 2005 and 2004 were equal to the required contributions at statutory rates.

The most recent STRS actuarial valuation available provides the following information:

	DB program	**DBS program**
Valuation date	June 30, 2004	June 30, 2004
Actuarial cost method	Entry age normal	Traditional unit credit
Amortization method	Level percent of payroll	Not applicable
Amortization period	Open	Not applicable
Remaining amortization period	Not amortizable	Not applicable
Asset valuation method	Expected value with 33%	Fair market value of net assets
Actuarial assumptions:		
Net investment rate of return	8.00%	8.00%
Interest on account	6.00%	6.00%
Projected salary increases	4.25%	4.25%
Consumer price inflation	3.25%	3.25%
Post retirement benefits increase	2.00% simple	Not applicable

Individual funding progress for the District is not available but the funding progress for the whole STRS is presented below:

(Continued)

Schedule of Funding Progress – Defined Benefit Program (unaudited):

Actuarial valuation date		June 30, 2005		June 30, 2004		June 30, 2003
Actuarial value of assets	$	121,882	$	114,094	$	108,667
Less actuarial accrued liability (AAL)		142,193		138,254		131,777
Unfunded AAL (UAAL)	$	20,311	$	24,160	$	23,110
Funded ratios		86%		83%		82%
Annual covered payroll	$	23,293	$	23,766	$	23,862
UAAL as a % of covered payroll		87%		102%		97%

Schedule of Funding Progress – Defined Benefit Supplemental Program (unaudited):

Actuarial valuation date		June 30, 2005		June 30, 2004		June 30, 2003
Actuarial value of assets	$	3,023	$	2,204	$	1,311
Less actuarial accrued liability (AAL)		2,756		2,035		1,358
Unfunded AAL (UAAL)	$	(267)	$	(169)	$	47
Funded ratios		110%		108%		97%
Annual covered payroll	$	23,263	$	23,763	$	23,865
UAAL as a % of covered payroll		(1)%		(1)%		0.20%

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 (Internal Revenue Code Section 3121 (b) (7) (F)) requires state and local public agencies to provide a retirement plan for all employees not covered under existing employer pension plans and/or Social Security. These employees are primarily part-time, seasonal and temporary employees (PSTs). This Act also requires that contributions for PSTs be vested immediately and permits any split of the minimum contributions between employee and employer.

On July 1, 1992, the District joined the PARS, a multiple-employer retirement trust established in 1990 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 to 44,418 as of June 30, 2006. District's contributions to the plan for the last three fiscal years are as follows: 2005-2006 – $6,842,716, 2004-2005 – $6,635,829, and 2003-2004 – $7,117,416.

The District's contributions for the fiscal years ended June 30, 2006, 2005 and 2004 were equal to the required contributions.

(d) Health and Welfare Benefits for Retirees

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

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

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

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

d. Those hired on or after June 1, 1992 must have at least 80 years combined total of consecutive qualifying service and age.

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, 2006, approximately 34,000 retirees now meet these eligibility requirements.

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

Expenditures are accounted for in the Health and Welfare Benefits Fund. These expenditures consist of retirees' insurance premiums already paid to the Health Maintenance Organizations, retirees' claims reported to the District but not yet paid and an estimate for claims incurred but not yet reported to the District. Expenditures are funded currently by the various operating funds through interfund billings. The net revenue is reported with governmental activities. The total District expenditures for health and medical benefits for retired employees during the fiscal year ended June 30, 2006 amounted to $222,345,150.

The Governmental Accounting Standards Board (GASB) adopted Statement no. 45 in 2004, which addresses *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions (OPEB)*. Along with other governmental agencies with total annual revenues of $100 million or more, the District is scheduled to implement the GASB 45 OPEB accounting and reporting requirements beginning in Fiscal Year 2007-2008. In preparation for the implementation of this new requirement, the District engaged the services of an actuarial firm to estimate the costs and financial liabilities offered to its employees. The actuarial method used in estimating the liability is the projected unit credit cost method which is based on the assumption that the Actuarial Present Value (APV) of employees' expected postretirement benefits accrue ratably over their expected working careers, from hire until the date of full eligibility for postretirement medical benefits. The portion of the APV attributed to past service is called the Actuarial Accrued Liability (AAL). The significant assumptions used in the computation include a 6.5% discount rate and a healthcare cost trend of 7% in 2004, ultimately declining to 6% in 2014 and remaining at that level thereafter. Based on the actuarial valuation and review as of June 30, 2005, the best estimate for the AAL of the District's postretirement health care program, which is substantially unfunded and not recorded in the accompanying basic financial statements at June 30, 2006, is as follows (in thousands):

All retirees	$	6,079,339
Active employees		3,913,954
	$	9,993,293

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

(e) Annuity Reserve Fund

The Annuity Reserve Fund is a single-employer defined contribution plan. A defined contribution plan bases benefits solely on amounts contributed to the participant's account. Contributions are not based on current year payroll. All contributions were made when the Fund was established in 1972 with 15% of the residual assets received resulting from the merger of the District Retirement System with the State Teachers' Retirement System. In addition, the Board of Education, in lieu of providing certificated salary increases, allocated $12 million plus interest to the fund from a special override tax levied in 1971-1972. Neither the District nor the employees make any additional contributions to the Fund. All of the original 34,031 eligible employees were vested from the date of establishment of the Fund. An employee's pro rata share of the fund is the ratio of his/her contributions to the retirement system, including interest, to the total of the contributions, including interest, of all participants in the fund, calculated as of June 30, 1972.

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

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

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

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

(9) Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to or destruction of assets; errors or omissions; job-related illness or injury to employees; and natural disasters. Through the years, the District has established several self insurance funds (Internal Service Funds) as follows: the Workers' Compensation Self-Insurance Fund (1977); the Liability Self-Insurance Fund (1977) and the Health and Welfare Benefits Fund (1982). These funds account for and finance 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. The General, Child Development, and Cafeteria Funds contribute proportionately to the Liability Self-Insurance Fund. All Funds except Debt Service contribute to the Workers' Compensation Self-Insurance Fund and the Health and Welfare Benefits Fund.

Excess insurance has been purchased for fire loss damages, which currently provides \$1 billion coverage above a \$0.5 million self-insurance retention and for general liability, which currently provides \$45 million coverage above a \$3 million self-insurance retention. The General Fund resources are used to pay for fire loss insurance and repairs for fire damage. No settlements exceeded insurance coverage in the last three (3) fiscal years ended June 30, 2006.

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 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.

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

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

As of June 30, 2006, the amount of the total claims liabilities recorded for medical, dental, liability and workers' compensation was $731.7 million. During the fiscal year, the District recorded workers' compensation claims liability that reflected improved benefit levels, accelerated rate of claims closure and a discount of 3%. Changes in the reported liabilities since July 1, 2004 are summarized as follows:

	Beginning of fiscal year liability	Current year claims and changes in estimates	Claim payments	End of fiscal year liability
2005-2006:				
Health and welfare benefits	$ 37,263,855	$ 276,215,096	$ (272,428,637)	$ 41,050,314
Workers' compensation	685,265,378	80,028,303	(96,837,141)	668,456,540
Liability self-insurance	28,642,932	1,918,486	(8,392,442)	22,168,976
Total	$ 751,172,165	$ 358,161,885	$ (377,658,220)	$ 731,675,830
2004-2005:				
Health and welfare benefits	$ 35,885,549	$ 248,509,563	$ (247,131,257)	$ 37,263,855
Workers' compensation	509,805,689	280,923,074	(105,463,385)	685,265,378
Liability self-insurance	23,041,280	12,084,480	(6,482,828)	28,642,932
	$ 568,732,518	$ 541,517,117	$ (359,077,470)	$ 751,172,165

(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, including the Bravo Medical Magnet Senior High School, the King-Drew Medical Magnet and the Vista Hermosa (formerly known as Belmont Learning Complex). These liabilities qualify as capital lease obligations in accordance with GASB Statement No. 13, *Accounting for Leases*. Lease payments are accounted for in the Debt Service Fund Type – Capital Services Fund. Future minimum lease payments are as follows (in thousands):

Certificates of Participation

	2007	2008	2009	2010	2011	2012-2016	2017-2021	2022-2026	2027-2031	2032	Total	Less interest	Future minimum lease payments
1997 COPs Vista Hermosa (formerly Belmont Lrng Ctr)	$ 6,641	$ 6,669	$ 6,689	$ 6,603	$ 6,611	$ 33,084	$ 13,206	$ —	$ —	$ —	$ 79,503	$ 16,149	$ 63,354
1998 Refunding of 1993 Ref. COPs	5,432	5,420	5,413	5,418	5,413	16,194	—	—	—	—	43,290	7,211	36,079
2000A COPs QZABs	—	—	—	—	—	25,372	—	—	—	—	25,372	—	25,372
2000B COPs Multiple Properties Project	4,132	4,121	1,133	1,129	1,128	—	—	—	—	—	11,643	727	10,916
2001B COPs Beaudry	3,445	3,444	3,445	3,444	3,445	17,223	17,223	30,956	52,533	10,476	145,634	75,888	69,746
2002A COPs Bravo Refunding	3,743	3,749	—	—	—	—	—	—	—	—	7,492	498	6,994
2002C COPs Beaudry II	604	603	602	606	603	3,018	2,998	2,991	2,975	595	15,595	6,544	9,051
2003B COPs Pico Rivera Warehouse	2,163	2,161	2,163	2,159	2,154	10,759	10,698	10,646	6,364	—	49,267	18,662	30,605
2004A COPs Refinancing and Multi Prop Project	499	499	691	2,389	2,386	9,551	—	—	—	—	16,015	2,956	13,059
2004B COPs Refinancing and Multi Prop Project	82	82	1,966	—	—	—	—	—	—	—	2,130	185	1,945
2005ACOPs Beaudry I – 2001C COPs refunding	2,809	2,814	6,913	6,909	6,910	34,505	34,430	20,815	—	—	116,105	29,321	86,784
2005B COPs Beaudry III	461	1,247	1,246	1,247	1,247	6,223	6,209	6,192	6,181	1,232	31,485	10,081	21,404
2005C COPs ELA/King Drew-1996A COPs Refunding	1,901	1,440	1,435	1,436	1,436	15,355	20,772	20,717	—	—	64,492	19,827	44,665
2005 COPs QZABs	—	—	—	—	—	—	10,000	—	—	—	10,000	—	10,000
Total	$ 31,912	$ 32,249	$ 31,696	$ 31,340	$ 31,333	$ 171,284	$ 115,536	$ 92,317	$ 68,053	$ 12,303	$ 618,023	$ 188,049	$ 429,974

On December 9, 1997, the District issued variable-rate COPs 1997 Series A in the amount of $91,400,000. Interest is payable monthly ranging from 1.00% to 5.85%. Principal payments are due annually through 2017. The proceeds are to fund the construction of the Vista Hermosa (formerly known as the Belmont Learning Complex).

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

On May 23, 2000, the District issued COPs 2000 Series A (Qualified Zone Academy Bonds Project) in the amount of $30,446,700, a first-of-its-kind bond under a federal program that offers investors tax credits rather than interest payments. Of this amount, $3,800,000 was issued on behalf of Fenton Avenue Charter School and $3,800,000 for Vaughn Next Century Learning Center. Scheduled payments 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 29 Schools to Career Academy Program school sites and at the two charter schools. This issue was partially refunded by COPs 2004 Series B in July 2004.

On September 12, 2000, the District issued COPs 2000 Series B (Multiple Properties Project) in the amount of $172,715,000. Interest is payable semiannually ranging from 4.00% to 5.50% with annual principal payments through 2010. The proceeds are to pay for Internet connectivity, portable classrooms, airconditioning 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 4, 2002, the District issued COPs 2002 Series B (Multiple Properties Project) in the amount of $128,765,000. Interest is payable semiannually ranging from 2.00% to 5.00%. Principal payments are due semiannually through 2022. This series was issued to finance the following projects: auditorium and gymnasium airconditioning, computer and telephone equipment, school furniture and equipment, FEMA hazard mitigation, children's centers, relocatable classrooms, school police vehicles, gymnasium improvements, sports facilities, parking facilities for gardening vehicles, and elementary and museum school projects. This issue was partially refunded by COPs 2004 Series A in July 2004 and was defeased by Measure Y Series A Bonds in February 2006.

On December 5, 2002, the District issued COPs 2002 Series C (Beaudry II) in the amount of $9,490,000. Interest is payable semiannually ranging from 2.00% to 5.00%. Principal payments are due annually through 2031. The proceeds are to fund tenant improvements and Heating, Ventilation and Air

Conditioning (HVAC) upgrades for the 12th floor and painting and lighting upgrades of the garage of the Administration Building. This issue was partially refunded by COPs 2004 Series A in July 2004.

On June 11, 2003, the District issued 2003 Series A (Multiple Properties Project) in the amount of $100,215,000. Of this amount $88,300,000 will fund the first three years of expenditures related to the design, development, acquisition and installation of Integrated Student Information System (ISIS), Enterprise Resource Planning (ERP) for financial/procurement and human resources enterprises. The proceeds will also be used to purchase portable classrooms, to purchase and install air conditioners in schools, to fund the environmental remediation of Park Avenue Elementary School and to construct a parking facility for a vocational training center in local District 6. Interest is payable semiannually ranging from 2.00% to 5.00%. Principal payments are due semiannually through 2028. This issue was partially refunded by COPs 2004 Series A in July 2004 and was defeased by Measure Y Series B Bonds in February 2006.

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

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

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

On May 18, 2005, the District issued variable-rate COPs 2005 Series A (Administration Building Project) in the amount of $86,525,000. 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)), semi annual interest payments, and 30/360 semi annual compounding. 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. The interest rate on June 30, 2006 was 3.92%.

On May 18, 2005, the District issued variable-rate COPs 2005 Series B (Beaudry III) in the amount of $21,340,000. Interest is paid monthly at a weekly rate payable on the first business day of each month commencing on June 1, 2005 through October 1, 2031. The interest rate on June 30, 2006 was 3.94%. The

2005 B Certificates were to finance certain property improvements of the District, to fund capitalized interest and fees.

On May 6, 2005, the District issued variable-rate COPs 2005 Series C in the amount of $44,225,000. The 2005 C Certificates were initially delivered in a term mode at a rate of 4.00% for a period from a date of delivery through October 1, 2006 payable on April 1 and October 1 commencing October 1, 2005. The Certificate will convert to a weekly mode on October 2, 2006, while in a weekly mode, interest will be payable on the first business day of each month maturing on October 1, 2025. 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 a variable-assumed rate of 3.05% (15-year average of BMA).

On December 1, 2005, the District issued COPs 2005 (2004-05 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 are to be made annually through maturity in 2020.

Other Leasing Arrangements

The District has entered into various lease agreements ranging from three to five years to finance the acquisition of office equipment and school police vehicles. 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 49 years. Some leases are month to month and a few are year to year. The leases expire over the next 24 years. Certain leases contain rent adjustment and renewal option provisions.

The equipment (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 $32,420,572 in 2005-2006. The future minimum commitments for noncancelable operating lease of the District as of June 30, 2006 are as follows (in thousands):

		Amount
Fiscal year ending:		
2007	$	23,274
2008		20,462
2009		18,554
2010		17,251
2011		11,583
2012-2016		43,588
2017-2021		10,213
	$	144,925

(11) Long-Term Obligations

The following is a summary of changes in long-term obligations for the year ended June 30, 2006 (in thousands):

	General obligation bonds*	State school building aid fund payable	Liability for compensated absences	Capital lease obligations	Certificates of participation	Children center facilities revolving loan	CA energy commission loan	Self-insurance claims	Total
Balances at July 1, 2005	$ 4,479,633	$ 1,219	$ 76,066	$ 9,951	$ 615,396	$ 792	$ 1,379	$ 751,172	$ 5,935,608
Additions in 2005-2006	2,013,143	43	85,099	1,318	13,007	—	64	358,162	2,470,836
Deductions in 2005-2006	(689,087)	(382)	(82,856)	(4,650)	(198,429)	—	(200)	(377,659)	(1,353,263)
Balances at June 30, 2006	$ 5,803,689	$ 880	$ 78,309	$ 6,619	$ 429,974	$ 792	$ 1,243	$ 731,675	$ 7,053,181
Due within one year	$ 133,100	$ 320	$ 2,252	$ 4,650	$ 17,794	$ —	$ 173	$ 170,863	$ 329,152
Interest expense in 2005-2006	261,421	44	—	779	9,150	—	84	—	271,478

* Net of unamortized premiums and discounts.

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

Year ending June 30	General obligation bonds			Capital lease obligations/ certificate of participation		All others		Total		
	Principal	Amortization	Interest	Principal	Interest	Principal	Interest	Principal	Amortization	Interest
2007	$ 133,100	$ (18,894)	$ 271,304	$ 22,444	$ 13,431	$ 558	$ 92	$ 156,102	$ (18,894)	$ 284,827
2008	138,245	9,631	272,276	19,504	15,264	550	71	158,299	9,631	287,611
2009	171,710	9,185	265,596	18,769	14,190	538	49	191,017	9,185	279,835
2010	193,390	8,505	257,677	18,332	13,273	275	27	211,997	8,505	270,977
2011	162,600	7,574	249,727	18,892	12,527	282	19	181,774	7,574	262,273
2012-2016	935,555	45,284	1,116,618	120,067	51,217	552	11	1,056,174	45,284	1,167,846
2017-2021	1,278,080	36,414	840,822	79,975	35,560	160	—	1,358,215	36,414	876,382
2022-2026	1,779,210	15,173	448,338	68,390	23,928	—	—	1,847,600	15,173	472,266
2027-2031	894,575	4,352	75,009	58,200	9,853	—	—	952,775	4,352	84,862
2032	—	—	—	12,020	283	—	—	12,020	—	283
	$ 5,686,465	$ 117,224	$ 3,797,367	$ 436,593	$ 189,526	$ 2,915	$ 269	$ 6,125,973	$ 117,224	$ 3,987,162

The General Obligation Bonds balance of $5,803,689,000, which includes unamortized bond premiums (net of unamortized charges) of $117,224,000, consists of (a) six issuances of Proposition BB bonds: 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; 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; 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; 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; Series “E” bonds, sold in April 2002 at $500.0 million par value, of which $75.8 million were refunded in December 2004; and Series “F” bonds, sold in March 2003 at $507.3 million par value; (b) Measure K Series “A” bonds, sold in February 2003 at $2.1 billion par value, of which $132.3 million were refunded in February 2006; (c) six issuances of Measure R bonds: 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; Series “E” bonds, sold in August 2005 at $400.0 million par value; and Series “F” bonds, sold in February 2006 at $500.0 million par value; (d) four issuances of Measure Y bonds sold in February 2006: Series “A” bonds at $56.8 million par value, Series “B” bonds at $80.2 million par value, Series “C” bonds at $210.0 million par value and Series “D” bonds at $47.4 million par value, all of which, except for Series C and $5.7 million of Series D, were used to partially or fully refund certain certificates of participation and (e) general obligation refunding bonds: 2004 Series “A-1” and “A-2” sold in December 2004 at $219.1 million par value, 2005 Series “A-1” and “A-2” sold in July 2005 at $467.7 million par value and 2006 Series “A” sold in February 2006 at $132.3 million par value, all of which were used to partially refund certain general obligation bonds as stated above.

During the year, as mentioned above, the District issued $178.7 million of Measure Y general obligation bonds to refund $177.9 million of certificates of participation and $600.0 million of general obligation refunding bonds to refund $617.9 million of Proposition BB and Measure K bonds. Both refundings provided resources to purchase securities that were placed in irrevocable trusts for the purpose of generating resources for future debt service payments on the refunded debt. As a result, the refunded debts are considered defeased and the corresponding liabilities have been removed from the District's statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by $0.7 million and $38.2 million, respectively, of which $16.7 million has been amortized during fiscal year 2005-2006 for the COPs and general obligation refundings. The unamortized balance of $22.2 million is netted against the new debt and will be amortized in fiscal year 2006-2007, which is shorter than the life of the new debt issued.

The $178.7 million advance refunding was undertaken to reduce General Fund debt service payments over the next 23 years by $215.7 million, but increased total debt service payments by $15.2 million over the same period and thus resulted in an economic loss of $0.5 million.

The $600.0 million advance refunding was undertaken to reduce total debt service payments over the next 19 years by $44.7 million and resulted in an economic gain of $29.9 million.

As of June 30, 2006, the total amount of debt outstanding that is considered defeased is $1.1 billion.

Proposition BB, which was approved at an election held on April 8, 1997, by more than two-thirds of the votes cast by eligible voters within the District, authorized the District to issue general obligation bonds in an amount not to exceed $2.4 billion. Measure K, which was approved at an election held on November 5, 2002, by more than 55% of the votes cast by eligible voters within the District, authorized the District to issue general obligation bonds in an amount not to exceed $3.35 billion. Measure R, which was approved at an election held on March 2, 2004, by approximately 63.7% of the votes cast by eligible voters within the District, authorized the District to issue general obligation bonds in an amount not to exceed $3.87 billion. Measure Y, which was approved at an election held on November 8, 2005, by approximately 66.1% of the votes cast by eligible voters within the District, authorized the District to issue general obligation bonds in an amount not to exceed $3.985 billion. The Board of Supervisors of the County of Los Angeles is empowered and obligated to levy ad valorem taxes, without limitation as to rate or amount, for the payment of the interest on and principal of the bonds, upon all property subject to taxation by the District (except certain personal property which is taxable at limited rates). 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.

The State School Building Aid Fund payable balance of $0.9 million at June 30, 2006 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.

COPs and other capital leases are described in note 10.

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

(Continued)

The District's policy relating to accumulated vacation leave is described in note 1. The liability for earned vacation benefits at June 30, 2006 for all funds amounted to $78.31 million. This liability will be paid in future years as employees take vacation leave or terminate employment with the District, from future resources of the funds under which the employees are reported, which in prior years has primarily been the General Fund. Repayment of obligations for liability for compensated absences and self-insurance claims will be made over an indeterminate period.

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.

(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, 2006 (in thousands):

Fund group	Fund	Interfund receivables	Interfund payables
General:	Unrestricted	$ 296,357	$ 301,771
	Restricted	348,962	227,476
	Total general	645,319	529,247
Special revenue:	Adult education	3,893	28,661
	Cafeteria	2,112	37,712
	Child development	4,133	19,274
	Deferred maintenance	—	77
	Total special revenue	10,138	85,724
Debt service:	Capital services	287	11,508
Capital projects:	Building	27	—
	District bonds	103,896	15,813
	State school building lease – purchase	31	8
	Special reserve	86,916	146,419
	Special reserve – FEMA-earthquake	736	594
	Special reserve – FEMA-hazard mitigation	516	1
	Special reserve – CRA	1,057	22
	Capital facilities account	1	245
	State bonds	84	62,605
	Total capital projects	193,264	225,707
Internal service:	Health and welfare benefits	3,109	24,879
	Workers' compensation self-insurance	20,378	1,546
	Liability self-insurance	12,156	6,498
	Total internal service	35,643	32,923
Pension trust:	Attendance incentive reserve	480	22
	Total interfund receivables/payables	$ 885,131	$ 885,131

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

(b) *Interfund Transfers*

Interfund transfers are eliminated on the government-wide statement of activities but are reported on the fund financial statements. These consist of transfers from funds receiving revenue to funds through which resources are to be expended. Transfers between funds for the year ended June 30, 2006 were as follows (in thousands):

From	To	Purpose	
General	Child development	Support to child development	$ 8,764
General	Special reserve	Transfer capital projects balances	27,403
General	Special reserve-FEMA-earthquake	Energy savings	2,225
General	Deferred maintenance	Deferred maintenance allowance 2006	30,000
General	Capital services	Debt service	4,169
General	Cafeteria	Flexibility transfer refund of prior year	11,140
Capital services	Building-Measure Y	Partial funding of bond issuance cost	1
Special reserve	General Fund	Funding for new financial system	57,312
Capital facilities	Capital services	Debt service	21,606
SSB-lease purchase	Capital services	Debt service	2,629
County school facilities	Capital services	Debt service	3,046
Child development	General fund	Routine repair and maintenance contribution	2,000
SR-FEMA-earthquake	General fund	Reimbursement of administrative expenses	520
SR-FEMA-hazard mitigation	General fund	Reimbursement of administrative expenses	2,225
Building-Measure Y	General fund	Funding for deferred maintenance	30,000
Building-Measure Y	Capital services	Debt service	178,618
Sub-total			381,658
Adult education	General	Transfer of support costs	6,546
Child development	General	Transfer of support costs	702
Total			$ 388,906

(13) Fund Equity

(a) Governmental Fund Types

The following is a summary of reserved, designated and undesignated fund balances at June 30, 2006 (in thousands):

	General Fund	District Bonds	Other Governmental Funds
Reserved for:			
Revolving and imprest funds	$ 2,759	$ 3,300	$ 187
Inventories	7,588	—	7,680
Debt service	—	—	302,482
Prepaid expenditures	5,274	—	—
General reserve	1	—	—
Medi-Cal billing option	2,987	—	—
Cops more program	35	—	—
Cal-safe supportive services	448	—	—
School facilities needs assessment program	1,221	—	—
Certificated staff performance incentive bonus	173	—	—
English language learners, teacher training and student assistance	12,692	—	—
California public school library act of 1998	88	—	—
Lottery instructional material	7,323	—	—
ROC/P apportionment	2,066	—	—
Pupils with disabilities attending ROC/P	283	—	—
School safety and violence prevention grades 8-12	2,011	—	—
Special education	1,664	—	—
Instructional materials:			
English learner	636	—	—
API Deciles 1 and 2	5,600	—	—
Transportation – home to school	7,681	—	—
California peer assistance and review program for teachers	4,048	—	—
Math and reading professional development	752	—	—
Principals' training	2,650	—	—
Tenth grade counseling	320	—	—
Pupil retention block grant – AB825	1,807	—	
Targeted instructional improvement block grant – AB825	9,848	—	—
School and library improvement block grant – AB825	9,088	—	—
California energy commission loan expenditures	401	—	—
Routine repair and general maintenance	22,567	—	—
Certificates of participation – (acquisition accounts) – proceeds	8,318	—	—
Specially funded programs	24,344	—	—
Total reserved fund balances	144,673	3,300	310,349
Designated for:			
Subsequent year expenditures	141,091	1,096,859	949,242
Economic uncertainties	67,638	—	—
Total designated fund balances	208,729	1,096,859	949,242
Undesignated fund balances	81,110	—	10,977
Total fund balances	$ 434,512	$ 1,100,159	$ 1,270,568

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

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

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

(b) Proprietary Fund and Fiduciary Fund Types

The following is a summary of the components of net assets of Proprietary (internal service) and Fiduciary (pension trust) Funds at June 30, 2006 (in thousands):

	Internal service funds	Pension trust funds
Reserved net assets:		
Revolving and imprest funds	$ 2,500	$ —
Prepaid expenses	15,984	—
Participants' equity	—	451
Total reserved net assets	18,484	451
Deficit	(182,941)	—
Undesignated net assets	422	—
Total net assets (deficit) – unrestricted	$ (164,035)	$ 451

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

(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 receives a substantial portion of its total revenues under various governmental grants, all of which pay the District based on reimbursable costs as defined by each grant. Reimbursement recorded under these grants is subject to audit by the grantors. Management believes that no material adjustments will result from the subsequent audit of costs reflected in the accompanying basic financial statements.

The District is a defendant in various lawsuits at June 30, 2006. Although the outcome of these lawsuits is not presently determinable, in the opinion of management, based in part on the advice of counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the District or is adequately covered by insurance.

The District has entered into various contracts for the construction of facilities throughout the campuses. During fiscal year 2005-2006 the District entered into approximately 410 contracts with a combined value of $679 million. The durations of the contracts range from one week to three years.

(15) Proposition BB Bonds

Proposition BB, which was approved at an election held on April 8, 1997, by more than two-thirds of the votes cast by eligible voters within the Los Angeles Unified School District, 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.

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 also established a Blue Ribbon Citizens' Oversight Committee to ensure that the proceeds of the bond issues are used for the purposes stated in the resolution which placed the Proposition BB on the April 1997 ballot. The 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 Committee is also responsible for the oversight of the District's general obligation bonds issued pursuant to Proposition 39.

The Blue Ribbon Citizens' Oversight Committee consists of 14 members representing governmental entities, agencies and organizations. As of September 29, 2006, a total of 11,997 projects funded by BB Bonds have been completed or are in process, as follows: air conditioning, 632; State Matching Funds – new construction, 484; State Matching Funds – modernization construction, 219; portables – class size reduction, 510; portables – enrollment growth, 377; new schools/centers – class size reduction, 42; opening of closed schools – class size reduction, 7; safety and technology, 857 and miscellaneous small projects, 8,869.

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, without limitation as to rate or amount, for the payment of the interest on and principal of the Bonds, upon all property subject to taxation by the District (except certain personal property which is taxable at limited rates). 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.

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

On the November 5, 2002 ballot, Measure K, authorizing the District to issue up to $3.35 billion of General Obligation Bonds, was approved by 67.91% of the voters. These funds will be used to: build new neighborhood schools ($2.58 billion), repair aging and deteriorating classrooms ($526 million), improve Early Childhood Programs ($80 million), upgrade safety and technology ($66 million), expand public charter schools ($50 million), joint planning of new schools, parks and libraries ($10 million) and provide for library books at new schools and improve library technology ($38 million). 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 this Series in the aggregate amount of $131.94 million was refunded in February 2006 by a $132.33 million issue of 2006 General Obligation Refunding Bonds. The District established a separate fund, Measure K Building Fund, to account for the income and expenditures of the bond proceeds. The District currently anticipates the issuance of three additional series over the next three years.

Measure R or the Safe and Healthy Neighborhood Schools Improvement Act of 2004 was passed and approved on March 2, 2004 by more than 55% of the registered voters voting on the proposition. The District is thereby authorized to issue and sell up to $3.87 billion in General Obligation Bonds (Bonds) to provide financing for the specific school facilities projects subject to all of the accountability safeguards such as annual performance audits until all of the proceeds have been spent in accordance with this measure. The District has established a separate Measure R Building Fund to account for the income and expenditures of the Bond proceeds. All Bond expenditures are subject to review and oversight of the Citizen's Bond Oversight Committee which is to review and report on all Bond expenditures.

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 and Series "D" of $16.895 million issued on September 22, 2004.

The first $150 million of the proceeds were used to partially refund principal and interest payments of the 2000 Series B 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.

The District issued Series E and Series F General Obligation Bonds totaling $900 million, representing the fifth and sixth series of bonds sold under the Measure R authorization. The Bonds were issued pursuant to the provisions of Chapter 1.5 of Part 10 of Division 1 of Title 1 of the Education Code of the State of California, as amended, and other applicable law (the Act), and pursuant to resolutions adopted by the Board of Education of the District on June 14, 2005 and the Board of Supervisors of the County on July 5, 2005 (collectively, the Resolution) authorizing the issuance of not to exceed $900 million of general obligation bonds on behalf of the District.

The proceeds of Series E ($400 million) and Series F ($500 million) were deposited with the County to the credit of the Los Angeles Unified District Building Fund (the Building Fund). Portion of the proceeds was applied to finance new construction, acquisition, rehabilitation, and upgrading of school facilities and acquisition of equipment. The premium of these two series amounting to $50.056 million was deposited in the Los Angeles Unified School District General Obligation Bond Debt Service Fund (the Debt Service Fund) and will be used only for the payment of principal and interest on the Bonds. Except as required to be rebated to the United States Treasury, interest earned on the investment of moneys held in the Debt Service Funds will be retained in such fund and used to pay principal and interest on the Bonds when due. Interest earned on the investment of moneys held in the Building Fund will be retained in such fund and used for capital expenditures eligible under the Measure R authorization.

Measure Y or the Safe and Healthy Neighborhood Schools Repair and Construction Act of 2005 was passed and approved on November 8, 2005 by 66.1% of the votes cast by eligible voters within the District. 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.

Moneys in the Building Fund and the Debt Service Fund will be invested at the request of the District by the County Treasurer in the Los Angeles County Investment Pool, the Local Agency Investment Fund in the treasury of the State, any investment authorized pursuant to Section 53601 of the Government Code, or in investment agreements, including guaranteed investment contracts, which comply with the requirements of each rating agency then rating the Bonds necessary to maintain the then-current ratings of the Bonds.

(17) State School Facilities Bonds

(a) Proposition 1A and Proposition 47

Proposition 1A was approved in November 1998 and provided $6.7 billion of capital funding for public schools. Proposition 47 was approved by the California voters on the November 5, 2002 ballot. This measure authorizes the sale and issuance of $13.05 billion in general obligation bonds by the State for funding construction and renovation of K-12 school facilities ($11.4 billion) and higher education facilities ($1.65 billion). Proposition 47 includes $6.35 billion for acquisition of land and new construction of K-12 school facilities. Of this amount, $2.9 billion will be set aside to fund backlog projects for which school districts submitted applications to the State on or prior to February 1, 2002. The balance of $3.45 billion would be used to fund projects for which school districts submitted applications to the State after February 1, 2002. K-12 school districts will be required to pay 50% of the costs for acquisition of land and new construction with local revenues. In addition, $100 million of the $3.45 billion would be available for charter school facilities. Proposition 47 makes available $3.3 billion for reconstruction or modernization of existing K-12 school facilities. Of this amount, $1.9 billion will be set aside to fund backlog projects for which school districts submitted applications to the State on or prior to February 1, 2002 and the balance of $1.4 billion would be used to fund projects for which school districts submitted applications to the State after February 1, 2002. K-12 school districts will be required to pay 40% of the costs for reconstruction or modernization with local revenues. Proposition 47 provides a total of $1.7 billion to K-12 school districts which are considered critically overcrowded, specifically to schools that have a large number of pupils relative to the size of the school site. In addition, $50 million will be available to fund joint-use projects. Proposition 47 also includes $1.65 billion to construct new buildings and related infrastructure, alter existing buildings and purchase equipment for use in the State's public higher education systems.

Proposition 47 represents the second largest general obligation bond measure for school construction and modernization approved by California voters in the last several years.

Separate county school facilities funds have been established by the District to account for apportionments received from Propositions 1A (County School Facilities Fund) and 47 (County School Facilities Fund – Prop 47).

(b) Proposition 55

Proposition 55 was passed and approved by the California voters in March 2004. This measure authorizes the sale and issuance of $12.3 billion in general obligation bonds for the construction and renovation of K-12 school facilities and higher public education facilities. Proposition 55 includes $5.26 billion for the acquisition of land and construction of new school buildings. A school district would be required to pay for 50% of costs with local resources unless it qualifies for state hardship funding. The measure also provides that up to $300 million of these new construction funds is available for charter school facilities.

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

These funds are made available through the School Facility Program (SFP). Funding for projects approved in the SFP comes exclusively from statewide general obligation bonds approved by the voters of California. The first funding for the program was from Proposition 1A, approved in November 1998. That bond for $9.2 billion contained $6.7 billion for K-12 public school facilities. The second funding for the program is from Proposition 47, approved in November 2002. It is a $13.05 billion bond, the largest school bond in the history of the State. It contains $11.4 billion for K-12 public school facilities.

The State Allocation Board (SAB) is responsible for determining the allocation of State resources including proceeds from General Obligation Bond issues and other designated State funds used for the new construction and modernization of public school facilities. The SAB also reviews and approves applications for eligibility and funding, acts on appeals and adopts policies and regulations as they pertain to the programs that the SAB administers.

The Office of Public School Construction (OPSC) serves around 1,000 plus K-12 public school districts in California. As staff to the SAB, the OPSC is responsible for allocating State funding for eligible new construction and modernization projects to provide safe and adequate facilities for California public school children. The OPSC is also responsible for the management of these funds and the expenditures made with them. It is also incumbent on the OPSC to prepare regulations, policies and procedures for approval by the SAB that carry out the mandates of the law. The OPSC is also charged with the responsibility of verifying that all applicant school districts meet specific criteria based on the type of eligibility or funding which is being requested and to work with school districts to assist them throughout the application process.

A separate County school facilities fund has been established by the District to account for apportionments received from Proposition 55 (County School Facilities Fund – Prop 55).

(18) Subsequent Event

The District issued $574,905,000 of 2006 General Obligation Refunding Bonds Series B on October 26, 2006. The proceeds were used to partially refund certain Proposition BB Bonds Series E and Measure K Bonds Series A. The refunding will reduce total debt service payments by $29.3 million over the life of the debt which equates to a present value savings of $19.0 million.

APPENDIX C

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

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

DEFINITIONS

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

"**Additional Payments**" means the payments so designated and required to be paid by the District pursuant to the Lease Agreement.

"**Assignment Agreement**" means the Assignment Agreement, dated as of November 1, 2007, by and between the Corporation and the Trustee, together with any duly authorized, executed and acknowledged amendments thereto.

"**Business Day**" means any day other than (i) a Saturday or a Sunday, or (ii) a day on which the Certificate Insurer or commercial banks in the city (or cities) in which is located the Principal Office of the Trustee, or any other paying agent, are authorized or required by law or executive order to close, or (iii) a day on which the New York Stock Exchange is closed.

"**Certificate Insurance Policy**" means the applicable financial guaranty insurance policy issued by the Certificate Insurer insuring the payment when due of principal of and interest with respect to the Certificates.

"**Certificate Insurer**" means Ambac Assurance Corporation, a Wisconsin domiciled stock insurance company, or its successors and assigns, as issuer of the Certificate Insurance Policy.

"**Certificates**" means the $99,660,000 aggregate principal amount of Certificates of Participation, 2007 Series A (Information Technology Projects) to be executed and delivered pursuant to the Trust Agreement.

"**Certificate Year**" shall have the meaning ascribed thereto in the Tax Certificate with respect to the Certificates.

"**Closing Date**" means November 15, 2007.

"**Code**" means the Internal Revenue Code of 1986, as amended, together with applicable temporary and final regulations promulgated, and applicable official public guidance published, under the Code.

"**Corporation**" means the LAUSD Financing Corporation, a nonprofit public benefit corporation organized and existing under the laws of the State.

"**Corporation Representative**" means the President of the Corporation, the Vice President of the Corporation, the Treasurer of the Corporation, the Secretary of the Corporation or any other person authorized by resolution of the Board of Directors of the Corporation to act on behalf of the Corporation under or with respect to the Trust Agreement, the Lease Agreement, the Assignment Agreement and the Site and Facilities Lease, if any.

"**Delivery Costs**" means all costs and expenses of execution and delivery of the Certificates of such Series, including, but not limited to: (a) underwriters' fees other than those taken in the form of a discount on the Closing Date; (b) counsel fees, including Special Counsel, disclosure counsel, underwriters' counsel, District counsel, Corporation counsel and special tax counsel fees, as well as any other specialized counsel fees incurred in connection with the financing; (c) financial advisor fees; (d) certain fees and expenses of the Certificate Insurer; (d) rating agency fees; (e) initial Trustee fees and expenses, including Trustee counsel fees; (f) recording fees; (g) accountant fees; and (h) printing costs of the Certificates and of an official statement or other offering document with respect thereto.

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

"**District**" means the Los Angeles Unified School District.

"**District Representative**" means each person authorized by resolution of the Board of Education of the District delivered to the Trustee to act on behalf of such District under or with respect to the Site and Facilities Lease, the Lease Agreement and the Trust Agreement.

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

"**Facility**" means, as of any date, the improvements comprising a portion of the Property leased by the Corporation to the District pursuant to the Lease Agreement, as described in Exhibit B to the Lease Agreement as of such date, as such exhibit may be amended at any time and from time to time in accordance with the Lease Agreement.

"**Fiscal Year**" means the twelve-month period beginning on July 1 of any year and ending on June 30 of the next succeeding year, or any other twelve-month period selected by the District as its fiscal year.

"**Independent Counsel**" means an attorney duly admitted to the practice of law before the highest court of the state in which such attorney maintains an office and who is not an employee of the Corporation, the Trustee or the District.

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

"**Interest Account**" means the account by that name created in the Trust Agreement.

"**Interest Payment Date**" means each April 1 and October 1, commencing on April 1, 2008.

"**Lease Agreement**" means the agreement for the lease of the Property by the Corporation to the District, dated as of November 1, 2007, together with any duly authorized and executed amendments thereto.

"**Lease Payment Date**" means any date occurring three (3) Business Days prior to any Payment Date.

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

"**Lease Payments**" means all payments required to be paid by the District pursuant to the Lease Agreement, including any prepayment thereof pursuant to the Lease Agreement, which payments consist of an interest component and a principal component.

"**Maturity Date**" means October 1, 2017.

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

"**Net Proceeds,**" when used with respect to insurance or condemnation proceeds, means any insurance proceeds or condemnation award paid with respect to the Property, to the extent remaining after payment therefrom of all expenses incurred in the collection thereof.

"**Outstanding,**" when used as of a particular time with reference to Certificates, means (subject to the provisions of the Trust Agreement) all Certificates delivered under the Trust Agreement except:

(i) Certificates cancelled by the Trustee or surrendered to the Trustee for cancellation;

(ii) Certificates paid or deemed to have been paid within the meaning of the Trust Agreement; and

(iii) Certificates in lieu of or in substitution for which replacement Certificates will have been executed by the District and delivered by the Trustee under the Trust Agreement.

"**Owner**" or "**Certificate Owner**" when used with respect to a Certificate means the person in whose name the ownership of such Certificate will be registered.

"**Payment Date**" means any Interest Payment Date or Principal Payment Date.

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

"**Permitted Investments**" means any of the following that at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein (the Trustee entitled to rely upon investment direction of the District as a determination by the District that such investment constitutes a legal investment):

1. Defeasance Securities.

2. Federal Housing Administration debentures.

3. The listed obligations of government-sponsored agencies which are not backed by the full faith and credit of the United States of America:

— Federal Home Loan Mortgage Corporation (FHLMC)
Participation certificates (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)
Senior debt obligations

— Farm Credit Banks (formerly: Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives)
Consolidated system wide bonds and notes

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

— Federal National Mortgage Association (FNMA)
Senior debt obligations
Mortgage-backed securities (excluded are stripped mortgages securities which are purchased at prices exceeding their principal amounts)

— Student Loan Marketing Association (SLMA)
Senior debt obligations (excluded are securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date)

— Financing Corporation (FICO)
Debt obligations

— Resolution Funding Corporation (REFCORP)
Debt obligations

4. Unsecured certificates of deposit, time deposits, and bankers' acceptances (having maturities of not more than 30 days) of any bank the short-term obligations of which are rated "A-1" or better by S&P.

5. Deposits the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation (FDIC), in banks which have capital and surplus of at least $5 million.

6. Commercial paper (having original maturities of not more than 270 days) rated "A-1+" by S&P and "Prime-1" by Moody's.

7. Money market funds rated "AAm" or "AAm-G" by S&P, or better and, subject to the prior written consent of each Certificate Insurer, S&P and Moody's, the investment pool maintained by the County of Los Angeles or other investment pools that are rated in one of the two highest rating categories by S&P and Moody's.

8. Repurchase agreements approved in writing by the Certificate Insurer:

With (i) any domestic bank, or domestic branch of a foreign bank, the long term debt of which is rated at least "AA" by S&P and "Aa" by Moody's; (ii) any broker-dealer with "retail customers" or a related affiliate thereof which broker-dealer has, or the parent company (which guarantees the provider) of which has, long-term debt rated at least "A" by S&P and Moody's, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corp. (SIPC); or (iii) any other entity rated "AA" or better by S&P and "Aa" or better by Moody's and acceptable to each Certificate Insurer, provided that:

a. The market value of the collateral is maintained at levels and upon such conditions as would be acceptable to S&P and Moody's to maintain an "AA" and "Aa," respectively, rating in an "AA" and "Aa," respectively, rated structured financing (with a market value approach);

b. The Trustee or a third party acting solely as agent therefor (the "Holder of the Collateral") has possession of the collateral or the collateral has been transferred to the Holder of the Collateral in accordance with applicable state and federal laws (other than by means of entries on the transferor's books);

c. The repurchase agreement shall state, and an opinion of counsel is rendered at the time such collateral is delivered, that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession);

d. All other requirements of S&P and Moody's in respect of repurchase agreements shall be met;

e. The repurchase agreement shall provide that if during its term the provider's rating by either S&P or Moody's is withdrawn or suspended or falls below "A-" or "A3" respectively, the provider must, at the direction of the Trustee (who shall give such direction if so directed by the Certificate Insurers), within 10 days of receipt of such direction, repurchase all collateral and terminate the agreement, with no penalty or premium to the Trustee.

Notwithstanding the above, if a repurchase agreement has a term of 270 days or less (with no evergreen provision), collateral levels need not be as specified in (a) above, so long as such collateral levels are 103% or better and the provider is rated at least "A" by S&P and Moody's, respectively.

9. State Obligations, which means

a. Direct general obligations of any state of the United States or any subdivision or agency thereof to which is pledged the full faith and credit of a state the unsecured general obligation debt of which is rated "A3" by Moody's and "A" by S&P, or better, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured general obligation debt is so rated.

b. Direct, general short-term obligations of any state agency or subdivision described in (a) above and rated "A-1+" by S&P and "Prime-1" by Moody's.

c. Special Revenue Bonds (as defined in the United States Bankruptcy Code) of any state, state agency or subdivision described in (a) above and rated "AA" or better by S&P and "Aa" or better by Moody's.

10. Investment agreements, approved in writing by the Certificate Insurer, with a domestic or foreign bank or corporation (other than a life or property casualty insurance company) the long-term debt of which, or, in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline

financial guaranty insurance company, claims paying ability, of the guarantor is rated at least "AA" by S&P and "Aa" by Moody's; provided, that, by the terms of the investment agreement:

a. interest payments are to be made to the Trustee at times and in amounts as necessary to pay debt service (or, if the investment agreement is for the Project Fund, construction draws) on the Certificates;

b. the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven days' prior notice; the Trustee and the District hereby agree to give or cause to be given notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid;

c. the investment agreement shall state that it is the unconditional and general obligation of, and is not subordinated to any other obligation of, the provider thereof or, if the provider is a bank, the agreement or the opinion of counsel shall state that the obligation of the provider to make payments thereunder ranks pari passu with the obligations of the provider to its other depositors and its other unsecured and unsubordinated creditors;

d. the Trustee or the District receive the opinion of domestic counsel (which opinion shall be addressed to the District and the Certificate Insurers) that such investment agreement is legal, valid and binding and enforceable against the provider in accordance with its terms and of foreign counsel (if applicable) in form and substance acceptable, and addressed to, the Certificate Insurers;

e. the investment agreement shall provide that if during its term (i) the provider's rating by either S&P or Moody's falls below "AA-" or "Aa3," respectively, the provider shall, at its option, within 10 days of receipt of publication of such downgrade, either (A) collateralize the investment agreement by delivering or transferring in accordance with applicable state and federal laws (other than by means of entries on the provider's books) to the Trustee or a Holder of the Collateral, collateral free and clear of any third-party liens or claims the market value of which collateral is maintained at levels and upon such conditions as would be acceptable to S&P and Moody's to maintain an "A" rating in an "A" rated structured financing (with a market value approach); or (B) repay the principal of and accrued but unpaid interest, on the investment, and (ii) the provider's rating by either Moody's or S&P is withdrawn or suspended or falls below "A3" or "A," respectively, the provider must, at the direction of the District or the Trustee (who shall give such direction if so directed by the Certificate Insurer), within 10 days of receipt of such direction, repay the principal of and accrued but unpaid interest on the investment, in either case with no penalty or premium to the Trustee;

f. the investment agreement shall state, and an opinion of counsel shall be rendered, in the event collateral is required to be pledged by the provider under the terms of the investment agreement, at the time such collateral is delivered, that the Holder of Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of Collateral is in possession); and

g. the investment agreement must provide that if during its term (i) the provider shall default in its payment obligations, the provider's obligations under the investment agreement shall, at the direction of the District or the Trustee (who shall give such direction if so directed by the Certificate Insurers), be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Trustee, and (ii) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc. ("event of insolvency"), the provider's obligations shall automatically be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Trustee.

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

"**Prepayment Date**" means the date fixed for prepayment of Certificates subject to prepayment in any notice of prepayment given in accordance with the terms of the Trust Agreement.

"**Principal Account**" means the account by that name created pursuant to the Trust Agreement..

"**Principal Office**" means, with respect to the Trustee, the main or principal corporate trust office of the Trustee located in St. Paul, Minnesota, or such other office designated by the Trustee from time to time.

"**Principal Payment Date**" means any date upon which the principal amount of Certificates is due under the Trust Agreement, including the Maturity Date and any Prepayment Date.

"**Proceeds**" means the principal amount of the Certificates, plus accrued interest, if any, and premium, if any, less original issue discount.

"**Project**" means the acquisition, development and installation of certain information technology systems of the District.

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

"**Property**" means the Site and the Facility to be leased from the Corporation to the District pursuant to the Lease Agreement; as described in Exhibit B to the Lease Agreement; provided, however, that the District, without the consent of the Owners, may modify the Property by releasing, at any time, and from time to time, any portion of the Property from the Lease Agreement or by substituting one or more Sites or Facilities, or adding one or more Sites or Facilities to the lien Lease Agreement, but only in accordance with the Lease Agreement.

"**Rental Period**" means each twelve-month period during the Term of the Lease Agreement commencing on October 1 in any year and ending on September 30 in the next succeeding year; except that the first Rental Period during the Term of the Lease Agreement shall commence on the Closing Date for the Certificates and end on October 1, 2017.

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

"**Reserve Requirement**" means, as of the date of calculation, the least of (1) the maximum aggregate annual Lease Payments payable under the Lease Agreement during the then-current and all remaining Certificate Years the Certificates are to remain Outstanding calculated based on a Certificate Year, (2) 125% of the average annual aggregate Lease Payments payable under the Lease Agreement for the then-current and any remaining Certificate Years the Certificates are to remain Outstanding calculated based on a Certificate Year, or (3) 10% of the proceeds derived from the sale of the Certificates.

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

“**Series**,” when used with reference to the Certificates, means all of the Certificates designated as being of the same series, executed and delivered in a simultaneous transaction, regardless of variations in principal payment date, interest rate, prepayment and other provisions, and any Certificates thereafter executed and delivered upon transfer or exchange of or in lieu of or in substitution for (but not to refund) such Certificates pursuant to the Trust Agreement.

“**Site and Facilities Lease**” means the agreement for the lease, by the District to the Corporation, dated as of November 1, 2007, of the Property to which the District holds fee title, together with any duly authorized and executed amendments thereto.

“**Special Counsel**” means an attorney or a firm of attorneys, acceptable to the District, of nationally recognized standing in matters pertaining to the tax-exempt nature of interest on bonds issued by states and their political subdivisions, duly admitted to the practice of law before the highest court of any state of the United States of America or the District of Columbia.

“State” means the State of California.

“Tax Certificate” means the Tax Certificate dated as of the Closing Date for the Certificates, concerning certain matters pertaining to the use and investment of Proceeds, executed by the District on the date of execution and delivery of the Certificates, including any and all exhibits attached thereto.

“**Term of the Lease Agreement**” means the time during which the Lease Agreement is in effect, as provided in the Lease Agreement.

“**Trust Agreement**” or “**Agreement**” means this Trust Agreement, dated as of November 1, 2007, by and among the District, the Corporation and the Trustee, together with any amendments or supplements hereto permitted to be made hereunder.

“**Trustee**” means U.S. Bank National Association, a national banking association organized under the laws of the United States of America, or any successor thereto acting as Trustee pursuant to this Trust Agreement.

THE LEASE AGREEMENT

Lease of the Property

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

Terms of the Lease Agreement

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

Lease Payments

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

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

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

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

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

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

Quiet Enjoyment

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

Title

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

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

Additional Payments

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

No Merger

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

Maintenance, Utilities, Taxes and Assessments

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

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

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

Modification of Property

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

Insurance

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

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

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

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

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

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

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

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

Liens

The District will not, directly or indirectly, create, incur, assume or suffer to exist any mortgage, pledge, lien, charge, encumbrance or claim on or with respect to the Property, other than the respective rights of the Corporation and the District as provided in the Lease Agreement and Permitted Encumbrances.

Tax Covenants

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

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

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

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

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

No Condemnation

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

Eminent Domain

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

Application of Net Proceeds

From Insurance Award. The Net Proceeds of any insurance award resulting from any damage to or destruction of any portion of the Property by fire or other casualty will be paid to the Trustee, as assignee of the Corporation under the Assignment Agreement, deposited in the Insurance and Condemnation Fund by the Trustee and applied as set forth in the Trust Agreement.

From Eminent Domain Award. The Net Proceeds of any eminent domain award resulting from any event described in the Lease Agreement will be paid to the Trustee, as assignee of the Corporation under the Assignment Agreement, deposited in the appropriate subaccounts within the Insurance and Condemnation Fund and applied as set forth in the Trust Agreement.

From Title Insurance. The Net Proceeds of any title insurance award will be paid to the Trustee, as assignee of the Corporation under the Assignment Agreement, deposited in the appropriate subaccounts within the Insurance and Condemnation Fund and applied as set forth in the Trust Agreement.

Abatement of Lease Payments

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

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

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

Access to the Property

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

Assignment and Subleasing

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

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

Amendment of Lease Agreement

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

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

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

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

Events of Default and Remedies

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

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

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

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

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

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

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

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

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

THE TRUST AGREEMENT

Funds

Project Fund. The Trustee will establish and hold a special fund designated as the "Project Fund" in which the Trustee will establish and maintain a separate account designated as the "Project Fund." Proceeds of the sale of the Certificates will be deposited in the Project Fund, together with any other amounts from time to time deposited with the Trustee, and will be used and withdrawn by the Trustee to pay the costs of the Project.

Lease Payment Fund. The Trustee will establish a special fund designated as the "Lease Payment Fund," in which the Trustee will establish and maintain a separate account designated as the "Lease Payment Fund." The Trustee will establish within the Lease Payment Fund an Interest Account and a Principal Account. All moneys at any time deposited by the Trustee in the Lease Payment Account within the Lease Payment Fund will be held by the Trustee in trust for the benefit of the Owners of the Certificates. So long as any Certificates are Outstanding, neither the District nor the Corporation will have any beneficial right or interest in the Lease Payment Fund or the moneys deposited therein, except only as provided in the Trust Agreement, and such moneys will be used and applied by the Trustee as set forth in the Lease Agreement.

Assignment of Rights in Lease Agreement

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

Application of Money

Amounts on hand in the Lease Payment Fund will be applied to the respective subaccounts in the Lease Payment Fund, in an amount equal to the aggregate principal and interest due with respect to the Certificates on such Interest Payment Date; provided that, if amounts on deposit in the Lease Payment Fund are insufficient to pay the full amount of principal and interest then due and payable with respect to the Certificates, then the Trustee will apply such amounts first to the payment of interest due with respect to the Certificates, and second to the payment of principal due with respect to the Certificates.

Security of Funds

All moneys deposited with the Trustee under the Trust Agreement will be held in trust and (except for moneys held by the Trustee, as paying agent, for the payment of the principal, premium, if any, and interest with respect to the Certificates) will, while held by the Trustee, be and remain entitled to the benefit and will be subject to the security of the Trust Agreement, for the equal and proportionate benefit of the Owners of all Outstanding Certificates of such Series.

Reserve Fund

The Trustee will establish a special trust fund designated as the "Reserve Fund."

All moneys at any time on deposit in the Reserve Fund (which amounts may be in cash, Permitted Investments, a line of credit, letter of credit, insurance policy or surety bond, or a combination thereof, equal to the Reserve Requirement; provided, however, that the provider of any line of credit, letter of credit, insurance policy or surety bond will have a rating of "A1" or better, or the equivalent thereof from Moody's, or "A+" or better, or the equivalent thereof, from S&P) will be held by the Trustee in trust for the benefit of the District and for the benefit of the Owners, as a reserve for the payment when due of all the Lease Payments and prepayments to be paid pursuant to the Lease Agreement and of all payments on the Certificates and applied solely as provided in the Trust Agreement. Notwithstanding anything in the Trust Agreement to the contrary, amounts in the Reserve Fund shall be applied solely to the payment of principal and interest evidenced by the Certificates.

The District may substitute moneys for all or part of the amount available to be drawn under the surety bond so long as, at the time of such substitution, the amount on deposit in the Reserve Fund, together with the amount available under the surety bond (taking into account any reduction in the amount available under the surety bond to be made in connection with said substitution), will be at least equal to the Reserve Requirement. The District will not substitute any credit facility in lieu of all or any portion of moneys on deposit in the Reserve Fund without (i) notice to Moody's and S&P and (ii) the prior written consent of the Certificate Insurer so long as the Certificate Insurer is not in default in its payment obligations.

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

Application of Reserve Fund in Event of Deficiency in Lease Payment Fund. Whether or not Lease Payments are then in abatement, if one (1) day immediately preceding any Payment Date, the moneys available in the Lease Payment Fund are less than the amount of the principal and interest with respect to the Certificates then coming due and payable, the Trustee first will apply the moneys on hand in the Reserve Fund to make delinquent Lease Payments on behalf of the District by transferring the amount necessary for this purpose to the Lease Payment Fund from any cash on deposit. Under no circumstances will moneys in the Reserve Fund be applied for any fees due to the Trustee pursuant to the Trust Agreement or any other costs of the Trustee or its agents, attorneys and counsel incurred with respect to an Event of Default under the Trust Agreement. The Trustee will notify the District of the amount of any deficiency in the Reserve Fund.

Transfer To Make All Lease Payments. With respect to the Certificates, if, on any Interest Payment Date, the moneys on deposit in the accounts within the Reserve Fund and the Lease Payment Fund (excluding amounts required for payment of principal, interest and prepayment premium (if any) with respect to such Certificates not presented for payment), are sufficient to pay in full all Outstanding Certificates, including all principal, interest and prepayment premiums (if any), the Trustee will, upon the written direction of a District Representative, transfer all amounts then on deposit in such account within the Reserve Fund and the Lease Payment Fund to be applied to the payment of the Lease Payments on behalf of the District. Any amounts remaining in an account within the Lease Payment Fund upon payment in full of all Outstanding Certificates will be disbursed as provided in the Trust Agreement.

Moneys in Funds; Investment

Held in Trust. The moneys and investments held by the Trustee under the Trust Agreement are irrevocably held in trust for the benefit of the Owners of the Certificates for the purposes specified in the Trust Agreement, and such moneys, and any income or interest earned thereon, will be expended only as provided in the Trust Agreement, and will not be subject to levy or attachment or lien by or for the benefit of any creditor of the Corporation, the Trustee, the District or any Owner of the Certificates, except as provided in the Trust Agreement.

Investments Authorized. Moneys held by the Trustee under the Trust Agreement will, upon written direction of a District Representative received at least two Business Days prior to the making of an investment, be invested and reinvested by the Trustee in Permitted Investments. If a District Representative will fail to so direct investments, the Trustee will invest such moneys in Permitted Investments described in paragraph (7) of the definition thereof.

The Trustee

Appointment of Trustee. Other than the Trustee initially appointed, which appointment is confirmed pursuant to the Trust Agreement, the Corporation and the District agree that they will maintain a Trustee which will be a commercial bank or banking association with trust powers; a trust company; a federal savings association; a federally chartered savings institution; a savings bank; a savings institution; or a financial institution the deposits of which are insured by the Federal Deposit Insurance Corporation to the extent permitted by law, which will have (or, in the case of a commercial bank with trust powers, banking association, or a trust company included in a bank holding company system, the related bank holding company will have) a combined capital and surplus of at least seventy-five million dollars ($75,000,000), and subject to supervision or examination by federal or State authority, so long as any Certificates are Outstanding.

Removal of Trustee. The District and the Corporation may by written agreement between themselves so long as no Event of Default will have occurred and be continuing, or the Owners of a majority in aggregate principal amount of all Certificates Outstanding may by written request, at any time and for any reason, remove the Trustee and any successor thereto, and will thereupon appoint a successor or successors thereto.

The Trustee may at any time resign by giving written notice to the District and the Corporation and by giving to the Certificate Owners notice by mailing such notice to the registered Owners of the Certificates.

Modification or Amendment of Agreements

Amendments Permitted. The Trust Agreement and the rights and obligations of the Owners of the Certificates and the Lease Agreement and the Site and Facilities Lease and the rights and obligations of the parties thereto, may be modified or amended at any time by a supplemental agreement which will become effective when the written consents of the Owners of at least sixty percent (60%) in aggregate principal amount of the Certificates then Outstanding, exclusive of Certificates disqualified as provided in the Trust Agreement will have been filed with the Trustee. No such modification or amendment will:

(a) extend or have the effect of extending the fixed maturity of any Certificate or reducing the interest rate with respect thereto or extending the time of payment of interest, or reducing the amount of principal thereof or reducing any premium payable upon the prepayment thereof, without the express consent of the Owner of such Certificate,

(b) reduce or have the effect of reducing the percentage of Certificates required for the affirmative vote or written consent to an amendment or modification of the Lease Agreement, or

(c) modify any of the rights or obligations of the Trustee without its written assent thereto.

The Trust Agreement and the rights and obligations of the Owners of the Certificates and the Lease Agreement and the rights and obligations of the respective parties thereto, may be modified or amended at any time by a supplemental agreement, without the consent of any such Owners, but only to the extent permitted by law and only:

(a) to add to the covenants and agreements of any party, other covenants to be observed, or to surrender any right or power in the Trust Agreement or therein reserved to the District,

(b) to cure, correct or supplement any ambiguous or defective provision contained in the Trust Agreement and which will not adversely affect the interests of the Owners of the Certificates,

(c) in regard to questions arising under the Lease Agreement or thereunder, as the parties to the Trust Agreement or thereto may deem necessary or desirable,

(d) to make such additions, deletions or modifications as may be necessary or desirable to assure exemption from federal income taxation of interest with respect to the Certificates,

(e) to the extent necessary to obtain a rating with respect to the Certificates from Moody's or S&P, or any or each of them, or

(f) to substitute, add or eliminate Property in accordance with the Lease Agreement;

provided that such amendment, in the opinion of nationally recognized Special Counsel delivered to the Corporation, the District and the Trustee, will not materially adversely affect the interests of the Owners of the Certificates or will impair the right of any Owner to receive, in any case, such Owner's fractional share of any Lease Payment in accordance with such Owner's Certificate.

Any such supplemental agreement will become effective upon execution and delivery by the parties to the Trust Agreement, as the case may be.

Procedure for Amendment with Written Consent of Certificate Owners. The Trust Agreement and the Lease Agreement may be amended by supplemental agreement as therein provided in the event the consent of the Owners of the Certificates is required pursuant to the Trust Agreement. A copy of such supplemental agreement, together with a request to the Certificate Owners for their consent thereto, will be mailed by the Trustee to each Owner of a Certificate at their address as set forth on the Registration Books, but failure to receive copies of such supplemental agreement and request will not affect the validity of the supplemental agreement when assented to as provided in the Trust Agreement.

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

Covenants

Compliance With and Enforcement of Lease Agreement. The District covenants and agrees with the Owners of the Certificates to perform all obligations and duties imposed on it under the Lease Agreement. The Corporation covenants and agrees with the Owners of the Certificates to perform all obligations and duties imposed on it under the Lease Agreement and the Tax Certificate.

Observance of Laws and Regulations. The District will well and truly keep, observe and perform all valid and lawful obligations or regulations now or hereafter imposed on it by contract, or prescribed by any law of the United States, or of the State, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of any and every right, privilege or franchise now owned or hereafter acquired by the District.

Prosecution and Defense of Suits. The Corporation and the District will promptly, upon request of the Trustee or any Certificate Owner, from time to time take such action as may be necessary or proper to remedy or cure any defect in or cloud upon the title to the Property, whether now existing or hereafter developing.

District Budgets. The District will supply to the Trustee in each year a written determination by a District Representative of the District that the District has made adequate provision in its proposed annual budget for the payment of Lease Payments due under the Lease Agreement in the Fiscal Year covered by such budget. Such determination will be made as soon as practicable after the first publication of any notice of public hearing upon the proposed budget of the District and will be made, in any event, not later than November 1 of each year. The determination given by the District to the Trustee will be that the amounts so budgeted are fully adequate for the payment of all Lease Payments due under the Lease Agreement in the annual period covered by such budget.

Events of Default And Remedies of Owners

Assignment of Rights. Pursuant to the Assignment Agreement, the Corporation has transferred, assigned and set over to the Trustee certain of the Corporation's rights in and to the Lease Agreement, including without limitation all of the Corporation's rights to exercise such rights and remedies conferred on the Corporation pursuant to the Lease Agreement, as may be necessary or convenient (i) to enforce payment of the Lease Payments, Additional Payments and any other amounts required to be deposited in the Lease Payment Fund or the Insurance and Condemnation Fund, and (ii) otherwise to exercise the Corporation's rights and take any action to protect the interests of the Trustee or the Certificate Owners in an Event of Default.

Remedies. If an Event of Default shall happen, then and in each and every such case during the continuance of such Event of Default, the Trustee may, and to the extent indemnified to its satisfaction upon the direction of the Owners holding not less than a majority of the principal amount of Certificates Outstanding shall, exercise any and all remedies available pursuant to law or granted pursuant to the Lease Agreement; provided, however, that notwithstanding anything in the Trust Agreement or in the Lease Agreement to the contrary, there shall be no right under any circumstances to accelerate the maturities of the Certificates.

Application of Funds. All moneys received by the Trustee pursuant to any right given or action taken under the provisions of the Trust Agreement or the Lease Agreement relating to Events of Default or otherwise shall be applied by the Trustee in the order following upon presentation of the several Certificates, and the execution and delivery of new Certificates if only partially paid, or upon the surrender thereof if fully paid –

> **First**, to the payment of the fees, costs and expenses of the Trustee and of the Certificate Owners in declaring such Event of Default and pursuing remedies, including reasonable compensation to its or their agents, attorneys and counsel; and
>
> **Second**, to the payment of the whole amount then owing and unpaid with respect to the Certificates for principal and interest, with interest on the overdue principal and installments of interest (but such interest on overdue installments of interest shall be paid only to the extent funds are available therefor following payment of principal and interest and interest on overdue principal, as aforesaid), and in case such moneys shall be insufficient to pay in full the whole amount so owing and unpaid with respect to the Certificates, then to the payment of such principal and interest without preference or priority of principal over interest, or of interest over

principal, or of any installment of interest over any other installment of interest, ratably to the aggregate of such principal and interest.

Institution of Legal Proceedings. If one or more Events of Default shall happen and be continuing, the Trustee, in its discretion may, and upon the written request of the Owners of a majority in principal amount of the Certificates then Outstanding, and upon being indemnified to its satisfaction therefor, shall proceed to protect or enforce its rights or the rights of the Owners of Certificates by a suit in equity or action at law, either for the specific performance of any covenant or agreement contained in the Trust Agreement, or in aid of the execution of any power granted in the Trust Agreement, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as the Trustee shall deem most effectual in support of any of its rights or duties under the Trust Agreement.

Non-waiver. Nothing in the Trust Agreement or in the Certificates, shall affect or impair the obligation of the District to pay or prepay the Lease Payments in accordance with and subject to the terms and provisions of the Lease Agreement, or affect or impair the right of action, which is also absolute and unconditional, of the Certificate Owners to institute suit to enforce and collect such payment. No delay or omission of the Trustee or of any Owner of any of the Certificates to exercise any right or power arising upon the happening of any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or an acquiescence therein, and every power and remedy given by the Trust Agreement to the Trustee or to the Owners of Certificates may be exercised from time to time and as often as shall be deemed expedient by the Trustee or the Certificate Owners.

Remedies Not Exclusive. No remedy conferred in the Trust Agreement upon or reserved to the Trustee or to the Certificate Owners is intended to be exclusive of any other remedy, and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Trust Agreement or now or hereafter existing, at law or in equity or by statute or otherwise.

Limitation on Certificate Owners' Right to Sue. No Owner of any Certificates executed and delivered under the Trust Agreement shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Trust Agreement, unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default under the Lease Agreement; (b) the Owners of at least twenty-five percent (25%) in aggregate principal amount of all the Certificates then Outstanding shall have made written request upon the Trustee to exercise the powers granted or to institute such action, suit or proceeding in its own name; (c) said Owners shall have tendered to the Trustee reasonable indemnity satisfactory to it against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to the Trustee.

Defeasance

If and when all Outstanding Certificates will be paid and discharged in any one or more of the following ways

(a) by well and truly paying or causing to be paid the principal of and interest and prepayment premiums (if any) with respect to all Outstanding Certificates, as and when the same become due and payable; or

(b) by depositing with the Trustee, under an escrow deposit and trust agreement, security for the payment of Lease Payments as provided in the Lease Agreement, said security to be held by the

Trustee to be applied by the Trustee to pay or prepay the Lease Payments on any date on which prepayment is provided for or as the same become due, pursuant to the Lease Agreement,

notwithstanding that any such Certificates will not have been surrendered for payment, all obligations of the Corporation, the Trustee and the District with respect to all Outstanding Certificates will cease and terminate, except only the obligation of the Trustee to pay or cause to be paid, from Lease Payments paid by or on behalf of the District from funds deposited pursuant to paragraph (b) above, to the Owners of such Certificates not so surrendered and paid all sums due with respect thereto, and in the event of deposits pursuant to paragraph (b), such Certificates will continue to represent direct and proportionate interests of the Owners thereof in Lease Payments under the Lease Agreement.

Governing Law

The Trust Agreement will be construed and governed in accordance with the laws of the State.

Certificate Insurer to Act for Owners

Notwithstanding anything in the Trust Agreement to the contrary, when there is a Certificate Insurance Policy in effect and so long as the Certificate Insurer has not defaulted under its Certificate Insurance Policy, for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the Owners of Certificates supported by such Certificate Insurance Policy are entitled to take pursuant to the Trust Agreement or the Lease Agreement, such Certificate Insurer will be deemed the Owner of such Certificates.

Next Succeeding Business Day

Unless otherwise noted in the Trust Agreement, in the event that the day on which any act or function is to be performed or done is not a Business Day, such act or function will be performed or done on the next succeeding Business Day.

Payment Due on Non-Business Day

If a payment date is not a Business Day then payment may be made on the next Business Day and, except as otherwise provided in the Trust Agreement, no interest will accrue for the intervening period.

THE ASSIGNMENT AGREEMENT

The Assignment Agreement provides for the assignment by the Corporation to the Trustee (excepting only the Corporation's rights regarding indemnification) of

(1) all right, title and interest of the Corporation in the Lease Agreement, including, without limitation, (A) the right to receive and collect all of the Lease Payments and Additional Payments from the District under the Lease Agreement; (B) the right to receive and collect any proceeds of any insurance maintained pursuant to the Lease Agreement or any condemnation award rendered with respect to the Property; (C) the right to take all actions and give all consents under the Lease Agreement, including without limitation, the provisions thereof regarding liens, regarding subleases, regarding amendments and modifications, and regarding remedies on default; (D) the right to exercise such rights and remedies conferred on the Corporation pursuant to the Lease Agreement as may be necessary or convenient (i) to enforce payment of the Lease Payments and Additional Payments, and any other amounts required to be deposited in the Lease Payment Fund, the Reserve Fund or any other funds established under the Trust Agreement, or (ii) otherwise to protect the interests of the Corporation in the event of default by the District under the Lease Agreement;

(2) all right, title, and interest of the Corporation in the Site and Facilities Lease; and

(3) all right, title, and interest of the Corporation in the funds and accounts (and the money and other property held therein) established pursuant to the Trust Agreement or the Lease Agreement.

The Trustee accepts such assignment for the benefit of the Owners of the Certificates, subject to the conditions and terms of the Trust Agreement.

THE SITE AND FACILITIES LEASE

Pursuant to the Site and Facilities Lease, the District leases to the Corporation the Property (and appurtenant easements for ingress and egress, for the furnishing of maintenance and support, and for parking), subject to the terms of the Site and Facilities Lease and subject to any conditions, reservations, exceptions and rights of way which are of record.

Term

The term of the Site and Facilities Lease will commence as of the date of the Site and Facilities Lease and will remain in effect until the termination of the Lease Agreement as provided therein, provided, however, that if Lease Payments due under the Lease Agreement are unpaid at such termination of the Lease Agreement, then the Site and Facilities Lease will not terminate until the earlier of (i) ten (10) years after the final scheduled maturity date of the Certificates or (ii) the date on which the Certificates have been paid in full. Upon the termination of the Site and Facilities Lease, the Corporation agrees to quit and surrender the Property without warranty as to condition, reasonable wear and tear excepted, and agrees that any permanent improvements and structures existing upon the Property at the time of the termination of the Site and Facilities Lease will remain thereon and title thereto will vest in the District.

Eminent Domain

In the event that the whole or any part of the Property is taken by eminent domain proceedings, the interest of the Corporation will be recognized and will be determined to be the amount of unpaid Lease Payments and Additional Payments due the Corporation under the Lease Agreement.

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APPENDIX D

FORM OF SPECIAL COUNSEL OPINION

[Closing Date]

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

$99,660,000
CERTIFICATES OF PARTICIPATION
2007 Series A
(Information Technology Projects)
Evidencing Proportionate Interests of the Owners
Thereof in Lease Payments to Be Made by the
LOS ANGELES UNIFIED SCHOOL DISTRICT

Members of the Board of Education:

We have acted as special counsel to the Los Angeles Unified School District, a school district organized and existing under the laws of the State of California (the "District"), in connection with the execution and delivery of $99,660,000 principal amount of Los Angeles Unified School District Certificates of Participation, 2007 Series A (Information Technology Projects), dated their date of delivery (the "Certificates"). The Certificates evidence the direct, undivided proportionate interests of the registered owners thereof in the right to receive certain Lease Payments (as that term is defined in the Trust Agreement hereinafter mentioned) under and pursuant to the Lease Agreement, dated as of November 1, 2007 (the "Lease"), between the LAUSD Financing Corporation, a nonprofit public benefit corporation duly organized and existing under and by virtue of the laws of the State of California (the "Corporation"), and the District, all of which right to receive such Lease Payments has been assigned without recourse by the Corporation to U.S. Bank National Association, a national banking association duly organized and existing under the laws of the United States of America, as trustee (the "Trustee"), pursuant to the Assignment Agreement, dated as of November 1, 2007, between the Trustee and the Corporation. The Certificates have been executed and delivered pursuant to the Trust Agreement, dated as of November 1, 2007 (the "Trust Agreement"), among the Trustee, the Corporation and the District. The District and the Corporation have also entered into a Site and Facilities Lease, dated as of November 1, 2007 (the "Site Lease").

We have examined a certified copy of the record of proceedings relating to the execution and delivery of the Certificates and such other documents and records of the District as we have deemed necessary for the purpose of this opinion. Our services as special counsel were limited to such examination and to rendering the opinions set forth below. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to certify the same by independent investigation.

We have assumed, but not independently verified, that the signatures on all documents, certificates and opinions we reviewed are genuine.

Based upon the foregoing, in our opinion such proceedings show lawful authority for the execution and delivery by the District of the Trust Agreement, the Site Lease and the Lease under the laws of the State of California now in force, and the Site Lease, the Lease and the Trust Agreement have been duly authorized, executed and delivered by the District and, assuming due authorization, execution and delivery by the Trustee and the Corporation, as appropriate, are valid and binding obligations of the District, enforceable against the District in accordance with their respective terms. The Certificates, assuming due execution and delivery by the Trustee, are entitled to the benefits of the Trust Agreement. The obligation of the District to make the Lease Payments under the Lease does not constitute a debt of the District or the State of California, or of any political subdivision thereof, within the meaning of any constitutional debt limit or restriction, does not violate any statutory debt limitation, and does not constitute an obligation for which the District is obligated to levy or pledge any form of taxation or for which the District has levied or pledged any form of taxation.

We are further of the opinion, based on existing statutes, regulations, rulings and judicial decisions and assuming compliance by the District with certain covenants in the Site Lease, the Lease and the Trust Agreement and requirements of the Internal Revenue Code of 1986, as amended, regarding the use, expenditure and investment of Certificate proceeds and the timely payment of certain investment earnings to the United States, that the portion of each Lease Payment due under the Lease designated as and comprising interest and received by the owners of the Certificates is excludable from the gross income of the owners of the Certificates for federal income tax purposes. Failure to comply with such covenants and requirements may cause the portion of each Lease Payment designated as and comprising interest and received by the owners of the Certificates to be included in gross income for federal income tax purposes retroactive to the date of execution and delivery of the Certificates.

We are also of the opinion that the portion of each Lease Payment due under the Lease designated as and comprising interest and received by the owners of the Certificates will not be treated as an item of tax preference in calculating the alternative minimum taxable income of individuals and corporations. Such portion of each Lease Payment, however, will be included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability. We express no opinion regarding other federal income tax consequences caused by the ownership of, or the receipt of interest with respect to, the Certificates.

We are additionally of the opinion that the portion of each Lease Payment due under the Lease designated as and comprising interest and received by the owners of the Certificates is exempt from personal income taxes imposed by the State of California.

Certain requirements and procedures contained or referred to in the Lease, the Site Lease, the Trust Agreement and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Certificates) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents upon the advice or with the approving opinion of nationally recognized bond counsel. No opinion is expressed herein as to the exclusion from gross income of the interest with respect to any Certificate or Lease Payment related thereto for federal income tax purposes if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

With respect to the opinions expressed herein, the enforceability of the rights and obligations under the Certificates, the Lease, the Site Lease and the Trust Agreement are subject to bankruptcy, insolvency, reorganization, arrangement, moratorium and other laws affecting the enforcement of creditors' rights generally, to the application of equitable principles (regardless of whether such enforceability is considered in equity or at law), to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against governmental entities in the State of California. In addition, we express no opinion with respect to any indemnification, contribution, penalty, choice of forum or waiver provisions contained in the foregoing documents.

This opinion is limited to the laws of the State of California and the Federal laws of the United States. The opinions in this letter are expressed solely as of the date hereof for your benefit and may not be relied upon in any manner or for any purposes by any other person. The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions. Such opinions may be adversely affected by actions taken or events occurring, including a change in law, regulation or ruling (or in the application of official interpretation of any law, regulation or ruling) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions are taken or such events occur, and we have no obligation to update this opinion in light of such actions or events.

Respectfully yours,

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APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the Los Angeles Unified School District (the "District"), and acknowledged and agreed to by Digital Assurance Certification, L.L.C., as dissemination agent, in connection with the issuance of $99,660,000.00 aggregate principal amount of Certificates of Participation 2007 Series A (Information Technology Projects) (the "Certificates"). The Certificates are being issued pursuant to a Trust Agreement, dated as of November 1, 2007 (the "Trust Agreement"), by and among the Los Angeles Unified School District (the "District"), the LAUSD Financing Corporation and U.S. Bank National Association. The District covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District and the Dissemination Agent for the benefit of the Holders and Beneficial Owners of the Certificates and in order to assist the Participating Underwriters in complying with Securities and Exchange Commission Rule 15c2–12(b)(5).

Section 2. Definitions. In addition to the definitions set forth in the Trust Agreement, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to depose of ownership of, any Certificates(including persons holding Certificates through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Certificates for federal income tax purposes.

"Dissemination Agent" shall mean Digital Assurance Certification, L.L.C., or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation.

"Holder" shall mean either the registered owners of the Certificates, or if the Certificates are registered in the name of The Depository Trust Company or another recognized depository, any applicable participant in such depository system.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"National Repository" or "NRMSIRs" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The NRMSIRs are identified on the SEC website at http://www.sec.gov/consumer/nrmsir.htm.

"Official Statement" shall mean the Official Statement relating to the Certificates, dated November 1, 2007.

"Participating Underwriters" shall mean any of the original underwriters of the Certificates required to comply with the Rule in connection with offering of the Certificates.

"Repository" shall mean each National Repository and each State Repository.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State Repository" shall mean any public or private repository or entity designated by the State of California as the state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Certificate, there is no State Repository.

Section 3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent to, not later than 240 days after the end of the District's fiscal year (currently ending June 30), commencing with the report for the 2006-2007 Fiscal Year (which is due not later than February 25, 2008), provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided, that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the District's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) Not later than thirty (30) days (not more than sixty (60) days) prior to the date on which the Annual Report is to be provided pursuant to subsection (a), the Dissemination Agent shall give notice to the District that the Annual Report is so required to be filed in accordance with the terms of this Disclosure Certificate. Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to the Repositories, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If by said date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall notify the District of such failure to receive the Annual Report.

(c) If the District is unable to provide to the Dissemination Agent an Annual Report by the date required in subsection (a), the Dissemination Agent is irrevocably instructed to file a notice to each Repository in substantially the form attached hereto as Exhibit A.

(d) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and each State Repository, if any; and

(ii) file a report with the District stating that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided or that the Annual Report has not been provided to each National Repository or the State Repository, if any.

Section 4. Content of Annual Reports. The District's Annual Report shall contain or include by reference the following:

· Audited financial statements of the District for the preceding fiscal year, prepared in accordance with the laws of the State of California and including all statements and information prescribed for inclusion therein by the Controller of the State of California. If the District's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

To the extent not included in the audited financial statements of the District, the Annual Report shall also include the following:

· Adopted budget of the District for the current fiscal year.

· District average daily attendance as set forth in Table A-5 of Appendix A to the Official Statement entitled "Annual Average Daily Attendance," but including only data through the end of the prior fiscal year.

· Information regarding total assessed valuation of taxable properties within the District as set forth in Table A-8 of Appendix A to the Official Statement.

· Information regarding total secured tax charges and delinquencies on taxable properties within the District as set forth in Table A-10 of Appendix A to the Official Statement.

· District outstanding debt as set forth in Tables A-21, A-22, A-23, A-24 and A-26, and the aggregate debt service on the District's outstanding certificates of participation as set forth in the "Total" column of Table A-25 of Appendix A to the Official Statement.

· Statement of revenues, expenditures and changes in general fund balances of the District.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The District shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Certificates, if material:

1. principal and interest payment delinquencies.

2. non-payment related defaults.

3. modifications to rights of Holders.

4. optional, contingent or unscheduled bond calls.

5. defeasances.

6. rating changes.

7. adverse tax opinions or events affecting the tax-exempt status of the Certificates.

8. unscheduled draws on the debt service reserves reflecting financial difficulties.

9. unscheduled draws on the credit enhancements reflecting financial difficulties.

10. substitution of the credit or liquidity providers or their failure to perform.

11. release, substitution or sale of property securing repayment of the Certificates.

The District notes that item 10 is not applicable to the Certificates.

(b) Whenever the District obtains knowledge of the occurrence of a Listed Event, the District shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the District determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the District shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (d).

(d) If the Dissemination Agent has been instructed by the District to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with each National Repository or with the Municipal Securities Rulemaking Board, and with the State Repository. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Certificates pursuant to the Trust Agreement.

Section 6. CUSIP Numbers. Whenever providing information to the Dissemination Agent, including but not limited to Annual Reports, documents incorporated by reference to the Annual Reports, Audited Financial Statements and notices of Listed Events, the District shall indicate the full name of the Certificates and the 9-digit CUSIP numbers for the Certificates as to which the provided information relates.

Section 7. Termination of Reporting Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Certificates. If such termination occurs prior to the final maturity of the Certificates, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 8. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be Digital Assurance Certification, L.L.C. If at any time there is no designated Dissemination Agent appointed by the District, or if the Dissemination Agent so appointed is unwilling or unable to perform the duties of the Dissemination Agent hereunder, the District shall be the Dissemination Agent an undertake or assume its obligations hereunder. The Dissemination Agent (other than the District) shall not be responsible in any manner for the content of any notice or report required to be delivered by the District pursuant to this Disclosure Certificate.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Certificates, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Certificates, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Certificates in the same manner as provided in the Trust Agreement for amendments to the Trust Agreement with the consent of Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interest of the Holders or Beneficial Owners of the Certificates.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the District shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the District. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate, the Dissemination Agent may (and, at the request of any Participating Underwriter or the Holders or Beneficial Owners of at least 25% of aggregate principal amount of the Certificates then outstanding, shall) or any Holders or Beneficial Owners of the Certificates may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate; provided that any such action may be instituted only in the Superior Court of the State of California in and for the County of Los Angeles or in the U.S. District Court in the County of Los Angeles. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Trust Agreement, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's gross negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Certificates.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Certificates, and shall create no rights in any other person or entity.

Dated: November ___, 2007

LOS ANGELES UNIFIED SCHOOL DISTRICT

By:____
Kenji Furuya
Interim Controller

DIGITAL ASSURANCE CERTIFICATION, L.L.C., as Dissemination Agent

By:____
Dissemination Agent

EXHIBIT A

FORM OF NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of District:	Los Angeles Unified School District
Name of Certificates:	Certificates of Participation 2007 Series A (Information Technology Projects)
Date of Issuance:	November __, 2007

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Certificates as required by Section 4 of the Continuing Disclosure Certificate of the District, dated ____________________. [The District anticipates that the Annual Report will be filed by _____________.]

Dated:_______________

DIGITAL ASSURANCE CERTIFICATION, L.L.C.,
as Dissemination Agent

By:____
Dissemination Agent

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APPENDIX F

BOOK-ENTRY SYSTEM

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

The Depository Trust Company, New York, New York ("DTC"), will act as securities depository for the Certificates. The Certificates will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Certificates, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, credit providers, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, ("NSCC," "GSCC," "MBSCC" and "EMCC," also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, credit providers, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: "AAA." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Certificates on DTC's records. The ownership interest of each actual purchaser of each Certificate ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmation providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Certificates are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

To facilitate subsequent transfers, all Certificates deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Certificates with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates: DTC records reflect only the identity of the Direct Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. The District, the Corporation, the Trustee and the Underwriters will not have any responsibility or obligation to such Direct Participants and Indirect Participants or the persons for whom they act as nominees with respect to the Certificates. Beneficial Owners of Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Certificates, such as prepayments, defaults, and proposed amendments to the Certificate documents. Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Prepayment notices will be sent to DTC. If less than all of the Certificates within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Certificates unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Trustee as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and Interest payments on the Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Trustee, on payable dates in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, or the Trustee, subject to any statutory, or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Certificates at any time by giving reasonable notice to the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, certificates are required to be printed and delivered. The Corporation may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, certificates will be printed and delivered to DTC.

THE DISTRICT, THE CORPORATION, THE TRUSTEE AND THE UNDERWRITERS CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE CERTIFICATES (I) PAYMENTS OF PRINCIPAL OF AND INTEREST ON THE CERTIFICATES (II) CONFIRMATIONS OF THEIR OWNERSHIP INTERESTS IN THE CERTIFICATES OR (III) OTHER NOTICES SENT TO DTC OR CEDE & CO., ITS PARTNERSHIP NOMINEE, AS THE REGISTERED OWNER OF THE CERTIFICATES, OR THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT.

NEITHER THE DISTRICT, THE CORPORATION, THE TRUSTEE NOR THE UNDERWRITERS WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO DTC, THE DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS OF DTC OR THE BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC; (2) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OF OR INTEREST ON CERTIFICATES; (3) THE DELIVERY BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED TO BE GIVEN TO OWNERS UNDER THE TERMS OF THE TRUST AGREEMENT; OR (4) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS OWNER OF THE CERTIFICATES.

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APPENDIX G

LOS ANGELES COUNTY TREASURY POOL

The Treasurer and Tax Collector of the County of Los Angeles (the "Treasurer") manages, in accordance with State Government Code Section 53600 et seq., funds deposited with the Treasurer by County school and community college districts, various special districts and some cities. State law generally requires that all moneys of the County, school districts and certain special districts be held in the County's Treasury Pool (the "Treasury Pool") as described below. The composition and value of investments under management in the Treasury Pool vary from time to time, depending on the cash flow needs of the County and the other public agencies invested in the Treasury Pool, the maturity or sale of investments, purchase of new securities and fluctuations in interest rates generally.

Los Angeles County Pooled Surplus Investments

The Treasurer has the delegated authority to invest funds on deposit in the Treasury Pool. As of September 30, 2007, investments in the Treasury Pool were held for local agencies including school districts, community college districts, special districts and discretionary depositors such as cities and independent districts in the following amounts:

Local Agency	Invested Funds (in billions)
County of Los Angeles and Special Districts	$5.896
Schools and Community Colleges	9.923
Independent Public Agencies	1.690
Total	$17.509

Of these entities, the involuntary participants accounted for approximately 90.35%, and all discretionary participants accounted for 9.65% of the total Treasury Pool.

Decisions on the investment of funds in the Treasury Pool are made by the County Investment Officer in accordance with established policy, with certain transactions requiring the Treasurer's prior approval. In Los Angeles County, investment decisions are governed by Chapter 4 (commencing with Section 53600) of Part 1 of Division 2 of Title 5 of the State Government Code, which governs legal investments by local agencies in the State of California, and by a more restrictive Investment Policy developed by the Treasurer and adopted by the Los Angeles County Board of Supervisors on an annual basis. The Investment Policy adopted on April 10, 2007, reaffirmed the following criteria and order of priority for selecting investments:

1. Safety of Principal
2. Liquidity
3. Return on Investment

The Treasurer prepares a monthly Report of Investments (the "Investment Report") summarizing the status of the Treasury Pool, including the current market value of all investments. This report is submitted monthly to the Board of Supervisors. According to the Investment Report dated October 25, 2007, the September 30, 2007 book value of the Treasury Pool was approximately $17.509 billion and the corresponding market value was approximately $17.528 billion.

An internal controls system for monitoring cash accounting and investment practices is in place. The Treasurer's Compliance Auditor, who operates independently from the Investment Officer, reconciles cash and investments to fund balances daily. The Compliance Auditor's staff also reviews each investment trade for accuracy and compliance with the Board adopted Investment Policy. The County Auditor-Controller's Office performs similar cash and investment reconciliations on a quarterly basis and regularly reviews investment transactions for conformance with the approved policies. Additionally, the County's outside independent auditor annually accounts for all investments.

The Treasury Pool is highly liquid. As of September 30, 2007 approximately 45.01% of the investments mature within 60 days, with an average of 474.03 days to maturity for the entire portfolio. The following table identifies the types of securities held by the Treasury Pool as of September 30, 2007.

Type of Investment	% of Pool
U.S. Government and Agency Obligations	42.19%
Certificates of Deposit	18.46
Commercial Paper	34.57
Bankers Acceptances	0.00
Municipal Obligations	0.17
Corporate Notes & Deposit Notes	4.55
Asset Backed Instruments	0.00
Repurchase Agreements	0.00
Other	0.06

Pursuant to Section 27131 of the State Government Code, all counties investing surplus funds are encouraged to establish a county treasury oversight committee. On January 16, 1996, the Board of Supervisors approved the establishment of the County Treasury Oversight Committee and subsequently confirmed the five committee members nominated by the Treasurer in accordance with that Section. The County Treasury Oversight Committee meets quarterly to review and monitor for compliance the investment policies prepared by the Treasurer.

APPENDIX H

SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY

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Ambac

Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Obligor: Policy Number:

Obligations: Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

President

AMBAC ASSURANCE CORPORATION
CORPORATE
SEAL
WISCONSIN

Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Authorized Officer of Insurance Trustee

Form No.: 2B-0012 (1/01)

Ambac

Ambac Assurance Corporation
One State Street Plaza,
New York, New York 10004
Telephone: (212) 668-0340

Endorsement

Policy for:

Attached to and forming part of Policy No.:

Effective Date of Endorsement:

In the event that Ambac Assurance Corporation were to become insolvent, any claims arising under the Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions, provisions, agreements or limitations of the above mentioned Policy other than as above stated.

In Witness Whereof, Ambac has caused this Endorsement to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

Ambac Assurance Corporation

AMBAC ASSURANCE CORPORATION CORPORATE SEAL WISCONSIN

President

Secretary

Authorized Representative

Form No.: 2B-0004 (7/97)

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LOS ANGELES UNIFIED SCHOOL DISTRICT • CERTIFICATES OF PARTICIPATION 2007 SERIES A

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